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)

***For identification purposes only**

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This report, for which the directors (the "Directors") of Shenzhen Dongjiang Environmental Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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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

MENG Chun
WANG Ji Wu
YANG Zhi Feng

SUPERVISORS

YUAN Wei
LUO Xiao Hong
ZHOU Xiu Hong

QUALIFIED ACCOUNTANT

TSANG Wan Sing

COMPANY SECRETARY

LO Wah Wai

AUDIT COMMITTEE

MENG Chun
WANG Ji Wu
YANG Zhi Feng

REMUNERATION COMMITTEE

MENG Chun
WANG Ji Wu
YANG Zhi Feng
ZHANG Wei Yang

COMPLIANCE OFFICER

ZHANG Wei Yang

AUTHORIZED REPRESENTATIVES

LO Wah Wai
ZHANG Wei Yang

GEM STOCK CODE

8230

AUTHORIZED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESS AND NOTICES

Cheng Wong Lam & Partners Lawyers

AUDITORS

ShineWing (HK) CPA Limited

COMPLIANCE ADVISORS

First Shanghai Capital Limited

LEGAL ADVISORS

Cheng Wong Lam & Partners Lawyers

PRINCIPAL BANKER

China Merchant Bank

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

COMPANY HOMEPAGE

http://www.dongjiang.com.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1105-1109, Jardine House
1 Connaught Place, Central
Hong Kong

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting ("AGM") of Shenzhen Dongjiang Environmental Company Limited (the "Company") will be held at Units A, B, C, D and H, 16th Floor, Shenmao Commercial Center, 59 Xinwen Road, Futian District, Shenzhen, Guangdong Province, the People's Republic of China on Thursday, 18 May 2006 at 2:00 p.m. for the following purposes:

1 To consider and approve the report of the board of directors of the Company (the "Board") for the year ended 31 December 2005;

2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2005;

3. To consider and approve the audited consolidated financial statements and the report of auditors for the year ended 31 December 2005;

4. To consider and approve the declaration of a final dividend of RMB0.02 per share for the year ended 31 December 2005 (inclusive of tax, if applicable);

5. To consider and approve the proposal of appointing ShineWing (HK) CPA Limited as the Company's auditors for the year 2006 and to authorize the Board to fix their remuneration; and

6. To consider and approve any proposal put forward by any shareholder holding 5% or more of the shares with voting rights at such meeting.

By order of the Board
Shenzhen Dongjiang Environmental Company Limited
ZHANG WEI YANG
Chairman

Shenzhen, Guangdong Province, the PRC
31 March 2006

Notes:

1 The register of the members of the Company will be closed from Tuesday, 18 April 2006 to Thursday, 18 May 2006 (both days inclusive). No transfer of shares will be registered during this period. Holders of domestic shares and H shares whose names appear on the register of the Company before 4:00 p.m. Thursday, 18 May 2006 are entitled to attend and vote at the meeting mentioned above and may appoint one or more proxies to attend and, in the event of a poll, vote on their behalf. A proxy need not be a member of shareholders of the Company.

2. A proxy form applicable to the AGM is hereinwith enclosed. In order to be valid, the proxy form, under which it is signed, must be deposited by hand or post, for holders of H shares of the Company to the H share registrar of the Company at Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and, for holders of domestic shares, to the registered office of the Company not less than 24 hours before the time for holding the AGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.

3. A form of proxy for use at the meeting is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

4. Shareholders or their proxies shall produce their identity documents when attending the meeting.

5. Shareholders who intend to attend the meeting should complete and return the enclosed reply slip and return it by hand or post to the share registrar of the Company (for holders of H shares) or to the registered office of the Company (for holders of domestic shares) before 4:00 p.m. Thursday, 27 April 2006.

6. The AGM is expected to take half a day. Shareholders attending the meeting shall be responsible for their own travel and accommodation expenses.

7. The registered office of the Company and the office of H share registrar of the Company are as follows:

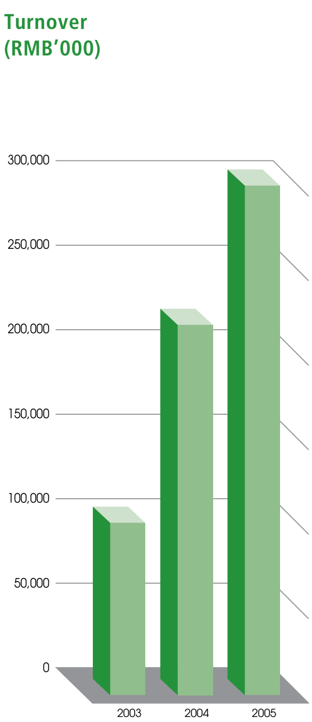
   Registered office:
   Units A, B, C, D and H,
   16th Floor
   Shenmao Commercial Center
   59 Xinwen Road
   Futian District
   Shenzhen
   Guangdong Province
   The PRC

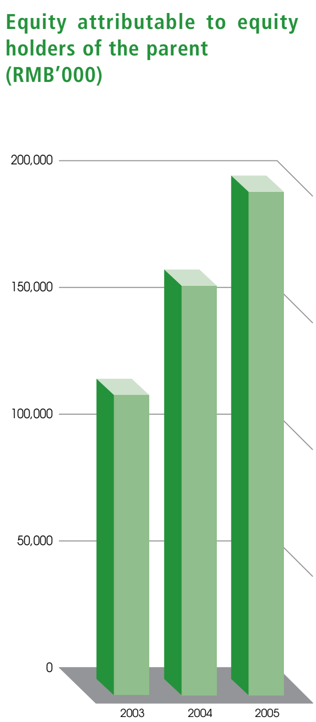
   Telephone Number: (086 755) 8294 9081
   Facsimile Number: (086 755) 8294 9115
   Post Code: 518034

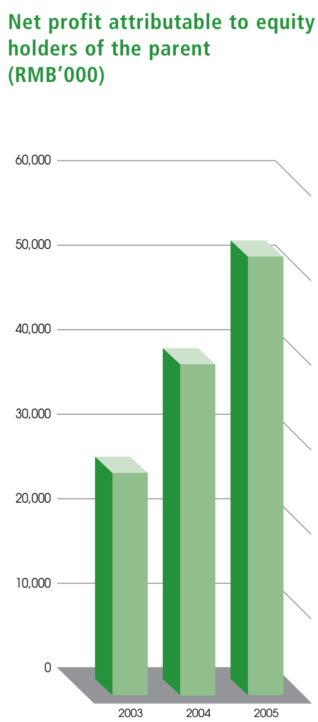
   H Share registrar in Hong Kong:
   Tengis Limited
   26th Tesbury Centre
   28 Queen's Road East,
   Wanchai
   Hong Kong

Financial Summary

	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*
Result			
Turnover	**292,374**	213,804	98,921
Gross profit	**134,089**	90,020	41,238
Gross profit rate	**45.86%**	42.10%	41.69%
Net profit attributable to equity holders of the parent	**50,815**	38,273	23,709
Financial position			
Total assets	**303,379**	247,664	167,452
Total liabilities	**52,239**	59,892	31,020
Minority interests	**53,942**	35,115	16,091
Equity attributable to equity holders of the parent	**197,198**	152,657	120,341







On behalf of the Board of Directors (the "Board") of Shenzhen Dongjiang Environmental Company Limited* (深圳市東江環保股份有限公司) (the "Company"), I would like to present the consolidated results of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2005.

In 2005, China's government continued to pursue a strategic philosophy of forging towards a more scientifically oriented development and recycle economy. Environmental protection was placed at an increasingly vital position according to the "Decision for reinforcing Environmental Protection through scientifically oriented development" passed by the State Council of PRC. The Group timely capitalized on the prevailing opportunities by being elected as the first batch of pilot units by the State and by delivering impressive results in business development and project exploration. As at 31 December 2005, the Group reported a turnover of RMB292,374,000, representing a 36.7% growth over the last corresponding figure. Profit attributable to equity holders of parent increased by 32.8% over the last corresponding period to RMB50,815,000. Earnings per share amounted to RMB0.081. The Board recommended a payment of dividends of RMB0.02 per ordinary share for the year ended 31 December 2005.

During the year under review, the Group took great leaps in adopting effective initiatives on the spectrums of an adjustment in market strategies, enhancement in operating scale and improvement in efficiencies. Through an active foothold in exploring into the waste collection market, coupled with remarkably strengthened capabilities in providing comprehensive environmental services as well as an expansion and upgrading of our waste processing facilities, the Group's core businesses – waste treatment and recycling posted a stronger consolidation and development and larger market share. At the same time, the Group speeded up our strategic adjustments with a focused effort in new projects. Nickel-containing sludge treatment and recycling projects, under our proprietary research and development, undergone smooth constructions in the second half of 2005 and were put into commission. The Guandong Hazardous Waste Treatment Demonstration Centre Project undertaken by the Group is expected to be put into commission in 2006 for commencement of waste collection and disposal business upon completion of various constructions. In addition, the Group made concerted efforts in enhancing our innovative strengths during the year by promoting a higher productivity through research and development fruits and expanding into a wider technological reserve for newly explored sectors.

Looking forward, the Group will lure driving momentums for a stable growth in our principal business by making a great step in resources consolidation and mechanism adjustment. A further diversification into wider business scopes and an optimized industry structure will represent a strong and solid base for our sustainable growth.

In 2006, by leveraging on our core competitive edges, the Group will continuously step into an enlarged scale of our waste collection, treatment and recycling business segments in order to fuel the Group with brand new profit growing forces. Moreover, our focus will remain on environmental related sectors with growing potentials in order to accelerate conversions of our research and development fruits into products and an active expansion into new projects.

I would like to thank all our shareholders for their trust in and support to the Company, and all our staff for their devoted commitment and outstanding contribution over the year. At the same time, the Company's Board of Directors, management and all staff will continue to dedicate themselves for a bright future of the Company in order to create the great shareholders' values.

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

23 March 2006

* *For identification purpose only*

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in collection, treatment and disposal of wastes, construction and operation of environmental protection ("EP") systems as well as production and sales of the recycled products. In 2005, the Group realised impressive results for the development of various business segments and projects. The Group's turnover increased by approximately 36.7% to RMB292,374,000 as compared to last year, and profit attributable to equity holders of parent increased by approximately 32.8% to RMB50,815,000. Increased turnover and profit were attained through a unified waste collection system, energetic responses to market conditions and proactive expansion strategies.

Waste Collection

In this year, the Group has implemented an integrated waste collection system to further enhance the capability of waste collection and transportation. Based on the existing market coverage, the Group has successfully expended the waste collection territory to many new cities and districts, mainly in Guangdong province, covering Daya Bay, Shantou, Heyuan, Xiamen, Zhongshan, Zhuhai, Jiangmen, Foshan, Nanhai, Dongguan, Shaoguan, etc. Moreover, the customer base was further consolidated and enlarged by contracting with more new customers, among which many are famous enterprises such as Emerson Electric Co., Huawei Technology Co., CNOOC-SHELL Petrochemicals, Topsearch, etc.

Waste Treatment and Recycling

During the year, the Group remarkably strengthened its waste treatment and disposal capabilities through a series of expansion and technological renovations on the treatment facilities at its treatment bases in Shenzhen, Huizhou and Kunshan in line with its business development. In particular, with new additions of a number of non-hazardous treatment facilities, the Group diversified into a wider scope of waste types which are capable to be treated by the Group. As a result, a new income generator was brought to the Group.

With an expanded scale of waste collection and treatment sectors, in 2005, the Group enlarged the scale of the Group's recycling business segment accordingly. Though sales of certain recycled products were faced with more challenging difficulties under the impacts of market price fluctuations and the sudden outbreak of avian flu, yet the Group posted an encouraging sustainable growth in its recycling business segment, as noted with a 35.4% year-on-year growth over the last year's figure, by promptly keeping abreast of the changing market trends and timely adjusting its sales strategies.

To promote a vertical development of the Group's recycling business, a series of expansion and improvement measures were put into place for the treatment lines for copper-containing wastes at the Huizhou treatment base. Upon such improvements, such treatment lines will be expanded by over 4 times in terms of treatment capacity, and will be more flexibly capable of supporting a complementary output of various high value added copper salts. Such improvement project is expected to be completed in 2006.

In addition, through the Group's continuous concerted efforts, the Group's tri-basic copper chloride ("TBCC") project successfully passed a testing by fulfilling various basic technological requirements with a stable output of qualified quality copper salts. Such project, gradually on the track, will become an important integral part of its recycling segment and a contributor to its better results.

Construction and Operation of Environmental Protection ("EP") Systems

This business segment represented a crucial part of providing comprehensive EP services to its customers. In 2005, this sector grew substantially with a 73.3% growth in segmental turnover over the last year's figure to RMB24,666,000. On basis of the Group's promising results, the Company was awarded with the "Certificate of Operation of Environmental Pollution Control Facilities" – Grade A domestic sewage and Grade A industrial waste water treatment standards by the State Environmental Protection Administration, which was a qualification for engaging in any scale domestic sewage and industrial waste water treatment facilities operations. Through technological advancements and management enhancements, the operating costs for waste water operation business dropped drastically, flourishing an increased gross profit margin.

OTHER BUSINESS

During the year, the Group enthusiastically expanded into new customer bases for its trading of chemical products business. With a steady expanding business scale, this segmental turnover surged by 19.0%.

Development of New Projects

To sustain development potentials, the Group speeded up its development pace of new projects by taking great leaps in adopting active business expansion strategies. In the first half of the year, the Group obtained the concession right of Guangdong Province Hazardous Waste Comprehensive Treatment Demonstration Centre Project (the "Demonstration Center Project") for a term of 30 years, including the design, construction and operation of the incineration and safe landfill of 50,000 tons of hazardous wastes per year. Given that such project was strategically important to the Group's development, the project constructions were undergone at a full gear with an expected commission by stages in 2006. At the same time, the Group made a great step in fully commencing its marketing efforts for such project by securing CNOOC-SHELL Petrochemical as its first signed customer upon its execution of a 10-year waste treatment contract with the Group.

"Nickel-containing sludge treatment and recycling project" represented one of the Group's key research and development fruits. Such project was completed in the second half of 2005. An output of qualified nickel salts was realized given an increasingly optimized operating index over a five-month trial operation and technical testing. The success of this project will further boom a diversified development of its recycling business by fuelling the Group with new growing momentums.

A waste treatment base was planned to be built by the Group in Shaoguan, Guangdong Province in the second half of 2005, and a cooperation agreement was entered into with the biggest local circuit board plant in relation to the supply of waste treatment services to such plant. This base will be set up as a strategic business point of the Group in North Guangdong in order to facilitate its expansion into the waste treatment markets and the EP relation businesses in this area.

The Group is confident that the above measures will become boosting stimulus for an expanding business reach and market coverage, and consolidate the Group's leading position in the industry.

Research and Development

In 2005, the Group made continuous efforts in stepping up its technological research and development ("R&D") through the spectrums of personnel, management, equipment and funds in order to actively capitalize on its R&D fruits. As part of its technological development strategies, R&D technological equipments and efforts were further enhanced by introducing several senior technological specialists into its research centre during the year as well as by upgrading and updating certain equipments and instruments.

To enhance the Group's productivity with R&D achievements, on the side of R&D efforts, the Group adhered to a combined strategy of converting its research results into commercialized productions. A flurry of new research topics were lured by the Group in reaction to the promising EP industry sectors and technologies in the year. Regarding the application of patents, patent applications for its two innovations, namely "the treatment and utilization technology copper-filtering sludge for circuit board factories" and "the treatment and utilization technology for grease-contained clay waste", had passed a preliminary assessment by the China's State Intellectual Property Office.

In addition, a broadened platform will be paved for the Group's R&D and innovations in view that the Group was granted by the Shenzhen government with an approval for building "Dongjiang EP Scientific Research and Technological Application Development Centre" in Shenzhen High-Tech Industrial Park.

Operation Management

2005 marked a year of an upgrading and an innovation of the Group's internal management systems. To uphold its philosophy of "a solid basis, focused effectives and innovative ideas", a tremendous amount of far reaching and highly effective initiatives were put forth: 1) to put into place a more scientifically regulated group management system for a complete management of the subsidiaries of the Group and a stringent implementation of its budgeted plans and performance system in order to effectively strengthen the supervision over each operating segment and fully enhance its overall operating efficiency; 2) to further optimize its systems and mechanisms so as to form a basis for its regulated management; and 3) to maintain a stable staff team and to effectively relieve the pressures arising from personnel demand of the Group by introducing and breeding talented staff with improved remuneration packages and enhanced staff benefits.

SIGNIFICANT INVESTMENTS

Shenzhen AIC

In March 2005, the Group invested RMB1,530,000 to establish a 51%-owned subsidiary named Shenzhen AIC Technology Limited (深圳市東迪塗屬技術有限公司) ("Shenzhen AIC") in the PRC. Shenzhen AIC is principally engaged in promotion and application of new environmental paint coating technology.

Dongjiang-Onyx

In May 2005, the Group invested RMB22,440,000 to establish a 51%-owned subsidiary named Huizhou Dongjiang-Onyx Solid Waste Treatment Co., Ltd. ("Dongjiang-Onyx") which had registered capital of RMB44,000,000. Dongjiang-Onyx is responsible for the implementation of the Demonstration Centre Project (phase I).

Shaoguan Dongjiang

In October 2005, the Group invested RMB5,000,000 to establish a 90%-owned subsidiary named Shaoguan Dongjiang Environmental Technology Limited Company (韶關市東江環保技術有限公司) ("Shaoguan Dongjiang") in PRC. Shaoguan Dongjiang will be the strategic business base in North Guangdong of the Group to expand waste treatment and relevant EP businesses.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2005, the Group's turnover was increased by approximately 36.7% to RMB292,374,000 as compared to 2004 (2004: RMB213,804,000). The increase of turnover mainly came from the expansion of waste treatment scale and the growing sales of recycled produces.

Meanwhile, the business of construction and operation of EP systems achieved rapid growth in 2005, representing an increase of RMB10,434,000 in the turnover to RMB24,666,000 (2004: RMB14,232,000).

Profit

During the year ended 31 December 2005, the Group's gross profit increased by 48.9% to RMB134,089,000 (2004: RMB90,020,000). The growth was mainly due to the increase in the turnover and the gross profit margin.

During the year ended 31 December 2005, the Group's consolidated gross profit margin increased from 42.1% in 2004 to 45.9% in 2005. The growth in the consolidated gross profit margin was mainly attributable to the expanding scale of the business of the solid waste treatment, which has relatively higher gross profit margin. Moreover, the gross profit margin of the construction and operation of EP systems and the trading of chemical products increased slightly as compared to that of last year.

Selling and Distribution Costs

During the year under review, the Group's selling and distribution costs was approximately RMB23,886,000 (2004: RMB9,612,000) amounting to 8.2% (2004: 4.5%) of the total turnover.

The increase in selling and distribution costs mainly attributed to the expansion of the waste collection market, which incurred additional expenses of approximately RMB12,717,000. Besides, the cost incurred in the market development of the trading of chemical products amounted to approximately RMB4,503,000.

Administrative Expenses

During the year ended 31 December 2005, the Group's administrative expenses was approximately RMB47,171,000 (2004: RMB29,087,000) amounting to 16.1% (2004: 13.6%) of the total turnover.

The main reason for the increase in administrative expenses was that some of the subsidiaries of the Group have commenced their full operations in 2005, which incurred additional administrative expenses of approximately RMB17,580,000.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2005, the Group had net current assets of RMB127,265,000 (2004: RMB87,585,000 (restated)), including cash and cash equivalents of RMB82,109,000 (2004: RMB87,568,000).

As at 31 December 2005, the Group had total liabilities of RMB52,239,000 (2004: RMB59,892,000 (restated)). The Group's gearing ratio was approximately 17.2% (2004: 24.2%) which is calculated based on the Group's total liabilities and Group's total assets. The current liabilities of the Group was approximately RMB49,698,000 (2004: RMB57,662,000). As at 31 December 2005, the Group had outstanding bank loans of RMB3,000,000 at interest rates at 5.58% per annum (2004: RMB10,200,000).

In 2005, the net cash flow from operating activities of the Group decreased by approximately RMB18,826,000 to RMB39,465,000 (2004: RMB58,291,000). The main reason for the decrease was that partial revenue realized in 2005 stated in trade receivables and bank notes, and had not converted into cash.

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2005, the Group had no material acquisitions or disposals of subsidiaries and affiliated companies.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 6 March 2006, the Company has established a wholly-owned limited company, namely Shenzhen Dongjiang Environmental Recycled Power Limited Company ("Recycled Power") with issued share capital of RMB10,000,000. Recycled Power is principally engaged in power generation through utilization of landfill methane.

Save as disclosed above, the Directors presently do not have other future plans for material investments or capital assets. The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

SHAJING TREATMENT CENTER

On 20 October 2005, the Company obtained land use rights and building ownership rights of the Shajing Treatment Center for the approximately 39,900 square meters land and nine sets of building, including seven workshops, and office, dormitory on the land (the "Use Rights"). The term of the Use Rights is 50 years from 5 March 1999 to 4 March 2049. The total cost the Company paid for obtaining the Use Rights amounted to RMB12,291,000.

The Board convened a meeting on 23 March 2006 which was chaired by an independent non-executive director to review the relevant documents and the cost details in relation to the Use Rights. The Board considers that the cost of the obtaining the Use Right is fair and reasonable.

INTEREST RATE AND EXCHANGE RISK

The Group's interest rate risk relate primarily to the Group's interest-bearing bank borrowings.

During the year ended 31 December 2005, the Group's bank borrowings are at fixed interest rates, which would not expose to interest risk.

The Group did not expose to any major exchange risk as most of the income and expenses were settled in Renminbi.

PLEDGE OF ASSETS

As at 31 December 2005, the Group had no pledged assets.

INFORMATION ON EMPLOYEES

At 31 December 2005, the number of full-time employees stood at 863 (2004: 542) with a total staff cost of the year ended 31 December 2005 of approximately RMB19,420,000 (2004: RMB11,499,000). The Group offered continuing training, remuneration package and a range of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2005.

CAPITAL COMMITMENT

As at balance sheet date, the Group had the following capital commitments:

	2005	2004
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**678**	1,200
Land use rights	**870**	–
Construction in progress	**67,085**	–
The establishment of a new limited company *(Note)*	**7,140**	22,440
	75,773	23,640
Authorised, but not contracted for:		
Property, plant and equipment	**5,008**	–
	80,781	23,640

Note:

On 16 December 2004, the Company and Onyx (Hong Kong) Company Limited entered into an agreement to establish Dongjiang-Onyx. The Company agreed to contribute RMB22,400,000 in cash for 51% equity interests in Dongjiang-Onyx.

The Company has injected RMB15,300,000 into Dongjiang-Onyx during the year ended 31 December 2005 while the remaining capital of RMB7,140,000 will be injected within the next three years in accordance with the terms of agreement.

FUTURE PROSPECTS

Looking forward to 2006, the Group is well poised to sustain its enormous growing forces by taking advantage of an increasingly favourable operating environment.

Heading towards a Stable Growth through Consolidation and Expansion of Core Business

In 2006, the Group is set to enjoy robust growth drivers for its principal businesses given a gradual commission of a number of projects. With the completion of the expansion and renovation project for the treatment lines for copper-containing wastes and the nickel recycling project at Huizhou treatment base, coupled with a formal commission of TBCC project, the Group will achieve substantial leaps in enlarging the scale of its waste treatment and recycling businesses. A foothold in the ultimate waste disposal business through the Demonstration Centre Project will be a strong complement to its explored diversification into waste collection markets and customer bases, and a contributive stimulus for its strategies of positioning as a one-stop total provider of EP services.

Continuous Strengthening of Scientific Research Platform

The Group will devote endeavoured efforts in equipping itself with stronger R&D capabilities through R&D fruits' conversions and innovative enhancements and by capturing its valuable historic opportunity of becoming a pilot unit selected by the state for its recycle economy. The Group expects to make a breakthrough in its R&D results' conversions by capitalizing on its encouraging proven records in a pool of R&D projects.

Vigorous Exploration into EP Related Sectors

The Group has always dedicated itself to grasping wider development potentials by keeping fully aware of any other promising EP related sectors. In 2006, the Group will launch a project for landfill methane power generations to enter energy recycling sectors and create a new model of resource utilization.

Meanwhile, devoted efforts and profound researches will be made by the Group for those strategically important sectors for its long-lasting growths, including waste landfills, water treatment, water resources recycling and electronic waste disposal, in order to gain one or two pilot projects.

BUSINESS OBJECTIVES

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 23 January 2003	Actual business progress from the Latest Practicable Date to 31 December 2005
Increase waste treatment capacity and expand geographical coverage	
i) Pearl River Delta	
• Construction of a new treatment center in Shajing Town of the Baoan District in Shenzhen.	• *Treatment volume reached planned level.*
• Expansion with a base in Huizhou, Huizhou Dongjiang.	• *Treatment volume reached planned level.*
ii) Western China region	
Expansion with a base in Chengdu, Chengdu Treatment Center.	• *Facility is in the progress of reconstruction. The treatment volume has not reached the planned level.*
iii) Changjiang River Delta	
Expansion with a base in Shanghai Xin Yu.	• *Disposed in 2004 as a result of changing economic and market conditions.*

Business objectives as stated in the prospectus dated 23 January 2003	Actual business progress from the Latest Practicable Date to 31 December 2005
Expand the variety of wastes that can be treated and recycled and further promote other EP-related services.	
i) *Waste treatment and recycled variety*	
• Commence operation of organic solvent and waste oil treatment facility.	• *Treatment capacity reached planned level.*
• Commence operation of tin-contained wastes treatment facility.	• *Treatment volume reached the planned level in 2004.*
• Commence operation of zinc-contained wastes treatment facility.	• *Temporarily postponed as the treatment markets were developing and not mature enough for industrialization.*
• Commence operation of arsenic-contained wastes treatment facility.	• *Temporarily postponed since the market was not favourable.*
• Treatment volume of the treatment facility for cupric sewage sludge reachs planned level.	• *A half-industrialization facility is the progress of trial run.*
• Treatment volume of waste mineral oil treatment facility reachs planned level.	• *Not reach planned level since the trial run period lasted longer than expectation.*
• Trial run of chromium-contained wastes treatment facility.	• *Suspended since the market was not favourable.*

Management Discussion and Analysis

Business objectives as stated in the prospectus dated 23 January 2003	Actual business progress from the Latest Practicable Date to 31 December 2005
ii) EP construction and consultation services	• Increased 16 turnkey solution projects.
Continue its commitment to R&D	
1. Commence R&D on waste treatment and recycle technology on: nickel-contained wastes, lead-contained wastes, waste acid, waste alkaline and waste inorganic cyanide.	• Completed.
2. Develop the waste treatment and recycle technology on: waste emulsion, dyes, paints and heavy metal-contained sewage and sludge.	• Completed.
Further enhance its management system	
To establish an information management system.	• An information collection and feedback system was established.
Strengthen its sales and marketing team	
Continue to develop the market around treatment centers.	• Both of the marked coverage and the customers base expanded for the waste collection and sales of recycled products.

USE OF PROCEEDS

The proceeds from the listing of H Shares of the Company on GEM in January 2003, after deduction of related expenses, amounted to approximately HK$43.4 million. However, the total amount as estimated by the Directors to finance the business objectives (the "Business Objectives") as set out in the prospectus of the Company dated 23 January 2003 (the "Prospectus") is HK$66.0 million. As stated in the Prospectus, the Directors intend to finance the shortfall by operating cashflows and, where necessary, bank financing. During the period from 22 January 2003 (the latest practicable date prior to the printing of the Prospectus for the purpose of ascertaining certain information contained in the Prospectus) (the "Latest Practicable Date") to 31 December 2005 (the "Period"), approximately HK$43.4 million of the listing proceeds were applied to the Business Objectives. Details of the comparison of the application of the HK$43.4 million to the Business Objectives are as follows:

	From the Latest Practicable Date to 31 December 2005		
	Actual Figure (HK$ million)	**As per Prospectus** (HK$ million)	**Difference** (HK$ million)
Increase waste treatment capacity (new treatment centers in Shenzhen)	13.4	13.4	–
Enlarge geographical coverage (treatment centers in Chengdu, Huizhou and Shanghai)	21.3	25.4	(4.1)
Expand waste treatment capability and wider scope of services	1.1	1.1	–
Continue its commitment in R&D	6.3	2.2	4.1
Future enhance its management system	0.8	0.8	–
Strengthen its sales and marketing team	0.5	0.5	–
Total	43.4	43.4	–

Note: As stated in the Prospectus, any additional net proceeds more than HK$37.1 million will be applied to finance the Business Objective for the 12 months ending 31 December 2004 on a proportional basis. As the Company raised approximately HK$43.4 million from the listing of H Shares, the Directors intend to apply (i) the net proceeds as to the amount of HK$37.1 million to the Business Objectives on a proportional basis up to 31 December 2005; and (ii) the net proceeds as to the amount of HK$6.3 million to the Business Objective for the 12 months ending 31 December 2004 on a proportional basis. The amount of net proceeds to be utilized for the Business Objectives as per the Prospectus as shown herein has been adjusted to take into account for the aforesaid factors.

The Directors consider that the actual application of proceeds from the listing of H Shares of the Company was in line with the Business Objectives.

COMPLIANCE ADVISER'S INTERESTS

Pursuant to the agreement dated 23 January 2003 and its supplementary agreement entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has received a fee for acting as the Company's compliance adviser (formerly known as a retained sponsor) for the period from 29 January 2003, the date on which the H shares of the Company were listed, to the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the Company's financial results for the financial year ended 31 December 2005.

First Shanghai nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) has any interests in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31 December 2005.

DIRECTORS

Executive Directors

ZHANG Wei Yang (張維仰), aged 40, is the chairman of the Company and founder of the Group. Mr. Zhang is responsible for the overall strategic development and policy of the Group. He has over 10 years of experience in the field of environmental protection and chemical technology, including approximately five years in Shenzhen environmental protection authorities and six years in Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. (深圳市方元化工實業有限公司) ("Shenzhen Fang Yuan"). Mr. Zhang is currently a committee member of the Association for High and New Technology Industry of Shenzhen (深圳市高新技術產業協會) and a committee member of the Association for Environmental Protection Industry of Shenzhen (深圳市環保產業協會).

CHEN Shu Sheng (陳曙生), aged 38, is an executive director and the deputy manager of the Company. Mr. Chen joined the Group in July 2001 and is responsible for the management of daily operations of waste collection, treatment and recycling business of the Group. He obtained a bachelor degree from the chemistry department of Jiangxi University in 1988 majoring in organic chemistry. Mr. Chen worked in Jiangxi Provincial Research Institute of Rare Earth for about 13 years.

LI Yong Peng (李永鵬), aged 31, is a executive director and responsible for the management of daily operation of one subsidiary of the Group. He graduated from Zhong Nan Finance University (中南財經大學) (currently known as Zhong Nan Finance & Law University (中南財經政法大學) with a bachelor degree in state-owned assets management and valuation in 1998.

Non-executive Directors

FENG Tao (馮濤), aged 38, is a non-executive director and the vice-chairman of the Company. Mr. Feng obtained a master degree in science from the Department of Statistics and Applied Probability from the University of Alberta in 1992. Since 1999, he has been serving as the vice president officer (副主任) of The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission of the PRC (中華人民共和國國家經濟貿易委員會) and China Science Academy. Mr. Feng is a director of Shanghai New Margin Venture Capital Co., Ltd. (上海聯創創業投資有限公司) ("New Margin"). He is also a director of Venturepharm Laboratories Limited (listed on GEM (Stock Code: 8225)) and Jiangsu Lianhuan Pharmaceutical Co., Ltd. (listed on the Shanghai Stock Exchange (Stock Code: 600513)).

WU Shui Qing (吳水清), aged 39, is a non-executive director and an investment manager of Shenzhen High-Tech Investment Co., Ltd. (深圳市高新技術投資擔保有限公司). Dr. 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. Dr. Wu also has over six years of experience in the field of investment.

SUN Ji Ping (孫集平), aged 49, is a non-executive director and an investment manager of China Venture Capital Inc. (中國風險投資有限公司). Ms. Sun graduated from the Beijing Television Broadcast University specializing in Chinese and obtained a Diploma in economics from the Capital University of Economics & Trade (首都經貿大學) in 2002. She worked with China Petroleum and Chemical Group Limited (中國石油化學工業部) for about three years and with Petrochina Group Limited (中國石油天然氣集團公司) for over 20 years.

Independent non-executive Directors

MENG Chun (孟春), aged 48, was appointed as an independent non-executive director in September 2002. Dr. Meng obtained a doctorate degree in Economics in 1999 from Research Institute of China Social Science Academy (中國社會科學院研究生院). Dr. Meng is now the deputy director of the Research Department of Macro Economy of Development Research Center of the State Council of the PRC (中國國務院發展研究中心). He has held various senior positions at Ministry of Finance from March 1991 to October 1998 and at Finance Department at Guangxi Zhuang Zhu Autonomous Region (廣西壯族自治區財政廳) from October 1998 to December 1999.

WANG Ji Wu (王濟武), aged 35, was appointed as an independent non-executive director in January 2003. Mr. Wang graduated from Tsinghua University in 1993 with a bachelor degree in economics. He has worked with Beijing Enterprises Holdings Limited (北京控股有限公司), Beijing Holdings Ltd. (京泰實業(集團)有限公司) and Beijing Holdings Securities Investment Limited (京泰證券投資有限公司) during the period from 1993 to 2002. Mr. Wang is now working with a real estate development company as a director and chief financial officer.

YANG Zhi Feng (楊志峰), aged 43, was appointed as an independent non-executive director in June 2005. Mr. Yang graduated from Agricultural University of Hebei majoring in irrigation engineering and obtained a master degree in civil engineering from Dalian University of Technology in 1986. In 1989, Mr. Yang graduated from the Tsinghua University with a doctorate degree in irrigation engineering. From 1990 to 1995, Mr. Yang was serving as an associate professor in the Department of Mechanics at the Peking University and the Department of Environmental Science and Technology at the Beijing Normal University. Mr. Yang is now the head of the Research Institute of Environmental Science and the Dean of the Department of Environmental Science and Engineering at the Beijing Normal University. Mr. Yang is a distinguished scholar in the fields of water resource, environmental plan and management, as well as solid wastes disposal and recycling, etc.

SUPERVISORS

YUAN Wei (袁桅), aged 35, is a supervisor of the Company and an investment manager of New Margin. 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 of New Margin.

LUO Xiao Hong (駱曉紅), aged 40, 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.

ZHOU Xiu Hong (周秀紅), aged 29, was a supervisor of the Company. She has been working in the accounting department of the Company since 1999. Ms. Zhou has over five years of experience in the field of finance and accounting.

QUALIFIED ACCOUNTANT

TSANG Wan Sing (曾穩成), aged 36, is the qualified accountant of the Company, He is a practicing certified public accountant in Hong Kong. Mr. Tsang is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Mr. Tsang has obtained a bachelor's degree in accounting from City University of Hong Kong. Prior to joining the Company, Mr. Tsang has gained more than 10 years of experience in the accounting and auditing industry.

COMPANY SECRETARY

LO Wah Wai (盧華威), aged 42, is the Company Secretary of the Company. He is a practicing certified public accountant in Hong Kong. Mr. Lo holds a bachelor's degree in business administration from the Chinese University of Hong Kong and master's degree in science from New Jersey Institute of Technology, the United States. Mr. Lo also holds memberships in several professional associations, including the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

SENIOR MANAGEMENT

HE Qi Hu (何其虎), aged 55, is a deputy general manager and chief technical officer of the Company. Mr. He joined the Group in September 1999 and is responsible for the engineering and technology related matters of the Group. He graduated from the Xian Institute of Gold Mining and Construction(西安冶金建築學院)(currently known as Xian University of Construction Technology(西安建築科技大學), with a bachelor degree majoring in water management in 1978. Mr. He worked as an associate professor of Xian university of Construction Technology for 16 years.

Management Profile

CAI Hong (蔡虹), aged 30, is the officer in charge of corporate and human resources management of the Company. Ms. Cai graduated from the Institute of Guangdong Committee of Communist Party（廣東省委黨校）majoring in Fiscal Administration and Finance in 1994 and obtained a master degree in business and culture from London City University of United Kingdom. Ms. Cai joined the Group in 1999 and has over eight years of experience in finance and management.

LIU Wen Bin (劉文斌), aged 47, is the officer in charge of marketing of the Company. Mr. Liu joined the Group in July 2002 and is responsible for sale and marketing of the Group's products and services. He graduated from Zhong Nan Institute of Mining (中南礦冶學院) in 1982 majoring in mechanical engineering. After graduation, Mr. Liu worked in Zhong Nan Institute of Mining for over five years. He has about 15 years of experience in trade and management.

WANG Tian (王恬), aged 29, 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 five years of experience in the field of investment and management.

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the processing and sale of recycled products, the provision of waste treatment services, the trading of chemical products, the construction of environmental protection systems and the provision of consultation services. Details of the principal activities of the subsidiaries are set out in note 36 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The result of the Group for the year ended 31 December 2005 are set out in the consolidated income statements on page 38.

DIVIDENDS

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2005 (2004: RMB0.01 per share).

The Board has proposed a distribution of a final dividend of RMB0.02 per ordinary share for the year ended 31 December 2005 (2004: RMB0.01). The proposal to declare and pay this final dividend will be submitted for approval at the annual general meeting to be held on 18 May 2006. The final dividend will be payable on or around 15 July 2006 to the shareholders of the Company.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in January 2003, after deduction of related issuance expenses, amounted to approximately HK$43.4 million. The application of these proceeds during the year ended 31 December 2005 in accordance with the proposed applications set out in the Company's listing prospectus (the "Prospectus"), was as follows:

- approximately HK$13.4 million was used for the new treatment center in Shenzhen;
- approximately HK$21.3 million was used for the new treatment centers in Chengdu, Huizhou and Shanghai;
- approximately HK$1.1 million was used for the expansion of waste treatment capability;
- approximately HK$6.3 million was used for research and development;
- approximately HK$0.8 million was used for the enhancement of the Company's management system; and
- approximately HK$0.5 million was used for the strengthening of the sales and marketing team of the Group.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 6. 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 financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB64,318,000, of which RMB12,548,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of 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 31.6% of the total sales for the year and sales to the largest customer included therein amounted to 11.5%. Purchases from the Group's five largest suppliers accounted for less than 30.0% of the total purchases for the year.

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

DIRECTORS

The directors of the Company during the year were:

Executive Directors:

Mr. Zhang Wei Yang *(Chairman)*	
Mr. He Qi Hu	*(retired on 2 June 2005)*
Mr. Li Yong Peng	
Mr. Chen Shu Sheng	*(appointed on 2 June 2005)*

Non-executive Directors:

Mr. Feng Tao *(Vice-chairman)*
Mr. Wu Shui Qing
Ms. Sun Ji Ping

Independent non-executive Directors:

Mr. Meng Chun	
Mr. Liu Hong Liang	*(retired on 2 June 2005)*
Mr. Wang Ji Wu	
Mr. Yang Zhi Feng	*(appointed on 2 June 2005)*

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographies details of the directors of the company and the senior management of the Group are set out on pages 21 to 24 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

Details of the emoluments for directors, supervisors and employees of the Company are set out in note 10 to the consolidated financial statements.

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

At 31 December 2005, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name	Personal interests	Family interests	Corporate interests	Other interests	Total	Percentage of shareholding in this class
Mr. Zhang Wei Yang	261,884,150	35,389,750 *(Note 1)*	–	–	297,273,900	66.14%
Mr. Li Yong Peng	–	–	35,389,750 *(Note 2)*	–	35,389,750	7.87%

Notes:

(1) These shares (representing approximately 7.9% of domestic shares issued) are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Ms. Zhou Wen Ying, the spouse of Mr. Zhang Wei Yang.

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

Save as disclosed above, as at 31 December 2005, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Rule 5.46 of the GEM Listing Rules.

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

At 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholders	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital in its class
Shanghai New Margin Venture Capital Co., Ltd *(Note 1)*	Beneficial	61,566,558 domestic shares	13.70%
I.G. Investment Management (Hong Kong) Limited *(Note 2)*	Investment manager	14,200,000 H shares	7.98%
Leading Environmental Solutions and Services *(Note 3)*	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environmental Fund 2002, LP *(Note 3)*	Beneficial	11,500,000 H shares	6.46%

Notes:

1. Shanghai News 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, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.

2. To the best knowledge of the Directors, this party is independent of and not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

3. Leading Environmental Solutions and Services owns approximately 76.92% of China Environment Fund 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the directors, 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 2005, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

As at 31 December 2005, 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 2005, 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

The Board announced that on 18 June 2005, Shenzhen Dongjiang Heritage Technologies Company Limited ("Dongjiang Heritage"), a 62% owned subsidiary of the Company, has entered into the sales contract (the "Sales Contract") with Heritage Technologies, LLC ("Heritage Technologies"), which is a substantial shareholder of Dongjiang Heritage, a subsidiary of the Company, and is therefore a connected person of the Company under the GEM Listing Rules. Pursuant to the Sales Contract with Heritage Technologies agreed to procure basic copper chloride from Dongjiang Heritage at a maximum amount of USD600,000 (approximately equivalent to HK$4,680,000).

As announced by the Company on 29 April 2005, Dongjiang Heritage entered into three sales contracts with Heritage Technologies dated 25 November 2004, 4 January 2005 and 20 February 2005 respectively for selling an aggregate amount of 414 tons of sub-standard Tri-Basic Copper for reprocessing at an aggregate amount of USD674,298 (approximately equivalent to HK$5,259,524).

Therefore, the total aggregate sales amount (the "Aggregated Sum") of the transactions pursuant to the Sales Contract and the sales contracts dated 25 November 2004, 4 January 2005 and 20 February 2005 (the "Transactions"), for twelve months prior to 28 June 2005 (the date of relevant announcement), during the period when the sales amount are treated as if they were one transaction in accordance with rule 20.25 of the GEM Listing Rules, was approximately USD1,274,298 (approximately equivalent to HK$9,939,524).

As the Aggregated Sum is less than 25% applicable percentage ratios of the Company as specified in rule 19.07 of the GEM Listing Rules and the annual consideration of the Transactions is less than HK$10,000,000, under rule 20.34 of the GEM Listing Rules, the Transactions are therefore subject to the reporting and announcement requirements set out in rules 20.45 to 20.47 of the GEM Listing Rules and is exempt from the independent shareholders' approval requirements.

To cope with market needs, Dongjiang Heritage may continue to provide basic copper chloride products to Heritage Technologies in the future. If the annual consideration of the future transactions between Dongjiang Heritage and Heritage Technologies is expected to exceed HK$10,000,000, the Company will seek the independent shareholders' approval for the transactions and take appropriate actions in compliance with rules 20.35 to 20.41 of the GEM Listing Rules.

The Directors, including the independent non-executive Directors, consider that the Sales Contract is entered into in the normal and ordinary course of business of the Group upon normal commercial terms and such terms are fair and reasonable so far as the Company and the shareholders of the Company as a whole are concerned, and the Sales Contract is in the interest of the Company and the Shareholders of the Company as a whole.

Save as disclosed above, there were no other connected transactions which were dislcoseable under Chapter 20 of the GEM Listing Rules.

The related party transactions of the Group are disclosed in note 34 to the consolidated financial statements.

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.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the consolidated financial statements.

AUDITORS

On 28 November 2005, the Company announced that Messrs. Ernst & Young ("E&Y") had resigned as auditors of the Company with effect from 10 November 2005. Following the resignation of E&Y, the Directors resolved to propose to the shareholders of the Company to appoint Messrs. ShineWing (HK) CPA Limited ("ShineWing") as the new auditors of the Company. Pursuant to the Company's circular dated 28 February 2006, an ordinary resolution will be proposed at the extraordinary general meeting to be held on 18 April 2006 to approve and ratify the appointment of ShineWing as the new auditors of the Company to fill the vacancy following the resignation of E&Y and to hold the office until the conclusion of the next annual general meeting of the Company in 2006. A resolution will be proposed at the forthcoming annual general meeting to re-appoint ShineWing as auditors of the Company.

ON BEHALF OF THE BOARD
Shenzhen Dongjiang Environmental Company Limited*

Zhang Wei Yang
Chairman

Shenzhen, Guangdong Province, the PRC

23 March 2006

* *For identification purpose only*

Supervisory Committee's Report

To: The Shareholders of
Shenzhen Dongjiang Environmental Company Limited ("the Company")

During the year, the Supervisory Committee (the "Supervisory Committee") has complied with PRC Company Law, regulation of the PRC, requirements of the relevant laws and regulations of Hong Kong and Articles of Association of the Company (the "Articles"), and has performed its duties set forth in the Articles, to protect the interest of the Company and Company's shareholders.

During the year, the Supervisory Committee provided reasonable proposals and opinions to the Board on the Group's operations and development plans, and performed strict and effective supervision on whether important strategies and decisions of the management have been in compliance with the laws and regulations of the State and the Articles, and whether the shareholders interests have been safeguarded.

The Supervisory Committee cautiously reviewed and agreed with the Report of the Board of Directors, and the consolidated financial statements as audited by ShineWing (Hong Kong) CPA Limited to be submitted by the Board to the forthcoming annual general meeting. The Supervisory Committee considers that the Reports truly, objectively and accurately reflected the financial condition and the management achievement of the Group.

The Supervisory Committee is satisfied with the various works and performance of the Group in 2005, and is confident for the future development of the Company.

By Order of the Supervisory Committee

Shenzhen Dongjiang Environmental Company Limited*
YUAN Wei
Chairman
Shenzhen, Guangdong Province, the PRC

23 March 2006

* *For identification purpose only*

CORPORATE GOVERNANCE PRACTICES

The Board is committed to ensuring high standards of corporate governance with the objectives of the achieving steady development and the shareholder value promotion. In addition to complying with the Articles of Association (the "Articles") of the Company and applicable statutory requirements, the Company aims to continually review and enhance its corporate governance practices in light of best practices applicable.

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 relevant amendment to the Articles was approved at the annual general meeting held on 2 June 2005 for reflecting the request of the Code.

The company has complied with all the Code provisions throughout the year under review, except for the deviations mentioned below:

a) Under the Code Provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until 2 June 2005 that the Company established a remuneration committee as required by the Code provision.

b) 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 the Mr. Zhang Wei Yang ("Mr. Zhang").

Taking into account the Mr. Zhang's strong expertise and excellent insight of the environmental industry, the Board deems 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 Company. In order to maintain the good corporate governance and completely 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.

THE BOARD

The Board's main responsibilities are: approving the annual budgets, quarter and annual results; formulating and reviewing the overall strategies, basic systems and procedures of the Group; as well as approving major transactions and other significant operational and financial matters. According to the Articles, the Board delegates day-to-day operations of the Group to executive directors and senior managements, including responsible for managing the Group's business, the implementation of major strategies and initiatives adopted by the Board.

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. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng. 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 are set out on pages 21 to 24 of the annual report.

Since the listed date of the Company, more than two-third of the Board has been independent non-executive directors (one-third has been independent non-executive directors). Non-executive directors have appropriate professional qualification, and offer specialized knowledge in relation to accounting and finance, business and management, technologies and market. 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 of their independence to the Company, and considers that all of the independent non-executive directors are independent.

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 secretary of the Board prepares minutes and keeps records of matters discussed and decisions resolved at all board meetings. The draft of the minutes of Board will be sent to all Directors for their comments and records as soon as after the board meeting. The secretary of the Board also keeps the minutes of Board, which are open for inspection at any reasonable time by any Directors.

The Board held seven meetings during the year. The following table shows the attendance rates of individual members of at Board meetings:

Name of directors		**Attendance/Number of Meetings held**
Executive Directors		
Mr. Zhang Wei Yang		7/7
Mr. Chen Shu Sheng	(Appointed on 2 June 2005)	5/5
Mr. He Qi Hu	(Retired on 2 June 2005)	2/2
Mr. Li Yong Peng		7/7
Non-executive Directors		
Mr. Feng Tao		7/7
Mr. Wu Shui Qing		7/7
Ms. Sun Ji Ping		7/7
Independent Non-executive Directors		
Mr. Meng Chun		
Mr. Wang Ji Wu		
Mr. Yang Zhi Feng	(Appointed on 2 June 2005)	5/5
Mr. Liu Hong Liang	(Retired on 2 June 2005)	2/2 *

* *by alternate*

Average attendance rate	**100%**

Apart from receiving the reports relating to the operational and financial performance of the Group regularly, the Directors are also informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors have the right to access to senior managements at all times for information. In order to fulfill its duties, Directors may seek independent professional advice at the expense of the Company.

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 nomination procedures of a new director are: 1) the Board collect the candidate recommendation letter, or seek and identifying by itself (or by intermediary agencies) the qualified candidate; 2) the Board examins the qualifications of the prospective candidates, and holds a Board meeting to determine the formal director candidates; 3) propose the formal candidate to the general meeting of shareholders for election through ordinary resolution.

The criteria for prospective candidates for nomination is: 1) the skill, knowledge and working experiences to carry out the duties a Director of the Company; 2) compliance of the qualifications set out in the Articles, the Company Law of PRC, 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. In 2005, through the above procedures, Mr. Zhang Wei Yang, Mr. Li Yong Peng, Mr. Feng Tao, Mr. Wu Shui Qing, Ms. Sun Ji Ping, Mr. Meng Chun, Mr. Wang Ji Wu were re-elected as Directors, while Mr. Chen Shu Sheng and Mr. Yang Zhi Feng were elected as new Directors.

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 Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD COMMITTEES

The Board has established the Audit Committee and the Remuneration Committee, and adopted its terms of reference in compliance with Code provisions on 2 June 2005.

AUDIT COMMITTEE

The Audit Committee was established in January 2003 to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. The Audit Committee comprises three independent non-executive Directors, namely Mr. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng, who possess appropriate professional qualifications or financial management expertise as required under the GEM Listing Rules. Mr. Meng Chun has been appointed as the chairman of the Audit Committee.

The Audit Committee met four times in 2005 (with an average attendance rate of 100%) to discuss the Group's quarterly and the annual report, and review the accounting principles and practices and internal controls adopted by the Group. The appointment of external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company. Other details of the role and function of the Audit Committee are available on the Company's website.

THE REMUNERATION COMMITTEE

The Remuneration Committee was established in June 2005, to review the remuneration of the Director and the senior managements of the Company, as well as other related remuneration matters instructed by the Board. The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng and one executive Director, namely Mr. Zhang Wei Yang. Mr. Wang Ji Wu has been appointed as the chairman of the Remuneration Committee. The Remuneration Committee schedules to meet at least once a year, and will hold its first meeting on 23 March 2006 to discuss directors' and senior management's remuneration and the examination policy. Other details of the role and functions of the Remuneration Committee are available on the Company's website.

AUDITORS' REMUNERATION

The remuneration in respect of audit services provided by the auditors, ShineWing (HK) CPA Limited to the Company in the year 2005 amounted to HK$400,000. There is no non-audit service provided by the auditors during the year.

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.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

Shareholders are encouraged to attend the annual general meeting for which at least 45 days' notice is given. The comments and suggestions of the shareholders and investors are welcomed. The Company is committed to provide detailed information of business and finance of the Group to shareholders through dispatching quarterly and annual reports, circular, notices, and newsletters, etc. The Company also sets up the section of investor relations on its website as a communication channel to publish the updated and key information of the Group.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
Suites 09-18, 20/F.
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

TO THE MEMBERS 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 the Group from pages 38 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible 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 our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
23 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
TURNOVER	6	**292,374**	213,804
Cost of sales		**(158,285)**	(123,784)
Gross profit		**134,089**	90,020
Other income		**15,744**	3,465
Selling and distribution costs		**(23,886)**	(9,612)
Administrative expenses		**(47,171)**	(29,087)
Other operating expenses		**(11,824)**	(7,647)
Finance costs	8	**(638)**	(981)
Share of results of associates		**(130)**	(442)
PROFIT BEFORE TAX	9	**66,184**	45,716
Income tax expenses	11	**(11,243)**	(4,716)
Profit for the year		**54,941**	41,000
Attributable to:			
Equity holders of the parent		**50,815**	38,273
Minority interests		**4,126**	2,727
		54,941	41,000
DIVIDENDS	12		
Interim		**–**	6,274
Proposed final		**12,548**	6,274
		12,548	12,548
EARNINGS PER SHARE	13		
Basic		**RMB0.0810**	RMB0.0610
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**105,138**	81,903
Investment properties	15	**3,015**	2,914
Prepaid lease payments	16	**17,582**	14,182
Intangible assets	17	**195**	231
Goodwill	18	**–**	537
Interests in associates	19	**400**	1,826
Deferred tax assets	29	**86**	824
		126,416	102,417
CURRENT ASSETS			
Inventories	20	**18,522**	15,927
Amounts due from customers for construction work	21	**2,868**	453
Trade receivables	22	**35,727**	20,538
Bills receivables		**13,771**	3,890
Prepaid lease payments	16	**365**	323
Prepayments, deposits and other receivables	22	**18,601**	16,327
Investment held for trading	23	**5,000**	–
Amount due from a related party	34(c)	**–**	221
Cash and cash equivalents	24	**82,109**	87,568
		176,963	145,247
CURRENT LIABILITIES			
Trade payables	25	**14,530**	10,555
Other payables and accruals	25	**25,414**	29,944
Tax liabilities		**760**	2,563
Interest-bearing bank borrowings	26	**3,000**	10,200
Amounts due to minority shareholders of subsidiaries	27	**5,994**	4,400
		49,698	57,662
NET CURRENT ASSETS		**127,265**	87,585
TOTAL ASSETS LESS CURRENT LIABILITIES		**253,681**	190,002
CAPITAL AND RESERVES			
Share capital	30	**62,738**	62,738
Reserves		**121,912**	83,645
Proposed final dividend	12	**12,548**	6,274
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**197,198**	152,657
MINORITY INTERESTS		**53,942**	35,115
TOTAL EQUITY		**251,140**	187,772
NON-CURRENT LIABILITY			
Deferred revenue	28	**2,541**	2,230
		253,681	190,002

The financial statements on pages 38 to 86 were approved and authorised for issue by the Board of Directors on 23 March 2006 and are signed on its behalf by:

Zhang Wei Yong
Director

Li Yong Peng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the parent								
	Share capital RMB'000	Share premium RMB'000	Investment property revaluation reserve RMB'000	Reserve funds RMB'000 (Note)	Retained earnings RMB'000	Dividend reserve RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2004 as originally stated	62,738	30,309	–	7,016	20,278	–	120,341	–	120,341
Effects of changes in accounting policies *(See Note 2A)*	–	–	–	–	–	–	–	16,091	16,091
At 1 January 2004 as restated	62,738	30,309	–	7,016	20,278	–	120,341	16,091	136,432
Profit for the year	–	–	–	–	38,273	–	38,273	2,727	41,000
Transfer from retained earnings	–	–	–	7,047	(7,047)	–	–	–	–
Contribution to minority shareholders	–	–	–	–	–	–	–	12,357	12,357
Acquisition of a subsidiary	–	–	–	–	–	–	–	3,940	3,940
Surplus on revaluation	–	–	317	–	–	–	317	–	317
Transfer of investment property revaluation reserve *(See Note 2A)*	–	–	(317)	–	317	–	–	–	–
Interim 2004 dividend paid	–	–	–	–	(6,274)	–	(6,274)	–	(6,274)
Proposed final 2004 dividend	–	–	–	–	(6,274)	6,274	–	–	–
At 31 December 2004 and 1 January 2005 as restated	62,738	30,309	–	14,063	39,273	6,274	152,657	35,115	187,772
Profit for the year	–	–	–	–	50,815	–	50,815	4,126	54,941
Transfer from retained earnings	–	–	–	13,222	(13,222)	–	–	–	–
Dividend paid to a minority shareholder	–	–	–	–	–	–	–	(1,470)	(1,470)
Contribution to minority shareholders	–	–	–	–	–	–	–	16,171	16,171
Final 2004 dividend paid	–	–	–	–	–	(6,274)	(6,274)	–	(6,274)
Proposed final 2005 dividend	–	–	–	–	(12,548)	12,548	–	–	–
At 31 December 2005	62,738	*30,309	–	*27,285	*64,318	12,548	197,198	53,942	251,140

* *These reserve accounts constitute the consolidated reserves of RMB121,912,000 (2004: RMB83,645,000) in the consolidated balance sheet.*

Note:

Pursuant to the relevant laws and regulations for business enterprises, a portion of the profits of the Group's entities which are incorporated in the People's Republic of China has been transferred to the statutory reserve fund and statutory welfare fund (together as the "reserve funds") which are restricted as to use.

The statutory reserve fund and statutory welfare fund are appropriated from the net profit after tax but before dividend distribution at the discretion of their board of directors on at least 10% and 5% of the net profit, respectively. The reserve funds are provided for each entity until the balance of such fund has reached 50% of the entity's registered capital, the reserve funds may only be used upon approval by the relevant authority to offset against accumulated losses or to increase capital.

If the Group's reserve funds is not sufficient to compensate for losses in previous years, its current year's net profit is used to make good the losses before allocations are set aside for the statutory funds.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 *RMB'000*	2004 *RMB'000* (restated)
OPERATING ACTIVITIES		
Profit before taxation	**66,184**	45,716
Adjustments for:		
Amortisation of intangible assets	**36**	29
Amortisation of goodwill	**–**	208
Allowance for bad and doubtful debts	**2,539**	99
Allowance for other receivables	**2,327**	315
Amortisation of prepaid lease payments	**323**	291
Depreciation of property, plant and equipment	**8,536**	7,581
Finance costs	**638**	981
Interest income	**(1,003)**	(1,042)
Impairment loss on goodwill	**537**	–
Impairment loss on interests in associates	**1,296**	–
Impairment loss on property, plant and equipment	**5,887**	–
Loss on disposal of an associate	**–**	324
Loss on disposal of property, plant and equipment	**93**	1,243
Revaluation surplus on investment properties	**(101)**	–
Share of results of associates	**130**	442
Operating cash flows before movements in working capital	**87,422**	56,187
Increase in inventories	**(2,595)**	(7,149)
(Increase)/decrease in amounts due from customers for construction work	**(2,415)**	208
Increase in trade receivables	**(17,728)**	(9,005)
Increase in bills receivables	**(9,881)**	(3,890)
(Increase)/decrease in prepayments, deposits and other receivables	**(4,601)**	4,750
Increase/(decrease) in amount due from a related party	**221**	(221)
Increase in trade payables	**3,975**	3,770
(Decrease)/increase in other payables and accruals	**(4,530)**	15,539
Increase in amounts due to minority shareholders of subsidiaries	**1,594**	–
Increase in deferred revenue	**311**	1,130
Cash generated from operations	**51,773**	61,319
Income taxes paid	**(12,308)**	(3,028)
NET CASH FROM OPERATING ACTIVITIES	**39,465**	58,291

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (restated)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(38,115)**	(42,168)
Purchase of investment held for trading		**(15,000)**	–
Proceeds from sales of investment held for trading		**10,000**	–
Purchases of land use rights		**(3,765)**	(11,255)
Interest received		**1,003**	1,042
Proceeds from sales of property, plant and equipment		**364**	–
Disposal of an associate		**–**	2,300
Acquisition of a subsidiary		**–**	837
Acquisition of investments in associates		**–**	(760)
Acquisition of minority interests		**–**	(440)
NET CASH USED IN INVESTING ACTIVITIES		**(45,513)**	(50,444)
FINANCING ACTIVITIES			
Repayment of bank loans		**(20,200)**	–
Contributions by minority shareholders		**16,171**	13,384
New bank loans raised		**13,000**	200
Dividends paid		**(6,274)**	(6,274)
Dividend paid to a minority shareholder		**(1,470)**	–
Interest paid		**(638)**	(981)
NET CASH FROM FINANCING ACTIVITIES		**589**	6,329
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(5,459)**	14,176
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**87,568**	73,392
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**82,109**	87,568
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by			
Bank balances and cash	24	**80,009**	44,039
Non-pledged time deposits with original maturity of less than three months when acquired	24	**2,100**	43,529
		82,109	87,568

1. GENERAL

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

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and all of its subsidiaries.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in the investment property revaluation reserve at 1 January 2005 has been transferred to the Group's retained earnings. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Goodwill

In previous years, goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of approximately RMB503,000 with a corresponding decrease in the cost of goodwill (see Note 18). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application and HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact or how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the income statement. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in the income statement and equity respectively. Available-for-sale equity investments that do not have quoted market prices 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 are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial instruments *(Continued)*

Classification and measurement of financial assets and financial liabilities (Continued)

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provision of HKAS 39. As a result, the Group classified its short term investment as investment held for trading, at fair value through profit or loss.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	RMB'000	*RMB'000*
Non-amortisation of goodwill	**208**	–
Gain arising from change in fair value of investment properties	**101**	–
Increase in profit for the year	**309**	–

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	Retrospective Adjustments		As at 31 December 2004 (restated)	Prospective adjustments	As at 1 January 2005 (restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		HKAS 1	**HKAS 17**		**HKAS 40**	
Balance sheet items						
Property, plant and equipment	99,322	(2,914)	(14,505)	81,903	–	81,903
Investment properties	–	2,914	–	2,914	–	2,914
Prepaid lease payments	–	–	14,505	14,505	–	14,505
Total effects on assets	99,322	–	–	99,322	–	99,322
Retained earnings	38,956	–	–	38,956	317	39,273
Investment properties revaluation reserve	317	–	–	317	(317)	–
Minority interests	–	35,115	–	35,115	–	35,115
Total effects on equity	39,273	35,115	–	74,388	–	74,388
Minority interests	35,115	(35,115)	–	–	–	–

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As originally stated	HKAS 1	As restated
	RMB'000	*RMB'000*	*RMB'000*
Retained earnings	20,278	–	20,278
Minority interests	–	16,091	16,091
Total effects on equity	20,278	16,901	36,369
Minority interests	16,091	(16,091)	–

2B. POTENTIAL IMPACTS ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs applicable to these financial statements, that have been issued but are not yet effective, to these financial statements. The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – INT 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK (IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]

[1] *Effective for annual periods beginning on or after 1 January 2007.*

[2] *Effective for annual periods beginning on or after 1 January 2006.*

[3] *Effective for annual periods beginning on or after 1 December 2005.*

[4] *Effective for annual periods beginning on or after 1 March 2006.*

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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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.

Goodwill

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary and associate at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on an acquisition of a subsidiary and an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity 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.

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

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business on the following based:

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from construction of environmental protection systems is recognised by using the percentage of completion method (see the accounting policy in respect of construction contracts).

Consultation service income is recognised when services are rendered.

Interest income from a financial asset 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.

Rental income under operating leases is recognised on straight-line basis over the relevant lease terms.

Impairment losses (other than goodwill – see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

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

Land and buildings	3.23%
Plant and machinery	9.70%
Leasehold improvements	Over the lease terms
Office equipment, furniture and fixtures	19.40%
Motor vehicles	9.70% to 13.86%
Other equipment	19.40%

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

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 income statement in the year in which the item is derecognised.

Investment properties

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

Intangible assets

Know-how

Purchased know-how is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for know-how is provided on a straight-line basis over its estimated useful life of seven years. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired. (see the accounting policy in respect of impairment losses above).

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. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing.

Construction contracts

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

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

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 Company at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

The Company and the subsidiaries comprising the Group operating in the PRC participate in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. The Company and its PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group will respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are charged as expenses as they fall due in accordance with the rules of the CPS.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred revenue and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same year as those expenses are charged in the income statement and are reported separately as other income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales 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 marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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 assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals and unsecured interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment, other than construction in progress, as at 31 December 2005 was approximately RMB82,669,000. The Group depreciates the plant and equipment on a straight line basis over the estimated useful life, and after taking into account of their estimated residual value, at the rate 9.70% to 19.40% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's plant and equipment.

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

Allowances for bad and doubtful debts

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

Allowances for inventories

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

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. An impairment loss of RMB537,000 (2004: Nil) has been recognised in the current year. Details of which are set out in note 18.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, other receivables, trade and bills payables, other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

Price risk

The Group is subject to risk from increases in the price of major raw material which are used in the production of inventories. To minimise this risk, the Group entered into contracts with suppliers in advance and made prepayments to suppliers to secure future supplies.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Interest rate risk

The Group's fair value interest rate risk relates primarily to the Group's interest-bearing bank borrowings (See Note 26 of these borrowings). The Group's exposure to interest rate risk is minimal as the Group's entire bank borrowings are at fixed interest rate and the Group does not have any long term financial assets and liabilities.

Liquidity risk

The Group's objective is to maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements. The Groups' exposure to liquidity risk is minimal.

6. TURNOVER

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

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

	2005	2004
	RMB'000	*RMB'000*
Sale of recycled products and the provision of waste treatment services	**249,834**	184,547
Trading of chemical products	**17,691**	14,834
Revenue from construction and operation of environmental protection systems	**24,666**	14,232
Consultation service income	**183**	191
	292,374	213,804

7. SEGMENT INFORMATION

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

Principal activities are as follows:

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

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

(c) Trading of chemical products segment engages in the sale of chemical products to customers in the Mainland China; and

(d) Consultation service segment mainly engages the provision of consultation services.

7. SEGMENT INFORMATION *(Continued)*

Segment information about these businesses is presented below:

For the year ended 31 December:

	Production and sale of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consultation service		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
REVENUE										
External sales	**249,834**	184,547	**24,666**	14,232	**17,691**	14,834	**183**	191	**292,374**	213,804
RESULT										
Segment results	**74,719**	55,236	**1,556**	274	**1,629**	(427)	**30**	(206)	**77,934**	54,877
Unallocated corporate expenses									**(10,982)**	(7,738)
Finance costs									**(638)**	(981)
Share of results of associates									**(130)**	(442)
Profit before tax									**66,184**	45,716
Income tax expenses									**(11,243)**	(4,716)
Profit for the year									**54,941**	41,000
OTHER INFORMATION										
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	**8,113**	4,109	**592**	3,641	**111**	58	**43**	64	**8,859**	7,872
Amortisation of goodwill	**–**	208	**–**	–	**–**	–	**–**	–	**–**	208
Allowance for bad and doubtful debts	**979**	99	**1,407**	–	**153**	–	**–**	–	**2,539**	99
Impairment loss on property, plant and equipment	**5,887**	–	**–**	–	**–**	–	**–**	–	**5,887**	–
Allowance for other receivables	**1,142**	–	**1,185**	315	**–**	–	**–**	–	**2,327**	315
Impairment loss on goodwill	**537**	–	**–**	–	**–**	–	**–**	–	**537**	–
Impairment loss on interests in associates	**1,296**	–	**–**	–	**–**	–	**–**	–	**1,296**	–
Loss on disposal of property, plant and equipment	**61**	1,243	**–**	–	**–**	–	**32**	–	**93**	1,243
Capital expenditure of property, plant and equipment and land use rights	**41,678**	64,888	**183**	1,172	**19**	712	**–**	9	**41,880**	66,781

7. SEGMENT INFORMATION *(Continued)*

Balance sheet at 31 December

	Production and sale of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consultation service		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS										
Segment assets	**211,045**	132,191	**82,803**	106,090	**8,741**	6,342	**390**	678	**302,979**	245,301
Goodwill	**–**	537	**–**	–	**–**	–	**–**	–	**–**	537
Interests in associates	**400**	1,826	**–**	–	**–**	–	**–**	–	**400**	1,826
Consolidated total assets	**211,445**	134,554	**82,803**	106,090	**8,741**	6,342	**390**	678	**303,379**	247,664
LIABILITIES										
Segment liabilities	**34,961**	35,848	**15,217**	22,460	**1,698**	1,221	**363**	363	**52,239**	59,892
Consolidated total liabilities	**34,961**	35,848	**15,217**	22,460	**1,698**	1,221	**363**	363	**52,239**	59,892

No further geographical segment information is presented as the Group's customers and operations are all located in the PRC.

8. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**638**	981

9. PROFIT BEFORE TAX

	2005 *RMB'000*	2004 *RMB'000*
Profit before tax has been arrived at after charging:		
Staff costs including directors' and supervisors' remuneration *(Note 10(a))*:		
– Salaries, wages and other benefits	**18,321**	10,922
– Retirement benefits scheme contributions	**1,099**	577
Total staff costs	**19,420**	11,499
Amortisation of intangible assets (included in other operating expenses)	**36**	29
Amortisation of goodwill	**–**	208
Amortisation of prepaid lease payments	**323**	291
Auditors' remuneration	**400**	560
Allowance for other receivables (included in administrative expenses)	**2,327**	315
Allowance for bad and doubtful debts	**2,539**	99
Cost of inventories recognised as an expense	**146,343**	116,691
Depreciation of property, plant and equipment	**8,536**	7,581
Impairment loss on goodwill (included in other operating expenses)	**537**	–
Impairment loss on interests in associates (included in other operating expenses)	**1,296**	–
Impairment loss on property, plant and equipment	**5,887**	–
Loss on disposal of an associate	**–**	324
Loss on disposal of property, plant and equipment	**93**	1,243
Minimum lease payments under operating leases: Office premises, plant and staff quarters	**2,420**	1,589
Research and development costs	**4,078**	4,309
and after crediting:		
Net rental income	**194**	276
Interest income	**1,003**	1,042
Increase in fair value on investment properties	**101**	317

10. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Directors' and supervisors' emoluments

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2005	2004
	RMB'000	*RMB'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**886**	935
Retirement benefits scheme contributions	**21**	15
	907	950

10. 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 years ended 31 December 2005 and 2004, disclosed pursuant to the GEM Listing Rules, is set out below:

Name	Other emoluments Salaries, allowance and benefits in kind *RMB'000*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Executive directors:			
Zhang Wei Yang	336	8	344
Li Yong Peng	110	2	112
Chen Shu Sheng *(Note i)*	74	3	77
He Qi Hu *(Note ii)*	67	2	69
	587	15	602
Non-executive directors:			
Feng Tao	–	–	–
Wu Shui Qing	–	–	–
Sun Ji Ping	–	–	–
	–	–	–
Independent non-executive directors:			
Meng Chun	60	–	60
Yang Zhi Feng *(Note i)*	35	–	35
Wang Ji Wu	60	–	60
Liu Hong Liang *(Note ii)*	25	–	25
	180	–	180
Supervisors:			
Yuan Wei	–	–	–
Chen Shu Sheng *(Note ii)*	73	4	77
Cai Ping	–	–	–
Luo Xiao Hong *(Note i)*	–	–	–
Zhou Xiu Hong *(Note i)*	46	2	48
	119	6	125
Total for 2005	886	21	907

Notes:

(i) Appointed on 2 June 2005.

(ii) Retired on 2 June 2005.

10. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES *(Continued)*

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

	Other emoluments		
Name	**Salaries, allowance and benefits in kind**	**Retirement benefits scheme contribution**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors:			
Zhang Wei Yang	428	8	436
He Qi Hu	134	2	136
Li Yong Peng	110	2	112
	672	12	684
Non-executive directors:			
Feng Tao			
Wu Shui Qing	–	–	–
Sun Ji Ping	–	–	–
	–	–	–
Independent non-executive directors:			
Meng Chun	60	–	60
Liu Hong Liang	60	–	60
Wang Ji Wu	60	–	60
	180	–	180
Supervisors:			
Yuan Wei	–	–	–
Chen Shu Sheng	83	3	86
Cai Ping	–	–	–
	83	3	86
Total for 2004	935	15	950

There was no arrangement under which directors or supervisors waived or agreed to waive any emoluments in the years ended 31 December 2005 and 2004.

10. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES *(Continued)*

(b) Employees' emoluments

Details of the five highest paid individuals included two directors (2004: two directors), whose emoluments are set out above. The emoluments of the remaining three (2004: three) highest paid individuals were as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**312**	241
Retirement benefits scheme contributions	**8**	8
	320	249

Their emoluments were within the following bands:

	No. of employees	
	2005	2004
Nil to RMB1,000,000	**3**	3

11. INCOME TAX EXPENSES

The Company and its subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC corporate income tax at a rate of 15% (2004: 15%) of the estimated assessable income for the year ended 31 December 2005 determined in accordance with the relevant income tax rules and regulations of the PRC. Subsidiaries located in other cities are subject to the PRC corporate income tax at a rate of 33% (2004: 33%).

In accordance with the relevant income tax rules and regulations of the PRC, the Company and Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan") are exempt from corporate income tax for two years commencing from their first year with assessable profits after deducting the tax losses brought forward, and are entitled to a 50% tax exemption for the following three years. However, if the companies' revenue generated from their manufacturing operations falls below 50% of the companies' total revenue for either one of the years during the tax holiday, the companies are not entitled to any tax benefits for that year.

The year ended 31 December 2005 was the fifth year of the Company's operations with assessable profits and accordingly, the Company made provision for corporate income tax at 7.5% on its assessable profits for the year ended 31 December 2005. Lishan was exempt from corporate income tax, as the year ended 31 December 2005 was its second year with assessable profits.

11. INCOME TAX EXPENSES *(Continued)*

Subsequent to 31 December 2005, the Company has applied to extend the tax holiday in respect of the 50% tax exemption to a further of five years.

Pursuant to the document, Hui Shi Jing Mao [2005] No.369 (惠州經貿[2005]369號) issued by the Huizhou State Tax Bureau (惠州市國家稅務局) on 15 November 2005, Huizhou Dongjiang Environmental Co., Ltd. ("Huizhou Dongjiang") was exempt from corporation income tax for the year 2005.

	2005 ***RMB'000***	2004 *RMB'000*
Current tax – the PRC	**10,505**	4,911
Deferred taxation (Note 29)	**738**	(195)
	11,243	4,716

Tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2005 ***RMB'000***	2004 *RMB'000*
Profit before tax	**66,184**	45,716
Tax at the domestic income tax rate	**11,663**	8,838
Tax effect of expenses that not deductible in determining taxable profit	**4,115**	70
Tax effect of tax losses not recognised	**2,109**	–
Income tax on concessionary rate	**(6,644)**	(4,192)
Tax charge for the year	**11,243**	4,716

12. DIVIDENDS

	2005	2004
	RMB'000	*RMB'000*
Interim dividend paid:		
Nil (2004: RMB0.01) per ordinary share	**–**	6,274
Final dividend proposed:		
RMB0.02 (2004: RMB0.01) per ordinary share	**12,548**	6,274
	12,548	12,548

The directors propose that final dividend of RMB0.02 per ordinary share will be paid to shareholders on 23 March 2006. This dividend is subject to approval by shareholders at the Annual General Meeting and has been included as a dividend reserve in these financial statements.

The proposed dividend for 2005 is payable to all shareholders on the Register of Members on 18 May 2006.

13. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year attributable to equity holders of the parent of approximately RMB50,815,000 (2004: RMB38,273,000), and the weighted average of 627,381,872 (2004: 627,381,872) ordinary shares in issue during the year.

No diluted earnings per share amounts have been presented for the two years ended 31 December 2005 and 2004 as there were no diluting events existed during those years.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Leasehold improve-ments RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST OR VALUATION								
At 1 January 2004								
– as originally stated	15,799	7,062	1,669	1,883	8,154	4,716	–	39,283
– reclassified to prepaid lease payments	(3,688)	–	–	–	–	–	–	(3,688)
– as restated	12,111	7,062	1,669	1,883	8,154	4,716	–	35,595
Additions	1,933	13,314	200	142	4,678	1,630	33,629	55,526
Acquired on acquisition of a subsidiary	5,255	1,287	–	191	95	–	4,125	10,953
Transfers	19,688	15,824	–	289	–	448	(36,249)	–
Disposals	–	(529)	–	(98)	(1,649)	(1,002)	–	(3,278)
Reclassification	(2,800)	–	–	–	–	–	–	(2,800)
At 31 December 2004 and 1 January 2005	36,187	36,958	1,869	2,407	11,278	5,792	1,505	95,996
Additions	988	3,487	–	577	3,057	1,324	28,682	38,115
Transfers	3,229	4,314	–	–	175	–	(7,718)	–
Disposals	–	(124)	–	(128)	(614)	(140)	–	(1,006)
At 31 December 2005	**40,404**	**44,635**	**1,869**	**2,856**	**13,896**	**6,976**	**22,469**	**133,105**
DEPRECIATION AND IMPAIRMENT LOSS								
At 1 January 2004								
– as originally stated	415	1,049	1,313	865	2,521	2,734	–	8,897
– reclassified to prepaid lease payments	(147)	–	–	–	–	–	–	(147)
– as restated	268	1,049	1,313	865	2,521	2,734	–	8,750
Provided for the year	1,170	3,543	318	429	1,308	813	–	7,581
Eliminated on disposals	–	(195)	–	(51)	(868)	(921)	–	(2,035)
Reclassification	(203)	–	–	–	–	–	–	(203)
At 31 December 2004 and 1 January 2005	1,235	4,397	1,631	1,243	2,961	2,626	–	14,093
Provided for the year	1,433	4,070	40	492	1,683	818	–	8,536
Eliminated on disposals	–	(55)	–	(61)	(418)	(15)	–	(549)
Impairment loss recognised	2,987	2,900	–	–	–	–	–	5,887
At 31 December 2005	**5,655**	**11,312**	**1,671**	**1,674**	**4,226**	**3,429**	**–**	**27,967**
NET BOOK VALUES								
At 31 December 2005	**34,749**	**33,323**	**198**	**1,182**	**9,670**	**3,547**	**22,469**	**105,138**
At 31 December 2004 (restated)	34,952	32,561	238	1,164	8,317	3,166	1,505	81,903

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

During the year, the directors conducted a review of the Group's property, plant and machinery and determined that certain of the assets were impaired due to physical damage and obsolescence. Accordingly, an impairment loss of approximately RMB5,887,000 has been recognized in the consolidated income statement on the basis of their value in use.

15. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At 1 January 2004	–
Reclassification from property, plant and equipment	2,597
Surplus on revaluation	317
At 31 December 2004 and 1 January 2005	2,914
Surplus on revaluation	101
At 31 December 2005	**3,015**

The Group's investment properties were located in Shenzhen under medium lease terms (lease period of 20 years or more but less than 50 years). The fair value of the investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Shenzhen Henderson Real Estate Evaluating Co., Ltd., independent qualified professional valuers not connected with the Group. Shenzhen Henderson Real Estate Evaluating Co., Ltd. have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to the PRC Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment property is leased to a company in which is a director of the Company is a shareholder, further details of which are included in Note 34.

16. PREPAID LEASE PAYMENTS

	2005	2004
	RMB'000	*RMB'000*
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in PRC	**6,146**	4,882
Long-term leasehold land in PRC	**11,801**	9,623
	17,947	14,505
Analysed for reporting purposes as:		
Current asset	**365**	323
Non-current asset	**17,582**	14,182
	17,947	14,505

17. INTANGIBLE ASSETS

	Know-how
	RMB'000
COST	
At 1 January 2004	–
Acquired on acquisition of a subsidiary	260
At 31 December 2004 and 31 December 2005	260
AMORTISATION	
At 1 January 2004	–
Charge for the year	29
At 31 December 2004	29
Charge for the year	36
At 31 December 2005	**65**
CARRYING VALUES	
At 31 December 2005	**195**
At 31 December 2004	231

The above know-how is amortised on a straight-line basis over seven years.

18. GOODWILL

	RMB'000
COST	
At 1 January 2004 and 1 January 2005	1,040
Elimination of accumulated amortisation upon the application of HKFRS3 *(See Note 2)*	(503)
At 31 December 2005	537
AMORTISATION	
At 1 January 2004	295
Provided during the year	208
At 1 January 2005	503
Elimination of accumulated amortisation upon the application of HKFRS3	(503)
At 31 December 2005	–
IMPAIRMENT	
At 1 January 2004 and 1 January 2005	–
Impairment loss recognised for the year	537
At 31 December 2005	537
CARRYING VALUES	
At 31 December 2005	–
At 31 December 2004	537

Until 31 December 2004, goodwill has been amortised over its estimated useful life of five years.

As at 31 December 2005, the directors have reviewed the recoverable amount of the goodwill and considered to make an impairment loss of RMB537,000 (2004: Nil).

19. INTERESTS IN ASSOCIATES

	2005 RMB'000	2004 RMB'000
Cost of investment in unlisted associates	**2,527**	2,527
Share of post-acquisition losses	**(831)**	(701)
	1,696	1,826
Less: Impairment losses recognised	**1,296**	–
	400	1,826

As at 31 December 2005, the Group had interests in the following associates:

Name of entity	Form of business structure	Class of shares held	Place of registration and operations	Attributable equity interest of the Group	Principal activities
Shenzhen Fugeri Environmental Protection Equipment Co., Ltd.	Limited company	Contributed capital	PRC	40%	Ceased operations in 2005
Shenzhen Micronutrients Co., Ltd.	Limited company	Contributed capital	PRC	38%	Not yet commenced business

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

	2005 RMB'000	2004 RMB'000
Total assets	4,975	5,018
Total liabilities	(664)	(364)
Net assets	4,311	4,654
Group's share of net assets of associates	1,696	1,826
Revenue	–	–
Loss for the year	(343)	(1,118)
Group's share of losses of associates for the year	(130)	(442)

20. INVENTORIES

	2005 *RMB'000*	2004 *RMB'000*
Raw materials	**6,760**	7,630
Finished goods	**11,762**	8,297
	18,522	15,927

There were no inventories carried at net realisable value included in the above balance at the balance sheet date.

21. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION WORK

	2005 *RMB'000*	2004 *RMB'000*
Gross amounts due from contract customers	**2,868**	453
Gross amounts due to contract customers	**–**	–
	2,868	453
Contract costs incurred plus recognised profits less recognised losses to date	**13,828**	10,146
Less: Progress billings	**(10,960)**	(9,693)
	2,868	453

At 31 December 2005, there were no retentions held by customers for contract work (2004: Nil).

22. TRADE RECEIVABLES, PREPAYMENT AND DEPOSITS AND OTHER RECEIVABLES

	2005 RMB'000	2004 RMB'000
Trade receivables	**38,479**	20,751
Less: Allowance for bad and doubtful debts	**(2,752)**	(213)
	35,727	20,538
Prepayment	**9,485**	3,406
Deposits and other receivables	**9,116**	12,921
	18,601	16,327
	54,328	36,865

The Group allows an average credit period of 30 days to 90 days given to its trade customers, except for new customers, where payment in advance is normally required.

An aged analysis of the trade receivable as at the balance sheet date, based on invoice date, and net of provision is as follows:

	2005 RMB'000	2004 RMB'000
Current to 90 days	**31,658**	15,151
91 to 180 days	**3,154**	1,409
181 to 365 days	**58**	3,258
Over 1 year	**857**	720
	35,727	20,538

The fair value of the Group's trade and other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

23. INVESTMENT HELD FOR TRADING

The investments represent the investment funds in foreign currency that offer the Group the opportunity for returns through dividend income and fair value gains. There have no fixed maturity or coupon rate. During the year ended 31 December 2005, the Group acquired certain investments at consideration of approximately RMB15,000,000 and disposed RMB10,000,000 subsequently.

24. CASH AND CASH EQUIVALENTS

	2005 *RMB'000*	2004 *RMB'000*
Cash and bank balances	**80,009**	44,039
Deposits with maturity less than 3 months when required	**2,100**	43,529
Cash and cash equivalents	**82,109**	87,568

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to approximately RMB77,747,000 (2004: RMB79,980,000). The RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulation and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	2005 *RMB'000*	2004 *RMB'000*
Current to 90 days	**12,924**	8,685
91 to 180 days	**58**	521
181 to 365 days	**42**	1,150
Over 1 year	**1,506**	199
	14,530	10,555
Advances from customers	**9,633**	15,440
Other payable *(Note)*	**8,371**	8,018
Accruals	**7,410**	6,486
	25,414	29,944
	39,944	40,499

Note: Included in amounts, there is approximately RMB3,560,000 (2004: RMB3,516,000) other payables due to 深圳市龍崗區環保科技服務中心, which is a minority shareholder of Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited ("Longgang DJ").

The fair value of the Group's trade and other payables and accruals at 31 December 2005 was approximate to the corresponding carrying amount.

26. INTEREST-BEARING BANK BORROWING

	2005 *RMB'000*	2004 *RMB'000*
Unsecured bank loan repayable within one year	3,000	10,200

The balance is fixed-rate borrowing which carry interest of 5.580% (2004: ranging from 5.310% to 5.841%) per annum.

During the year, the Group obtained new loans in the amount of RMB13,000,000 which born interest at market rates. RMB10,000,000 was settled in November 2005. The remaining RMB3,000,000 has been settled subsequent to 31 December 2005.

The directors consider that the carrying amount of bank borrowings approximates their fair value.

As at the balance sheet date, the Group has undrawn borrowing facility with floating rate expiring within one year amounting to approximately RMB30,000,000 (2004: Nil). The borrowing facility was guaranteed by a shareholder and Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. ("Shenzhen Fangyuan") (深圳市方元化工實業有限公司).

27. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

	2005 *RMB'000*	2004 *RMB'000*
Amounts due to:		
Chengdu Xingli Tyre Co., Ltd. ("Xingli Tyre") *(Note i)*	**4,400**	4,400
ONYX (Hong Kong) Company Limited ("ONYX") *(Note ii)*	**1,594**	–
	5,994	4,400

Notes:

(i) According to the resolutions of shareholders of Chengdu Dangerous Waste Treatment Center Co., Ltd. ("Chengdu Co."), dated 14 May 2003 and 1 September 2003, Xingli Tyre provided unsecured, interest-free loans of RMB2,400,000 and RMB2,000,000, respectively, to Chengdu Co.. The maturity date of these loans was originally on 30 June 2005 and was extended to 30 June 2006 during the year.

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

28. DEFERRED REVENUE

The balance represented a subsidy of RMB2,541,000 (2004: RMB2,230,000) jointly granted by the Shenzhen Ministry of Finance and the Shenzhen Science and Technology Bureau for financing the research and development of a new environmental project. The subsidy is non-refundable, subject to the project being approved and certified by the Shenzhen Science and Technology Bureau upon its completion.

29. DEFERRED TAXATION

The movement in deferred tax (assets) liabilities during the year is as follows:–

Deferred taxation

	Tax losses	**Pre-operating expenses**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	(629)	–	–	(629)
Credited to the income statement for the year *(Note 11)*	(195)	–	–	(195)
At 31 December 2004 and 1 January 2005	(824)	–	–	(824)
Charged (credited) to the income statement for the year *(Note 11)*	824	(311)	225	738
At 31 December 2005	**–**	**(311)**	**225**	**(86)**

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

	2005	2004
	RMB'000	*RMB'000*
Deferred tax assets	**(311)**	(824)
Deferred tax liabilities	**225**	–
	(86)	(824)

30. SHARE CAPITAL

	Number of shares			
	2005	2004	**2005**	2004
	'000	*'000*	***RMB'000***	*RMB'000*
Ordinary shares of RMB0.10 each				
Authorised, issued and fully paid:				
Domestic shares	**449,480**	449,480	**44,948**	44,948
H shares	**177,900**	177,900	**17,790**	17,790
	627,380	627,380	**62,738**	62,738

31. ACQUISITION OF A SUBSIDIARY

	2005	2004
	RMB'000	*RMB'000*
Net assets acquired:		
Property, plant and equipment, net	–	10,953
Intangible assets	–	260
Pre-operating expenses	–	544
Cash and cash equivalents	–	4,367
Trade receivables	–	1,033
Prepayments, deposits and other receivables	–	2,882
Inventories	–	381
Trade payables	–	(240)
Other payables and accruals	–	(6,110)
Short-term loan	–	(6,000)
Minority interests	–	(3,940)
	–	4,130
Satisfied by:		
Cash	–	3,530
Reclassification to interest in a subsidiary from interest in an associate	–	600
	–	4,130

31. ACQUISITION OF A SUBSIDIARY *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2005	2004
	RMB'000	*RMB'000*
Cash consideration	**–**	(3,530)
Cash and bank balances acquired	**–**	4,367
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**–**	837

32. COMMITMENTS

(i) Capital commitments

	2005	2004
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**678**	1,200
Land use rights	**870**	–
Construction in progress	**67,085**	–
The establishment of a new limited company (Note)	**7,140**	22,440
	75,773	23,640
Authorised, but not contracted for:		
Property, plant and equipment	**5,008**	–
	80,781	23,640

Note:

On 16 December 2004, the Company and ONYX, the minority shareholder of Huizhou Dongjiang Onyx Solid Waste Treatment Co., Ltd. ("Dongjiang Onyx"), entered into an agreement to establish Dongjiang Onyx. The Company agreed to contribute RMB22,440,000 in cash for 51% equity interests in Dongjiang Onyx.

The Company has injected RMB15,300,000 into Dongjiang Onyx during the year ended 31 December 2005 while the remaining capital of RMB7,140,000 will be injected within the next three years in accordance with the terms of agreement.

32. COMMITMENTS *(Continued)*

(ii) Operating lease commitments

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

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

	2005	2004
	RMB'000	*RMB'000*
Within one year	**1,621**	1,316
In the second to fifth years, inclusive	**1,830**	3,241
Over five years	**271**	–
	3,722	4,557

(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 a land use right 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 (2004: RMB273,000) for a period of 52 years up to 31 December 2055 for obtaining a land use right in relation to the waste treatment and recycling plant in Shajing to be use by the Group.

33. 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 2005 and 2004.

34. RELATED PARTY TRANSACTIONS

(a) Transactions

Apart from those disclosed in notes 26 and 27 above, the Group entered into the following transactions during the year with related parties:

	2005 *RMB'000*	2004 *RMB'000*
Sales of finished goods to a minority shareholder of Shenzhen Dongjiang Heritage Technologies Co., Ltd. ("DJ Heritage")	**9,326**	–
Rental expense in respect of the technology use right paid to a minority shareholder of Longgang DJ	**625**	–
Commission expense paid to a minority shareholder of Longgang Dongjiang	**918**	–
Rental expense in respect of office premise paid to Shenzhen Fangyuan	**600**	–
Rental expense in respect of motor vehicle paid to a company in which a director's spouse is a shareholder	**90**	–
Purchases of raw materials from a company in which a director of Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan") is a controlling shareholder	**–**	666
Purchases of machinery and equipment from a minority shareholder of Lishan	**–**	7,793
Rental income received from a company in which a director of the Company is a shareholder	**142**	276
Rental expense in respect of the technology use right paid to a minority shareholder of Shenzhen AIC Technology Limited ("Shenzhen AIC")	**780**	–

34. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of directors and key management personnel

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

	2005	2004
	RMB'000	*RMB'000*
Short-term benefits	**1,296**	1,248
Post-employment benefits	**31**	24
	1,327	1,272

The remuneration of directors and key executives is determined with reference to the performance of individuals and market trends.

(c) Balances

The amount represented a balance due from a company in which a director of Lishan is a controlling shareholder, which was unsecured, interest-free and fully settled during the year ended 31 December 2005.

35. RETIREMENT BENEFIT SCHEME

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a central pension scheme (the "CPS") operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the CPS. The contributions are charged to the income statement as they become payable in accordance with the rules of the CPS.

The total cost charged to consolidated income statement of approximately RMB1,099,000 (2004: RMB577,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

36. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2005, are as follows:–

Name	Class of shares held	Nominal value of registered capital	Percentage of equity interest attributable of the Group		Principal activities
		RMB	Direct	Indirect	
Shenzhen Isoway Corporate Management Consulting Co., Ltd.	Contributed capital	1,000,000	70%	–	Provision of consulting services for the construction of environmental protection systems
Chengdu Co.	Contributed capital	10,000,000	51%	–	Investment holding, production and sale of recycled products and provision of waste treatment services
Lishan	Contributed capital	18,000,000	51%	–	Production and sale of polyamide resin, plasticising agent and paint activating agent from collected waste
Longgang DJ	Contributed capital	5,000,000	51%	–	Collection, processing and treatment of industrial waste
DJ Recycle	Contributed capital	1,000,000	95%	–	Collection and treatment of industrial waste
Sichuan Xingli Environmental Protection Project Co., Ltd. ("Xingli")*	Contributed capital	2,000,000	–	40.8%	Construction of environmental protection systems and development and sale of environmental equipment
Huizhou Dongjiang	Contributed capital	5,000,000	59.8%	–	Production and sale of recycled products and provision of waste treatment services

36. PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Class of shares held	Nominal value of registered capital RMB	Percentage of equity interest attributable of the Group Direct	Indirect	Principal activities
DJ Heritage	Contributed capital	25,000,000	62%	–	Production and sale of recycled products
Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng")	Contributed capital	3,000,000	51%	–	Collection, processing and treatment of industrial waste; provision of consulting services for the construction of environmental protection systems
Kunshan QianDeng here Wastes Treatement Co., Ltd. ("QianDeng")	Contributed capital	7,680,000	51%	–	Collection, processing and treatment of industrial waste
Dongjiang Onyx#	Contributed capital	44,000,000	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 Limited Company	Contributed capital	5,000,000	90%	10%	Collection and treatment of industrial wastes
Shenzhen AIC	Contributed capital	3,000,000	51%	–	Promotion and application of new environmental paint coating technology

* *Xingli is a subsidiary of Chengdu Co., and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.*

\# *These subsidiaries have not commenced operations during the year ended 31 December 2005.*

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

All the subsidiaries are incorporated in the form of limited company and operate in the PRC.

37. POST BALANCE SHEET EVENTS

On 6 March, 2006, the Company has set up a wholly-owned limited company, namely Shenzhen Dongjiang Environmental Recycled Power Limited Company "Recycled Power") with issued share capital of RMB10,000,000. Recycled Power is principally engaged in power generation through utilization of landfill methane.