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 Peoples's Republic of China)

(Stock Code: 8230)

Annual Report 2006

*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.

Contents

Corporate Information

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

LO Wah Wai

Auditors

SHINEWING (HK) CPA Limited

Legal advisors

X. J. WANG & Co.

Principal banker

China Merchant Bank

Hong Kong branch share registrar and transfer office

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

Suite 06-12, 33rd Floor
Shui On Centre
6-8 Harbour Road
Wanchai, 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 Office 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 Friday, 18 May 2007 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 2006;

2. To consider and approve the Supervisory Committee's report of the Company for the year ended 31 December 2006;

3. To consider and approve the audited consolidated financial statements and the independent auditor's report for the year ended 31 December 2006;

4. To consider and approve the proposal of re-appointing SHINEWING (HK) CPA Limited as the Company's auditors for the year 2007 and to authorize the Board to fix their remuneration; and

5. 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
30 March 2007

Notes:

1 The register of the members of the Company will be closed from Wednesday, 18 April 2007 to Friday, 18 May 2007 (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. Tuesday, 17 April 2007 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.

Notice of Annual General Meeting

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. Friday, 27 April 2007.

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:
   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

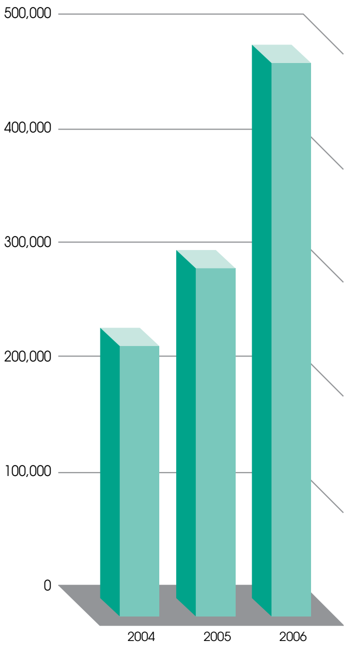
   H Share registrar in Hong Kong:
   Tengis Limited
   26th Tesbury Centre
   28 Queen's Road East
   Wanchai
   Hong Kong

* *for identification purpose only*

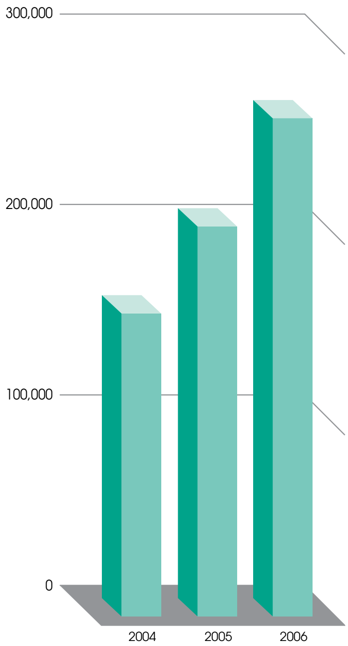
Financial Summary

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Result			
Revenue	**473,368**	292,374	213,804
Gross profit	**193,559**	134,089	90,020
Gross profit ratio	**40.89%**	45.86%	42.10%
Net profit attributable to equity holders of the parent	**79,495**	50,815	38,273
Financial position			
Total assets	**477,244**	303,379	247,664
Total liabilities	**160,975**	52,239	59,892
Minority interests	**52,174**	53,942	35,115
Equity attributable to equity holders of the parent	**264,095**	197,198	152,657

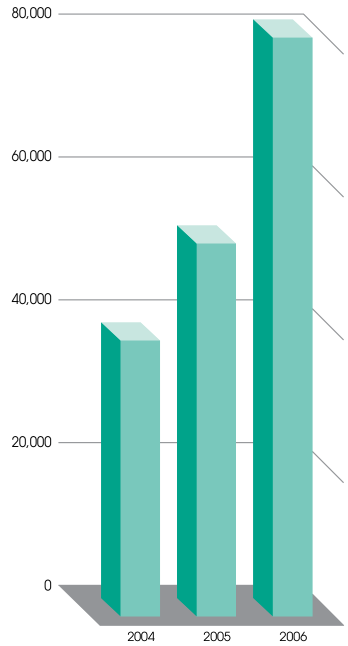
Revenue
(RMB'000)



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



Net profit attributable to equity holders of the parent
(RMB'000)



Chairman's Statement

On behalf of the Board of Directors of Shenzhen Dongjiang Environmental Company Limited* (深圳市東江環保股份有限公司) (the "Company"), I would like to present the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006.

Review

The "Eleventh Five-year Plan" represented a crucial element for China's picturing of a fairly prosperous and secure society. The PRC government has placed greater weight on the environmental protection issues. Throughout the term of the "Eleventh Five-year Plans", the PRC government will further reinforce pollution control by continuously enlarging the scale of the investments in environmental protection and ecology conservation. In our belief, the environmental protection industry in China has already entered into high times.

In 2006, by taking advantages of the robustly booming domestic economy and the swiftly growing environmental protection industry in China, the Group has sustained a stable and healthy growth, as noted from proven operating results. For the year ended 31 December 2006, the Group reported a total revenue of RMB473,368,000, which was a 61.90% growth over the last corresponding year. Profit attributable to equity holders of the parent and earnings per share amounted to RMB79,495,000 and RMB0.1267 respectively, representing a 56.44% increase over the last corresponding year.

Under an increasingly improving macro-economy and flurries of prevailing business opportunities, the Group has taken active leaps in upgrading our strategic positioning through identifying specific business tactics and objectives, focusing an eye on key areas and expanding market coverage. During the year under review, our subsidiaries and business divisions have made great leaps in effectively implementing various initiatives of business growth. In particular, proven records were attained in the horizons of expanding our existing business scale and securing larger market shares in key markets, thus achieving a 71.14% growth in our core business of waste collection, treatment and recycling as compared with that of the last corresponding year.

During the year under review, in line with our proactive brand name strategy, the Group has gradually put into place a customer-oriented service mechanism in a move to enhance corporate values and customer values simultaneously. Through such a strategy, the Group has equipped itself with stronger competitive edges and broader customer base. At the same time, the Group's image as a provider of integrated environmental services has been widely recognized and cherished by the industry counterparties and customers.

In 2006, the Group has made concerted efforts in another key task of promoting the pilot scheme of the recycling economy (the "R-economy"). In this regard, a pilot Scheme for the R-economy ("Pilot Scheme") with a term of five years was undertaken by the Group, for the purpose of constantly diversifying the varieties and scopes of waste non-hazardous treatment and of increasingly enhancing the utilization efficiency of recycling resources through the application of new technologies and the implementation of pilot projects. Pursuant to the Pilot Scheme, a number of important missions and focused priorities during the pilot period from 2006 to 2010, as well as the implementation plans and objectives of varying pilot projects have been clearly defined, which are of profound significance to the Company's development in the middle and long run.

Chairman's Statement

On top of devoting zealous efforts in fulfilling the projects as set out in the Pilot Scheme, the Group has strived for the completion of the construction of the Demonstration Centre for Comprehensive Treatment of Hazardous Wastes in Guangdong Province and the landfill methane power generation project relating to landfill ground at Xiaping, Shenzhen. Given that both of these two projects will be formally put into commission in 2007, new sources of income will be explored, and more importantly, valuable experiences and resources will be gathered for brightening up the Group's advancement in the aspects of waste ultimate disposal and renewable energy utilization.

On side of technological research and development ("R&D"), with over 40 research projects launched by the Group's R&D centre during the year, coupled with technological innovations platform embodying the development of self-owned intellectual property rights and the introduction of new technologies, a solid technology-supported foundation was laid for a rapid growth of the Group. As a token of our outstanding achievements in innovative development, the Company has been reputed as one of the "Top 100 Innovative Small and Medium Enterprises" (自主創新百強中小企業) by a Shenzhen authority.

In addition, continued efforts were made to streamline the Group's human resources deployment. Excellent personnel in the fields of operation and management, R&D and business development were retained and absorbed for creating a promising business outlook. On-the-job trainings were provided for employees at different levels with a vision to build up an elite team of motivated knowledge learners. Moreover, during the year under review, the Group has endeavoured to set up a reinforced system of internal control in order to mitigate corporate exposures and improve operating efficiencies through comprehensive measures including thorough system management and performance assessment.

Outlook

For years to come, the environmental protection industry in China is set to enter a speedily growing track, and to turn increasingly marketized. As market shares are concentrated on certain number of conglomerates, the industry is expected to undergo an accelerated consolidation. The Group clearly realizes that the key to success is to present itself as a leading industry player by brightening its competitive strengths and capturing each and every business opportunity. As such, we will enthusiastically seek for new momentums of further growth by delivering continuous efforts in consolidating and expanding our mainstream businesses, while keeping an eye on extending our business chains. As to the perspective of the industry, solid waste treatment, sewage treatment, energy saving and ultilization of new energy sources will become the most vital market segments for the environmental protection industry in China in the coming few years. The Group is well prepared for and fully committed to the above scopes, and is confident of seizing market opportunities ahead to make remarkable breakthroughs in its operations, which will lure greater shareholders' values.

Last but not the least, on behalf of the Board of Directors, I would like to express heartfelt thanks to all our shareholders for their strong support towards the Company, and to all our staff for their devotion, diligence and prominent contributions for the Company over the years.

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

26 March 2007

* *For identification purpose only*

Management Discussion and Analysis

BUSINESS REVIEW

Since inception, the Group has been engaged in focused businesses of waste collection, treatment and recycling under a uniquely designed business model. By vigorously optimizing its industry chains and expanding environmental protection related businesses, to date, the Group has upgraded itself as a total solution provider of environmental services. In 2006, being benefited from the Mainland China market and with effective fulfillment of the strategic initiatives by various business segments, the Group recorded growth of 61.90% and 56.44% in its revenue and net profit respectively.

Waste Collection, Treatment and Recycling

Swift industrial and economic growth in China has caused increasing emissions and accumulation of solid wastes. A total output of over 50 million tons of solid wastes was estimated to be produced within Guangdong Province in 2006. During the year, the first meeting relating to the regulation of solid waste management throughout the whole province was held by the Guangdong Environmental Protection Bureau, at which it was emphasized that a vital task of the Guangdong Province is to reinforce the controls on solid waste disposal practically during the period of “Eleventh Five Year”.

Under positive market sentiments, during the year, the Group has taken a proactive approach to vigorously expand its business capabilities, especially to strengthen the most anterior part of the business chains, being the segment of waste collection. In compliance with the Group’s market expansion strategies, and riding on the existing coverage of its waste collection network, the Group has selected a number of regions, including Zhuhai, Dongguan, Guangzhou and Zhaoqing, as key markets for further exploration. The Group has successfully secured greater market shares and stronger brand influences in those regions. On the other hand, the Group has put into place a series of measures which enable the waste collection division to be more competitive in the market and to react promptly in response to different conditions. Key measures are to build up a customers-oriented service mechanism, introduce a more advanced logistic management model, and consolidate the collection division and provide training for the division. Throughout the above strategies and measures, the total volume of collected wastes (including hazardous wastes and general solid wastes) over the whole year increased by 168.16% compared with the last corresponding figure. Our customer base was further enriched by signing over 150 newly contracted clients and establishing long-term cooperative alliances with a group of well-known enterprises such as Huawei, Emerson Electric, SAMSUNG and ZTE (中興通訊), etc..

During the year under review, certain new facilities added by the Group for waste treatment included a copper-sludge processing workshop, a used printed circuit board recycling workshop and a physiochemical plant mainly for treatment high concentration inorganic waste water, and they were conducive for significantly enhanced capacities of waste processing. Given the completion of the expansion and renovation of the treatment lines for copper-containing wastes at the Huizhou treatment base, and the gradual and normal commission of the tri-basic copper chloride (“TBCC”) project and nickel recycling project, the varieties and added-values of the Group’s sales of recycled products were increasing unceasingly. During the year 2006, revenue from the business of waste treatment and recycled products amounted to RMB427,569,000, representing a year-on-year growth of approximately 71.14%.

Furthermore, a new type of recycled product of the Group, namely TBCC (α-crystallization type), has been approved by the Ministry of Agriculture of the PRC as a new typed feed additive enjoying a 6-year administrative protection. This was the first new product of its kinds granted with an approval by the Ministry of Agriculture of the PRC with “crystallization form” as a standard, thereby turning to a new chapter for the industry of feed additives in China. At the same time, tremendous market potentials were lured for the growing popularity of TBCC in China.

Management Discussion and Analysis

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

The Group has continued to consolidate the business of EP system construction and operation, with particular emphasis on providing wider value-added services for its customers. For the year under review, this business segment record 4.93% increase in revenue to RMB25,881,000 (2005: RMB24,666,000).

Pilot Projects of the Recycling Economy

Being one of the first batch of selected national pilot units of the recycling economy ("R-economy") in China, the Group's pilot scheme for the R-economy ("Pilot Scheme") (《循環經濟試點工作方案》) has been defined as the "National Pilot Implementation Scheme for R-Economy in Key Aspects", thus opening up a brand new page for the Group's promotion of the R-economy. During the year under review, according to the objectives and plans as outlined in the Pilot Scheme, the Group has progressively carried out a number of varying tasks. Those tasks included: 1) active preparation and implementation of R-economy pilot projects, the involve areas of which covered non-hazardous treatment and integrated utilization of garbage like wastes with heavy metal content, urban sewage, food and beverage wastes and electronic wastes; 2) revision of the short-term to medium-term technological development planning in accordance with the objectives of the Pilot Scheme of the R-economy; 3) formulation and identification of specific indicators for annual pollution-free production as well as energy saving and consumption reduction. In 2006, the Company had fully completed the stage-by-stage plan of the Pilot Scheme, bringing fruitful effects on fostering improved operating efficiency and higher cost saving. Moreover, through active involvement in various activities, fairs and conferences relating to the theme of the R-economy, the Company has widely devised its philosophy and experience of developing the R-economy, thus deepening and sharpening its image as a pioneer for promoting the R-economy.

Development of New Projects

During the year, the Group has energetically sought for new opportunities for solid waste treatment and renewable energy according to its strategic setting with a vision to present us with cutting first-mover advantages in both fields and then inject fresh momentums into the continued development of the Group.

Solid Waste Treatment and Disposal

During the year, continued progresses were made in the project relating to the Demonstration Centre for Comprehensive Treatment of Hazardous Wastes in Guangdong Province (the "Demonstration Centre Project"). The landfill ground has undergone completed construction and testing, and was already put into trial commission. Also, the Group has actively involved in negotiating and bidding certain licensed projects for treatment and disposal of solid wastes, including hazardous wastes, domestic wastes, city construction wastes and ashes from domestic wastes incineration. Of which, some individual projects have received encouraging progress and were expected to be achieved in 2007.

Management Discussion and Analysis

Utilization of New Sources of Energy

The implementation of the landfill menthane power generation project represented an important milestone for the waste recycling business of the Group, and through which, the Group has also stepped into a brand new stage in the horizon of new sources of energy utilization. Granted with a 20-year licensed operating right, the project will realize the conversion of landfill menthane produced at the domestic waste landfill at Xiaping, Shenzhen into electricity for sales. The project has now proceeded to the completion of construction and equipment installation, and permission was given to its connection to the city power supply system. Upon successful trial runs of the generating units, electricity can be readily generated. Given the good start of this project, during the year, the Group is looking for any business opportunities in the scopes of new sources of energy utilization with an aim to work out a demonstrative model project which is worthy to be promoted.

Research and Development

The Group has always regarded research and development ("R&D") as a motive force for eternal corporate prosperity. In 2006, the Group has absorbed a larger number of R&D personnel and provided training for them. More resources were directed to improve our R&D capabilities and to acquire more state-of-the-arts equipment for catering the R&D requirements. During the year, with the Group's philosophy of refining the technologies for waste non-hazardous treatment and resources recycling, the R&D centre has engaged in 46 main projects, covering key areas of integrated recycling of wastes with precious metal content, treatment and recycling of urban and industrial sludge and construction wastes. Regarding the R&D and introduction of new technologies, much attention has be paid to the market outlook and actual values of those technologies.

On the basis of in-house R&D, the Group has positively entered into multiple manners of technological collaborations. Strategic partnerships have been formed for counterparties' cooperation in energy saving, utilization of new sources of energy, reuse of water resources and treatment of electronic wastes, which will provide strong technological support for stepping into new business segments.

Operation Management

It is the Group's belief that a well-managed operation is vital for realizing business objectives. During the year under review, the Group has attempted to enhance its management standards through the following measures: 1) the initiation of an enterprise resources planning (ERP) combining the modules of supply chain management, financial management and human resources management, which provides an efficient platform for the Group's operation; 2) the establishment of an elite team with motivated learning spirits. The Group has created a strong learning atmosphere within the Company through staff training at different levels as well as a newly launched internal trainer system; 3) the institutionalization of the systems throughout the whole Group. Upon completion of the setting up of the system at the Group's head office, the establishment and upgrade of the systems of the major subsidiaries have been finished. The management flows are therefore well-regulated.

SIGNIFICANT INVESTMENTS

In January 2006, the Group invested RMB1,042,900 to establish a 100%-owned subsidiary namely Dongjiang Environmental (Hong Kong) Limited (東江環保(香港)有限公司) in Hong Kong. This company is principally responsible for the development of environmental protection services, waste collection and international trade in Hong Kong.

Management Discussion and Analysis

In March 2006, the Group invested RMB10,000,000 to establish a 100%-owned subsidiary namely Shenzhen Dongjiang Environmental Recycled Power Limited (深圳市東江環保再生能源有限公司) in the PRC. This company mainly focuses in the implementation of power generation through utilization of landfill menthane, which is in line with the Group's plan of entering into the new business segment of new sources of energy utilization.

In May 2006, the Group continually invested RMB7,140,000 to a 51%-owned subsidiary named Huizhou Dongjiang-Onyx Solid Waste Treatment Company Limited, to reach the requirement of the registered capital of this company.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2006, the Group's revenue was increased by approximately 61.90% to RMB473,368,000 as compared to 2005 (2005: RMB292,374,000). The increase of revenue mainly result from the growth of waste treatment business and sales of recycled products, which recorded an increase of 71.14% to RMB427,569,000 as compared to last corresponding figure (2005: RMB249,834,000).

Meanwhile, the scale of solid waste non-hazardous treatment continued to expand in 2006, representing an increase of RMB13,707,000 in the revenue to RMB26,569,000 (2005: RMB12,862,000).

Profit

During the year ended 31 December 2006, the Group's gross profit increased by 44.34% to RMB193,559,000 (2005: RMB134,089,000). The growth was mainly due to the increase in the revenue of the Group.

During the year ended 31 December 2006, the Group's consolidated gross profit margin dropped from 45.86% in 2005 to 40.88% in 2006. The main reason for the decrease was the increase in price of raw materials of the waste non-hazardous treatment and recycling business.

Selling and Distribution Costs

During the year under review, the Group's selling and distribution costs was approximately RMB29,613,000 (2005: RMB23,886,000), represented a 6.26% (2005: 8.17%) of the total revenue.

The increase in selling and distribution costs mainly attributed to the continuing expansion of the Group's waste treatment business.

Administrative Expenses

For the year ended 31 December 2006, the Group's administrative expenses was approximately RMB47,828,000 (2005: RMB47,171,000), represented a 10.10% (2005: 16.13%) of the total revenue.

Despite the increase, the Group managed to improve operational efficiency by enhancing its internal control management, and thus reduced the administrative expenses to total revenue ratio remarkably.

Management Discussion and Analysis

Other Operating Expenses

For the year ended 31 December 2006, the Group's other operating expenses was approximately RMB29,158,000 (2005: RMB11,824,000) amounting to 6.16% (2005: 4.04%) of the total revenue.

Increase in other operating expenses was mainly due to the impairment loss. In the current year, the Group cleared the impaired equipment by writing off a total sum of RMB17,008,000.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2006, the Group had net current assets of RMB124,620,000 (2005: RMB127,265,000), including bank balances and cash of RMB145,783,000 (2005: RMB82,109,000).

As at 31 December 2006, the Group had total liabilities of RMB160,975,000 (2005: RMB52,239,000). The Group's gearing ratio was approximately 33.73% (2005: 17.22%) which is calculated based on the Group's total liabilities over total assets. The current liabilities of the Group was approximately RMB150,975,000 (2005: RMB49,698,000). As at 31 December 2006, the Group had outstanding bank loans of RMB39,000,000 (2005: RMB3,000,000) for the expansion of waste treatment capacity, at interest rates from 5.301% to 5.580% per annum (2005: 5.580%).

In 2006, the net cash flow from operating activities of the Group increased by approximately RMB130,467,000 to RMB169,932,000 (2005: RMB39,465,000). The main reason for the substantial increase was attributed to the growth of Group's revenue and the improved capital management which made most of revenue generated in the year converted into cash.

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year under review, the Company invested RMB2,010,000 to acquire 40.2% shareholdings in Shenzhen Huizhou Dongjiang Environmental Technologies Company Limited making it become the wholly-owned subsidiary of the Company.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Saved as disclosed elsewhere in the Management Discussion and Analysis, the Group does not have other future plans for material investments or capital assets.

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 2006, 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.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2006, the Group had no pledged assets.

INFORMATION ON EMPLOYEES

At 31 December 2006, the number of full-time employees stood at 986 (2005: 863) with a total staff cost of the year ended 31 December 2006 of approximately RMB24,170,000 (2005: RMB19,420,000). 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 2006.

CAPITAL COMMITMENT

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

	2006	2005
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**3,884**	678
Prepaid lease payment on land use rights	–	870
Construction in progress	**31,542**	67,085
The establishment of a new limited company	–	7,140
	35,426	75,773
Authorised, but not contracted for:		
Property, plant and equipment	–	5,008
	35,426	80,781

Management Discussion and Analysis

FUTURE PROSPECTS

It is anticipated that more laws and regulations related with environmental protection issues and R-economy will be introduced by the PRC government in 2007. The Group is set to benefit from the relevant preferential policies and stronger government regulation on environmental protection issues. The Group will hence capture more favourable market environment and increasing business opportunities for flourishing further expansion and business breakthroughs.

Boosting Core Business by Broadening Market Share and Brand Influence

Through technological advancement and construction of new wastes transfer and treatment bases, the Group's capacities in wastes collection, treatment and recycling are increasing constantly. In 2007, the plant in Shaoguan and the Demonstration Centre Project will commence operation, and the plants in Shajing and Huizhou will have greater significance after the completion of their technological enhancement. While the integrated business ability is improved, the Group is expected to secure larger market share and brand influence through strategic setting of services and brand name.

Exploring Growth Potentials through Joint Forces of Self Innovation and R-Economy

Given that the Group has been highly cherished and honoured by the PRC government with a number of awards over the past years, the Group is optimistically confident of seizing each and every valuable opportunity. Through developing self-owned intellectual rights, the Group will blend self innovation with the R-economy in order to create a solid foothold and potentials for our business growth.

Presenting the Group as a First Mover for Market Opportunities through Tactic Positioning

Based on our stated development strategies, in 2007, the Group will further optimize the chains of own business and R-economy. The Group will also enthusiastically explore business opportunities in the areas of sewage treatment, reuse of water resources, utilization of new sources of energy, as well as treatment of food and beverage wastes and construction wastes.

Management Profile

DIRECTORS

Executive Directors

ZHANG Wei Yang (張維仰), aged 41, 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 39, 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 32, is an 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 39, 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 40, 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 seven years of experience in the field of investment.

SUN Ji Ping (孫集平), aged 50, 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.

Management Profile

Independent non-executive Directors

MENG Chun (孟春), aged 49, 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 36, 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 chairman.

YANG Zhi Feng (楊志峰), aged 44, 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 36, 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 and investment officer of New Margin.

LUO Xiao Hong (駱曉紅), aged 41, 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 30, was a supervisor of the Company. She has been working in the accounting department of the Company since 1999. Ms. Zhou has over six years of experience in the field of finance and accounting.

Management Profile

QUALIFIED ACCOUNTANT

TSANG Wan Sing (曾穩成), aged 37, 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 43, is the Company Secretary of the Company. He is a practicing member of the Hong Kong Institute of Certified Public Accountants and is a member of the American Institute of Certified Public Accountants. Mr. Lo holds a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in science from New Jersey Institute of Technology, the United States.

SENIOR MANAGEMENT

HE Qi Hu（何其虎）, aged 56, 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.

CAI Hong（蔡虹）, aged 31, 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 nine years of experience in finance and management.

LIU Wen Bin（劉文斌）, aged 48, 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 30, 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 six years of experience in the field of investment and management.

Directors' Report

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

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 34 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 2006 are set out in the consolidated income statements on page 31.

DIVIDENDS

The Board did not recommend the payment of any dividend for the year ended 31 December 2006 (2005: dividend RMB0.02 per ordinary share).

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 5. 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 29 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.

Directors' Report

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 2006, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB125,114,000. 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 33.30% of the total sales for the year and sales to the largest customer included therein amounted to 12.59%. Purchases from the Group's five largest suppliers accounted for approximately 30.48% 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: Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng as the executive directors; Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping as the non-executive directors; Mr. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng as the independent non-executive directors.

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 15 to 17 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' Report

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 9 to the consolidated financial statements.

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

At 31 December 2006, 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	**Capacity**	**Number and class of shares**	**Percentage of shareholding in this class**
Mr. Zhang Wei Yang	Beneficial owner	233,651,966 domestic shares	51.98%
Mr. Li Yong Peng	Interest of a controlled corporation	35,389,750 domestic shares *(Note 1)*	7.87%
Mr. Chen Shu Sheng	Interest of a controlled corporation	35,389,750 domestic shares *(Note 2)*	7.87%

Notes:

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

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

Directors' Report

Save as disclosed above, as at 31 December 2006, 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 2006, 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 Owner	61,566,558 domestic shares	13.70%
Shenzhen Fang Yuan Petrochemical Industries Co., Ltd	Beneficial Owner	35,389,750 domestic shares *(Note 2)*	7.87%
Shenzhen Wen Ying Trading Limited	Beneficial Owner	35,389,750 domestic shares *(Note 3)*	7.87%
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services *(Note 4)*	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environmental Fund 2002, LP	Beneficial Owner	11,500,000 H shares	6.46%

Notes:

1. 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.

Directors' Report

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

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

4. Leading Environmental Solutions and Services owns approximately 76.92% of China Environment Fund 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the directors, 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 2006, 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 2006, 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 2006, 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

Save as disclosed in note 35 to the consolidated financial statements, there were no other connected transactions, which were discloseable under Chapter 20 of the GEM Listing Rules.

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.

Directors' Report

AUDITORS

The consolidated financial statements for the years ended 31 December 2005 and 2006 were audited by SHINEWING (HK) CPA Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint them as auditors of the Company.

Messrs. Ernst & Young ("E&Y") tenered their resignation as auditors of the Company with effect from 10 November 2005 and SHINGWING (HK) CPA Limited was appointed as auditors of the Company be the Shareholders of the Company at the extraordinary general meeting held on 18 April 2006.

The consolidated financial statement of the Company for the year ended 31 December 2004 was audited by E&Y and there have no other changes of the auditors of the Company in the past three years.

ON BEHALF OF THE BOARD
Shenzhen Dongjiang Environmental Company Limited*

ZHANG Wei Yang
Chairman
Shenzhen, Guangdong Province, the PRC
26 March 2007

* *For identification purpose only*

Supervisory Committee's Report

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

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

On 26 March 2007, the Supervisory Committee convened a Meeting, which the 2006 financial statements of the Company and its subsidiaries (the "Group") and a preliminary draft of the independent auditor's report were reviewed and approved. The Supervisory Committee is of the view that the financial statements have been prepared in accordance with the relevant accounting standards and fairly reflect the financial condition and results of operations of the Group.

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

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

By Order of the Supervisory Committee
Shenzhen Dongjiang Environmental Company Limited*

YUAN Wei
Chairman of the Supervisory Committee
Shenzhen, Guangdong Province, the PRC
26 March 2007

* *For identification purpose only*

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is continuing to enhance corporate governance with the objectives of achieving long term persistent and generating greater returns to shareholders. The Board has applied the principles set out in the Code on Corporate Governance Practice stated in Appendix 15 of the GEM Listing Rules (the "Code"). The Company has complied with all the Code provisions throughout the year under review, except for one deviation mentioned below:

Under the Code provision A.2.1, the roles of chairman and chief executive officer should not be performed by the same individual. The chairman and chief executive officer of the Company are currently performed by 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 Group. In order to maintain the good corporate governance and fully comply with code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less than rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2006.

THE BOARD

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

The Board currently comprises three executive Directors, being Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng; Three non-executive Directors, being Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping; and three independent non-executive Directors, being Mr. 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 and the relationship among them are set out on pages 15 to 17 of this Annual report.

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

Corporate Governance Report

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

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

Name of directors	**Attendance**
Executive Directors	
Mr. Zhang Wei Yang *(Chairman)*	8/8
Mr. Chen Shu Sheng	8/8
Mr. Li Yong Peng	8/8
Non-executive Directors	
Mr. Feng Tao *(Vice Chairman)*	8/8
Mr. Wu Shui Qing	8/8
Ms. Sun Ji Ping	8/8
Independent Non-executive Directors	
Mr. Meng Chun	8/8
Mr. Wang Ji Wu	8/8
Mr. Yang Zhi Feng	8/8
Average attendance rate	100%

NON-EXECUTIVE DIRECTORS

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

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.

Corporate Governance Report

NOMINATION, ELECTION AND RE-ELECTION OF DIRECTORS

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

The criteria for prospective candidates for nomination is: 1) the 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 and the GEM listing Rules for a director and an independent non-executive director. The new director will be provided with the information prepared by an external lawyer and orientation on the company's background and business with the senior management.

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

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

AUDIT COMMITTEE

The Audit Committee was established in January, 2003 comprising 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.

Other details of the role and function of the Audit Committee are available on the Company's website. The principle responsibilities of the Auditor Committee include:

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

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

Name of directors	**Attendance/Number of Meetings held**
Mr. Meng Chun	4/4
Mr. Wang Ji Wu	4/4
Mr. Yang Zhi Feng	4/4

Corporate Governance Report

THE REMUNERATION COMMITTEE

The Remuneration Committee was established in June 2005 with terms of reference in compliance with the Code. The Remuneration Committee comprises three independent non-executive directors, namely Mr. 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 principle responsibly of the Remuneration Committee is to review the remuneration and assessment schemes of the director and the senior management of the Company, as well as other related remuneration matters instructed by the Board. Other details of the role and function of the Remuneration Committee are available on the Company's website.

The Remuneration Committee met once (with attendance rate of 100%) in the year to discuss Directors and senior management remuneration and the assessment policy.

AUDITORS' REMUNERATION

The remuneration in respect of audit services provided by the auditors, SHINEWING (HK) CPA Limited, to the Company in the year 2006 amounted to RMB400,000. There is no non-audit service provided by the auditors in the year 2006.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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

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

INTERNAL CONTROL AND INTERNAL AUDIT

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

The Group's system of internal control includes a complete internal management system and approving procedures which apply to all members of the Group. The Group has formulated a comprehensive budget management system, pursuant to which, business plans and budgets are prepared annually by the management of subsidiaries and individual core businesses and subject to review and approval by the Executive Directors. The Enterprise Management Department of the Company is responsible for preparing monthly management report on the operational performance, financial results and the difference against the budgets of each business for Executive Directors to review. In addition, each month the Executive Directors meet with management of subsidiaries and individual business to review monthly operating performance and address potential business risk and countermeasures.

During the year, the Company was continuing to promote its internal control systems, and commenced internal audit of various business sectors within the Group to ensure the effectiveness of each system and process, as well as identify and prevent the potential risk. The head of internal audit submits working reports and recommendations on a regular basis to the Executive Directors.

Independent Auditor's Report

信永中和
ShineWing

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

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

We have audited the consolidated financial statements of Shenzhen Dongjiang Environmental Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 74, which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

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 2006 and of its profits and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards, and have been properly prepared in accordance with disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Tam Kwok Ming, Banny
Practising Certificate Number: P03289
Hong Kong
26 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Revenue	6	**473,368**	292,374
Cost of sales		**(279,809)**	(158,285)
Gross profit		**193,559**	134,089
Other income		**10,055**	15,744
Selling and distribution costs		**(29,613)**	(23,886)
Administrative expenses		**(47,828)**	(47,171)
Other operating expenses		**(29,158)**	(11,824)
Finance costs	8	**(541)**	(638)
Share of results of associates		**(7)**	(130)
Profit before tax	10	**96,467**	66,184
Income tax expenses	11	**(10,812)**	(11,243)
Profit for the year		**85,655**	54,941
Attributable to:			
Equity holders of the parent		**79,495**	50,815
Minority interests		**6,160**	4,126
		85,655	54,941
Dividends	12		
Proposed final		**–**	12,548
Earnings per share	13		
Basic		**RMB0.1267**	RMB0.0810
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	14	**173,209**	105,138
Investment properties	15	**2,914**	3,015
Prepaid lease payments	16	**22,175**	17,582
Intangible assets	17	**160**	195
Interests in associates	18	**393**	400
Deferred tax assets	19	**2,798**	86
		201,649	126,416
Current assets			
Inventories	20	**34,793**	18,522
Amounts due from customers for contract works	21	**–**	2,868
Trade and other receivables	22	**70,544**	68,099
Prepaid lease payments	16	**475**	365
Investment held for trading	23	**–**	5,000
Other current assets	24	**24,000**	–
Bank balances and cash	25	**145,783**	82,109
		275,595	176,963
Current liabilities			
Trade and other payables	26	**96,250**	45,938
Amounts due to customers for contract works	21	**12,235**	–
Income tax payable		**3,490**	760
Interest-bearing bank borrowings	27	**39,000**	3,000
		150,975	49,698
Net current assets		**124,620**	127,265
Total assets less current liabilities		**326,269**	253,681
Non-current liability			
Deferred revenue	28	**10,000**	2,541
		316,269	251,140

Consolidated Balance Sheet

As at 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Capital and reserves			
Share capital	*29*	**62,738**	62,738
Reserves	*30*	**201,357**	121,912
Proposed final dividend	*12*	**–**	12,548
Equity attributable to equity holders of the parent		**264,095**	197,198
Minority interests		**52,174**	53,942
Total equity		**316,269**	251,140

The consolidated financial statements on pages 31 to 74 were approved and authorised for issue by the Board of Directors on 26 March 2007 and are signed on its behalf by:

Zhang Wei Yong	**Li Yong Peng**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the parent								
	Share capital	Share premium	Reserve funds	Translation reserve	Retained earnings	Dividend reserve	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	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)	–	–	–	–
Contribution from minority shareholders	–	–	–	–	–	–	–	16,171	16,171
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(1,470)	(1,470)
Final 2004 dividend paid	–	–	–	–	–	(6,274)	(6,274)	–	(6,274)
Proposed final 2005 dividend	–	–	–	–	(12,548)	12,548	–	–	–
At 31 December 2005 and 1 January 2006	62,738	30,309	27,285	–	64,318	12,548	197,198	53,942	251,140
Profit for the year	–	–	–	–	79,495	–	79,495	6,160	85,655
Transfer from retained earnings	–	–	18,699	–	(18,699)	–	–	–	–
Contribution from minority shareholders	–	–	–	–	–	–	–	6,859	6,859
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(10,176)	(10,176)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	(4,611)	(4,611)
Exchange differences arising on translation of foreign operations	–	–	–	(50)	–	–	(50)	–	(50)
Final 2005 dividend paid	–	–	–	–	–	(12,548)	(12,548)	–	(12,548)
Proposed final 2006 dividend	–	–	–	–	–	–	–	–	–
At 31 December 2006	62,738	30,309	45,984	(50)	125,114	–	264,095	52,174	316,269

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**96,467**	66,184
Adjustments for:			
Amortisation of intangible assets		**35**	36
(Recovery of)/allowance for bad and doubtful trade receivables		**(559)**	2,539
Allowance for other receivables		**1,866**	2,327
Allowance for slow-moving inventories		**86**	257
Amortisation of prepaid lease payments		**790**	323
Depreciation of property, plant and equipment		**15,649**	8,536
Excess of investment cost and share of net assets acquired		**(2,551)**	–
Finance costs		**541**	638
Foreign exchange gain		**(50)**	–
Gain on investment held for trading		**(741)**	–
Interest income		**(786)**	(1,003)
Impairment loss on goodwill		**–**	537
Impairment loss on interests in associates		**–**	1,296
Impairment loss on property, plant and equipment		**17,008**	5,887
Loss on disposal of property, plant and equipment		**98**	93
Change in fair value of investment properties		**101**	(101)
Share of results of associates		**7**	130
Operating cash flows before movements in working capital		**127,961**	87,679
Increase in inventories		**(16,357)**	(2,852)
Decrease/(increase) in amounts due from customers for contract works		**2,868**	(2,415)
Increase in trade and other receivables		**(3,752)**	(31,989)
Increase in trade and other payables		**50,312**	1,039
Increase in amounts due to customers for contract works		**12,235**	–
Increase in deferred revenue		**7,459**	311
Cash generated from operations		**180,726**	51,773
Income taxes paid		**(10,794)**	(12,308)
NET CASH FROM OPERATING ACTIVITIES		**169,932**	39,465

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
NET CASH FROM OPERATING ACTIVITIES		**169,932**	39,465
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(101,597)**	(38,115)
Purchase of investment held for trading		**(65,000)**	(15,000)
Proceeds from sales of investment held for trading		**70,741**	10,000
Increase in prepaid lease payments		**(5,493)**	(3,765)
Interest received		**786**	1,003
Proceeds from disposal of property, plant and equipment		**771**	364
Purchase of additional interests in subsidiaries		**(2,060)**	–
Increase in other current assets		**(24,000)**	–
Increase in guarantee deposit for tendering		**(610)**	(2,100)
NET CASH USED IN INVESTING ACTIVITIES		**(126,462)**	(47,613)
FINANCING ACTIVITIES			
Repayments of bank loans		**(3,000)**	(20,200)
Contributions by minority shareholders		**6,859**	16,171
New bank loans raised		**39,000**	13,000
Dividends paid		**(12,548)**	(6,274)
Dividends paid to minority shareholders		**(10,176)**	(1,470)
Interest paid		**(541)**	(638)
NET CASH FROM FINANCING ACTIVITIES		**19,594**	589
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**63,064**	(7,559)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**80,009**	87,568
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	*25*	**143,073**	80,009

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

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

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

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 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 ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments, interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

		Effective for annual periods beginning on or after
Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK (IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK (IFRIC) – INT 8	Scope of HKFRS 2	1 May 2006
HK (IFRIC) – INT 9	Re-assessment of Embedded Derivatives	1 June 2006
HK (IFRIC) – INT 10	Interim Financial Reporting and Impairment	1 November 2006
HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK (IFRIC) – INT 12	Service Concession Arrangement	1 January 2008

Notes to the Consolidated Financial Statements

For the year ended 31 December 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 (the "GEM Listing Rules") and by the Companies Ordinance.

Basis of consolidation

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

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

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

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the 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, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, on the following bases:

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

Waste treatment income is recognised when services are rendered.

Revenue from construction of environmental protection 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

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 the straight-line basis over the relevant lease terms.

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.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

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 arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

Intangible assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid lease payments

Prepaid lease payments on land use right under operating leases, are carried at cost and amortised over the lease terms using the straight-line method.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

Inventories

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (continued)

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 consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Leasing

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.

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.

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. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and 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 benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense.

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 consolidated income statement and are reported separately as other income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Amounts due from/(to) customers for contract works, trade and other receivables

Amounts due from/(to) customers for contract works, trade and other receivables are measured initially at fair value and are subsequently carried at amortised cost using the effective interest method, less any allowance for bad and doubtful debts. Where the effect of discounting would not be immaterial, they are stated at cost less any allowance for bad and doubtful debts.

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investment held for trading

Investment held for trading are initially measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Bank loans

Interest-bearing bank loans are initially measured at fair value and 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Depreciation of property, plant and equipment

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

Impairment of property, plant and equipment

The impairment losses for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts have been determined based on fair value less costs to sell, which are based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the assets in arm's length transactions between knowledgeable, willing parties, after deducting the costs to disposal.

Allowances for inventories

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

Allowances for bad and doubtful debts

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

Credit risk

The Group's principal financial assets are trade and other receivables and bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimize the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are state-owned banks with good reputation.

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

Interest rate risk

The Group's exposure to fair value interest rate risk is minimal as the Group's bank loans are at fixed interest rate.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in RMB. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

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.

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6. REVENUE

Revenue represents the net amounts received and receivables for recycled products sold, provision of waste treatment services and trading of chemical products by the Group to outside customers, less returns and trade discounts, 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:

	2006	2005
	RMB'000	*RMB'000*
Sales of recycled products and the provision of waste treatment services	**427,569**	249,834
Revenue from construction and operation of environmental protection systems	**25,881**	24,666
Trading of chemical products	**19,888**	17,691
Consultation service income	**30**	183
	473,368	292,374

7. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions – production and sales 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 sales of recycled products and the provision of waste treatment services segment engages in production and sales of recycled products, provision of waste collection and treatment services;

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below:

For the year ended 31 December:

	Production and sales of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consultation service		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
REVENUE										
External sales	**427,569**	249,834	**25,881**	24,666	**19,888**	17,691	**30**	183	**473,368**	292,374
RESULT										
Segment results	**100,652**	74,719	**1,161**	1,556	**2,540**	1,629	**(4)**	30	**104,349**	77,934
Unallocated corporate expenses									**(7,334)**	(10,982)
Finance costs									**(541)**	(638)
Share of results of associates									**(7)**	(130)
Profit before tax									**96,467**	66,184
Income tax expenses									**(10,812)**	(11,243)
Profit for the year									**85,655**	54,941
OTHER INFORMATION										
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	**15,088**	8,113	**926**	592	**416**	111	**9**	43	**16,439**	8,859
(Recovery of)/allowance for bad and doubtful trade receivables	**(553)**	979	**–**	1,407	**(6)**	153	**–**	–	**(559)**	2,539
Impairment loss on property, plant and equipment	**17,008**	5,887	**–**	–	**–**	–	**–**	–	**17,008**	5,887
Allowance for other receivables	**2,066**	1,142	**(200)**	1,185	**–**	–	**–**	–	**1,866**	2,327
Allowance for slow-moving inventories	**–**	–	**86**	257	**–**	–	**–**	–	**86**	257
Impairment loss on goodwill	**–**	537	**–**	–	**–**	–	**–**	–	**–**	537
Impairment loss on interests in associates	**–**	1,296	**–**	–	**–**	–	**–**	–	**–**	1,296
Loss on disposal of property, plant and equipment	**98**	61	**–**	–	**–**	–	**–**	32	**98**	93
Capital expenditure of property, plant and equipment and prepaid lease payments	**107,090**	41,678	**–**	183	**–**	19	**–**	–	**107,090**	41,880

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

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For the year ended 31 December 2006

7. SEGMENT INFORMATION (Continued)

Balance sheet at 31 December

	Production and sales of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consultation service		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS										
Segment assets	**459,987**	211,045	**7,170**	82,803	**9,306**	8,741	**388**	390	**476,851**	302,979
Interests in associates	**393**	400	**–**	–	**–**	–	**–**	–	**393**	400
Consolidated total assets	**460,380**	211,445	**7,170**	82,803	**9,306**	8,741	**388**	390	**477,244**	303,379
LIABILITIES										
Segment liabilities	**120,240**	34,961	**39,170**	15,217	**1,200**	1,698	**365**	363	**160,975**	52,239
Consolidated total liabilities	**120,240**	34,961	**39,170**	15,217	**1,200**	1,698	**365**	363	**160,975**	52,239

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

8. FINANCE COSTS

	2006	2005
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**541**	638

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Directors' and supervisors' emoluments

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

	2006	2005
	RMB'000	*RMB'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**478**	886
Retirement benefits scheme contributions	**10**	21
	488	907

The remuneration of each director and supervisor of the Company for the years ended 31 December 2006 and 2005, disclosed pursuant to the GEM Listing Rules, is set out below:

	Other emoluments		
Name	**Salaries, allowance and benefits in kind**	**Retirement benefits scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors:			
Zhang Wei Yang	–	–	–
Li Yong Peng	120	–	120
Chen Shu Sheng	178	10	188
	298	10	308

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For the year ended 31 December 2006

9. 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 contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Non-executive directors:			
Feng Tao	–	–	–
Wu Shui Qing	–	–	–
Sun Ji Ping	–	–	–
	–	–	–
Independent non-executive directors:			
Meng Chun	60	–	60
Yang Zhi Feng	60	–	60
Wang Ji Wu	60	–	60
	180	–	180
Supervisors:			
Yuan Wei	–	–	–
Luo Xiao Hong	–	–	–
Zhou Xiu Hong	–	–	–
	–	–	–
Total for 2006	478	10	488
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. 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 contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
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 *(note ii)*	–	–	–
Luo Xiao Hong *(note i)*	–	–	–
Zhou Xiu Hong *(note i)*	46	2	48
	119	6	125
Total for 2005	886	21	907

Note:

i) Appointed on 2 June 2005

ii) Retired on 2 June 2005

There was no arrangement under which directors or supervisors waived or agreed to waive any emoluments in the years ended 31 December 2006 and 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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

(b) Employees' emoluments

Details of the five highest paid individuals included two directors (2005: two directors), whose emoluments are set out above. The emoluments of the remaining three (2005: three) highest paid individuals were as follows:–

	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**432**	312
Retirement benefits scheme contributions	**30**	8
	462	320

Their emoluments were within the following bands:

	No. of employees	
	2006	2005
Nil to RMB1,000,000	**3**	3

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

10. PROFIT BEFORE TAX

	2006	2005
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging/(crediting):		
Staff costs including directors' emoluments:		
– Salaries, wages and other benefits	**22,488**	18,321
– Retirement benefits scheme contributions	**1,682**	1,099
Total staff costs	**24,170**	19,420
Amortisation of intangible assets (included in other operating expenses)	**35**	36
Amortisation of prepaid lease payments	**790**	323
Auditors' remuneration	**440**	400
(Recovery of)/allowance for bad and doubtful trade receivables	**(559)**	2,539
Allowance for other receivables (included in administrative expenses)	**1,866**	2,327
Allowance for slow-moving inventories	**86**	257
Cost of inventories recognised as an expense	**277,137**	146,343
Depreciation of property, plant and equipment	**15,649**	8,536
Excess of cost of investment and share of net assets acquired	**2,551**	–
Gain on investment held for trading	**741**	–
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		
(included in other operating expenses)	**17,008**	5,887
Loss on disposal of property, plant and equipment	**98**	93
Minimum lease payments under operating leases:		
Office premises, plant and staff quarters	**1,336**	2,420
Research and development costs	**9,213**	4,078
Net rental income	**(142)**	(194)
Interest income	**(786)**	(1,003)
Change in fair value on investment properties	**101**	(101)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. INCOME TAX EXPENSES

The Company is located in the Shenzhen Special Economic Zone and subject to the PRC corporate income tax at a rate of 15% (2005: 15%) of the estimated assessable income determined in accordance with the relevant income tax rules and regulations of the PRC. During the year, the Company was approved as an Advanced New Technology Enterprise and eligible to a preferential tax rate of 7.5% (2005: 7.5%).

The subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC corporate income tax at a rate of 15% (2005: 15%). Subsidiaries located in other cities are subject to the PRC corporate income tax at a rate of 33% (2005: 33%).

In accordance with the relevant income tax rules and regulations of the PRC, the Company's subsidiaries, Shenzhen Lishan Environmental Protection Materials Co., Ltd. and Shenzhen Dongjiang Heritage Technologies Co., Ltd. are exempt from PRC corporate income tax for two years commencing from their first profit-making year, following by a 50% tax reduction for the next three years.

Subsidiary established in Hong Kong in 2006 is subject to Hong Kong Profits Tax at the rate of 17.5%. No Hong Kong Profits Tax has been provided for the year because the subsidiary did not have assessable profit for the year.

	2006	2005
	RMB'000	*RMB'000*
Current tax – the PRC	**13,524**	10,505
Deferred taxation *(Note19)*	**(2,712)**	738
	10,812	11,243

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

	2006	2005
	RMB'000	*RMB'000*
Profit before tax	**96,467**	66,184
Tax at the applicable income tax rate	**23,155**	11,663
Tax effect of expenses that not deductible in determining taxable profit	**3,079**	4,115
Tax effect of income that not taxable in determining taxable profit	**(5,497)**	–
Tax effect of temporary difference previously not recognised	**(1,102)**	–
Tax effect of tax losses and temporary difference not recognised	**515**	2,109
Income tax on concessionary rate	**(9,338)**	(6,644)
Tax charge for the year	**10,812**	11,243

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12. DIVIDENDS

	2006	2005
	RMB'000	*RMB'000*
Final dividend proposed	–	12,548

The Board does not recommend any dividend for the year ended 31 December 2006 (2005: dividend RMB0.02 per ordinary share).

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 RMB79,495,000 (2005: RMB50,815,000), and the weighted average of 627,381,872 (2005: 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 2006 and 2005 as there were no diluting events existed during those years.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Leasehold improvements	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 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 and 1 January 2006	40,404	44,635	1,869	2,856	13,896	6,976	22,469	133,105
Additions	3,511	4,304	–	1,795	4,553	1,080	86,354	101,597
Transfers	5,023	1,637	–	–	–	399	(7,059)	–
Disposals	(125)	(513)	–	–	–	(314)	(9)	(961)
At 31 December 2006	48,813	50,063	1,869	4,651	18,449	8,141	101,755	233,741
DEPRECIATION AND IMPAIRMENT LOSS								
At 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 and 1 January 2006	5,655	11,312	1,671	1,674	4,226	3,429	–	27,967
Provided for the year	2,112	9,013	31	966	2,572	955	–	15,649
Eliminated on disposals	(24)	(68)	–	–	–	–	–	(92)
Impairment loss recognised	5,155	10,191	–	–	1,000	662	–	17,008
At 31 December 2006	12,898	30,448	1,702	2,640	7,798	5,046	–	60,532
NET BOOK VALUES								
At 31 December 2006	35,915	19,615	167	2,011	10,651	3,095	101,755	173,209
At 31 December 2005	34,749	33,323	198	1,182	9,670	3,547	22,469	105,138

The above items of property, plant and equipment are depreciated on a straight-line method.

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Pursuant to the directors resolution, the annual depreciation rate is revised with effect from 1 January 2006 as follows:

	31 December 2005 and before	**1 January 2006 and after**
Land and buildings	3.23%	4.85%
Plant and machinery	9.70%	19.40%
Leasehold improvements	Over the lease terms	Over the lease terms
Office equipment, furniture and fixtures	19.40%	19.40%
Motor vehicles	9.70% to 13.86%	19.40%
Other equipment	19.40%	19.40%

As a result, the depreciation charge for the year is increased by RMB5,960,000 and the profit for the year is decreased by the same amount.

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

As at 31 December 2006, the property usage permits of certain land and buildings with aggregate net book value approximately of RMB17,299,000 have not been obtained.

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 RMB17, 008,000 (2005: RMB5, 887,000) has been recognised in the consolidated income statement on the basis of their value in use.

15. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At 1 January 2005	2,914
Net increase in fair value	101
At 31 December 2005 and 1 January 2006	3,015
Net decrease in fair value	(101)
At 31 December 2006	2,914

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15. INVESTMENT PROPERTIES (Continued)

The Group's investment properties were located in Shenzhen under medium lease terms (lease period of 10 years or more but less than 50 years). The fair value of the investment properties at 31 December 2006 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 was arrived at by reference to market evidence of transaction prices for similar properties.

The investment property is leased to a Company in which a Company's director is a shareholder of that company. Further details of which are included in Note 34.

All of the Group's property interests held under operating leases to earn rentals purposes are measured using the fair value model and are classified and accounted for as investment properties.

16. PREPAID LEASE PAYMENTS

	2006	2005
	RMB'000	*RMB'000*
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in PRC	**22,650**	6,146
Long-term leasehold land in PRC	**–**	11,801
	22,650	17,947
Analysed for reporting purposes as:		
Current asset	**475**	365
Non-current asset	**22,175**	17,582
	22,650	17,947

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17. INTANGIBLE ASSETS

	Know-how
	RMB'000
COST	
At 1 January 2005, 1 January 2006 and 31 December 2006	260
AMORTISATION	
At 1 January 2005	29
Charge for the year	36
At 31 December 2005 and 1 January 2006	65
Charge for the year	35
At 31 December 2006	100
CARRYING VALUES	
At 31 December 2006	160
At 31 December 2005	195

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

18. INTERESTS IN ASSOCIATES

	2006	2005
	RMB'000	*RMB'000*
Unlisted associates in the PRC		
Cost of investment	2,527	2,527
Share of post-acquisition losses	(838)	(831)
	1,689	1,696
Less: impairment losses recognised	1,296	1,296
	393	400

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18. INTERESTS IN ASSOCIATES (Continued)

As at 31st December 2006, 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.	Incorporated	Contributed capital	PRC	40%	Suspended operation
Shenzhen Micronutrients Co., Ltd.	Incorporated	Contributed capital	PRC	38%	Not yet commenced business

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

	2006	2005
	RMB'000	*RMB'000*
Total assets	**4,645**	4,975
Total liabilities	**(212)**	(664)
Net assets	**4,433**	4,311
Group's share of net assets of associates	**1,689**	1,696
Revenue	**–**	–
Loss for the year	**(383)**	(343)
Group's share of losses of associates for the year	**(7)**	(130)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

19. DEFERRED TAXATION

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

	Tax losses	Pre-operating expenses	Impairment losses and bad and doubtful debts	Difference between depreciation and tax allowance	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	824	–	–	–	–	824
(Charged) credited to the income statement	(824)	311	–	–	(225)	(738)
At 31 December 2005 and 1 January 2006	–	311	–	–	(225)	86
(Charged) credited to the income statement	–	13	1,439	1,035	225	2,712
At 31 December 2006	–	324	1,439	1,035	–	2,798

As at 31 December 2006, the Group had unused tax losses of RMB1,886,920 (2005: NIL) available for offsetting against future profits. No deferred tax assets has been recognized in respect of these tax losses due to the unpredictability of future profit streams. The tax losses will be expired in the year of 2010.

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:

	2006	2005
	RMB'000	*RMB'000*
Deferred tax assets	**2,798**	311
Deferred tax liabilities	**–**	(225)
	2,798	86

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20. INVENTORIES

	2006	2005
	RMB'000	*RMB'000*
Raw materials	**14,798**	6,760
Work in progress	**391**	–
Finished goods	**19,604**	11,762
	34,793	18,522

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

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

	2006	2005
	RMB'000	*RMB'000*
Gross amounts due from contract customers	**453**	2,868
Gross amounts due to contract customers	**(12,688)**	–
	(12,235)	2,868
Contract costs incurred plus recognised profits less recognised losses to date	**12,802**	13,828
Less: Progress billings	**(25,037)**	(10,960)
	(12,235)	2,868

At 31 December 2006, there were no retentions held by customers for contract work (2005: Nil).

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22. TRADE AND OTHER RECEIVABLES

	2006	2005
	RMB'000	*RMB'000*
Trade receivables	**39,663**	38,479
Less: Allowance for bad and doubtful debts	**(2,193)**	(2,752)
	37,470	35,727
Bills receivable	**7,525**	13,771
Prepayment, deposit and other receivables	**25,549**	18,601
	70,544	68,099

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 receivables as at the balance sheet date, based on invoice date, and net of allowance is as follows:

	2006	2005
	RMB'000	*RMB'000*
Current to 90 days	**31,472**	31,658
91 to 180 days	**3,421**	3,154
181 to 365 days	**1,751**	58
Over 1 year	**826**	857
	37,470	35,727

23. INVESTMENT HELD FOR TRADING

	2006	2005
	RMB'000	*RMB'000*
Unlisted investment funds in the PRC	**–**	5,000

Investment held for trading represent investment funds in foreign currency traded in the PRC that offers the Group the opportunity for returns through dividend income and fair value gains. The investment funds have no fixed maturity or coupon rate.

During the year ended 31 December 2006, the unlisted investment funds had been disposed.

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24. OTHER CURRENT ASSETS

The amount represents deposits of RMB24,000,000 placed in banks. The banks in turn granted bank loans of the same amount and same repayment terms as the deposits to the Company's subsidiaries. The bank loans are charged at the same interest rate of 5.301% to 5.580% per annum.

25. BANK BALANCES AND CASH

	2006	2005
	RMB'000	*RMB'000*
Bank balances and cash	**145,783**	82,109
Less: Guarantee deposit for tendering for construction contracts	**2,710**	2,100
Cash and cash equivalents	**143,073**	80,009

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. During the year, the bank deposits carry at the prevailing market interest rate. The directors consider the carrying amount of bank balances approximates its fair value.

Majority of the bank balances and cash for the year were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

26. TRADE AND OTHER PAYABLES

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

	2006	2005
	RMB'000	*RMB'000*
Current to 90 days	**45,695**	12,924
91 to 180 days	**6,646**	58
181 to 365 days	**91**	42
Over 1 year	**1,519**	1,506
	53,951	14,530
Advances from customers	**4,879**	9,633
Other payable	**29,248**	14,365
Accruals	**8,172**	7,410
	42,299	31,408
	96,250	45,938

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27. INTEREST-BEARING BANK BORROWINGS

	2006	2005
	RMB'000	*RMB'000*
Guarantee bank loan *(Note)*	**15,000**	3,000
Other bank loans *(Note 24)*	**24,000**	–
	39,000	3,000

Note: Guarantee bank loan is charged at fixed interest rate at 5.301% (2005: 5.580%) per annum and is repayable within one year.

28. DEFERRED REVENUE

The balance represents a subsidy of RMB10,000,000 (2005: RMB2,541,000) 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 relevant authorities upon its completion.

29. SHARE CAPITAL

	Number of shares		**Share capital**	
	2006	2005	**2006**	2005
	'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

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For the year ended 31 December 2006

29. SHARE CAPITAL (Continued)

On 2 August 2006, the Company announced that it was proposing:

i) to issue a maximum of 20,000,000 new A Shares of RMB 1 each to the PRC public and to be listed on the Shenzhen Stock Exchange; and

ii) to consolidate the existing H shares of RMB0.1 each at the ratio of 10 to 1 to RMB1 each. The consolidation was to be effective on 23 October 2006 subject to the approval of China Securities Regulatory Commission ("CSRC").

On 18 December 2006, the Company further announced that the consolidation of H shares would be delayed because the approval from CSRC had not been obtained.

At the date of the approval of these financial statements, the proposed listing of A shares and consolidation of H shares are still in process.

30. RESERVES

	2006	2005
	RMB'000	*RMB'000*
Share premium	**30,309**	30,309
Reserve funds (note)	**45,984**	27,285
Retained earnings	**125,114**	64,318
Translation reserve	**(50)**	–
	264,095	121,912

Note:

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

Pursuant to the relevant laws and regulations, the Group's subsidiaries established and operated in the PRC are required to appropriate at the discretion of their board of directors at least 5% of their after-tax net profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory public welfare fund. This fund can only be utilised on capital items for collective benefit of the employees. The fund is non-distributable other than in liquidation. The transfer to this fund must be made before distribution of a dividend to equity owners.

According to the revised Company Law of the PRC effective on 1 January 2006, appropriation to the statutory public welfare fund has no longer required and the balance of statutory public welfare fund at 31 December 2005 was transferred to statutory surplus reserve.

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For the year ended 31 December 2006

31. COMMITMENTS

(i) Capital commitments

	2006 RMB'000	2005 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**3,884**	678
Prepaid lease payments on land use rights	**–**	870
Construction in progress	**31,542**	67,085
The establishment of a new limited company	**–**	7,140
	35,426	75,773
Authorised, but not contracted for:		
Property, plant and equipment	**–**	5,008
	35,426	80,781

(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:

	2006 RMB'000	2005 RMB'000
Within one year	**2,006**	1,621
In the second to fifth years, inclusive	**1,190**	1,830
Over five years	**233**	271
	3,429	3,722

(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 to committed to pay an annual fee of RMB273,000 (2005: RMB273,000) for a period of 52 years up to 31st 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.

Notes to the Consolidated Financial Statements

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32. CONTINGENT LIABILITIES

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

Other than as disclosed above, the Group had no significant contingent liabilities at 31st December 2006 and 2005.

33. 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 consolidated income statement as they become payable in accordance with the rules of the CPS.

The total cost charged to consolidated income statement of approximately RMB1,682,000 (2005: RMB1,099,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

34. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2006, are as follows:–

Name	**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.	1,000,000	70%	–	Provision of consulting services for the construction of environmental protection systems
Chengdu Hazardous Waste Treatment Centre Co., Ltd. ("Chengdu Treatment Centre")	10,000,000	51%	–	Investment holding, production and sales of recycled products and provision of waste treatment services
Shenzhen Lishan Environmental Protection Materials Co., Limited ("Lishan")	18,000,000	51%	–	Production and sales of polyamide resin, plasticising agent and paint activating agent from collected waste

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34. PRINCIPAL SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 December 2006, are as follows:–

Name	Nominal value of registered capital	Percentage of equity interest attributable of the Group		Principal activities
	RMB	*Direct*	*Indirect*	
Shenzhen Longgang Dongjjang Industrial Waste Treatment Company Limited ("Longgang DJ")	5,000,000	51%	–	Collection, processing and treatment of industrial waste
Shenzhen Dongjiang Environmental Recycled Resources Co. Ltd ("DJ Recycle")[1]	1,000,000	100%	–	Collection and treatment of industrial waste
Sichuan Xingli Environmental Protection Project Co., Ltd. ("Xingli")[2]	2,000,000	–	40.8%	Construction of environmental protection systems and development and sales of environmental equipment
Huizhou Dongjiang Environmental Protection Technology Co., Ltd ("Huizhou Dongjiang")[3]	5,000,000	100%	–	Production and sales of recycled products and provision of waste treatment services
Shenzhen Dongjiang Heritage Technologies Company Limited ("DJ Heritage")	25,000,000	62%	–	Production and sales of recycled products
Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng")	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")	7,680,000	51%	–	Collection, processing and treatment of industrial waste

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34. PRINCIPAL SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 December 2006, are as follows:–

Name	Nominal value of registered capital	Percentage of equity interest attributable of the Group		Principal activities
	RMB	*Direct*	*Indirect*	
Huizhou Dongjiang Onyx Solid Waste Treatment Co. Ltd ("Dongjiang Onyx")[4]	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[4]	5,000,000	90%	10%	Collection and treatment of industrial wastes
Shenzhen Dongdi Coating Technology Limited ("Shenzhen Dongdi")	3,000,000	51%	–	Promotion and application of new environmental paint coating technology
Shenzhen Dongjiang Environmental Protection Recycled Power Limited[5]	10,000,000	100%	–	Power generating through the utilization of landfill methane
Dongjiang Environmental (HK) Limited ("Dongjiang HK")[5]	HKD3,579,250	100%	–	Not yet commenced business

1 *During the year, the Company increased its equity interests in DJ Recycle from 95% to 100%.*

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

3 *During the year, the Company increased its equity interests in Huizhou Dongjiang from 59.8% to 100%.*

4 *As at 31 December 2006, the subsidiaries had not commenced business.*

5 *The subsidiaries were established during the year. As at 31 December 2006, they had not commenced business.*

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

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

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35. RELATED PARTY TRANSACTIONS

The identified related parties are as follows:

Name of party	Related with the group
Heritage Technologies LLC ("Heritage")	Shareholder of DJ Heritage
Shenzhen Longgang Dongjiang Environmental Technology Service Centre ("Longgang Technology") 深圳市龍崗區環保科技服務中心	Shareholder of Longgang DJ
Shenzhen Dikai Technology Chemical Industrial Ltd ("Shenzhen Dikai") 深圳市迪凱科技化工有限公司	Shareholder of Shenzhen Dongdi
Shenzhen Wenying Trading Limited ("Wenying Trading") 深圳文英貿易有限公司	Company controlled by a director's spouse
Shenzhen Fang Yuan Detrochemical Industries Co., Ltd ("Fang Yuan Chemical") 深圳市方元化工實業有限公司	Shareholder of the Company
Shenzhen Guoce Valuation Limited ("Shenzhen Guoce") 深圳市國策評估交易有限公司	Company controlled by the director of the Company
Jiangxi Lishan Chemical Industrial Limited ("Jiangxi Lishan") 江西立山化工有限公司	Company controlled by the director of Lishan
Sichuan Xingli Tyres Limited ("Xingli Tyres") 四川興利輪胎有限公司	Shareholder of Chengdu Co.
ONYX (HONG KONG) COMPANY LIMITED ("ONYX")	Shareholder of Dongjiang ONYX
Yam Pui Yang 任培洋	Shareholder of Kunpeng and Qiandeng
Chen Deming 陳德明	Shareholder of Qiandeng
Ku Ying Ying 顧英英	Shareholder of Qiandeng

The English translation of the party is for reference only. The official names of these parties are in Chinese.

Notes to the Consolidated Financial Statements

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35. RELATED PARTY TRANSACTIONS (Continued)

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

	2006	2005
	RMB'000	*RMB'000*
Purchased property, plant and equipment from		
Shenzhen Dikai	**–**	420
Paid technology use right to		
Longgang Technology	**400**	625
Shenzhen Dikai	**–**	780
Paid commission to Longgang Technology	**900**	918
Received rental income from		
Shenzhen Guoce	**142**	142
Sold goods to		
Heritage	**–**	9,326
Jiangxi Lishan	**48**	–
Paid motor vehicle rental to Wenying Trading	**120**	90
Paid rental to		
Fang Yuan Chemical	**600**	600
Shenzhen Dikai	**–**	196

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

	2006	2005
	RMB'000	*RMB'000*
Other payables		
Xingli Tyres	**4,400**	4,400
Longgang Technology	**3,611**	3,560
ONYX	**–**	1,594
Yam Pui Yang	**2,400**	–
Chen Deming	**700**	–
Ku Ying Ying	**700**	–
	11,811	9,554

The amounts due to the related parties are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Consolidated Financial Statements

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35. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of directors and key management personnel

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

	2006	2005
	RMB'000	*RMB'000*
Short-term benefits	**910**	1,296
Post-employment benefits	**40**	31
	950	1,327

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