东江环保
DONG JIANG

深圳市東江環保股份有限公司
Shenzhen Dongjiang Environmental Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8230)

Annual Report 2007

*For identification purposes only

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website http://www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 PROCESSES AND NOTICES

LO Wah Wai

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISORS

X. J. WANG & Co.

PRINCIPAL BANKER

China Merchant Bank

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

COMPANY HOMEPAGE

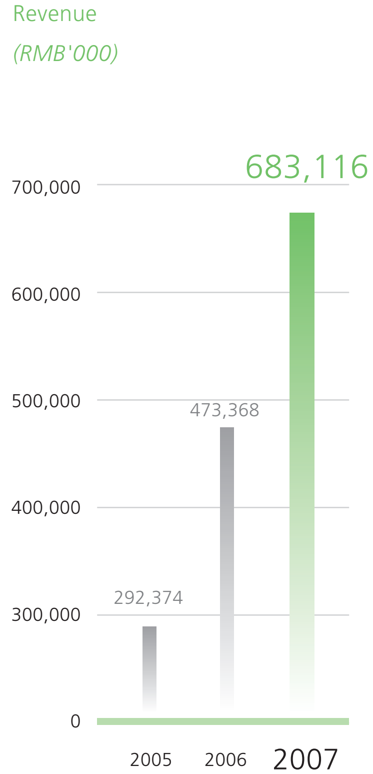
http://www.dongjiang.com.cn

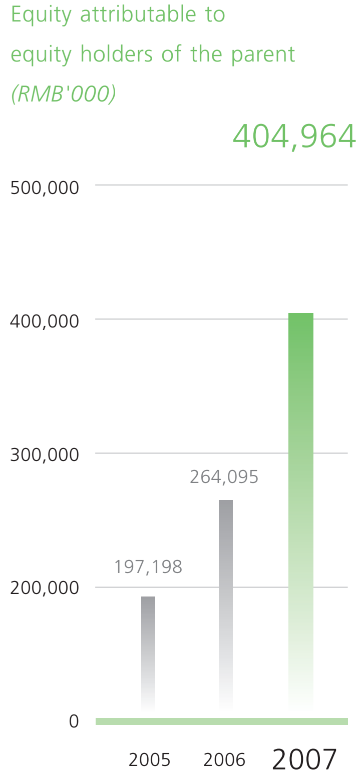
PRINCIPAL PLACE OF BUSINESS IN HONG KONG

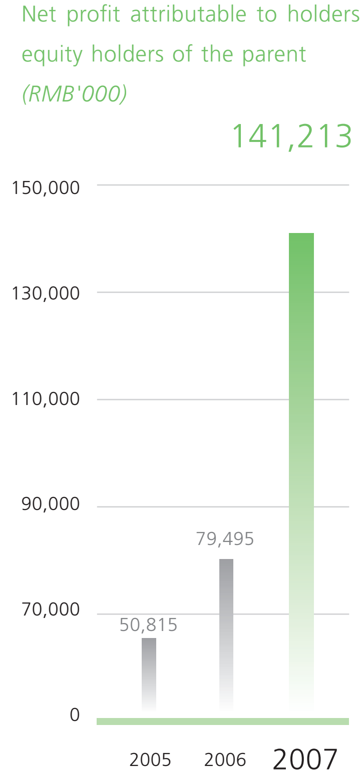
Suites 06-12, 33rd Floor
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Financial Summary

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Result				
Revenue	**683,116**	473,368	292,374	213,804
Gross profit	**299,486**	193,559	134,089	90,020
Gross profit ratio	**43.84%**	40.89%	45.86%	42.10%
Net profit attributable to equity holders of the parent	**141,213**	79,495	50,815	38,273
Financial position				
Total assets	**831,506**	477,244	303,379	247,664
Total liabilities	**360,653**	160,975	52,239	59,892
Minority interests	**65,889**	52,174	53,942	35,115
Equity attributable to equity holders of the parent	**404,964**	264,095	197,198	152,657







Chairman's Statement

On behalf of the Board of Directors (the "Board") of Shenzhen Dongjiang Environmental Company Limited* (深圳市東江環保股份有限公司) (the "Company"), I would like to present the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

REVIEW

In 2007, alone with promoting the economic growth, the PRC Government has furthered the work on environmental protection ("EP"). During this year, the "*Eleventh Five-Year Plan for National Environment Protection*" has been approved by the State Council of China. The State Environmental Protection Administration of China has stepped up several important regulations along with environmental policies successively, and formulated over 100 environmental standards and technological criteria. We are very glad to see that China's EP industry is heading into healthy and mature direction with immense business opportunities.

Since established, the Group has been focusing on the principle business of waste treatment, disposal and recycling in the EP industry, and strived to build up an image of a total environmental services provider. In the last few years, in order to capitalize the substantial market growth of EP industry, the Group has actively developed market and business in regions with strong economy and market potential, and has established a solid foothold in the Pear River Delta of China. In 2007, the Group has made outstanding development in its core businesses as a result of its proper implementation of the clear and forward-looking development strategies formulated by the Board. Accordingly, the Group recorded remarkable financial results with 44.31% increase in revenue to RMB683,116,000, and 77.64% increase in profit attributable to the equity holders the parent to 141,213,000 as compared with 2006.

In line with the strategic target of strengthening the core business of industrial solid waste treatment and disposal, the Group mainly grasped two key points. One is waste collection market, the other is waste treatment facilities. In 2007, the Group has made achievements in the both. In the aspect of market, apart from setting up four new market footholds in Guangdong Province, namely Zhongshan, Zhuhai, Qingyuan and Shaoguan, the Group has also made it presence in other three provinces of Hunan, Hubei and Hebei, which marked a significant step for the Group to entering the China's inland market. Meanwhile, the Group has continually carried on the strategy of improving services and brand to further enhance its capabilities for provision of environmental services. With unceasing effort, an efficient and robust market development team has taken shape, which contributed a lot to the expansion of the customer's base and market shares of the Group for this year.

Facing unlimited market potentials, the Group adopted the strategy of "Treatment Capacity Goes First". During the year under review, the Demonstration Center Project and Shaoguan Project have completed the construction and commenced trial operation. Meanwhile, the existing treatment bases in Shajin, Huizhou and Kunshan have also continued the expansion of facilities. Besides, Qingyuan Project and North Guangdong Treatment Project have kicked in construction successively.

As a result of the above strategies and measures, the Group posted strong and overall growth with approximately 73% and 75% increase in the waste collection and waste treatment capacity than previous year respectively. The revenue from the segment of waste treatment and recycling have increased 39.83% to RMB597,868,000 than the corresponding period of last year.

Chairman's Statement

It is another important strategy of the Group to build up an integrated business chain to acquire the first-mover advantages in the industry. In 2007, the Group has progressively developed relevant EP related fields and made breakthroughs. The notable successes include winning the bid of the Lao Hu Keng Project and acquisition of Beijing Novel Environmental Protection co., Ltd ("Beijing Novel"). The Lao Hu Keng Project is the second methane-to-energy project of the Group, which helps the Group to step forward in the field of renewable energy and procure a certain first-mover advantage. And the acquisition of Beijing Novel, which is a leading environmental consultancy and technology company headquartered in Beijing of China, reflected the Group's commitment to integrate its business chain. Through the acquisition, the Group has earned a place among the top ranks in the relevant field. And more importantly, it formed a beneficial complementary to the existing businesses of the Group to achieve overall operational integration. Meanwhile, the Group's other new projects progressed smoothly. Three electricity generating units of Xiaping Project started supplying electricity to the power grid in the first half of 2007, and two more electricity generating units are in progress and will be put into operation in 2008. The Group also obtained the permit for treatment of the kitchen waste in Shenzhen City, and has started building a pilot project with treatment capacity of 200 tons of kitchen waste per day.

Facing enormous investment opportunities in the EP industry, the Group adheres to the principle of "exerting advantages with best utilization of resources", and screens the investment projects prudently to avoid blind expansion. Apart from above projects, the Group has also bred several projects in the fields of the treatment and disposal of non-hazardous industrial waste, domestic waste and construction waste, some of which are expected to be implemented in 2008.

With the roll-up and the progress of the above projects, the Group has formed the vision of taking industrial and municipal solid waste treatment and disposal as the key development areas. This is also in line with the accelerated development of industrialization and urbanization in China. To this end, the Group continued its effort in research and development, talent reserves and operation management during the year. Especially in the aspect of human resource, the Group has taken various measures to reinforce the introducing of excellent talents, strengthen the incentive to key management and technical personnel, provide employees with better career development opportunities, which has effectively relieved the contradiction between the rapid business development and shortage of human resource.

Whilst doing better in business, the Group has always shown great enthusiasm in public welfare and been committed to corporate social responsibility. In 2007, the main activities in this area included involvement in the work of China Siyuan Foundation for Poverty Alleviation (中華思源扶貧基金會) to launch the Siyuan-Spring Project (思源甘泉計劃) which aims at relieving the water shortage in the poor mountainous areas of China by constructing well and water cellar.

Chairman's Statement

OUTLOOK

National Environmental Protection Plan of Eleventh Five-Year (the "Plan") indicates clearly developmental direction of China's EP sector in next three years. According to the Plan, up to 2010, the national daily treatment capacity of sewage and domestic waste will reach 100 million tons and increase by 240 thousand tons respectively. And the safety disposal for most of hazardous waste and medical waste will be achieved. The Plan also stresses that China will actively accelerate the development of EP industry and cultivate a batch of superior corporations and corporation groups which possess independent brands, strong technical expertise, large market shares and are able to create more employment opportunities, to promote the EP industry as a new pillar industry of national economy.

EP industry is a typical policy-oriented industry. In line with the guidelines and policies of the government as well as the existing advantage of the Group, the Board has set up the development objectives and strategies from 2008 to 2010. In the future, The Group will continually adhere to prudent, pragmatic and progressive management style, invest more in the core businesses to ensure their long term growth to enhance shareholders' value. Meanwhile, we will dedicate to build core competitiveness and improve the value of Group's brand. In addition, it is the objective we strive for to become China's leading environmental services provider and world class environmental group.

ACKNOWLEDGEMENT

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

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

20 March 2008

* *For identification purpose only*

Management Discussion and Analysis

BUSINESS REVIEW

2007 witnessed stable and rapid growth in China's economy. The Environment Protection ("EP") industry in China, developing with a fast pace, is transforming from a potential market into a material market. Just take industrial solid waste treatment market as an example, in 2006, the generation of industrial solid waste in China was solid 1.52 billion tons, an increase of 13.1% compared with 2005 and the comprehensive utilized waste was 926 million tons, which means a huge market demand. By seizing the advantages of the favorable environment and the industrial opportunities, during the year ended 31 December 2007, the Group insisted on its strategy of "extending the business chains and improving the capability of EP services provision", launched a number of projects, and made breakthroughs in aspects of business scope, market expansion, and technology research.

Continuously Consolidating the Business of Industrial Solid Waste Treatment and Disposal and Expanding the Waste Collection Market

In order to further enhance the market development and improve the network of waste collection, during the year, the Group established operation divisions in Qingyuan, Shaoguan, Zhongshan, and Zhuhai of Guangdong Province to develop the waste collection market in these regions. Meanwhile, the Group also increased the investment in various hardware and software facilities, including increasing the number of waste transporting vehicles, improving supporting facilities, enlarging market and collection team, and so on. The Group also streamlined the waste collection process according to the professional managing demand. As a result, the waste management ability of the Group was enhanced to a higher level. Through the above measures, the total amount of the industrial waste collected by the Group was increased by approximately 73% in 2007 compared with that of 2006 and the newly signed clients are over 900.

To cope with the increase in business, the Group has continuously been promoting the construction and improvement of the waste treatment and disposal facilities in each treatment bases, which mainly included: 1) Shajing Treatment Base successively commenced the project of ammonia nitrogen waste water comprehensive treatment (氨氮廢水綜合處理項目) and the copper containing waste liquid treatment expansion project (含銅廢液處理線搬遷擴改項目), the latter is listed among the national demonstration projects of recycling economy; 2) the upgraded copper and nickel treatment lines in Huizhou Treatment Base has commenced operation and the treatment capacity was increased four times than before; 3) the project in relation to moving and expansion of facilities of Kunshan Treatment Base has completed by end of 2007, and entered into the equipment installing and debugging phase. The above projects provide more guarantees for the Group's business development.

Besides the above technical improvement projects, the Group went smoothly in achieving and construction of the new projects.

Management Discussion and Analysis

Demonstration Center Project

The Guangdong Hazardous Waste Comprehensive Treatment Demonstration Center Project ("Demonstration Center Project") developed steadily in 2007. Currently, it has finished all the facility constructions and is undergoing the trial run and testing. At the same time, the market development also achieved satisfactory result in 2007. The revenue generated from this project was RMB13,576,000 for the year ended 31 December 2007.

North Guangdong Treatment Center

The North Guangdong Hazardous Waste Treatment and Disposal Center ("North Guangdong Treatment Center") is the second major project in the field of hazardous waste of treatment and disposal after the Demonstration Center Project. Located in Guangdong Shaoguan, the North Guangdong Treatment Center will serve as a large scale and full functional industrial center for hazardous waste treatment, disposal and recycling and also the exclusive hazardous waste comprehensive treatment center in north Guangdong Province. The projects in the North Guangdong Treatment Center will be developed by stages. The planned treatment capacity for phase one is about 300,000 tons per year with main facilities including: waste transportation system, physical/chemical treatment units, stabilization and solidification units, recycling and utilization lines, secure landfill and sewage treatment system.

Qingyuan Project

In order to enlarge the scale and variety of the waste treatment, the Group started building a new base in Guangdong Qingyuan for industrial waste treatment and integrated utilization ("Qingyuan Project") in the year. The Qingyuan Project is designed to perform the harmless treatment and recycling of the copper containing waste liquid, spent daylight lamp, waste printed circuit board and industrial sewage. With the planning and designing works finished and the civil works commenced, the phase one of the project is expected to be completed and put into operation in 2009.

The implementation of the above technical improvements and new projects further enhanced the Group's overall competitive strengths in the field of industrial solid waste treatment and solidified the Group's advantage and the leadership in this area.

Improving the Resource Recycling Efficiency and Promoting the Added Value of Recycled Products

As treating the waste, the Group carried forward the expertise in resource recycling in the direction of maximizing the resource utilization efficiency. So far, the Group has developed numbers of recycled products with different grades and types. Among which, crystallization type of tri-basic copper chloride ("TBCC") has reached its best quality though the consistent technical improvement. Upon receiving the new product license, TBCC became more popular in China's market, and recorded RMB96,286,000 in revenue representing 50.67% increase comparing with the same period in last year.

Management Discussion and Analysis

With the aim of promoting the added value of the recycled products, the Group started building a base for pilot projects of resource utilization in Guangdong Shaoguan in 2006. Currently, the construction of the copper recycling line has completed and passed the trial production test successfully. The product will be put into official sale in 2008.

Striving for Improvement of the Industrial Chain and Branching Out Into New Fields

Improving the industrial chain and branching out into new fields is always the direction leading us in the past and also in the future. Based on its advantage and the future's market demand, the Group identifies the municipal waste treatment as another key developing domain and has achieved some favorable progress during the year, mainly including:

Xiaping Project

The Group's first methane-to-energy project-Xiaping Landfill Gas Power Generation project ("Xiaping Project") is built in the first half of the year 2007. All the three 1MW generating units of the first phase have been put into operation and the grid-connected power generation has also been started. An order has been placed for two new generators which are estimated to put into operation in the second half of 2008. In 2007, the Xiaping Project contributed RMB5,874,000 to the revenue of the Group.

Lao Hu Keng Project

In September 2007, the Group successfully bid for Shenzhen Baoan Lao Hu Keng Landfill Methane Utilization Clean Development Mechanism ("CDM") Project ("Lao Hu Keng Project"). Now the formal agreement has been officially signed, the Group was granted the franchise of the Lao Hu Keng Project, which is the Group's second project for methane utilization and is also the first CDM project. Its implementation can help the Group in raising its competitiveness in the renewable energy business and can also provide an advantage for the Group for obtaining similar projects in the future.

Kitchen Waste Management Project

Since 1 October 2007, "Temporary Measures on Kitchen Waste Management of Shenzhen"(《深圳市餐廚垃圾管理暫行辦法》)was put into effect. The regulation stipulates that kitchen waste must be collected and processed by authorized operating entity. As one of the three authorized trial operating entities in Shenzhen, the Company is working on all preparatory work for the establishment of a pilot treatment project which is able to treat 200 tons of kitchen waste per day.

Management Discussion and Analysis

Domestic Waste Treatment Project

Domestic Waste composes the most of municipal solid waste, therefore, relevant market of domestic waste treatment is the key point in the Group's development. It is also a completely new business for the Group. To meet this challenge, the Group has made abundant planning and preparation work in terms of market investigation, technology, and talents recruiting in the past years. As a result of great efforts, in February 2008, the Group successfully secured the first domestic waste landfill project in Hunan Shaoyang with 30 years of concession right for investment, building and operation. This project marks a milestone in the Group' development history and will pave the way for the Group to further develop in the municipal solid waste industry.

Besides the above projects that have been carried out, the Group has the consistent attention and exploration on the business opportunities in other relevant environmental fields. In particular, the Group performed the investigation and study on the fields like treatment of construction waste, municipal sludge and incinerate ashes to pursue the new breakthrough in 2007.

Enhancing the Integrated EP Service Capability and Promoting the Brand Influence

Offering the customers with the complete, efficient, and reliable environmental service is the core of our career. During the year, the Group established the EP service department purposely and kept on enhancing the concept of specialty, brand and cooperation so as to further improve the customer-oriented service system. In addition, the Group has established emergency rescue teams for environmental accident in Shenzhen and Huizhou, which are capable of providing the local government with the services for environmental emergency rescue.

In order to build the overall one-stop service chain, the Group acquired an advanced environmental service company in China, namely Beijing Novel Environmental Protection Co., Ltd (北京永新環保有限公司) ("Beijing Novel"). Founded in 1994, Beijing Novel specializes in the design for municipal and EP projects, technical consultancy, environmental effect evaluation, and engineering and operation. Beijing Novel has conducted over 800 projects spanning around the whole China with excellent performance records. The Directors believe that leveraging on Beijing Novel, the Group is able to provide more comprehensive and outstanding environmental services. Beijing Novel, headquartered in Beijing, has the offices in 7 main cities in China, which also facilitate the Group to develop more markets and promote its brand's influence.

In 2007, the EP project operation sector of the Group increased its operating projects to 15 and has processed total 5,416,000 tons of industrial waste water for our clients with an increase of 32.6% as compared with 2006. This business together with other EP related services has contributed RMB69,762,000 to the revenue of the Group, representing a substantial increase than last year.

Management Discussion and Analysis

Research and Development

The Group is dedicated to strengthening the research and development ("R&D") in order to build the higher technical stage. In 2007, the R&D center of the Group launched 33 research projects covering many important fields like the integrated utilization of precious metal waste, E-waste treatment, domestic waste treatment and recycling, 27 of which have been fulfilled. The most notable is the technology of Joint-manufacturing process of nickel, copper, and manganese products from "two-ore" method (兩礦法聯產鎳銅錳工藝), which builds the technical foundation for the Group in tailings recycling and metal deep processing. Furthermore, some primary successes were also achieved in research on recycling copper powder from waste etching liquid and recovering vanadium from the vanadium containing waste. During the year, the Group completed four patents' application and two patents' technical registration, and the project "Techniques for Integrated Treatment and Utilization of Printed Circuit Board Waste Liquid and Waste Water" won the first price in Guangdong technical innovation in EP industry.

In order to strengthen the management of the technical fruits and the external cooperation and communication, the Group established the Technology Department in the beginning of 2007. The Technical Department represented the Group to participate in the various academic meeting, forum, and exhibition to communicate and cooperate in various levels with domestic and overseas counterparties. It also built up close communication with Tsinghua University, Remondis and LIPP in Germany as well as J&Y Company in US. In addition, the Group planned to establish the postdoctoral workstation so as to build a higher stage for research-to-industry and to facilitate the cooperation between universities and institutes owned enterprises. At the same time, the research fruit of the post-doctors in the workstation could be used directly to fuel the Company's innovation. And it will also help to bring in the talents in the high technical level to promote the Group's core competitiveness in the long run.

Human Resources

In order to accommodate the consistent expansion of the Group's business scope and scale, the Group has taken a series of measures to enhance the human resource ("HR") management in 2007 to meet the current and future needs:

1) for talents recruitment, multi-leveled structure for talents reserve and diversified recruitment channels are established. Within the year, the Group successfully recruited a wide range of advanced talents, some of whom are with international background, which offers a talent reserve for the Group's sustainable development;

2) for the HR development, the Group aggressively pushed forwards the building of the talents pyramid and finished building the talents structure, renewing talents database, and multi-channels of career development, so as to provide staff with more career opportunities;

Management Discussion and Analysis

3) in order to encourage and attain the talents, the Group performed an all-around salary adjustment in 2007 and implemented the yearly salary (年薪制) among the senior management. And a special employment incentive fund has been approved by the Board in 2007 to award the employees who had made outstanding contribution to the Group in the past. All these measures effectively encourage the employees and strengthened their stability;

4) the performance management was completely put into practice in the Group. All subsidiaries of the Group have built the performance managing system to ensure everyone receives performance evaluation. Besides, the Group managed to create the corporate culture of "enterprising, harmonious, and cherish", and organized hundreds of internal and external trainings for staffs, as well as the first employees' sports meeting, talent competition and some other activities, all of which enhanced the team spirit and stimulated the employees' morale.

Honors and Recognitions

In 2007, the Group worked hard on its business and received the honors and recognitions from the government and the society. The honors won by the Group during 2007 include:

- "National Advanced Enterprise in Technical Innovation and the Quality Management" awarded by National High Tech Quality Supervising Committee,

- "Guangdong Clean Production Enterprise" awarded by Guangdong Science and Technology Commission and Environmental Protection Bureau of Guangdong Province,

- "Shenzhen Leading Private Enterprise" and "100 Best Tax Paying Enterprises" awarded by Shenzhen government.

- Furthermore, the Group has been listed in "China potential 100" by Forbus China for four years successively since 2005.

SUBSTANTIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

In June 2007, the Group invested RMB1,800,000 in China to set up a 90%-owned subsidiary namely Qing Yuan Dongjiang Environmental Technology Co., Ltd. ("清遠市東江環保技術有限公司"), which principally engages in the businesses of collection, treatment and recycling of industrial hazardous waste. The purpose of this investment is to strengthen the Group's waste treatment capacity concerning the market expansion strategy of the Group in the Guangdong regions.

Management Discussion and Analysis

In June 2007, the Group invested RMB1,836,000 in the registered capital of a 51%-owned subsidiary Kunshan Kunpeng Environmental Technology Co., Ltd. (昆山市昆鵬環境技術有限公司) ("Kunpeng") along with Kunpeng's minority shareholders according to their respective shareholdings in Kunpeng.

In October 2007, the Group invested RMB4,247,000 to acquire 50% interest in Shenzhen Resource Environmental Technology Co., Ltd. (深圳市萊索思環境技術有限公司) ("Shenzhen Resource"), making it become one of the subsidiaries of the Group. Shenzhen Resource is mainly engaged in the lead contained waste treatment and recycling, production and sales of ferric chloride and trial basic lead sulfate. This investment will allow the Group to leverage on Shenzhen Resource's facilities and business network to increase its waste treatment capacity and the variety of recycled products.

In December 2007, the Group invested RMB2,090,000 to establish a 95%-owned subsidiary namely Hunan Dongjiang Environmental Investment & Development Co., Ltd. (湖南東江環保投資發展有限公司) in the PRC. Hunan Dongjiang will be mainly responsible for the development of the EP market in Hunan Province.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2007, the Group's revenue was increased by approximately 44.31% to RMB683,116,000 as compared to 2006 (2006: RMB473,368,000). The increase of revenue mainly result from the growth of waste treatment business and sales of recycled products, which recorded an increase of 39.83% to RMB597,868,000 as compared to last corresponding figure (2006: RMB427,569,000).

Profit

For the year ended 31 December 2007, the Group's gross profit increased by 54.73% to RMB299,486,000 (2006: RMB193,559,000). The growth was mainly due to the increase in the revenue of the Group.

During the year ended 31 December 2007, the Group's consolidated gross profit margin increased from 40.89% in 2006 to 43.84% in 2007. The growth was mainly attributable to the expanding sale of recycled products and collection of industrial solid waste.

Selling and Distribution Costs

During the year under review, the Group's selling and distribution costs was approximately RMB31,875,000 (2006: RMB29,613,000), represented 4.67% (2006: 6.26%) of the total revenue.

Management Discussion and Analysis

Administrative Expenses

For the year ended 31 December 2007, the Group's administrative expenses was approximately RMB109,209,000 (2006: RMB47,828,000), represented a 15.99% (2006: 10.10%) of the total revenue.

The substantial increase in the administrative expenses mainly due to the expanding business scale and the further investment in employment.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2007, the Group had net current assets of RMB182,224,000 (2006: RMB124,620,000), including bank balances and cash of RMB250,996,000 (2006: RMB145,783,000).

As at 31 December 2007, the Group had total liabilities of RMB360,653,000 (2006: RMB161,428,000). The Group's gearing ratio was approximately 43.37% (2006: 33.79%) which is calculated based on the Group's total liabilities over total assets. The current liabilities of the Group was approximately RMB276,903,000 (2006: RMB151,428,000). As at 31 December 2007, the Group had outstanding bank loans of RMB134,800,000 (2006: RMB39,000,000), at interest rates from 7.0965% to 8.4564% and the base rate published by the People's Bank of the China less 5% to 10% (2006: 5.580%) per annum.

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

INTEREST RATE AND EXCHANGE RISK

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

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

Management Discussion and Analysis

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

Currency risk

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

PLEDGE OF ASSETS

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

	2007	2006
	RMB'000	*RMB'000*
Other current assets	**–**	24,000
Property, plant and equipment	**6,234**	–
Prepaid lease payments on land use rights	**4,183**	–
Bank deposits	**10,842**	–
	21,259	24,000

INFORMATION ON EMPLOYEES

At 31 December 2007, the number of full-time employees stood at 1,256 (2006: 986) with a total staff cost of the year ended 31 December 2007 of approximately RMB59,441,000 (2006: RMB24,170,000). The Group offered continuing training, remuneration package of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

CONTINGENT LIABILITIES

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

Other than as disclosed above, the Group had no significant contingent liabilities at 31 December 2007 and 2006.

Management Discussion and Analysis

CAPITAL COMMITMENT

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

	2007	2006
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**10,249**	3,884
Construction in progress	**79,824**	31,542
Addition capital injection in a subsidiary	**7,410**	–
Acquisition of a subsidiary	**100,000**	–
	197,483	35,426

FUTURE PROSPECTS

The next two to five years is the key period for the Group to make leap-forward development, for which the Group has identified its mid-term development direction and objectives to develop in the fields of industrial and municipal solid waste treatment and disposal. In 2008, the Group will continue to carry out the initiatives that will drive the businesses. We will further increase commitment to the core businesses, expand operation scale and broaden business scopes to enable the Group to compete on a completely new level. Having identified the development direction target, the Group will optimize the operational structure by executing professional and lean management. Meanwhile, a more efficient incentive system will be established to develop the potential and creativity of each employee in order to build a high quality team that can support the Group's long term and sustainable development.

In the field of industrial solid waste industry, the Group will emphasis on the market development in North and West Guangdong areas by adding more operation bases into the existing network to cover most relatively developed regions of Guangdong Province. The Group will rapidly speed up the construction of North Guangdong Treatment Center and Qingyuan Project, while pursuing one or two more franchised hazardous waste disposal projects. At the same time, we will step up the effort to capture the business opportunities in the inland of China by securing more new projects. Moreover, the Group will consistently upgrade and expand the waste treatment and recycling facilities and extend range of the recyclable resources. Particularly, leveraging on its technical achievements and advantages, the Group will focus on the utilization of tailings and recycling of more kinds of metals.

Management Discussion and Analysis

Meanwhile, the Group will put more resources on the development in the field of municipal waste industry in 2008. Firstly, we will ensure the successes of the operation and expansion of Xiaping Project, while building the Lao Hu Keng Project with the same or more advanced standards. Leveraging on the experiences from these two projects, we will strive for more methane-to-energy projects around the nation to establish the competitive advantages in this area. Secondly, for the brand new business of domestic waste treatment, we will principally explore in small and medium cities. The target for 2008 is to obtain two or more domestic waste landfill or incineration projects to pave the stepping stone for the Group's further development in this area. In addition, the Group will enthusiastically lobby with the local governments for its total solution to the municipal solid waste. If adopted and implemented, it will not only provide a new pattern for the municipal waste management, but will also create a new business model for the Group. We expect the above initiatives will help the Group to earn a foothold in the municipal solid waste industry and make it one of the core businesses to develop into a new source of revenue for the Group in the long run.

In the coming year, the Group will further develop the technical innovation system to strengthen the independent innovation ability of the Group. To this end, the R&D Center has identified ten key research areas to develop. Meanwhile, the Group will also emphasis on the establishment of a multiple-level technical and research system including base R&D centers, Environmental Science Research and Application Technology Development Center, Central Analysis and Testing Center, and postdoctoral workstation, which are expected to provide solid foundation for the Group's business development and realization of the overall strategic objectives.

Management Profile

DIRECTORS

Executive Directors

ZHANG Wei Yang (張維仰), aged 42, 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 5 years in Shenzhen environmental protection authorities and 6 years in Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. (深圳市方元化工實業有限公司) ("Shenzhen Fang Yuan"). Mr. Zhang is currently a committee member of the Association for High and New Technology Industry of Shenzhen (深圳市新技術產業高協會) and a committee member of the Association for Environmental Protection Industry of Shenzhen (深圳市環保產業協會).

CHEN Shu Sheng (陳曙生), aged 40, 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 33, is an executive director and is 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 40, 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 41, 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.

Management Profile

SUN Ji Ping (孫集平), aged 51, is a non-executive director and an investment manager of China Venture Capital Inc. (中國風險投資有限公司). Ms. Sun graduated from the Beijing Television Broadcast University specializing in Chinese and obtained a Diploma in economics from the Capital University of Economics & Trade (首都經貿大學) in 2002. She worked with China Petroleum and Chemical Group Limited (中國石油化學工業部) for about three years and with Petrochina Group Limited (中國石油天然氣集團公司) for over 20 years.

Independent non-executive Directors

MENG Chun (孟春), aged 50, 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 37, 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 45, 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 37, 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.

Management Profile

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

ZHOU Xiu Hong (周秀紅), aged 31, was a supervisor of the Company. She has been working in the accounting department of the Company since 1999. Ms. Zhou has over 7 years of experience in the field of finance and accounting.

QUALIFIED ACCOUNTANT

TSANG Wan Sing (曾穩成), aged 38, 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 44, 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

Liu Fu Qiang (**劉富強**), aged 35, was appointed as the deputy general manager of the Group in March 2007 in charge of the technology research and development. Mr. Liu obtained doctor's degree in environmental engineering from from Tsinghua University. He has over six years of experience in research & development and management of solid waste pollution control.

Cao Ting Wu (**曹庭武**), aged 42, was appointed as the deputy general manager of the Group in March 2007 in charge of financial management and capital planning. Mr. Cao graduated in statistics from Jiang Xi University of Finance and Economics (江西財經大學), and obtained degree of MBA in Finance from Chinese University of Hong Kong. Mr. Cao has 19 years of experience in financial management.

Management Profile

CAI Hong（蔡虹）, aged 32, 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 49, 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 31, is the secretary of the Board. Ms. Wang joined the Group in March 2002. She graduated from Zhongshan University in 1999 majoring in international finance and obtained a master degree in economics from University of Birmingham of United Kingdom. Ms. Wang has over 6 years of experience in the field of investment and management.

Directors' Report

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2007.

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 39 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The result of the Group for the year ended 31 December 2007 are set out in the consolidated income statements on page 37.

DIVIDENDS

The Board did not recommend the payment of any dividend for the year ended 31 December 2007 (2006: Nil).

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital are set out in note 32 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.

Directors' Report

PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB250,681,000. 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 23.99% of the total sales for the year and sales to the largest customer included therein amounted to 5.77%. Purchases from the Group's five largest suppliers accounted for approximately 22.71% 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 18 to 21 of the annual report.

Directors' Report

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

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

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

At 31 December 2007, 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:

Directors' Report

Long positions in ordinary shares of the Company:

Name	Capacity	Number and class of shares	Percentage of shareholding in this class
Mr. Zhang Wei Yang	Beneficial owner	233,651,966 domestic shares	51.98%
Mr. Li Yong Peng	Interest of a controlled corporation	35,389,750 domestic shares *(Note 1)*	7.87%
Mr. Chen Shu Sheng	Interest of a controlled corporation	15,389,750 domestic shares *(Note 2)*	3.42%

Notes:

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

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

Save as disclosed above, as at 31 December 2007, 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.

Directors' Report

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

At 31 December 2007, the following persons (other than the directors or chief executive of the Company) had interests of 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholders	Capacity 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%
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services *(Note 3)*	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environmental Fund 2002, LP	Beneficial Owner	11,500,000 H shares	6.46%

Notes:

1. Shanghai News Margin Venture Capital Co., Ltd is owned as to 25% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, as to 25 % by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 50% equally held by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowth Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the directors, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.

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

3. Leading Environmental Solutions and Services 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.

Directors' Report

Save as disclosed above, as at 31 December 2007, 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 2007, 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 2007, none of the Directors, supervisors and chief executives of the Company had any rights to acquire H share in the Company.

SHARE OPTION SCHEME

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

CONNECTED AND RELATED PARTY TRANSACTIONS

Non-exempted Continuing Connected Transaction

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

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

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

Connected Transaction in relation to Acquisition of Interest

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

Directors' Report

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

AUDITORS

The consolidated financial statements for the years ended 31 December 2005 to 2007 were audited by SHINEWING (HK) CPA Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint them as auditors of the Company.

ON BEHALF OF THE BOARD
Shenzhen Dongjiang Environmental Company Limited*

Zhang Wei Yang
Chairman
Shenzhen, Guangdong Province, the PRC
20 March 2008

* *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(s)") in accordance with the relevant provisions of the PRC Company Law and the requirement of the relevant laws and regulations of Hong Kong and Articles of Association of the Company (the "Articles").

On 20 March 2008, the Supervisory Committee convened a Meeting, which the 2007 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
20 March 2008

* *For identification purpose only*

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high level of 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 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 2007.

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 18 to 21 of this Annual report.

Corporate Governance Report

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

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

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

Name of directors	**Attendance/Number of meetings held**
Executive Directors	
Mr. Zhang Wei Yang *(Chairman)*	16/16
Mr. Chen Shu Sheng	16/16
Mr. Li Yong Peng	16/16
Non-executive Directors	
Mr. Feng Tao *(Vice Chairman)*	16/16
Mr. Wu Shui Qing	16/16
Ms. Sun Ji Ping	16/16
Independent Non-executive Directors	
Mr. Meng Chun	16/16
Mr. Wang Ji Wu	16/16
Mr. Yang Zhi Feng	16/16
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.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NOMINATION, ELECTION AND RE-ELECTION OF DIRECTORS

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

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

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

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

AUDIT COMMITTEE

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

The audit committee comprises three independent non-executive Directors, namely Messrs. Meng Chun, Wang Ji Wu and Yang Zhi Feng. The audit committee has reviewed the Company's financial statements for the year ended 31 December 2007 and has provided advice and comments thereon.

Corporate Governance Report

The principle responsibilities of the Audit Committee include:

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

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

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

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 responsibility 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.

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

Corporate Governance Report

AUDITORS' REMUNERATION

The remuneration in respect of audit services provided by the auditors, SHINEWING (HK) CPA Limited, to the Company in the year 2007 amounted to RMB500,000. There is no non-audit service provided by the auditors in the year 2007.

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. Each month the executive directors meet with management of subsidiaries and individual businesses to review monthly operating performance and address potential business risks and countermeasures.

The Company has established internal audit function to ensure the effectiveness of internal control system, as well as identify and prevent the potential risk. The head of internal audit submits working reports and recommendations on a regular basis to the executive directors. In 2007, the interim and annual internal control assessment reports were submitted to the Board, and no major issues have been identified.

Independent Auditor's Report

信永中和
ShineWing

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

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

We have audited the consolidated financial statements of Shenzhen Dongjiang Environmental Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 108, which comprise the consolidated balance sheet as at 31 December 2007 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

Independent Auditor's Report

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 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 the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Tam Kwok Ming, Banny
Practising Certificate Number: P03289
Hong Kong
20 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	7	**683,116**	473,368
Cost of sales		**(383,630)**	(279,809)
Gross profit		**299,486**	193,559
Other income		**24,484**	10,055
Selling and distribution costs		**(31,875)**	(29,613)
Administrative expenses		**(109,209)**	(47,828)
Other operating expenses		**(19,040)**	(29,158)
Finance costs	9	**(3,113)**	(541)
Share of results of associates		**(71)**	(7)
Profit before tax	11	**160,662**	96,467
Income tax expenses	12	**(15,964)**	(10,812)
Profit for the year		**144,698**	85,655
Attributable to:			
Equity holders of the parent		**141,213**	79,495
Minority interests		**3,485**	6,160
		144,698	85,655
Dividends	13		
Proposed final		**–**	–
Earnings per share	14		
Basic		**RMB0.2251**	RMB0.1267
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	15	**322,556**	173,209
Investment properties	16	**3,896**	2,914
Prepaid lease payments	17	**34,252**	22,175
Goodwill	18	**–**	–
Intangible assets	19	**329**	160
Available-for-sale investment	20	**1,800**	–
Interests in associates	21	**679**	393
Deferred tax assets	22	**8,867**	2,798
		372,379	201,649
Current assets			
Inventories	23	**54,935**	34,793
Amounts due from customers for contract works	24	**3,154**	453
Trade and other receivables	25	**139,603**	70,544
Prepaid lease payments	17	**752**	475
Investments held for trading	26	**9,687**	–
Other current assets	27	**–**	24,000
Bank balances and cash	28	**250,996**	145,783
		459,127	276,048
Current liabilities			
Trade and other payables	29	**210,120**	96,250
Amounts due to customers for contract works	24	**219**	12,688
Income tax payable		**4,264**	3,490
Interest-bearing bank borrowings	30	**62,300**	39,000
		276,903	151,428
Net current assets		**182,224**	124,620

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Total assets less current liabilities		**554,603**	326,269
Non-current liabilities			
Deferred revenue	31	**11,250**	10,000
Interest-bearing bank borrowings	30	**72,500**	–
		83,750	10,000
		470,853	316,269
Capital and reserves			
Share capital	32	**62,738**	62,738
Reserves	33	**342,226**	201,357
Equity attributable to equity holders of the parent		**404,964**	264,095
Minority interests		**65,889**	52,174
Total equity		**470,853**	316,269

The consolidated financial statements on pages 37 to 108 were approved and authorised for issue by the Board of Directors on 20 March 2008 and are signed on its behalf by:

Zhang Wei Yang
Director

Li Yong Peng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the parent								
	Share capital	Share premium	Reserve funds	Translation reserve	Retained earnings	Dividend reserve	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 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)
At 31 December 2006 and 1 January 2007	62,738	30,309	45,984	(50)	125,114	–	264,095	52,174	316,269
Profit for the year	–	–	–	–	141,213	–	141,213	3,485	144,698
Transfer from retained earnings	–	–	15,646	–	(15,646)	–	–	–	–
Contribution from minority shareholders	–	–	–	–	–	–	–	9,913	9,913
Disposal of a subsidiary	–	–	–	–	–	–	–	(7)	(7)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	(4,842)	(4,842)
Acquisition of subsidiaries	–	–	–	–	–	–	–	5,166	5,166
Exchange differences arising on translation of foreign operations	–	–	–	(344)	–	–	(344)	–	(344)
At 31 December 2007	62,738	30,309	61,630	(394)	250,681	–	404,964	65,889	470,853

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**160,662**	96,467
Adjustments for:			
Amortisation of intangible assets		**21**	35
Allowance for bad and doubtful debts of other receivables		**2,068**	2,066
Allowance for bad and doubtful debts of trade receivables		**5,505**	–
Allowance for slow-moving inventories		**–**	86
Amortisation of prepaid lease payments		**677**	790
Change in fair value on investment properties		**(982)**	101
Depreciation of property, plant and equipment		**20,932**	15,649
Discount on acquisition of additional interests in subsidiaries		**(1,842)**	(2,551)
Discount on acquisition of a subsidiary	*34b*	**(918)**	–
Finance costs		**3,113**	541
Foreign exchange gain		**–**	(50)
Gain on disposal of a subsidiary	*35*	**(284)**	–
(Gain) loss on disposal of property, plant and equipment		**(339)**	98
Gain on disposals of investment held for trading		**(9,812)**	(741)
Increase in fair value of investment held for trading		**(4,408)**	–
Interest income		**(2,480)**	(786)
Impairment loss on goodwill		**9,750**	–
Impairment loss on intangible assets		**160**	–
Impairment loss on property, plant and equipment		**7,217**	17,008
Recovery of allowance for bad and doubtful debts of other receivables		**(1,000)**	(200)
Recovery of allowance for bad and doubtful debts of trade receivables		**–**	(559)
Share of results of associates		**71**	7
Operating cash flows before movements in working capital		**188,111**	127,961
Increase in inventories		**(11,847)**	(16,357)
(Increase) decrease in amounts due from customers for contract works		**(2,701)**	2,415
Increase in trade and other receivables		**(58,123)**	(3,752)
Increase in trade and other payables		**52,665**	50,312
(Decrease) increase in amounts due to customers for contract works		**(12,469)**	12,688
Increase in deferred revenue		**1,250**	7,459

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Cash generated from operations		**156,886**	180,726
Income taxes paid		**(21,259)**	(10,794)
NET CASH FROM OPERATING ACTIVITIES		**135,627**	169,932
INVESTING ACTIVITIES			
Acquisition of subsidiaries	34	**26,777**	–
Decrease (increase) in other current assets		**24,000**	(24,000)
Proceeds from disposals of investment held for trading		**19,401**	70,741
Proceeds from disposal of property, plant and equipment		**2,997**	771
Interest received		**2,480**	786
Purchases of property, plant and equipment		**(174,273)**	(101,597)
Increase in guarantee deposit for tendering		**(7,447)**	(610)
Purchase of investment held for trading		**(14,868)**	(65,000)
Purchase of prepaid lease payments		**(13,031)**	(5,493)
Increase in pledged bank deposit		**(10,842)**	–
Purchase of additional interests in subsidiaries		**(4,300)**	(2,060)
Purchase of available-for-sale investment		**(1,800)**	–
Purchase of intangible assets		**(350)**	–
Proceeds from disposal of a subsidiary	35	**(13)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(151,269)**	(126,462)
FINANCING ACTIVITIES			
New bank loans raised		**183,600**	39,000
Contributions by minority shareholders		**9,913**	6,859
Repayments of bank loans		**(87,800)**	(3,000)
Interest paid		**(3,113)**	(541)
Dividends paid		**–**	(12,548)
Dividends paid to minority shareholders		**–**	(10,176)
NET CASH FROM FINANCING ACTIVITIES		**102,600**	19,594
NET INCREASE IN CASH AND CASH EQUIVALENTS		**86,958**	63,064
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**143,073**	80,009
EFFECT OF CHANGE IN FOREIGN RATE CHANGES		**(34)**	–
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**229,997**	143,073

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

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

The consolidated financial statements are presented in Renminbi ("RMB"), 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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment, interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for Group's financial year beginning 1 January 2007.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Interpretation ("INT") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position 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 and revised standards or interpretations that have been issued but are not yet effective.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKFRS 8	Operating Segments	1 January 2009
HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK (IFRIC) – INT 12	Service Concession Arrangements	1 January 2008
HK (IFRIC) – INT 13	Customer Loyalty Programmes	1 July 2008
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2008

The Group has considered these standards and interpretations but does not expect that the application of these standards or interpretations will have material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

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

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

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

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

Purchase of additional interests in subsidiaries

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

Interests in associates

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

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

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

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

Revenue recognition

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

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

Waste treatment income is recognised when services are rendered.

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

Consultation service income is recognised when services are rendered.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over its estimated useful life. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

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

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

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

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

Inventories

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

Construction contracts

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

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

The Group as lessor

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

The Group as lessee

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.

Leasehold land and building

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 defined contribution retirements benefit or state-managed retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

Borrowing costs

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

Government grants

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial asset at FVTPL, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Charges in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at each time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

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

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

Equity instruments

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

Derecognition

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying the entity's accounting policies

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

Construction contracts

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

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

Impairment of property, plant and equipment

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 is 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

Key sources of estimation uncertainty (Continued)

Allowances for bad and doubtful debts of receivables

The policy for allowance of bad and doubtful debts of receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is fully impaired which amounting to RMB9,750,000. Details are disclosed in Note 18a.

Amortisation of technical know-how

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

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 30, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

Financial assets

	2007	2006
	RMB'000	*RMB'000*
Financial assets at fair value through profit and loss	**9,687**	–
Loans and receivables (including cash and cash equivalents)	**359,264**	237,474
Available-for-sale financial assets	**1,800**	–

Financial liabilities

	2007	2006
	RMB'000	*RMB'000*
Financial liabilities measured at amortised cost	**309,883**	127,078

6b. Financial risk management objectives and policies

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

Currency risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and policies (Continued)

Currency risk (Continued)

The following table shows the Group's exposure at the balance sheet date to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the function currency of the entity to which they relate.

	As at 31 December 2007			As at 31 December 2006		
	EURO'000	***USD'000***	***HKD'000***	*EURO'000*	*USD'000*	*HKD'000*
Assets	**1,233**	**1,192**	**3,899**	–	–	3,598
Liabilities	**907**	**–**	**–**	–	–	–

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

Sensitivity analysis

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

	Euro		**USD**		**HKD**	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Increase (decrease) in profit for the year						
– if RMB weakens against foreign currencies	**155**	–	**435**	–	**207**	193
– if RMB strengthens against foreign currencies	**(155)**	–	**(435)**	–	**(207)**	(193)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and policies (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 30 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 30 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by RMB525,000 (2006: Nil). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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

Other price risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and policies (Continued)

Sensitivity analysis

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

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

	2007	2006
	RMB'000	*RMB'000*
Increase (decrease) in profit for the year		
– as a result of increase in equity price	**484**	–
– as a result of decrease in equity price	**(484)**	–

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (Continued)

6b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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

Liquidity and interest risk tables

	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007					
Non-derivative financial liabilities					
Trade and other payables	210,120	–	–	210,120	210,120
Bank borrowings	69,801	15,157	72,021	156,979	134,800
	279,921	15,157	72,021	367,099	344,920
2006					
Non-derivative financial liabilities					
Trade and other payables	96,250	–	–	96,250	96,250
Bank borrowings	39,255	–	–	39,255	39,000
	135,505	–	–	135,505	135,250

6c. Fair value

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

7. REVENUE

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

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

	2007	2006
	RMB'000	*RMB'000*
Sales of recycled products and the provision of waste treatment services	**597,868**	427,569
Revenue from construction and operation of environmental protection systems	**69,762**	25,881
Trading of chemical products	**15,486**	19,888
Consultation service income	**–**	30
	683,116	473,368

8. 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 PRC; and

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. 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	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
REVENUE										
External sales	**597,868**	427,569	**69,762**	25,881	**15,486**	19,888	**–**	30	**683,116**	473,368
RESULT										
Segment results	**153,138**	100,652	**(4,988)**	1,161	**6,008**	2,540	**–**	(4)	**154,158**	104,349
Unallocated operating income and expenses									**9,688**	(7,334)
Finance costs									**(3,113)**	(541)
Share of results of associates									**(71)**	(7)
Profit before tax									**160,662**	96,467
Income tax expenses									**(15,964)**	(10,812)
Profit for the year									**144,698**	85,655
OTHER INFORMATION										
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	**19,605**	15,088	**1,939**	926	**65**	416	**–**	9	**21,609**	16,439
Recovery of allowance for bad and doubtful debts of trade receivables	**–**	(553)	**–**	–	**–**	(6)	**–**	–	**–**	(559)
Recovery of allowance for bad and doubtful debts of other receivables	**(1,000)**	–	**–**	(200)	**–**	–	**–**	–	**(1,000)**	(200)
Impairment loss on property, plant and equipment	**7,217**	17,008	**–**	–	**–**	–	**–**	–	**7,217**	17,008
Allowance for bad and doubtful debts of other receivables	**2,068**	2,066	**–**	–	**–**	–	**–**	–	**2,068**	2,066

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. SEGMENT INFORMATION (Continued)

	Production and sales of recycled products and the provision of waste treatment services		Construction and operation of environmental protection systems		Trading of chemical products		Consultation service		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Allowance for bad and doubtful debts of trade receivables	**5,065**	–	**–**	–	**440**	–	**–**	–	**5,505**	–
Allowance for slow-moving inventories	**–**	–	**–**	86	**–**	–	**–**	–	**–**	86
Impairment loss on goodwill	**1,300**	–	**8,450**	–	**–**	–	**–**	–	**9,750**	–
(Gain) loss on disposal of property, plant and equipment	**(127)**	98	**(195)**	–	**(17)**	–	**–**	–	**(339)**	98
Impairment loss on intangible assets	**160**	–	**–**	–	**–**	–	**–**	–	**160**	–
Discount on acquisition of additional interests in subsidiaries	**(1,842)**	(2,551)	**–**	–	**–**	–	**–**	–	**(1,842)**	(2,551)
Discount on acquisition of a subsidiary	**(918)**	–	**–**	–	**–**	–	**–**	–	**(918)**	–
Capital expenditure of property, plant and equipment and prepaid lease payments	**150,783**	107,090	**36,114**	–	**407**	–	**–**	–	**187,304**	107,090

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8. 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	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS										
Segment assets	**395,119**	457,375	**400,508**	7,454	**14,846**	9,289	**–**	388	**810,473**	474,506
Interests in associates									**679**	393
Unallocated assets									**20,354**	2,798
Consolidated total assets									**831,506**	477,697
LIABILITIES										
Segment liabilities	**107,327**	92,750	**97,119**	14,623	**5,893**	1,200	**–**	365	**210,339**	108,983
Unallocated liabilities									**150,314**	52,490
Consolidated total liabilities									**360,653**	161,428

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

9. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**3,113**	541

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

10. 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:

	2007	2006
	RMB'000	*RMB'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**3,026**	478
Retirement benefits scheme contributions	**26**	10
	3,052	488

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

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

The remuneration of each director and supervisor of the Company for the years ended 31 December 2007 and 2006, disclosed pursuant to the GEM Listing Rules, is set out below:

For the year ended 31 December 2007

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

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

For the year ended 31 December 2006

	Other emoluments		
Name	**Salaries, allowance and benefits in kind** *RMB'000*	**Retirement benefits scheme contributions** *RMB'000*	**Total** *RMB'000*
Executive directors:			
Zhang Wei Yang	–	–	–
Li Yong Peng	120	–	120
Chen Shu Sheng	178	10	188
	298	10	308
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	478	10	488

There was no arrangement under which directors or supervisors waived or agreed to waive any emoluments in the years ended 31 December 2007 and 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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

(b) Employees' emoluments

Details of the five highest paid individuals included two directors (2006: two directors), whose emoluments are set out above. The emoluments of the remaining three (2006: three) highest paid individuals were as follows:

	2007	2006
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**460**	432
Retirement benefits scheme contributions	**15**	30
	475	462

Their emoluments were within the following bands:

	No. of employees	
	2007	2006
Nil to RMB1,000,000	**3**	3

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

11. PROFIT BEFORE TAX

	2007 RMB'000	2006 RMB'000
Profit before tax has been arrived at after charging/(crediting):		
Staff costs including directors' emoluments *(Note 10(a))*:		
– Salaries, wages and other benefits	**56,399**	22,488
– Retirement benefits scheme contributions	**3,042**	1,682
Total staff costs	**59,441**	24,170
Amortisation of intangible assets (included in other operating expenses)	**21**	35
Amortisation of prepaid lease payments	**677**	790
Auditors' remuneration	**500**	440
Allowance for bad and doubtful debts of other receivables (included in administrative expenses)	**2,068**	2,066
Allowance for slow-moving inventories	**–**	86
Allowance for bad and doubtful debts of trade receivables (including in administrative expenses)	**5,505**	–
Cost of inventories recognised as an expense	**383,630**	279,809
Depreciation of property, plant and equipment	**20,932**	15,649
Impairment loss on intangible assets (including in other operating expenses)	**160**	–
Impairment loss on goodwill (included in other operating expenses)	**9,750**	–
Impairment loss on property, plant and equipment (included in other operating expenses)	**7,217**	17,008
(Gain) loss on disposal of property, plant and equipment	**(339)**	98
Minimum lease payments under operating leases: Office premises, plant and staff quarters	**2,565**	1,336
Research and development costs	**3,236**	9,213
Change in fair value on investment properties	**(982)**	101
Discount on acquisition of additional interests in subsidiaries	**(1,842)**	(2,551)
Discount on acquisition of a subsidiary	**(918)**	–
Gain on disposal of a subsidiary	**(284)**	–
Gain on disposal of investment held for trading	**(9,812)**	(741)
Increase in fair value of investment held for trading	**(4,408)**	–
Interest income	**(2,480)**	(786)
Net rental income	**(142)**	(142)
Recovery of allowance for bad and doubtful debts of other receivables	**(1,000)**	(200)
Recovery of allowance for bad and doubtful debts of trade receivables	**–**	(559)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. INCOME TAX EXPENSE

The Company is located in the Shenzhen Special Economic Zone and subject to the PRC enterprise income tax at a rate of 15% (2006: 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% (2006: 7.5%).

The subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC enterprise income tax at a rate of 15% (2006: 15%). Subsidiaries located in other cities are subject to the PRC enterprise income tax at a rate of 33% (2006: 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 enterprise income tax for two years commencing from their first profit-making year, followed by a 50% tax reduction for the next three years.

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

The subsidiary established in Hong Kong 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 any assessable profit for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. INCOME TAX EXPENSE (Continued)

	2007 RMB'000	2006 RMB'000
PRC Enterprise Income Tax		
– Current	**21,796**	13,524
– Under-provision in prior years	**237**	–
	22,033	13,524
Deferred taxation *(Note 22)*		
– Current	**(3,433)**	(2,712)
– Attributable to a change in tax rate	**(2,636)**	–
	(6,069)	(2,712)
	15,964	10,812

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

	2007 RMB'000	2006 RMB'000
Profit before tax	**160,662**	96,467
Tax at the applicable income tax rate	**24,353**	14,256
Tax effect of expenses that not deductible in determining taxable profit	**4,414**	3,192
Tax effect of income that not taxable in determining taxable profit	**(891)**	(1,161)
Tax effect of temporary difference previously not recognised	**–**	(1,102)
Tax effect of tax losses and temporary difference not recognised	**64**	515
Effect on change in tax rate	**(2,636)**	–
Under-provision in respect of prior years	**237**	–
Income tax on concessionary rate	**(9,577)**	(4,888)
Income tax expense for the year	**15,964**	10,812

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

13. DIVIDENDS

The Board does not recommend any dividend for the year ended 31 December 2007 (2006: Nil).

14. 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 RMB141,213,000 (2006: RMB79,495,000), and the weighted average of 627,381,872 (2006: 627,381,872) ordinary shares in issue during the year.

No diluted earnings per share have been presented for the two years ended 31 December 2007 and 2006 as there were no diluting events existed during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Leasehold improve–ments	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 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 and 1 January 2007	48,813	50,063	1,869	4,651	18,449	8,141	101,755	233,741
Additions	10,297	7,196	–	2,751	10,392	8,035	135,602	174,273
Acquired on acquisition of subsidiaries	1,844	3,185	–	2,016	3,130	399	–	10,574
Transfers	43,789	93,592	–	–	–	3,883	(141,264)	–
Disposals	–	(638)	–	(316)	(3,002)	(25)	–	(3,981)
Disposal of subsidiary	–	–	–	(102)	–	(3)	–	(105)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings	Plant and machinery	Leasehold improve-ments	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007	104,743	153,398	1,869	9,000	28,969	20,430	96,093	414,502
DEPRECIATION AND IMPAIRMENT LOSS								
At 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 and 1 January 2007	12,898	30,448	1,702	2,640	7,798	5,046	–	60,532
Provided for the year	2,931	10,817	31	984	3,833	2,336	–	20,932
Acquired on acquisition of subsidiaries	446	1,404	–	1,457	1,194	178	–	4,679
Eliminated on disposals	–	(490)	–	(261)	(554)	(18)	–	(1,323)
Eliminated on disposal of subsidiaries	–	–	–	(88)	–	(3)	–	(91)
Impairment loss recognised	4,312	1,653	–	10	–	613	629	7,217
At 31 December 2007	20,587	43,832	1,733	4,742	12,271	8,152	629	91,946
CARRYING VALUES								
At 31 December 2007	84,156	109,566	136	4,258	16,698	12,278	95,464	322,556
At 31 December 2006	35,915	19,615	167	2,011	10,651	3,095	101,755	173,209

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

As at 31 December 2007, the property usage permits of certain land and buildings have not been granted by relevant government authorities with the aggregate carrying values approximately of RMB16,538,000 (2006: RMB17,299,000). In the opinion of the directors, the absence of property usage permits to these land and buildings does not impair the value of the relevant land and buildings to the Group. The directors also believe that property usage permits to these land and buildings will be granted to the Group in due course.

During the year, the directors conducted a review of the Group's property, plant and machinery and determined that certain of the Company of the assets were impaired due to physical damage and obsolescence. Accordingly, an impairment loss of approximately RMB7,217,000 (2006: RMB17, 008,000) has been recognised in the consolidated income statement on the basis of their value in use.

16. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At 1 January 2006	3,015
Net decrease in fair value	(101)
At 31 December 2006 and 1 January 2007	2,914
Net increase in fair value	982
At 31 December 2007	3,896

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

16. 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 2007 have been arrived at on the basis of a valuation carried out on that date by Shenzhen Guozhonglian Assets Evaluation Land & Real Estate Price Evaluation & Consulting Co., Ltd. ("Shenzhen Guozhonglian") independent qualified professional valuers not connected with the Group. Shenzhen Guozhonglian 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 of which a director of the Company is a shareholder. Further details of which are included in Note 40.

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.

17. PREPAID LEASE PAYMENTS

	2007	2006
	RMB'000	*RMB'000*
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in PRC	**35,004**	22,650
Analysed for reporting purposes as:		
Current asset	**752**	475
Non-current asset	**34,252**	22,175
	35,004	22,650

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

18. GOODWILL

	2007
	RMB'000
COST	
At 1 January 2006 and 31 December 2006	–
Arising on acquisition of a subsidiary	8,450
Arising on acquisition of remaining equity interest of a subsidiary	1,300
At 31 December 2007	9,750
IMPAIRMENT	
At 1 January 2006 and 31 December 2006	–
Impairment loss recognised during the year	9,750
At 31 December 2007	9,750
CARRYING VALUES	
At 31 December 2007	–
At 31 December 2006	–

Particulars regarding impairment testing on goodwill are disclosed in 18a.

18a. IMPAIRMENT TESTING ON GOODWILL

The goodwill arising from the acquisition of a subsidiary, Beijing Novel Environmental Protection Co., Ltd. ("Beijing Novel") and the acquisition of remaining equity interest of Chengdu Hazardous Waste Treatment Centre Co. Ltd. ("Chengdu Treatment Centre") have been allocated to the respective two subsidiaries.

The directors of the Company are of the opinion that the goodwill is unlikely to be recovered, therefore full impairment losses of RMB9,750,000 were recognised during the year ended 31 December 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

19. INTANGIBLE ASSETS

	Know-how
	RMB'000
COST	
At 1 January 2006 and 31 December 2006	260
Additions	350
At 31 December 2007	610
AMORTISATION AND IMPAIRMENT	
At 1 January 2006	65
Charge for the year	35
At 31 December 2006 and 1 January 2007	100
Charge for the year	21
Impairment loss recognised during the year	160
At 31 December 2007	281
CARRYING VALUES	
At 31 December 2007	329
At 31 December 2006	160

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

The directors of the Company had reviewed the carrying values of the Group's intangible assets as at 31 December 2007. The directors of the Company considered that it is unlikely that the know-how acquired in prior years has any future value in use and therefore the carrying amount of the know-how in the amount of approximately RMB160,000 was fully impaired.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

20. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment comprises:

	2007	2006
	RMB'000	*RMB'000*
Unlisted equity investments	**1,800**	–

The above unlisted investment represents investment in unlisted equity security issued by a private entity incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

21. INTERESTS IN ASSOCIATES

	2007	2006
	RMB'000	*RMB'000*
Unlisted associates in the PRC:		
Cost of investment	**2,884**	2,527
Share of post-acquisition losses	**(909)**	(838)
	1,975	1,689
Less: Impairment losses recognised	**1,296**	1,296
	679	393

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

21. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2007, 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. ("Shenzhen Fuguri") (深圳市福格瑞環保設備有限公司)	Incorporated	Contributed capital	PRC	40%	Suspended operation
Heritage Dongjiang Weiyingyang Additives (Shenzhen) Co., Ltd. ("Dongjiang Weiyingyang") (華端東江微營養添加劑(深圳)有限公司)	Incorporated	Contributed capital	PRC	38%	Development of new technologies for feed additives
北京永新立升膜技術有限公司 *(Note 1)*	Incorporated	Contributed capital	PRC	45%	Industrial waste water treatment

Note 1: The associate is acquired through the acquisition of a subsidiary, Beijing Novel during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

21. INTERESTS IN ASSOCIATES (Continued)

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

	2007	2006
	RMB'000	*RMB'000*
Total assets	**5,325**	4,645
Total liabilities	**(732)**	(212)
Net assets	**4,593**	4,433
Group's share of net assets of associates	**1,975**	1,689
Revenue	**2,249**	–
Loss for the year	**(759)**	(383)
Group's share of losses of associates for the year	**(71)**	(7)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

22. DEFERRED TAXATION

The movement in deferred tax assets during the year is as follows:

	Pre–operating expenses	Impairment losses and allowance for bad and doubtful debts	Difference between depreciation and tax allowance	Provision of staff salaries	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	311	–	–	–	(225)	86
(Charged) credited to the income statement	13	1,439	1,035	–	225	2,712
At 31 December 2006 and 1 January 2007	324	1,439	1,035	–	–	2,798
(Charged) credited to the income statement	(56)	1,396	368	1,725	–	3,433
Effect of changes in tax rate	(39)	848	102	1,725	–	2,636
At 31 December 2007	229	3,683	1,505	3,450	–	8,867

As at 31 December 2007, the Group had unused tax losses of approximately RMB2,311,000 (2006: RMB1,887,000) available for offsetting against future profits. No deferred tax assets has been recognised in respect of these tax losses due to the unpredictability of future profit streams. The tax losses will be expired in the year of 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

23. INVENTORIES

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**16,342**	14,798
Work in progress	**6,664**	391
Finished goods	**31,929**	19,604
	54,935	34,793

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

	2007	2006
	RMB'000	*RMB'000*
Gross amounts due from contract customers	**3,154**	453
Gross amounts due to contract customers	**(219)**	(12,688)
	2,935	(12,235)
Contract costs incurred plus recognised profits less recognised losses to date	**23,091**	12,802
Less: Progress billings	**(20,156)**	(25,037)
	2,935	(12,235)

At 31 December 2007, there were no retentions held by customers for contract work (2006: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

25. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	73,232	39,663
Less: Allowance for bad and doubtful debts of trade receivables	(11,117)	(2,193)
	62,115	37,470
Bills receivable	14,457	7,525
Prepayment, deposit and other receivables	71,265	30,056
Less: Allowance for bad and doubtful debts of other receivables	(8,234)	(4,507)
	139,603	70,544

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

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

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

	2007 RMB'000	2006 RMB'000
Current to 90 days	35,395	31,472
91 to 180 days	6,772	3,421
181 to 365 days	17,712	1,751
Over 1 year	2,236	826
Total	62,115	37,470

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

25. TRADE AND OTHER RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired:

	2007	2006
	RMB'000	*RMB'000*
Current to 90 days	**6,772**	3,424
91 to 180 days	**17,712**	1,751
181 to 365 days	**2,236**	826
Total	**26,720**	6,001

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

	2007	2006
	RMB'000	*RMB'000*
Balance at beginning of the year	**2,193**	2,752
Derived on acquisition of subsidiaries	**3,695**	–
Increase in allowance for bad and doubtful debts of trade receivables	**5,505**	–
Amounts written off as uncollectible	**(276)**	–
Amount recovered during the year	**–**	(559)
Balance at the end of the year	**11,117**	2,193

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

25. TRADE AND OTHER RECEIVABLES (Continued)

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

	2007	2006
	RMB'000	*RMB'000*
Balance at beginning of the year	**4,507**	2,641
Derived on acquisition of subsidiaries	**2,659**	–
Increase in allowance for bad and doubtful debts of other receivables	**2,068**	2,066
Amount recovered during the year	**(1,000)**	(200)
Balance at the end of the year	**8,234**	4,507

26. INVESTMENTS HELD FOR TRADING

	2007	2006
	RMB'000	*RMB'000*
Listed equity securities listed in the PRC, at market value	**9,687**	–

27. OTHER CURRENT ASSETS

As at 31 December 2006, the amount represented 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 were charged at the same interest rate of 5.301% to 5.580%. The bank loan was fully settled and the deposit released during the year ended 31 December 2007 (2007: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

28. BANK BALANCES AND CASH

	2007 RMB'000	2006 RMB'000
Bank balances and cash	**250,996**	145,783
Less: Guarantee deposit for tendering for construction contracts	**(10,157)**	(2,710)
Pledged bank deposit	**(10,842)**	–
Cash and cash equivalents	**229,997**	143,073

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

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

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

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

	2007 RMB'000	2006 RMB'000
Euro	**6,787**	–
HKD	**17,029**	4,933
	23,816	4,933

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

29. TRADE AND OTHER PAYABLES

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

	2007 RMB'000	2006 RMB'000
Current to 90 days	**87,228**	45,695
91 to 180 days	**4,144**	6,646
181 to 365 days	**17,036**	91
Over 1 year	**4,778**	1,519
	113,186	53,951
Advances from customers	**20,191**	4,879
Other payables	**41,706**	29,248
Accruals	**35,037**	8,172
	96,934	42,299
	210,120	96,250

As at 31 December 2007, included in trade payables amounting to RMB49,000 and RMB3,647,000 are due to an associate and minority shareholders respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

30. INTEREST-BEARING BANK BORROWINGS

	2007 RMB'000	2006 RMB'000
Secured	**29,800**	24,000
Unsecured	**30,000**	–
Guaranteed	**75,000**	15,000
	134,800	39,000
Carrying amount repayable:		
Within one year	**62,300**	39,000
More than one year, but not exceeding two years	**10,000**	–
More than two years, but not more than five years	**62,500**	–
	134,800	39,000
Less: Amounts due within one year shown under current liabilities	**(62,300)**	(39,000)
	72,500	–

Note:

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

(ii) At the balance sheet date, the Group's guaranteed bank borrowings were guaranteed by a director and a minority shareholder of the Company's subsidiaries.

(iii) During the year ended 31 December 2007, the Group obtained new loans in the amount of RMB183,600,000 (2006: RMB39,000,000). These loans carry interest at market rates and will be repayable varying from 2008 to 2011.

(iv) At 31 December 2007, bank borrowings of RMB29,800,000 and RMB105,000,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 7.0965% to 8.4564% per annum and the floating-rate borrowings carry interest at base rate published by the People's Bank of China less 5% to 10%.

At 31 December 2006, bank borrowings of RMB39,000,000 were fixed-rate borrowings which carried interest ranging from 5.301% to 5.580% per annum.

(v) At 31 December 2007, the secured bank borrowings of RMB19,800,000 was also guaranteed by a director of the Company (2006: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

31. DEFERRED REVENUE

The balance represents subsidies of RMB10,000,000 and RMB1,250,000 granted during the years ended 31 December 2006 and 2007 respectively for financing the research and development of environmental projects. The subsidies are non-refundable, subject to the project being approved and certified by the relevant authorities upon their completion.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Ordinary shares of RMB0.10 each				
Authorised, issued and fully paid:				
Domestic shares	**449,480**	449,480	**44,948**	44,948
H shares	**177,900**	177,900	**17,790**	17,790
	627,380	627,380	**62,738**	62,738

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

33. RESERVES

	2007	2006
	RMB'000	*RMB'000*
Share premium	**30,309**	30,309
Reserve funds *(note)*	**61,630**	45,984
Retained earnings	**250,681**	125,114
Translation reserve	**(394)**	(50)
	342,226	201,357

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

33. RESERVES (Continued)

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. When the balance of the statutory surplus reserve reaches 50% of the registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to equity owners.

34. ACQUISITION OF SUBSIDIARIES

(a) On 31 July 2007, the Group acquired 55% equity interests in Beijing Novel for a consideration of RMB220,000. The acquisition has been accounted for using the purchase method. The fair value of net assets acquired approximates to their carrying value. The amount of goodwill as a result of the acquisition was RMB8,450,000.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

34. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

35. DISPOSAL OF A SUBSIDIARY

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

	30 April 2007
	RMB'000
Net assets disposed of:	
Property, plant and equipment	**14**
Trade and other receivables	**62**
Bank balances and cash	**313**
Other payables	**(366)**
	23
Minority interests	**(7)**
Gain on disposal	**284**
Total consideration	**300**
Satisfied by:	
Cash	**300**
Net cash outflow arising on disposal:	
Cash consideration	**300**
Bank balances and cash disposed of	**(313)**
	(13)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

36. COMMITMENTS

(i) Capital commitments

	2007	2006
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**10,249**	3,884
Construction in progress	**79,824**	31,542
Addition capital injection in a subsidiary *(Note 39)*	**7,410**	–
Acquisition of a subsidiary	**100,000**	–
	197,483	35,426

(ii) Operating lease commitments

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

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

	2007	2006
	RMB'000	*RMB'000*
Within one year	**4,956**	2,006
In the second to fifth years, inclusive	**7,764**	1,190
Over five years	**8,478**	233
	21,198	3,429

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

36. COMMITMENTS (Continued)

(iii) Other commitments

In 2003, the Group entered into an agreement with Shenzhen Baoan District Shajing Town Gonghe Economic Development Corporation (深圳市寶安區沙井鎮共和經濟發展公司) and Shenzhen Baoan District Shajing Town Gonghe Village Committee (深圳市寶安區沙井鎮共和村村民委員會) to acquire the land use rights of a plot of land at a consideration of RMB9,875,000. Pursuant to the terms of the agreement, the Group was committed to pay an annual fee of RMB273,000 (2006: RMB273,000) for a period of 52 years up to 31 December 2055 for obtaining the land use rights in relation to the waste treatment and recycling plant in Shajing to be used by the Group.

37. CONTINGENT LIABILITIES

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

Other than as disclosed above, the Group had no significant contingent liabilities at 31st December 2007 and 2006.

38. 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 only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to consolidated income statement of approximately RMB3,042,000 (2006: RMB1,682,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

39. SUBSIDIARIES

Details of the subsidiaries at 31 December 2007, are as follows:

Name	Nominal value of registered capital	Percentage of equity interest attributable of the Group		Principal activities
	RMB	*Direct*	*Indirect*	
Chengdu Hazardous Waste Treatment Centre Co., Ltd. ("Chengdu Treatment Centre.")[1] 成都市危險廢物處理中心有限公司（「成都處理中心」）	10,000,000	100%	–	Inactive
Shenzhen Lishan Environmental Protection Materials Co., Limited ("Lishan") 深圳立山環保材料有限公司（「立山」）[2]	18,000,000	100%	–	Production and sales of polyamide resin, plasticising agent and paint activating agent from collected waste
Shenzhen Longgang Dongjjang Industrial Waste Treatment Company Limited ("Longgang DJ") 深圳市龍崗東江工業廢物處置有限公司（「龍崗東江」）	5,000,000	51%	–	Collection, processing and treatment of industrial waste
Shenzhen Dongjiang Environmental Recycled Resources Co. Ltd. ("DJ Recycle") 深圳市東江環保再生資源有限公司（「再生資源」）	1,000,000	100%	–	Collection and treatment of industrial waste
Sichuan Xingli Environmental Protection Project Co., Ltd. ("Xingli") 四川省興利環保工程有限公司（「興利」）	2,000,000	–	80%	Construction of environmental protection systems and development and sales of environmental equipment

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

39. SUBSIDIARIES (Continued)

Name	Nominal value of registered capital	Percentage of equity interest attributable of the Group		Principal activities
	RMB	*Direct*	*Indirect*	
Huizhou Dongjiang Environmental Technology Co., Ltd ("Huizhou Dongjiang") 惠州市東江環保技術有限公司（「惠州東江」）	5,000,000	100%	–	Production and sales of recycled products and provision of waste treatment services
Shenzhen Dongjiang Heritage Technologies Company Limited ("DJ Heritage") 深圳東江華瑞科技有限公司（「東江華瑞」）	25,000,000	62%	–	Production and sales of recycled products
Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng") 昆山市昆鵬環境技術有限公司（「昆鵬」）	6,600,000	51%	–	Collection, processing and treatment of industrial waste; provision of consulting services for the construction of environmental protection systems
Kunshan QianDeng here Wastes Treatment Co., Ltd. ("QianDeng") 昆山市千燈三廢淨化有限公司（「千燈」）	7,680,000	51%	–	Collection, processing and treatment of industrial waste
Huizhou Dongjiang Veolia Environmental Service Co., Ltd. ("Huizhou Veolia") 惠州東江威立雅環境服務有限公司（「東江威立雅」） (formerly known as "Huizhou Dongjiang Onyx Solid Waste Treatment Co. Ltd.") （「惠州東江奧綠思固體廢物處理有限公司」）	60,000,000	51%	–	Investing, manufacturing, operating and managing in the safety disposing, burning of dangerous wastes and the recycling of wasteful batteries and poisonous chemical wastes

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

39. SUBSIDIARIES (Continued)

Name	Nominal value of registered capital *RMB*	Percentage of equity interest attributable of the Group *Direct*	*Indirect*	Principal activities
Shaoguan Dongjiang Environmental Technology Company Limited 韶關市東江環保技術有限公司	5,000,000	90%	10%	Collection and treatment of industrial wastes
Shenzhen Dongdi Coating Technology Limited ("Shenzhen Dongeli") 深圳市東迪塗層技術有限公司（「深圳東迪」）	3,000,000	51%	–	Promotion and application of new environmental paint coating technology
Shenzhen Dongjiang Environmental Recycled Power Limited 深圳市東江環保再生能源有限公司（「再生能源」）	10,000,000	100%	–	Power generating through the utilization of landfill methane
Dongjiang Environmental (HK) Limited ("Dongjiang HK") 東江環保(香港)有限公司（「東江香港」）	HK$23,342,700	100%	–	Not yet commenced business
Shenzhen Resource Environmental Technology Company Limited ("Shenzhen Resource") 深圳市萊索思環境技術有限公司（「深圳萊索思」）[3]	5,000,000	50%	–	Industrial waste recovery and disposal
Beijing Novel Environmental Protection Co., Ltd. ("Beijing Novel") 北京永新環保有限公司（「北京永新」）[4]	30,000,000	55%	–	Water treatment, environmental consultation, garbage disposal and operation
湖南東江環保投資發展有限公司（「湖南東江」）[5]	10,000,000 [6]	95%	–	Not yet commenced business
清遠市東江環保技術有限公司[5]	2,000,000	90%	–	Not yet commenced business

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

39. SUBSIDIARIES (Continued)

[1] *During the year, the Company increased its equity interests in Chengdu Treatment Centre from 51% to 100%.*

[2] *During the year, the Company increased its equity interests in Lishan from 51% to 100%.*

[3] *The subsidiary was acquired during the year ended 31 December 2007. In the opinion of the directors of the Company, the Group controlled the financial and operating policies of the subsidiary and classified as such.*

[4] *The subsidiary was acquired during the year ended 31 December 2007.*

[5] *The subsidiaries were established during the year. As at 31 December 2007, they have not commenced business.*

[6] *The registered capital of 湖南東江was RMB10,000,000, the Company has paid up RMB2,090,000, the remaining of RMB7,410,000 will be paid up in 2008.*

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.

40. 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 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. RELATED PARTY TRANSACTIONS

Name of party	Related with the Group
Shenzhen Guoce Valuation Limited ("Shenzhen Guoce") 深圳市國策房地產土地估價有限公司 (formerly known as "深圳市國策評估交易有限公司")	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 Treatment Centre
Shenzhen Hazardous Waste Treatment Station ("Waste Treatment Station") 深圳市危險廢物處理站	Shareholder of Shenzhen Resource
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
Luo Xiao Hong 駱曉紅	Supervisor of the Company
Zhang Wei Yang 張維仰	Director and beneficial shareholder of the Company
Veolia Environmental Services Asia Pte Limited ("Veolia ")	Shareholder of Huizhou Veolia

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

For the year ended 31 December 2007

40. RELATED PARTY TRANSACTIONS (Continued)

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

	2007	2006
	RMB'000	*RMB'000*
Purchased goods from:		
Waste Treatment Station	**13,339**	–
Dongjiang Weiyingyang	**44**	–
Paid technology use right to:		
Longgang Technology	**400**	400
Paid commission to:		
Longgang Technology	**995**	900
Received rental income from:		
Shenzhen Guoce	**142**	142
Sold goods to:		
Heritage	**39,419**	–
Jiangxi Lishan	**–**	48
Paid motor vehicle rental to:		
Wenying Trading	**–**	120
Paid rental to:		
Fang Yuan Chemical	**632**	600

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. RELATED PARTY TRANSACTIONS (Continued)

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

	2007	2006
	RMB'000	*RMB'000*
Trade receivables:		
Heritage	8,704	–
Trade payables:		
Dongjiang Weiyingyang	49	–
Waste Treatment Station	3,647	–
	3,696	–
Other payables:		
Xingli Tyres	–	4,400
Longgang Technology	300	3,611
Yam Pui Yang	2,355	2,400
Chen Deming	700	700
Ku Ying Ying	700	700
Shenzhen Fuguri	1,165	–
Shenzhen Guoce	12	–
Fang Yuan Chemical	57	–
Zhang Wei Yang	681	–
	5,970	11,811
Other receivables:		
Dongjiang Weiyingyang	16	–
Waste Treatment Centre	657	–
	673	–

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. 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:

	2007	2006
	RMB'000	*RMB'000*
Short-term benefits	**3,784**	910
Post-employment benefits	**53**	40
	3,837	950

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

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

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

(f) On 18 October 2007, the Group acquired 50% equity interests in Shenzhen Resource Environmental Technology Company Limited for a consideration of RMB4,247,000 from a supervisor of the Company, Mr. Luo Xiao Hong.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

41. PLEDGE OF ASSETS

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

	2007	2006
	RMB'000	*RMB'000*
Other current assets (Note 27)	–	24,000
Property, plant and equipment	6,234	–
Prepaid lease payments on land use rights	4,183	–
Bank deposits	10,842	–
	21,259	24,000

42. POST BALANCE SHEET EVENT

On 25 January 2008, the Group announced the proposal of migration of listing status of the H Shares from the Growth Enterprise Market of the Stock Exchange ("GEM") to Main Board, and the proposal of voluntary withdrawal of the listing status of the listing of H shares from GEM.

43. COMPARATIVE FIGURES

Certain comparative amounts for the year ended 31 December 2006 have been reclassified to confirm with the current year's presentation.