



ANNUAL REPORT 2010



DONGJIANG ENVIRONMENTAL COMPANY LIMITED*
東江環保股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00895)

CONTENTS

CORPORATE INFORMATION	2
FINANCIAL SUMMARY	3
CHAIRMAN'S STATEMENT	4
MANAGEMENT DISCUSSION AND ANALYSIS	6
MANAGEMENT PROFILE	17
DIRECTORS' REPORT	20
SUPERVISORY COMMITTEE'S REPORT	32
CORPORATE GOVERNANCE REPORT	33
REPORT OF THE AUDITORS	38
CONSOLIDATED BALANCE SHEET	40
BALANCE SHEET OF THE COMPANY	42
CONSOLIDATED INCOME STATEMENT	44
INCOME STATEMENT OF THE COMPANY	45
CONSOLIDATED CASH FLOW STATEMENT	46
CASH FLOW STATEMENT OF THE COMPANY	48
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	50
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY	52
NOTES TO THE FINANCIAL STATEMENTS	53

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

YE Ru Tang
HAO Ji Ming
LIU Xue Sheng

SUPERVISORS

YUAN Wei
CAI Wen Sheng
LIU An

COMPANY SECRETARY

LO Wah Wai, *HKICPA, AICPA*

AUDIT COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGIC DEVELOPMENT COMMITTEE

ZHANG Wei Yang (*Chairman*)
YE Ru Tang
FENG Tao

AUTHORIZED REPRESENTATIVES

ZHANG Wei Yang
LO Wah Wai, *HKICPA, AICPA*

STOCK CODE

00895

AUTHORIZED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESSES AND NOTICES

LO Wah Wai, *HKICPA, AICPA*

AUDITORS

SHINEWING CERTIFIED PUBLIC ACCOUNTANTS

LEGAL ADVISORS

Loong & Yeung (*as to Hong Kong law*)
北京市君合律師事務所 (*as to China law*)

PRINCIPAL BANKER

China Merchants Bank

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor
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Hong Kong

REGISTERED OFFICE

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

COMPANY HOMEPAGE

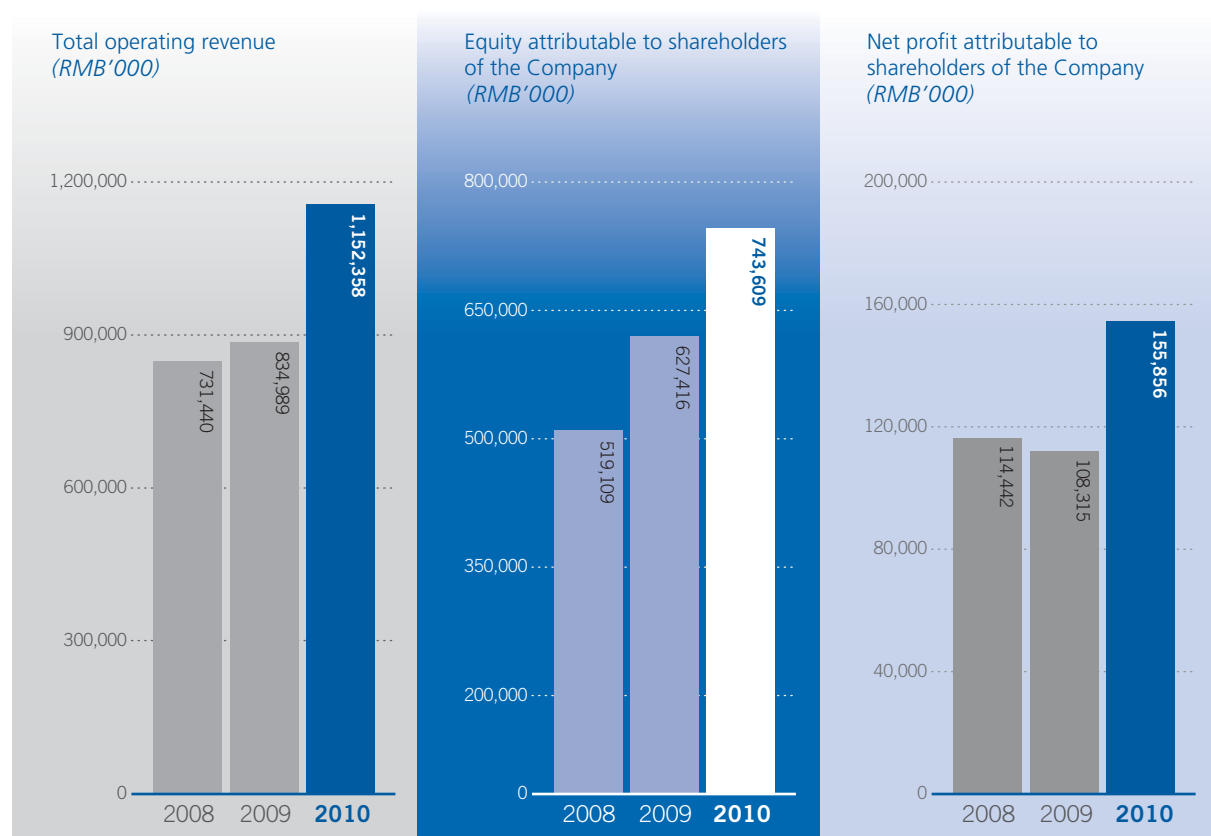
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FINANCIAL SUMMARY

	2010	2009	2008	2007	2006
		(Restated)	(Restated)	(Restated)	(Restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Result					
Total operating revenue	1,152,358	834,989	731,440	672,836	473,368
Gross profit	402,322	290,059	321,809	296,562	196,204
Gross profit ratio	34.91%	34.74%	44.00%	44.08%	41.45%
Net profit attributable to shareholders of the Company	155,856	108,315	114,442	143,844	79,818
Financial position					
Total assets	1,782,077	1,537,059	1,016,631	700,709	366,745
Total liabilities	943,247	776,223	371,680	262,921	88,703
Minority interests	95,221	133,419	125,842	34,067	31,779
Equity attributable to shareholders of the Company	743,609	627,416	519,109	403,721	246,263



CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Dongjiang Environmental Company Limited* (東江環保股份有限公司) (the "Company") (formerly known as "Shenzhen Dongjiang Environmental Company Limited*" (深圳市東江環保股份有限公司)), I would like to present the consolidated audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

REVIEW

2010 witnessed historical development opportunities in energy saving and environmental protection industry. During the year the Chinese government continued its efforts to implement macro-control policies, accelerated transformation of economic growth modes, and proposed to vigorously develop green economy, low-carbon economy and circular economy. In the Decision on Speeding up the Cultivation and Development of Strategic Emerging Industries issued by the China's State Council in October 2010, the industry of energy saving and environmental protection was ranked first among the seven strategic emerging industries. Leveraging on favorable situations of the external operation environment and taking its advantages of the complete business chain of solid waste treatment, the Group actively fostered regional expansion and market layout of various operations, boosted innovation of the technical system and maintained the sound and stable growth momentum.

For the year ended 31 December 2010, the Group's total operating revenue was increased by approximately 38.01% to RMB1,152,358,350 as compared to 2009, and the net profit attributable to the shareholders of the Company increased by approximately 43.89% to RMB155,855,983 as compared to 2009.

Generally, in 2010, the Group made satisfactory achievements in market expansion, project construction and technical research and development (the "R&D"), and achieved the prudent and fast growth of operations by constantly implementing the operation strategy of "underpinning principal operations and enhancing the industry chain to develop a full functional solid waste treatment platform". As to market expansion, the Group provided high quality one-stop service and consolidate its market position by integrating customer resources of various business units in the light of service-oriented market competition strategies; In order to improve the added value of recycled products and maintain products' competitive strength, the Group accelerated the upgrade of recycled products during the year developed the route of diversification and refinement, and proceeded with optimization of the product mix. During the period under review, based on industrial waste business, the Group expanded the waste treatment capacity constantly, and sped up the construction of new projects including Shenzhen Longgang Hazardous Industrial Waste Treatment Base, the North Guangdong Hazardous Waste Treatment and Disposal Center and Qingyuan and Hubei Worn-out Electric Appliance Disassembly and Comprehensive Utilization. Meanwhile, the Group took initiatives in exploiting municipal waste treatment business and obtained the Kunming construction waste treatment and recycling project successfully. In the sector of renewable energy, the Group completed the construction of the landfill gas power generation and CDM project of Shenzhen Laohukeng and Qingdao Xiaojianxi which are to commence for commissioning. These results are vitally inspiring, and played a positive role of improving the Group's business chain and layout, and developing a full functional solid waste treatment platform.

To achieve the change in operation mode from "resource orientation" to "technical orientation", and further highlight the strategic position of technical development, the Group set Technical Research & Development Department. during the year with the purpose of perfecting the technical talent motivation mechanism and technical results management system, and erecting a better development platform for technical R&D work.

In respect of corporate development, 2010 was also a fruitful year. The Company transferred listing of its H shares from the Growth Enterprise Market to the Main Board of The Stock Exchange of Hong Kong Limited so as to improve the Group's corporate image and reputation, and provide a better financing platform for its longstanding development. To widen financing channels and sharpen the Group's comprehensive competitive edges, upon approval of the shareholders, the Company has applied to China's securities regulatory authorities for issuing A shares and obtained the application acceptance. In 2010, the Group successively was honored as one of "Top 100 Guangdong private enterprises 2008-2009" and the "Top 100 Chinese Enterprises in World Low Carbon Environment Impetus", etc, which represented recognitions by the governments and in the industry.

CHAIRMAN'S STATEMENT

OUTLOOK

Looking ahead, it is expected that China will become one of the world's largest environmental protection industry markets. In November 2010, the Development Plan on Energy Saving and Environmental Protection Industry of the PRC (the "Plan") was approved by the State Council. According to the Plan, the environmental protection industry is to witness tremendous market space during the period of the Twelfth Five-Year Plan. In face of unprecedented growth opportunities, the Group is poised to enter a stage of fresh new development period from a new beginning point. In the future, the Group will persistently focus on waste treatment to develop a full functional solid waste treatment platform and achieve leaping development by combining value-added business including waste treatment and disposal, and recycling, environment engineering and service, as well as capitalizing on the strength of the complete industry chain.

As for corporate development, the Group will proceed with the relevant work for issue and listing of A shares in China. It is believed that the proposed issue and listing of the Company's A shares are bound to widen the Group's financing channels and sharpen the Group's comprehensive competitive edges, capturing broader space of the Group's development.

ACKNOWLEDGEMENT

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

Dongjiang Environmental Company Limited*

ZHANG Wei Yang

Chairman

Shenzhen, Guangdong Province, the People's Republic of China (the "PRC")

18 March 2011

** For identification purpose only*

BUSINESS REVIEW

In 2010, the Chinese government continued its efforts to implement macro-control policies, accelerated transformation of economic growth modes, and proposed to vigorously develop green economy, low-carbon economy and circular economy. In the Decision on Speeding up the Cultivation and Development of Strategic Emerging Industries issued by the China's State Council in October 2010, the industry of energy saving and environmental protection was ranked first among the seven strategic emerging industries. During the period under review, the Group kept underpinning core business competences by grabbing opportunities to bolster strategic transformation, proactively expand market presence, and dynamically promote technical innovation. For the year ended 31 December 2010, the Group's total operating revenue was increased by approximately 38.01% to RMB1,152,358,350 as compared to that in 2009, and the net profit attributable to the shareholders of the Company increased by approximately 43.89% to RMB155,855,983 as compared to that in 2009.

Industrial Waste Treatment

As the core business of the Group, industrial waste treatment business focused on reduction processing and detoxification disposal of wastes including waste liquid, sludge and waste residue through chemical, physical and biologic means, to convert substances with reuse value from wastes into recycled products. In 2010, the Group put efforts in developing industrial waste treatment business, and made admirable achievements in terms of market expansion, potential unearthing and innovation and industry layout. For the year ended 31 December 2010, the Group recorded an operating revenue of approximately RMB809,686,203 in industrial waste treatment and disposal, representing an increase of approximately 58.04% as compared to that in 2009.

During the period under review, the Group extended its business coverage to 17 major cities in Guangdong and industrial centers including Suzhou and Wuxi in Jiangsu and developed approximately 2,200 new customers by consolidating business segment markets and customer resources, implementing "Integrated" environmental protection mode and further sharpening competitive edges in the light of proactive market expansion strategies.

During the period under review, impressive results were achieved by way of waste treatment technology renovation, recycling value maximization of wastes and product optimization and upgrade in the Group's industrial waste treatment bases in operation through measures including technical innovation and effect maximization, potential unearthing and efficiency improvement.

Shajing Treatment Base

As the first industrial waste treatment base invested and built by the Group in Shenzhen, Guangdong in 1999, Shajing Treatment Base has currently grown into one of the largest treatment bases for copper containing waste in China. During the period under review, through technological renovation of production process and upgrade of recycled products, the industrial copper oxide products were launched based on the production of copper sulphate and alkaline copper products in Shajing Treatment Base, winning recognition from the market. Besides, the recycling of ammonium chloride of high concentration ammonia nitrogen wastewater through international leading multi-effect evaporation facilities reduced wastewater treatment cost and enhanced waste resource utilization efficiency as well. For the year ended 31 December 2010, Shajing Treatment Base recorded an operating revenue of approximately RMB361,534,038, representing an increased of approximately 51.65% as compared to that in 2009.

Dongjiang Heritage TBCC Project

Being the project in respect of recycling jointly built by the Group and Heritage Technologies, LLC, Dongjiang Heritage TBCC project adopted U.S. advanced technology to produce the new recycled product, tri-basic copper chloride ("TBCC"). Boasting advantages of a high bioavailability, low vitamin churn rate, miscibility with feeds and low impact on environment, TBCC is a new kind of copper source feed additive. During the period under review, as to the project, technical innovation was aggressively boosted, production process was continuously improved, and premium product quality was maintained as always, winning recognition from numerous customers. For the year ended 31 December 2010, TBCC's sales was increased by approximately 80.34% to RMB101,377,785 as compared to that in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Huizhou Treatment Base

Huizhou Treatment Base was an industrial waste treatment base invested and built by the Group in Huizhou, Guangdong in 2002. The principal operations of the base is treatment of industrial wastes including waste etching solution containing copper, heavy metal-containing sludge and high concentration industrial wastewater and production of recycled products including copper sulphate, basic cupric chloride and nickel sulphate. During the period under review, Huizhou Treatment Base made use of heavy metal-containing sludge treatment facilities, and comprehensively used high concentration inorganic waste acid as leaching sludge through innovative process and achieved the effect of using waste to treat waste. In addition, with drastic improvement of the utilization ratio of the physiochemical plant, the treatment capacity of high concentration industrial wastewater was significantly enhanced, which brought about favourable economic results. For the year ended 31 December 2010, Huizhou Treatment Base recorded an operating revenue of approximately RMB21,134,066, representing an increased of approximately 85.01% as compared to that in 2009.

Kunshan Treatment Base

Kunshan Treatment Base was an industrial waste treatment base invested by the Group in Kunshan, Jiangsu according to the regional strategic layout. The principal operation of the base is treatment of industrial wastes including waste etching solution containing copper, tin-stripping waste liquid and waste liquid containing nickel, and production of recycled products including copper sulphate, cupric oxide and semi-finished nickel salt. During the period under review, treatment facilities of Kunshan Treatment Base basically maintained steadily full load operation. In 2010, an operating revenue of approximately RMB218,592,966 was achieved in total, representing an increase of approximately 47.17% as compared to 2009. To improve the treatment capacity, many expansion projects and resource recycle projects were carried out in Kunshan Treatment Base. Various attempts were made in intensive processing of products, including completion of the pilot production workshop of electroplating copper sulfate and addition of water recycling equipment. Moreover, with stress on technical innovation, Kunshan Treatment Base Research and Development Center was established and was accredited as a national hi-tech enterprise.

Guangdong Integrated Hazardous Waste Treatment Demonstration Center

As a hazardous waste treatment center invested and built in Huizhou jointly the Group and Veolia Environment, Guangdong Integrated Hazardous Waste Treatment Demonstration Center (the "Demonstration Center") enjoyed a term of concession right of 30 years as authorized by government authorities in accordance with National Plan on Establishing Hazardous and Iatric Wastes Treatment Facilities. During the period under review, the Demonstration Center passed the full completion acceptance; being granted Hazardous Waste Operation License issued by the Ministry of Environmental Protection of the PRC ("MEP"), it was officially put into commercial operation. Treatment facilities of the Demonstration Center included safe landfill, stabilization and solidification units, physiochemical and wastewater treatment units and inceneration units, and could treat and dispose of 45 of 49 kinds of hazardous wastes in National Hazardous Waste List (2008), with an annual treatment capacity of 80,000 tons. In 2010, the Demonstration Center treated 43,900 tons of wastes in total, representing an increase of approximately 56.68% as compared to that in 2009.

To reinforce and expand industrial waste treatment business, the Group constantly promoted the expansion and extension of industrial waste treatment industry chain, sped up the growth of solid waste treatment business segment including mineral waste treatment and worn-out electric appliance dissembling based on consolidation of traditionally superior business including heavy metal-contained liquid waste and sludge treatment. During the period under review, the Group planned and built the industrial waste treatment base as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Shenzhen Longgang Hazardous Industrial Waste Treatment Base

Shenzhen Longgang Hazardous Industrial Waste Treatment Base was a provincial designated hazardous waste center planned by Longgang District of Shenzhen in accordance with the prospectus of Guangdong Environmental Protection Planning (2006-2020). The Group obtained the concession right of investment, design, construction and maintenance of the project, with a term of 22 years (inclusive of 2-year construction period). Covering an area of 145,000 square meter, the base's planned construction facilities included physics/chemical treatment workshop, stabliazaiton/sodification treatment and safety landfill disposal workshop, and annually treated of approximately 19,350 tons of hazardous wastes. During the period under review, the preliminary work was completed for the base construction, including environmental influence assessment, geological survey and engineering design, field leveling, which laid a solid foundation for the subsequent construction.

The North Guangdong Hazardous Waste Treatment and Disposal Center

The North Guangdong Hazardous Waste Treatment and Disposal Center, located in Shaoguan city, Guangdong Province, would serve as a large scale full functional industrial center for hazardous waste treatment, disposal and recycling and also the exclusive hazardous waste comprehensive treatment center in north Guangdong Province. In 2007, the Group acquired the concession right of the Center with a term of 30 years. During the period under review, the North Guangdong Hazardous Waste Treatment and Disposal Center had completed the construction of "Lead-zinc Tailing Comprehensive Utilization Project", and land leveling and engineering design of the sewage treatment workshop, which were expected to commence for operation in 2011.

Worn-out Electric Appliance Disassembly and Comprehensive Utilization Project

Qingyuan Worn-out Electric Appliance Disassembly and Comprehensive Utilization Base was a worn-out appliance treatment base planned and built by the Group to capture vast business opportunities emerged in worn-out household completed appliance treatment industry. Phase 1 of the project could treat and comprehensively utilize 10,000 tons of worn-out appliances per year. During the period under review, Phase 1 project has installation and commissioning work of the disassembly demonstration line and recycling production line of refrigerators, air-conditioners, washing-machines and computers, and was expected to commence for operation at the first half of 2011. The scale of Phase 2 of the project was expanded to 80,000 tons of disassembling and comprehensively utilizing worn-out electric appliance per year. Currently, the planning was completed and the project would be implemented in stages in the light of operation of Phase 1. Besides, the Group successfully won the bid by way of public tender for Designated Disassembly and Treatment Enterprise for Household Appliances Replacement in Hubei Province in September 2010, obtaining the designated disassembly of the household appliance replacement and treatment enterprise qualification in Hubei Province. The Company was executing preliminary work of projects for construction currently.

Municipal Waste Treatment

Municipal waste treatment was another pillar business of the Group with main development fields including the removal and treatment of domestic waste, landfill gas power generation, treatment of municipal sludge, and construction waste and kitchen waste as well as recycling. The Group made full use of internal relations between business units. Capitalizing on business mix innovation, the Group organically integrated the treatment of municipal waste and utilization of renewable energy and adopted the operation strategy of "promoting overall work through the experience from pilot projects" so as to quickly popularize the integrated mode. During the period under review, all projects of the municipal waste treatment and disposal were well under way, with a good momentum. For the year ended 31 December 2010, the Group recorded an operating revenue of approximately RMB151,414,241 in municipal waste treatment and disposal, representing an increase of approximately 39.50% as compared to that in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Municipal Waste Collection and Transportaiton

Hong Kong Lik Shun Services Limited (“Lik Shun”) was an environmental protection service company engaged in waste collection business, being acquired by the Group in May 2008. Lik Shun now is responsible for municipal waste collection in some of the areas of Sha Tin, Tai Po, Kwai Tsing and Sai Kung. Besides, it also provides waste collection services to some industrial districts and school. During the period under review, Lik Shun recorded an operating revenue of RMB27,607,591, representing an increased of approximately 6.44% as compared to that in 2009.

Municipal Waste Treatment

During the period under review, the Group’s municipal waste treatment business continuously grew. With saturated business, Shenzhen Xiaping Municipal Sludge Treatment Project treated 326,000 tons of municipal sludge in total, and achieved an operating revenue of approximately RMB65,813,435, representing an increase of 9.13% over 2009. The Group also contrived to expand domestic waste treatment operation project, and won the bid for the landfill service project of Shenzhen Xiaping Landfill. Thus, the Group obtained overall operation business of Xiaping Landfill for a term of one year since 1 January 2010, with the contract amount of approximately RMB27,298,000. During the period under review, the project was in smooth operation and the Group was negotiating with the government in respect of the contract renewal. Furthermore, Shaoyang Domestic Waste Landfill Project invested and built by the Group had passed the governmental acceptance and would be put into trial operation in the first half of 2011.

Construction Waste Treatment and the Recycling

The Group has been paying attention to the expansion opportunity in the treatment and the recycling of construction waste and has achieved breakthrough in June 2010 as the Group was selected as the implementation unit of the Comprehensive Treatment Demonstration Project of Construction Waste in the Western Area of Kunming by Kunming Municipal Government. The Group will conduct the investment, construction and operation of the Project by cooperating with the local government. After completion, the Project will be responsible for the disposal and comprehensive utilization of construction waste produced in Wuhua District, Xishan District and High-Tech Development Zone in Kunming. Phase 1 of the Project is expected to treat and utilize 1,000,000 tons of construction waste. The Project signifies that the Group has taken a crucial step in the expansion and layout of the municipal waste treatment and disposal business, creating favorable conditions for further procurement of recycling and comprehensive utilization projects of construction waste in the future.

Renewable Energy Utilization

During the period under review, the Group was proceeding well with business of renewable energy utilization, which recorded an increase of approximately 38.88% in operating revenue to RMB30,760,458 for the year ended 31 December 2010 as compared to 2009. Shenzhen Xiaping Landfill Gas Power Comprehensive Utilization Project maintained operating at maximum capacity with sufficient landfill gas supplied, and planned to add more power generating units to expand the capacity. With three sets of 1MW power generating units, the landfill gas power generation and CDM project of the Qingdao Xiaojianxi Domestic Waste Landfill was completed and put into trial operation, to be put into official operation in 2011. Relevant CDM project has been registered with the UN’s CDM Executive Council. During the period under review, with three sets of 1MW power generating units, installation and commissioning of the landfill gas power generation and CDM project of the Shenzhen Laohukeng Domestic Waste Landfill were completed, to be officially put into operation in 2011. Relevant CDM project has been verified by the National Development and Reform Commission (“NDRC”).

Besides, Chongqing coal mine ventilation air and emission reduction project jointly invested by the Group and AES Corporation is verified as the CDM project by the NDRC, to be officially completed for operation at the first half of 2011. The project is to reduce greenhouse gas emissions by seizing, damaging and using ventilation air methane emitted by the coal mine.

MANAGEMENT DISCUSSION AND ANALYSIS

Environmental Engineering and Service

To cope with the development of a full-functional environmental service platform, in recent years, the Group proactively expanded environmental engineering and services business, and provided one-stop environmental services to various customers by efficiently integrating resources in design, construction, equipment installation, commissioning and operation of environmental engineering as well as other services such as environmental impact assessment (“EIA”) and environmental inspection. In 2010, as to this business, remarkable achievements were made in terms of market expansion, technical and operation mode innovation, driving relevant results to steadily grow. For the year ended 31 December 2010, this business recorded an operating revenue of approximately RMB106,828,774, representing an increase of approximately 13.64% as compared to 2009.

Environmental Engineering Construction, Operation and Consultancy

The Group mainly carried out operations including design, construction and operation management of environmental protection facilities and provision of EIA and environmental inspection services through its Engineering Service Branch and subsidiary named Beijing Novel Environmental Protection Co., Ltd (“Novel Environmental Protection”). To follow the trend of industrial upgrade and shift, the Group’s Engineering Service Branch flexibly adjusted operation strategies, strengthened the expansion of markets out of Shenzhen, and obtained various environmental protection construction projects during the year. Meanwhile, the Group took initiatives to innovate operation modes, and tried to participate in resource online recovery engineering and wastewater treatment engineering in pursuit of profit drivers other than traditional operation modes. To cope with the increasingly rigorous environmental protection emission standard of the State, the Group’s Engineering Service Branch has currently mastered all pollutant factor treatment processes in industries including electroplating and printed-circuit board (“PCB”) by putting more efforts in environmental protection engineering and operation, technology development and introduction. During the period under review, the Group’s Engineering Service Branch undertook 8 construction projects and had 28 wastewater operation points, increasing by 10 operation points as compared to 2009. In 2010, the number of Novel Environmental Protection’s projects totaled 81 and contract amount achieved RMB110,536,000, representing an increase of approximately 90.93% as compared to 2009, which is owing to the full exertion of wide business scopes and design strength in the environmental engineering segment and ideal business expansion.

Environmental Inspection Services

Shenzhen Huabao Technology (深圳市華保科技有限公司) (“Huabao Technology”), a subsidiary of the Group, was an environmental protection company specializing in environmental inspection. During the period under review, Huabao Technology established a set of scientific and applicable laboratory management system in the light of international general practices and such system was reviewed and approved by China National Accreditation Service for Conformity Assessment (“CNAS”), and the reports issued by Huabao Technology were mutually accepted by 37 countries. Also, following project expansion work of CMA, CMA certification inspection projects were increased from 59 projects to 214 projects, and thus, its inspection ability was improved dramatically. Capitalizing on solid inspection strength and credibility, Huabao Technology participated in Air Quality Monitoring for Guangdong Asian Games and assumed one third of Shenzhen’s monitoring workload, and its monitoring quality was recognized and lauded by governmental agencies.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development (“R&D”)

To achieve the change in operation mode from “resource orientation” to “technical orientation”, and further highlight the strategic position of technical development, the Group established the Technical Research & Development Department during the year with the purpose of perfecting the technical talent motivation mechanism and technical results management system, and erecting a better development platform for technical R&D work. In 2010, the Group’s Technical Research & Development Department’s work centered on the improvement of recycled product upgrade and comprehensive environmental service capability, completed new technical research on ten projects including preparation of cuprous oxide with copper sulphate, preparation of copper-clad iron powder, and wastewater containing nitrogen treatment. The Group’s application of 12 patents including a Kind of Highly Active Electroplating Cupric Oxide Production Process and Ammonia Nitrogen Wastewater Treatment Methods of the PCB Plant was accepted for handling, and 7 patents were authorized. Meanwhile, the Group accelerated the execution of technical cooperation on industry-academy-research, established a joint research center with Tsinghua University, entered into the technical taskforce agreement with Tianjin University, and established project cooperation relationship with institutions with China National Electric Apparatus Research Institute and Dalian University of Technology, laying a foundation for further promotion of the corporate technical upgrade and product mix adjustment.

Corporate Development

In 2010, adhering to the philosophy of “Fine Management and Continuous Improvement” in internal management, the Group continually strengthened the professional training and management of the team, and implemented and perfected the performance appraisal and incentive system. In respect of human resource, Human Resource Department organized a workshop on talent strategy, and introduced and cultivated talents in urgent need in modules including business, technology, management and production. During the period under review, the Group continued reinforcing environment and environmental protection work, and set up the Environmental, Health and Safety (“EHS”) Department to comprehensively manage the whole Group’s EHS work, and formulated an appropriate development plan.

In respect of corporate development, the Company transferred its listing of H shares from the Growth Enterprise Market to the Main Board of the Stock Exchange in September 2010, so as to improve the Group’s corporate image and reputation and provide a better listing platform for its longstanding development. To widen financing channels and sharpen the Group’s comprehensive competitive edges, in September 2010, the Board proposed to apply for issuing A shares in China, which was approved by shareholders of the Company. The Group has made relevant application to China’s securities regulatory authorities and obtained the application acceptance. Currently, the application is under the process of approval.

FINANCIAL REVIEW

Total Operating Revenue

For the year ended 31 December 2010, the Group’s total operating revenue was increased by approximately 38.01% to approximately RMB1,152,358,350 (2009: approximately RMB834,988,783) as compared to the corresponding period in 2009. The increase was mainly due to the proactive expansion of various businesses of the Group by seizing the opportunities arising from the rebound of the economy of China. Increase in operating revenue from the industrial waste recycling as compared with that from 2009 of approximately 62.61% to RMB678,413,051 (2009: approximately RMB417,199,037) was achieved due to the rise in the output, sales volume and average price of the recycled products.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit

For the year ended 31 December 2010, the Group's gross profit was increased by approximately 38.70% to approximately RMB402,321,759 (2009: approximately RMB290,059,190). Among which, the gross profit from the industrial waste recycling recorded an increase of approximately 43.79% to approximately RMB232,211,939 (2009: approximately RMB161,496,911), while the gross profit from industrial waste treatment and disposal recorded an increase of approximately 40.78% to approximately RMB95,619,216 (2009: RMB67,923,141).

For the year ended 31 December 2010, the Group's gross profit margin was approximately 34.91% (2009: approximately 34.74%).

For the year ended 31 December 2010, profit attributable to shareholders of the Company increased by approximately 43.89% to approximately RMB155,855,983 (2009: approximately RMB108,314,531). The increase was mainly due to the fact that the Group's existing waste treatment bases and projects were running well with business volume rising steadily, and meanwhile, the Group continued to strengthen the control of the procurement and production cost as well as various expenses.

Selling Expenses

For the year ended 31 December 2010, the Group's selling expenses was approximately RMB35,531,956 (2009: approximately RMB32,832,746), representing approximately 3.08% (2009: approximately 3.93%) of the total operating revenue.

Administrative Expenses

For the year ended 31 December 2010, the Group's administrative expenses was approximately RMB154,541,421 (2009: approximately RMB100,091,754), representing approximately 13.41% (2009: approximately 11.99%) of the Group's total operating revenue. The increase in administrative expenses was mainly resulted from the Group's increasing investment in R&D in 2010. Moreover, the implementation of the transfer of listing of the Company's H shares from GEM to Main Board of the Stock Exchange and the proposed issue of A shares in China also gave rise to the increase in expenses.

Finance Costs

For the year ended 31 December 2010, the Group's finance cost was approximately RMB22,168,813 (2009: approximately RMB11,021,940), representing approximately 1.92% (2009: approximately 1.32%) of the Group's total operating revenue. The increase in finance cost was primarily attributable to the net increase in bank loans of RMB107,300,707 to finance the project investment of the Group.

Income Tax Expenses

For the year ended 31 December 2010, the Group's income tax expenses was approximately RMB32,685,894 (2009: approximately RMB28,719,213), representing approximately 16.60% of the Group's total profit before tax (2009: approximately 19.37%). The increase in income tax expenses was mainly due to the growth of the Group's total profit.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2010, the Group had net current assets of approximately RMB160,476,582 (2009: approximately RMB186,389,829), including cash and cash equivalent of approximately RMB178,654,812 (2009: approximately RMB230,360,565).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2010, the Group had total liabilities of approximately RMB943,247,244 (2009: approximately RMB776,223,419). The Group's gearing ratio was approximately 52.93% (2009: approximately 50.50%) which is calculated based on the Group's total liabilities over the Group's total assets. The current liabilities of the Group was approximately RMB651,609,803 (2009: approximately RMB499,933,594). As at 31 December 2010, the Group had outstanding bank loans of approximately RMB666,037,342 (2009: approximately RMB558,736,635).

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

SUBSTANTIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

In March 2010, the Company invested RMB17,800,000 to purchase 10% equity interest of a then 50% owned subsidiary of the Company, namely Shaoguan Green Resource Recycling Development Company Limited (韶關綠然再生資源發展有限公司).

In March 2010, the Company invested RMB4,705,102.04 to purchase 29% equity interest of a then 51% owned subsidiary of the Company, namely Shenzhen Dongjiang Lisai Renewable Energy Limited (深圳市東江利賽再生能源有限公司).

In May and November 2010, the Company equally invested RMB8,367,000 in the registered capital of a 51% owned associate of the Company, namely Chongqing Dongjiang Songzao Renewable Energy Development Co., Ltd.

In June 2010, the Company invested RMB200,000 to purchase 10% equity interest of a 90% owned subsidiary of the Company, namely Qingyuan Dongjiang Environmental Technology Co.,Ltd.

In August 2010, the Company invested RMB10,000,000 to establish a company, namely Yunnan Dongjiang Environmental Technology Co., Ltd in Kunming, Yunnan Province, 100% equity interest of which is owned by the Company.

In November 2010, the Company invested RMB6,284,250 to acquire 35% equity interest of a company, namely Zhuhai Qingxin Industry Environmental Co., Ltd.

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

INTEREST RATE AND EXCHANGE RISK

Interest Rate Risk

The Group is exposed to fair value interest rate risk due to fixed interest rate bank borrowings. Currently, the Group does not have any interest rate hedging policy. However, the interest rate risk is monitored by the management, and in case of any expected material risk, the management will consider in taking necessary actions.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is also exposed to cash flow interest rate risk due to floating interest rate bank borrowings. The Group's policy is to maintain the floating interest rate bank borrowings in order to reduce the risk of cash flow interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated in the fluctuation of the interest rate basis announced by the People's Bank of China generated from the Group's borrowings in Renminbi.

Foreign Exchange Risk

The Group's working currency is Renminbi and most transactions are denominated in Renminbi. However, certain bank balances tradings and other receivables and payables are denominated in currencies other than Renminbi. The expenses of the Group's overseas business are also settled in foreign currencies.

PLEDGE OF ASSETS

At at 31 December 2010, certain assets of the Group were pledged to secure bank borrowings and letter of credit facilities granted to the Group, details of which are set out as follows:

	2010	2009
	RMB	RMB
		(restated)
Fixed assets	15,893,000	6,204,000
Intangible assets-land use rights	2,736,000	–
Bank deposits	–	31,240,000
Inventories	107,900,000	94,981,000
Total	126,529,000	132,425,000

INFORMATION ON EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the number of full-time employees stood at 1,960 (2009: 1,542) with a total staff cost of approximately RMB110,373,558 (2009: RMB72,513,555). The Group offered continuing training and remuneration package of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

CONTINGENT LIABILITIES

As at 31 December 2010, financial guarantee provided by the Group was RMB31,400,000 (2009: RMB28,900,000) to banks for securing banking facilities granted to Dongjiang Veolia. The maximum amount during the year was RMB33,900,000 (2009: RMB32,500,000).

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 required environmental measures. The financial position of the Group may be adversely affected by any environmental obligations which may be imposed under such new environmental policies and/or standards.

Save as disclosed above, the Group had no significant contingent liabilities at 31 December 2009 and 2010.

FUTURE PROSPECTS

Looking ahead, it is expected that China will become one of the world's largest environmental protection industry markets. In November 2010, the Development Plan on Energy Saving and Environmental Protection prepared by the NDRC and the MEP was approved by the State Council. In accordance with the aforesaid plan, the environmental protection industry is expected to witness tremendous market space during the period of the Twelfth Five-Year Plan.

In face of unprecedented growth opportunities, in 2011, the Group will continue to focus on waste treatment to develop a full functional solid waste treatment platform and achieve leapfrog development by combining value-added business including waste treatment and disposal, recycling and environment engineering and service, and leveraging the strength of the complete industry chain.

Industrial Waste Treatment Business

Based on industrial waste treatment bases built in developed industrial regions including Guangdong and Yantze River Delta and regional business distribution, the Group will strengthen waste treatment facilities construction and business mode innovation, and consolidate its competitive strengths in the industrial waste business segment and leading position in the industry by:

- (1) focusing on the construction of waste treatment and disposal facilities, and expanding market presence; maximizing the recycling value through innovation of waste treatment and disposal service mode by way of technical R&D; constructing waste pre-treatment facilities and transit warehouse to slash operation costs;
- (2) consolidating and developing industrial waste recycling business, proactively adopting the strategy of merger & acquisition for regional market expansion; improving recycled products' quality and added value through technical R&D, and promoting resource utilization efficiency of wastes; extending from the business of heavy metal containing hazardous industrial waste to comprehensive utilization business of heavy metal containing tailings and mineral waste, establishing the upstream and downstream resource channel and product sales channel, and forming an integrated resource recycling system; and
- (3) accelerating the construction of worn-out household appliance and comprehensive utilization base, grasping domestic leading dissembling technology, integrated equipment and operation mode; establishing strategic alliance with household producers and worn-out household appliance recycle enterprises, setting up worn-out household appliance resource channels, and steadily impelling the outreach of worn-out household appliance dissembling and comprehensive utilization business.

Municipal Waste Treatment Business

The Group will focus on the strategic layout with highlights on the Pearl River Delta, Bohai Economic Rim, Central China and Southwest China by constantly implementing the operation strategy of promoting overall work through the experience from pilot projects; based on consolidating existing projects, the Group will develop new business around the nearby regions:

- (1) intensifying and developing the existing business of Xiaping and Shaoyang domestic waste landfills, building a high-caliber operation team of municipal waste landfill, and shaping the "Dongjiang" brand of domestic waste treatment and disposal service; soundly promoting concession business of other cities' waste landfills in China, popularizing the concept of the environmental protection park construction of municipal waste, and achieving the dynamic integration of municipal domestic waste treatment and disposal service and other municipal waste business;

MANAGEMENT DISCUSSION AND ANALYSIS

- (2) leveraging the Company's existing resource advantage, rapidly making inroads into the construction waste treatment and recycling area by way of cooperation or merger and acquisition, speeding up the construction of Kunming construction waste recycling project, and developing China's state-of-the-art comprehensive recycling technology, integrated equipment and operation mode; developing high value-added recycling building products, establishing the upstream waste resource collection channel and downstream recycled product sales channel, and then steadily boosting the expansion of other municipal construction waste treatment and recycling projects; and
- (3) reinforcing the existing renewable energy utilization business, improving the collection ratio and power generation efficiency of landfill gas through technical R&D; achieving the comprehensive utilization of landfill gas resource through R&D of utilization technology of flue gas waste heat; extending the single landfill gas collection and utilization business to a comprehensive business system integrating domestic waste landfill operation and renewable energy utilization.

Value-added Supporting Service

To harmonize with core business of solid waste treatment, the Group is well positioned to share customer resources with industry and municipal waste treatment business and execute the synergy mechanism by constantly improving the capability of value-added supporting service including environmental engineering; the Group will satisfy customers' various demands by developing energy saving, clean production and wastewater recycling technology; the Group will build up professional echelon personnel to shape a replicable environmental engineering and service operation mode and brand.

MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Zhang Wei Yang (張維仰), aged 45, is the chairman of the Board, the chief executive officer of the Company, an executive Director and the founder of the Group. Mr. Zhang is responsible for the overall strategic development and policy of the Group. He has over 20 years of experience in the field of environmental protection and chemical technology, including his employment in Shenzhen environmental protection authorities for approximately five years, and in Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. (深圳市方元化工實業有限公司) for approximately six years. Mr. Zhang is currently a committee member of China Association of Environmental Protection Industry (中國環保產業協會), a committee member of the Association for High and New Technology Industry of Shenzhen (深圳市高新技術產業協會) and a vice president of the Association for Environmental Protection Industry of Shenzhen (深圳市環保產業協會). Mr. Zhang is an uncle of Mr. Li Yong Peng, an executive Director. Mr. Zhang was appointed as an executive Director on 16 September 1999.

Mr. Chen Shu Sheng (陳曙生), aged 44, is an executive Director and the vice president of the Company. He obtained a bachelor degree from the Chemistry Department of Jiangxi University (江西大學) in 1988, majoring in chemistry. Mr. Chen worked in Jiangxi Provincial Research Institute of Rare Earth (江西省稀土研究所) for about 13 years. Mr. Chen joined the Group in July 2001 and is responsible for the management of daily operations of the Group. Mr. Chen was appointed as an executive Director on 2 June 2005.

Mr. Li Yong Peng (李永鵬), aged 36, is an executive Director and the Group's vice general manager of industrial wastes treatment department. 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 economics in 1998, majoring in state-owned assets management. Mr. Li is a nephew of Mr. Zhang Wei Yang, the chairman of the Board, the chief executive officer of the Company, an executive Director and the founder of the Group. Mr. Li was appointed as an executive Director on 28 November 2001.

NON-EXECUTIVE DIRECTORS

Mr. Feng Tao (馮濤), aged 43, is a non-executive Director and the vice-chairman of the Board. Mr. Feng obtained a master degree in science from the Department of Statistics and Applied Probability from the University of Alberta in 1992. Since 1999, he had been serving as the vice president officer of The Foundation of Development in Science and Technology of the State Planning Committee, State Economic and Trade Commission and the China Science Academy (國家計劃委員會、國家經濟貿易委員會、中國科學院科技促進基金委員會) of the PRC. He is also a director of Venturepharm Laboratories Limited (listed on the Growth Enterprise Market of the Stock Exchange ("GEM") (Stock code: 8225)), Ecogreen Fine Chemicals Group Limited (listed on the Main Board of the Stock Exchange (Stock code: 2341)), Western Mining Co., Ltd. (listed on the Shanghai Stock Exchange (Stock code: 601168)). He was also a director of Jiangsu Lianhuan Pharmaceutical Co., Ltd. (listed on the Shanghai Stock Exchange (Stock code: 600513)) before 22 May 2009. Mr. Feng was appointed as a non-executive Director on 28 November 2001.

Mr. Wu Shui Qing (吳水清), aged 44, is a non-executive Director. Mr. Wu graduated from South China University of Technology (華南理工大學) with a doctorate degree in engineering in 1995. He has over three years of experience in the field of engineering and worked with Shenzhen University (深圳大學) in the field of research and development of bio-technology projects. Mr. Wu also has over 10 years of experience in the field of investment. Mr. Wu was appointed as a non-executive Director on 28 November 2001.

Ms. Sun Ji Ping (孫集平), aged 54, is a non-executive Director. Ms. Sun graduated from Beijing Television Broadcast University (北京廣播電視大學) specializing in Chinese and obtained a diploma in economics from Capital University of Economics & Trade (首都經貿大學) in 2002. She worked with China Petroleum and Chemical Group Limited (中國石化化學工業部) for about three years and with Petrochina Group Limited (中國石油天然氣集團公司) for over 20 years. Ms. Sun is the operation executive officer of China Venture Capital Inc. (中國風險投資有限公司). She is also a director of Beijing Dinghan Technology Company (listed on ChiNext of the Shenzhen Stock Exchange (Stock code: 300011)) and Jiangsu Welle Environmental Co., Ltd (listed on ChiNext of the Shenzhen Stock Exchange (Stock code: 300190)). Ms. Sun was appointed as a non-executive Director on 28 November 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ye Ru Tang (葉如棠), aged 70, is an independent non-executive Director. He graduated from the Department of Architecture in Tsinghua University (清華大學) in 1965. From 1985 to 2001, he has acted as the Minister of The Ministry of Urban-Rural Construction and Environment Protection, the PRC (中國城鄉建設環境保護部) and the Deputy Minister of the Ministry of Construction, the PRC (中國建設部). Mr. Ye had been the Vice Director Member of the Ninth and Tenth Committee of Environment and Resource Protection of the National People's Congress (全國人大環境與資源保護委員會) from February 2001 to March 2008, and the Standing Member of the National People's Congress (全國人大常務委員會) from March 2003 to March 2008. Mr. Ye is now the consultant of the China International Institute of Multinational Corporations (中國國際跨國公司研究會), and the honorary director of Architectural Society of China (中國建築學會). He is also a director of Youngor Group Co., Ltd. (listed on the Shanghai Stock Exchange (Stock code: 600177)). Mr. Ye was appointed as an independent non-executive Director on 19 June 2008.

Mr. Hao Ji Ming (郝吉明), aged 64, is an independent non-executive Director. Mr. Hao graduated from Civil Engineering Department of Tsinghua University (清華大學) in 1970, majoring in water supply and sewage engineering. He obtained a master degree in engineering from Tsinghua University (清華大學) in 1981. In 1984, Mr. Hao obtained a doctorate degree in Civil and Environmental Engineering Department from the University of Cincinnati, the United States. Mr. Hao was elected as an academician of the Chinese Academy of Engineering (中國工程院) in 2005. Since 1970, Mr. Hao had been working at Tsinghua University (清華大學) as lecturer, professor and the dean of the Environment Science and Engineering Department. He is now the director of the Research Institute of Environmental Science and Engineering of Tsinghua University (清華大學). Mr. Hao was appointed as an independent non-executive Director on 19 June 2008.

Mr. Liu Xue Sheng (劉雪生), aged 47, is an independent non-executive Director. Mr. Liu is a Certificated Public Accountant of the PRC. Mr. Liu graduated from Jiangxi Institute of Finance and Economics (江西財經學院) (now known as the Jiangxi University of Finance and Economics (江西財經大學)) with a bachelor degree in 1989 and graduated from Shanghai University of Finance and Economics (上海財經大學) majoring in accounting and obtained a master degree in economics in 1992. He was certified as Certified Public Accountants of the PRC in 1995. From 1992 to 1999, Mr. Liu worked as an accountant with the OCT Group (華僑城集團). Since 1999, Mr. Liu has been working with Shenzhen Institute of Certified Public Accountants (深圳市註冊會計師協會) ("SZICPA") and is the deputy secretary general of the SZICPA. Mr. Liu was appointed as an independent non-executive Director on 19 June 2008.

SUPERVISORS

Ms. Yuan Wei (袁桅), aged 40, is a supervisor of the Company. Ms. Yuan graduated from Tsinghua University (清華大學) in 1993 majoring in environmental engineering and business management, and obtained a master degree in philosophy, majoring in technology and philosophy from Tsinghua University (清華大學) in 1995. Ms. Yuan worked in the Science and Technology Department of the PRC (中國科學技術部) for about four years. From August 2000 to January 2009, she had been an investment manager, an investment director and a partner of Shanghai New Margin Vecture Capital Co., Ltd. (上海聯創創業投資有限公司). She was a partner of Redpoint Ventures (紅點投資). She is currently a founding and managing partner of South River Capital Partners (江南仁和投資管理中心(有限合伙)). Ms. Yuan was appointed as a supervisor of the Company on 28 November 2001.

Mr. Cai Wen Sheng (蔡文生), aged 44, is a supervisor of the Company. Mr. Cai graduated from the Department of Law in Shenzhen University (深圳大學) with a bachelor degree in laws in July 1988. He worked for the Shenzhen Yuan Lin Group (深圳市圓林集團) between 1988 and 1991, and was a lawyer in Shenzhen Pengcheng Law Firm (深圳市鵬城律師事務所) between 1991 and 1993. He has been a senior lawyer in Guangdong Gewei Law Firm (廣東格威律師事務所) since 1993. Mr. Cai was appointed as a supervisor of the Company on 9 December 2010.

Mr. Liu An (劉安), aged 37, is a supervisor of the Company. Mr. Liu was working in the chief executive officer's office of the Company and one of the subsidiaries since 2005 when he joined the Company. He has over 10 years of experience in the field of corporate management. Mr. Liu was appointed as a supervisor of the Company on 19 June 2008.

MANAGEMENT PROFILE

COMPANY SECRETARY

Mr. Lo Wah Wai (盧華威), aged 47, 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 degree in business administration from the Chinese University of Hong Kong and a master degree in science from New Jersey Institute of Technology, the United States.

SENIOR MANAGEMENT

Mr. Cao Ting Wu (曹庭武), aged 45, is the vice president and the Chief Financial Officer of the Group, in charge of financial management and capital planning. Mr. Cao graduated in statistics from Jiang Xi University of Finance and Economics (江西財經大學), and obtained a degree of MBA in finance from Chinese University of Hong Kong. Mr. Cao has 20 years of experience in financial management.

Mr. Lan Yonghui (蘭永輝), aged 53, is the vice president of the Group, in charge of human resource, administration, and management of environment, health and safety of the Group and the senior engineer of the Group. Mr. Lan graduated in Northwest University of Light Industry (西北輕工業學院) with a master degree in polymer materials and engineering in 1988. From 1991 to 2003, Mr. Lan worked with China Merchants Group in management position. After joining the Group in 2004, Mr. Lan acted as the general manager of several subsidiaries of the Group. Mr. Lan has rich experience in the technology and management.

Ms. Wang Tian (王恬), aged 34, is the secretary of the Board. Ms. Wang joined the Group in March 2002. She graduated from Zhongshan University (中山大學) in 1999 majoring in international finance and obtained a master degree in economics from University of Birmingham of United Kingdom. Ms. Wang has over 8 years of experience in the field of investment and management.

DIRECTOR'S REPORT

The Directors present this report and the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the processing and sale of recycled products, the provision of waste treatment services, the construction and provision of environmental protection systems and services, and the trading of chemical products. Details of the principal activities of the subsidiaries are set out in note VII.1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2010.

RESULTS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 44.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2010 (2009: RMB0.05 per share).

CHANGE OF REGISTERED OFFICE OF THE COMPANY

On 3 February 2010, the Company announced that the registered office of the Company in the PRC has been changed to 1st Floor, 3rd Floor, North of 8th Floor, 9th-12th Floor, Dongjiang Environmental Building, No.9 Langshan Road, North Zone of Hi-tech Industrial Park, Nanshan District, Shenzhen with effect from 27 January 2010. As approved by the shareholders of the Company at the extraordinary general meeting ("EGM") held on 18 January 2010, amendments were made to the articles of association of the Company to reflect the changes of the registered office and scope of business of the Company.

BONUS ISSUE OF SHARES AND CHANGE OF BOARD LOT SIZE

A bonus share issue regarding allotment and issue of 177,900,000 H Shares of RMB0.10 each as bonus Shares on the basis of one bonus H Share for every one existing H Share held, and 449,481,872 domestic Shares of RMB0.10 each as bonus Shares on the basis of one bonus domestic Share for every one existing domestic Share held was approved at the annual general meeting held on 31 May 2010 and completed on 11 June 2010. The articles of association of the Company was amended to reflect the change of the share structure of the Company.

On 1 June 2010, the Company announced that the board lot size for trading in the H Shares was changed from 10,000 H Shares to 2,000 H Shares effective 23 June 2010 upon the Bonus Share.

Please refer to the circular of the Company dated 15 April 2010, and the announcements of the Company dated 31 May 2010 and 1 June 2010, respectively, for details of the bonus issue of shares and change in board lot size.

TRANSFER OF LISTING

On 18 August 2010, application was made by the Company to the Stock Exchange for the transfer of listing of the Company's H Shares from the Growth Enterprise Market of the Stock Exchange ("GEM") to the Main Board of the Stock Exchange.

The Company was granted an approval-in-principle from the Stock Exchange for the H Shares to be listed on the Main Board and de-listed from GEM according to Rule 9A.09(6) of the GEM Listing Rules. The Company has also obtained the approval from the China Securities Regulatory Commission in connection with the implementation of the transfer of listing on 9 August 2010.

The last day of dealings in the H Shares on GEM was 27 September 2010. Dealings in the H Shares on the Main Board on the Stock Exchange commenced at 9:30 a.m. on 28 September 2010. The H Shares was then traded on the Main Board on the Stock Exchange under the new stock code "00895".

The Directors believe that the listing of the H Shares on the Main Board will enhance the profile and corporate image of the Group, and could improve the trading liquidity of the H Shares. The Directors consider that the listing of the H Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group.

Please refer to the announcements of the Company dated 18 August 2010 and 16 September 2010, respectively, for details of the transfer of listing.

PROVISIONS OF GUARANTEES AND ISSUE OF SHORT-TERM COMMERCIAL PAPERS

At the EGM of the Company held on 21 October 2010, it was resolved that the following guarantees be provided to independent third parties of the Group to secure bank facilities in an aggregate amount of RMB466,000,000 for certain of its subsidiaries:

- (i) the provision of guarantee by the Company to licensed bank(s) in the PRC against the entire facility amounting to RMB40,000,000 to be provided to Shenzhen Dongjiang Environmental Resource Recycling Co., Ltd. (深圳市東江環保再生資源有限公司), a wholly-owned subsidiary of the Company;
- (ii) the provision of guarantees by the Company to licensed bank(s) in the PRC against the entire facilities amounting to RMB120,000,000 to be provided to Shenzhen Dongjiang Environmental Renewable Energy Co., Ltd. (深圳市東江環保再生能源有限公司), a wholly-owned subsidiary of the Company;
- (iii) the provision of guarantee by the Company to licensed bank(s) in the PRC against the entire facility amounting to RMB66,000,000 to be provided to Qianyuan Dongjiang Environmental Technology Co., Ltd. (清遠市東江環保技術有限公司), a wholly-owned subsidiary of the Company;
- (iv) the provision of guarantee by the Company to licensed bank(s) in the PRC against the facility amounting to RMB50,000,000 to be provided to Shenzhen Longgang Dongjiang Industrial Waste Treatment Co., Ltd. (深圳市龍崗區東江工業廢物處置有限公司), a non-wholly owned subsidiary of the Company;
- (v) the provision of guarantee by the Company to licensed bank(s) in the PRC against the facility amounting to RMB150,000,000 provided to Shaoguan Green Resource Recycling Development Co., Ltd. (韶關綠然再生資源發展有限公司), a non-wholly owned subsidiary of the Company;

- (vi) the provision of guarantee by the Company to licensed bank(s) in Hong Kong against the entire facility amounting to RMB20,000,000 (or its Hong Kong dollars equivalent) to be provided to Lik Shun Services Limited (力信服務有限公司), a wholly-owned subsidiary of the Company; and
- (vii) the provision of guarantee by the Company to licensed bank(s) in the PRC against the entire facility amounting to RMB20,000,000 to be provided to Beijing Novel Environmental Protection Co., Ltd. (北京永新環保有限公司), a non-wholly owned subsidiary of the Company.

It was further resolved at the said EGM of the Company that short term commercial papers in an aggregate principal amount not exceeding RMB300,000,000 be issued in the PRC. As at the date of this report, the relevant work is in the progress.

Please refer to the circular of the Company dated 6 September 2010 and the announcement of the Company dated 21 October 2010 for details of the aforesaid.

PROPOSED ISSUE OF A SHARES

On 20 September 2010, the Company announced its proposal to apply to the relevant regulatory authorities in the PRC for the allotment and issue of not more than 250,000,000 A Shares with a nominal value of RMB0.10 each or, subject to the implementation of the share consolidation, 25,000,000 A Shares with a nominal value of RMB1.00 each (subject to any adjustment resulting from any change to the issued share capital of the Company up to the completion of the issue of A Shares) to natural persons, legal persons and other institutional investors recognized by the China Securities Regulatory Committee ("CSRC"), who maintain A share account with the Shanghai Stock Exchange or the Shenzhen Stock Exchange (as the case may be) (except those prohibited by PRC laws and regulations, and other regulatory requirements to which the Company is subject to), and to apply to the Shanghai Stock Exchange or the Shenzhen Stock Exchange (to be decided by the Board depending on the requirements of relevant regulatory authorities in the PRC) for the listing of, and permission to deal in, the A Shares. The proposed issue of A Shares was approved by the shareholders at the EGM of the Company held on 9 December 2010, the class meeting for holders of H Shares and the class meeting for holders of Domestic Shares held on 9 December 2010.

At the EGM of the Company held on 9 December 2010, it was further resolved that, subject to the implementation of the proposed issue of A shares, the articles of association of the Company be amended, the rules of procedures of general meeting of shareholders of the Company, the rules of procedures of the board of directors of the Company, the rules of procedures of the supervisory committee of the Company be amended, and that the terms of reference for independent non-executive Directors, the decision making system for conduct of connected transactions, the management principles of external guarantee and the management principles on use of proceeds, be adopted.

With reference to the requirements by the CSRC for issuer whose A shares were proposed to be listed, the Company ratified, confirmed and approved certain guarantees provided among the Group.

Furthermore, SHINEWING CERTIFIED PUBLIC ACCOUNTANTS (信永中和會計師事務所有限公司) ("SHINEWING") has been appointed as the Company's reporting accountant for the issue of A Shares for a term commencing from 9 December 2010 to completion of the issue of A Shares.

Please refer to the circular of the Company dated 13 October 2010, and the announcement of the Company dated 9 December 2010 in relation to the proposed issue of A shares.

FINANCIAL SUMMARY

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

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note VIII.10 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note VIII.29 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE AND REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the reporting period.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2010 are set out in the consolidated statement of changes in shareholders' equity.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to approximately RMB546,976,075.36. In addition, no amount in the company's share premium account is available for distribution by way of capitalization issues.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, sales to the Group's five largest customers accounted for 23.83% of the total sales for the year and sales to the largest customer included therein amounted to 6.00%. Purchases from the Group's five largest suppliers accounted for approximately 31.31% of the total purchases for the year and purchase from the Group's largest supplier accounted for 11.94% for the year ended 31 December 2010.

None of the Directors 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 or in the Group's five largest suppliers.

DIRECTORS AND SUPERVISORS

The Directors during the year ended 31 December 2010 and up to the date of this report were: Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng as the executive Directors; Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping as the non-executive Directors; Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng as the independent non-executive Directors.

The Supervisors during the year ended 31 December 2010 and up to the date of this report were: Ms. Yuan Wei, Mr. Luo Xiao Hong (resigned on 9 December 2010), Mr. Cai Wen Sheng (appointed on 9 December 2010) and Mr. Liu An.

DIRECTORS' , SUPERVISORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographies details of the Directors, Supervisors and the senior management of the Group are set out on pages 17 to 19 of this report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors of the Company (the "Supervisors") (including independent non-executive Directors and the Supervisors) has entered into a service contract with the Company for a term of three years, except Mr. Cai Wen Sheng, a Supervisor, who has entered into a service contract with the Company for a term commencing on 9 December 2010 to the conclusion of the 2010 annual general meeting of the Company in 2011. None of the Directors or the Supervisors had entered into any service contract with the Company which is not determinable 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 or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2010.

Save as disclosed in this report, no contract of significance has been entered into during the year ended 31 December 2010 between the Company or any of its subsidiaries and the controlling shareholder or any of its subsidiary.

EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND EMPLOYEES

Details of the emoluments for Directors, Supervisors and employees of the Company are set out in note VIII.45 to the financial statements.

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

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

At 31 December 2010, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules, were as follows:

Long positions in ordinary shares of the Company

Name	Capacity	Number and class of shares held	Percentage of shareholding in this class
Mr. Zhang Wei Yang	Beneficial owner	431,589,646 domestic shares	48.01%
Mr. Li Yong Peng	Beneficial owner	63,851,550 domestic shares	7.10%
Mr. Chen Shu Sheng	Beneficial owner	32,562,991 domestic shares	3.62%

Save as disclosed above, as at 31 December 2010, none of the Directors, Supervisors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December, 2010, the following persons (other than Directors, Supervisors and chief executive of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the ordinary shares of the Company

Name	Capacity	Number and class of shares held	Percentage of shareholding in this class
Shanghai New Margin Venture Capital Co., Ltd (Note 1)	Beneficial owner	123,133,116 domestic shares	13.70%
Cai Hong	Beneficial owner	56,464,368 domestic shares	6.28%
Leading Environmental Solutions and Services (Note 2)	Interest of a controlled corporation	23,000,000 H shares	6.46%
China Environmental Fund 2002 Management Limited	Interest of a controlled corporation	23,000,000 H shares	6.46%
China Environmental Fund 2002, LP	Beneficial owner	23,000,000 H shares	6.46%
CITIC Securities International Investment Management (HK) Limited	Investment manager	17,774,000 H shares	5.00%

Notes:

- Shanghai New Margin Venture Capital Co., Ltd. is owned as to 24.5% 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 24.5% by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 51% equally by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowths Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the Directors, Supervisors, chief executive of the Company or substantial shareholders of the Company or an associate of any of them.
- Leading Environmental Solutions and Services and China Environmental Fund 2002 Management Ltd. own approximately 76.92% and 0.10% of the shares of China Environment Fund 2002, LP, which holds 23,000,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the Directors, Supervisors, chief executive or substantial shareholders or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 31 December 2010, the Directors, Supervisors and chief executive of the Company are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register of the interests required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed in this report, during the year, none of the Directors, Supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 31 December 2010, none of the Directors, Supervisors and chief executives of the Company had any rights to acquire H share of the Company.

SHARE OPTION SCHEME

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

CONNECTED TRANSACTIONS

Continuing Connected Transactions

Details of continuing connected transactions of the Group during the year ended 31 December 2010 are set out as follows:

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

Heritage is a substantial shareholder of 深圳東江華瑞科技有限公司 (Shenzhen Dongjiang Heritage Technologies Company), which is a 62% owned subsidiary of the Company. Heritage is therefore a connected person of the Company. The Sales Agreement 1 constitutes a continuing connected transaction for the Company.

The Sales Agreement 1 and related annual Caps were approved by the independent shareholders of the Company at an extraordinary general meeting of the Company was held on 7 December 2009.

For the year ended 31 December 2010, the aggregate fees paid by Heritage Group to the Group under the Sales Agreement 1 amounted to RMB75,118,139.

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

2. On 5 December 2008, 深圳市萊索思環境技術有限公司 (Shenzhen Resource Environmental Technology Company Limited*) ("Shenzhen Resource"), a non-wholly owned subsidiary of the Company in which the Company beneficially holds a 50% equity interest, entered into the waste treatment agreement with 深圳市危險廢物處理站有限公司 (Shenzhen Hazardous Waste Treatment Station Company Limited*) ("SHWTS") (the "Waste Treatment Agreement 1"). In accordance with the terms of the Waste Treatment Agreement 1, SHWTS has engaged Shenzhen Resource to provide waste treatment services for a term commencing on 5 December 2008 and ending on 4 December 2010.

As SHWTS beneficially holds the remaining 50% equity interest in Shenzhen Resource, SHWTS is a connected person of the Company and the Waste Treatment Agreement 1 constitutes a continuing connected transaction of the Company.

The respective annual cap is RMB17 million for each of the year ended 31 December 2008, 2009 and 2010.

As each of the applicable percentage ratios in respect of the annual cap of the Waste Treatment Agreement 1 is less than 2.5%, the Waste Treatment Agreement 1 (aggregated with previous transactions between SHWTS and Shenzhen Resource as required under the applicable rules governing the listing of securities on the Stock Exchange) is subject to the reporting and announcement requirements and is exempted from the independent shareholders' approval. Details of the above transaction had been published in the Company's announcement dated 8 December 2008.

For the year ended 31 December 2010, the aggregate fees paid by Shenzhen Resource to SHWTS amounted to RMB19,577,168.

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

SHWTS is a connected person of the Company and the Sales Agreement 2 constitutes a continuing connected transaction of the Company.

As the applicable percentage ratios in respect of the annual cap of the Sales Agreement 2 is less than 2.5%, the Sales Agreement 2 is subject to the reporting and announcement requirements and is exempted from the independent shareholders' approval requirement. Details of the above transaction had been published in the Company's announcement dated 30 April 2009.

For the year ended 31 December 2010, the aggregate fees paid by SHWTS to Dongjiang Trading under the Sales Agreement 2 amounted to RMB1,082,339.

4. On 4 March 2010, 惠州東江威立雅環境服務有限公司 (Huizhou Dongjiang Veolia Environmental Services Company Limited*) ("Dongjiang Veolia"), a non-wholly owned subsidiary of the Company in which the Company beneficially holds 51% equity interest, entered into a waste treatment agreement (the "Waste Treatment Agreement 2") with SHWTS for a term commencing from 4 March 2010 to 31 December 2010. The annual cap under the Waste Treatment Agreement 2 was RMB10 million for the years ending 31 December 2010.

As SHWTS beneficially holds 50% equity interest in Shenzhen Resource, SHWTS is a connected person of the Company and the waste treatment agreement constitutes continuing connected transactions of the Company.

As applicable percentage ratios in respect of the aggregate value of the annual cap of the Waste Treatment Agreement 2 is less than 2.5%, the Waste Treatment Agreement 2 is subject to the reporting and announcement requirements and is exempted from the independent shareholders' approval requirement. Details of the above transaction had been published in the Company's announcement dated 4 March 2010.

For the year ended 31 December 2010, the aggregate fees paid by SHWTS to Dongjiang Veolia under the Waste Treatment Agreement 2 amounted to RMB8,417,696.

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

DIRECTOR'S REPORT

The auditors have reviewed the aforesaid continuing connected transactions of the Group and confirmed that the continuing connected transactions:

1. have received the approval of the Board;
2. are in accordance with the pricing policies of the Group;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. the aggregate amounts of the continuing connected transactions for the year ended 31 December 2010 did not exceed the annual cap amounts as disclosed in the relevant announcements disclosing the relevant transaction.

Connected Transactions

On 21 January 2010, the Company and 深圳市利賽實業發展有限公司 (Shenzhen Lisai Development Limited*) ("Lisai Development"), a substantial shareholder of 深圳市東江利賽再生能源有限公司 (Shenzhen Dongjiang Lisai Renewable Energy Limited*) ("Dongjiang Lisai") entered into an agreement ("Dongjiang Lisai Agreement") pursuant to which the Company acquired 29% of equity interest in Dongjiang Lisai from Lisai Development at a consideration of RMB4,705,102.04. Dongjiang Lisai is a non-wholly owned subsidiary of the Company in which the Company beneficially held a 51% equity interest as at the date of the Dongjiang Lisai Agreement.

Lisai Development is a substantial shareholder of Dongjiang Lisai and is therefore a connected person of the Company. As such, the Dongjiang Lisai Agreement constitutes a connected transaction of the Company. As each of the applicable percentage ratios is less than 2.5%, the Dongjiang Lisai Agreement is only subject to the reporting and announcement requirement and is exempted from the independent shareholders' approval requirement. Details of the above transaction had been published on the Company's announcement dated 19 March 2010.

The Company has complied with the relevant disclosure requirements in accordance with the applicable rules governing the listing of securities on the Stock Exchange in respect of all transactions set out in this section headed "Connected Transactions".

Save as disclosed above, there were no other connected transactions, which were discloseable under the applicable rules governing the listing of securities on the Stock Exchange. The related party transactions are set out in note IX to the financial statements of the Company. Save as the above, all other related party transactions did not fall under the scope of "connected transactions" or "continuing connected transactions" under the applicable rules governing the listing of securities of the Stock Exchange which are required to comply with any of the reporting, announcement or independent shareholders' approval requests thereunder.

OTHER INFORMATION

On 21 September 2010, the Company announced that the Company received notice and was informed that the Company has successfully won the bid by way of public tender for Designated Disassembly and Treatment Enterprise for Household Appliances Replacement in Hubei Province in the PRC. The Company will speed up to carry out the planning and implementation for the relevant projects according to the requirements of the relevant regulatory authorities. As at the date of this report, the Company was executing preliminary work of projects for construction.

The Company is of the view that the successful bid for the above qualification can help the Company to further expand the area of the disassembly and comprehensive utilization of the worn-out household appliances, and provide the Company a good opportunity for further development of the environmental protection business in Hubei Province.

Please refer to the announcement of the Company dated 21 September 2010 for details of the aforesaid.

EVENTS AFTER THE REPORTING PERIOD

Dismissal of International Auditors

At the first extraordinary general meeting in 2011 of the Company held on 1 March 2011, it was resolved that SHINEWING (HK) CPA Limited be dismissed as the international auditors of the Company whilst SHINEWING be the only auditors auditing the Company's financial statements for the financial year ended 31 December 2010 in accordance with the China Accounting Standards for Business Enterprises, and undertaking the role of international auditors in compliance with the Listing Rules with effect from the date of such resolution being passed and that the Board be authorised to take all such actions and make such arrangements for all specific matters relating to, or in connection with, the dismissal of SHINEWING (HK) CPA Limited.

Please refer to the circular of the Company dated 24 January 2011 and the announcement of the Company dated 1 March 2011 for details of the dismissal of international auditors.

Consolidation of Shares and Change of Board Lot Size

Pursuant to the general practice of the PRC securities market, A shares are generally of a nominal value of RMB1.00 each. In light of the recommendation of the relevant authorities in the PRC, the Board resolved to effect the consolidation of the Shares on the basis of every 10 ordinary shares of the Company with a nominal value of RMB0.10 each in the issued or unissued share capital of the Company be consolidated into one ordinary share of the Company with a nominal value of RMB1.00 each (the "Share Consolidation") to facilitate the implementation of the Issue of A Shares pursuant to the authorization granted to it by the shareholders at the EGM of the Company held on 9 December 2010 the class meeting for holders of H Shares and the class meeting for holders of domestic shares held on 9 December 2010, respectively.

Upon the Share Consolidation becomes effective, the board lot size of the H Shares for trading on the Stock Exchange is changed from 2,000 H shares with a nominal value of RMB0.10 each to 200 consolidated H Shares with a nominal value of RMB1.00 each.

The Share Consolidation and change in board lot size became effective on 20 January 2011, and the relevant procedures in relation thereto had completed as at the date of this report.

Please refer to the circular of the Company dated 13 October 2010, the announcements of the Company dated 9 December 2010 and 3 January 2011, respectively, for details of the Share Consolidation and the change of board lot size.

Change of the Name of the Company

At the EGM of the Company held on 9 December 2010, it was resolved that the Chinese name of the Company be changed from "深圳市東江環保股份有限公司" to "東江環保股份有限公司", and "Dongjiang Environmental Company Limited" be adopted as the English name of the Company for identification purpose only. All the necessary registration and/or filing procedures in respect of the change of the Company's name have been completed on 11 January 2011. The Company's stock short names and the stock code remain unchanged.

Please refer to the circular of the Company dated 13 October 2010, and the announcements of the Company dated 9 December 2010 and 12 January 2011, respectively, for details of the change of Company's name.

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.

DIRECTOR'S REPORT

COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors, Supervisors, chief executive 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 the Listing Rules.

AUDITORS

The consolidated financial statements for the years ended 31 December 2007 to 2009 were audited by SHINEWING (HK) CPA Limited. As disclosed in the paragraph headed "Proposed Issue of A Shares", SHINEWING has been appointed as the Company's reporting accountant for the issue of A shares. As disclosed in the section headed "Event after the reporting period", following the Shareholders' approval at the first extraordinary general meeting of the Company, SHINEWING (HK) CPA Limited was dismissed as the international auditors of the Company whilst SHINEWING became the only auditors auditing the financial statements of the Group for the year ended 31 December 2010. A resolution will be submitted to the forthcoming 2010 annual general meeting of the Company to re-appoint SHINEWING.

ON BEHALF OF THE BOARD

Dongjiang Environmental Company Limited*

Zhang Wei Yang

Chairman

Shenzhen, Guangdong Province, the PRC

18 March 2011

** For identification purpose only*

SUPERVISORY COMMITTEE'S REPORT

To all shareholders of

Dongjiang Environmental Company Limited* (the "Company")

(Formerly known as Shenzhen Dongjiang Environmental Company Limited)*

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 18 March 2011, the Supervisory Committee convened a meeting, which the 2010 financial statements of the Group and a preliminary draft of the independent auditor's report were reviewed and approved. The Supervisory Committee is of the view that the financial statements have been prepared in accordance with the relevant accounting standards and fairly reflect the financial condition and results of operations of the Group.

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

In the coming year, the Supervisory Committee shall continue to carry out its duties in accordance with the relevant provisions of requirements and regulations, the Articles and the 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

Dongjiang Environmental Company Limited*

Yuan Wei

Chairman of the Supervisory Committee

Shenzhen, the PRC

18 March 2011

** For identification purpose only*

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Code on Corporate Governance Practice contained in Appendix 14 to the Listing Rules (the "Code"). The Company has complied with all the code provisions throughout the year under review, except for the deviation of code provision A.2.1 mentioned in the paragraphs below.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The division of the association of responsibilities of the chairman and chief executive officer of the Company are clearly set out in the articles of the Company.

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

Taking into account Mr. Zhang's strong expertise and excellent insight of the environmental protection industry, the Board considered that the roles of 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 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 had adopted a code of conduct regarding securities transactions by the Directors on terms no less than Appendix 10 "Model Code for Securities Transactions by Directors of Listed Issuers" to the Listing Rules. Having made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2010.

THE BOARD

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

The Board currently comprises three executive Directors, being Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng; three non-executive Directors, being Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping; and three independent non-executive Directors, being Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng. The skills and expertise among the existing Directors are considered appropriate to the business and nature of the Group. The experience and qualifications of Directors and senior management and the relationship among them are set out on pages 17 to 19 of this report.

According to the Articles, the Board delegates day-to-day operations of the Group to the executive Directors and senior management, including responsible for managing the Group's business, the implementation of major strategies and initiatives adopted by the Board. On the other hand, the Board reserves certain key matters in making strategic decision for its approval.

CORPORATE GOVERNANCE REPORT

The Board meets regularly at approximately quarterly 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 regular meetings.

The Board held 21 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 (<i>Chairman</i>)	21/21
Mr. Chen Shu Sheng	21/21
Mr. Li Yong Peng	21/21
Non-executive Directors	
Mr. Feng Tao (<i>Vice Chairman</i>)	21/21
Mr. Wu Shui Qing	21/21
Ms. Sun Ji Ping	21/21
Independent Non-executive Directors	
Mr. Ye Ru Tang	21/21
Mr. Hao Ji Ming	21/21
Mr. Liu Xue Sheng	21/21
Average attendance rate	100%

Mr. Li Yong Peng (executive Director) is a nephew of Mr. Zhang Wei Yang (Chairman and executive Director).

NON-EXECUTIVE DIRECTORS

Since the listing of the Company, more than two-third of the Board comprised non-executive Directors among which (one-third has been independent non-executive Directors). Non-executive Directors have appropriate professional qualification, therefore, there is strong element on the Board, which can effectively exercise independent judgment, and the non-executive Directors are of sufficient caliber and number for their views to carry weight. The Board has received a written confirmation from each of the independent non-executive Directors confirming their independence to the Company pursuant to rule 3.13 of the Listing Rules, and considers that all of the independent non-executive Directors are independent.

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

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's; 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.

CORPORATE GOVERNANCE REPORT

The criteria for prospective candidates for nomination is: 1) the skills, knowledge and working experiences to carry out the duties a director of the Company; 2) compliance of the qualifications set out in the Articles, the Company Law of the PRC and the Listing Rules for a director and, for 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 the Directors shall be eligible for re-election upon expiry of the said term.

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng. Mr. Liu Xue Sheng has been appointed as the chairman of the Audit Committee. The Audit Committee has reviewed the Company's financial statements for the year ended 31 December 2010.

The principal responsibilities of the Audit Committee include:

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

The Audit Committee met four times in the year ended 31 December 2010 to discuss the Group's quarterly financial reports, and review the accounting principles and practices and internal controls adopted by the Group. The following table shows the attendance record of individual members of the Audit Committee:

Name of Audit Committee members	Attendance/Number of meetings held
Mr. Ye Ru Tang	4/4
Mr. Hao Ji Ming	4/4
Mr. Liu Xue Sheng	4/4
Average attendance rate	100%

REMUNERATION AND APPRAISAL COMMITTEE

The remuneration and appraisal committee of the Company (the "Remuneration and Appraisal Committee") was established in June 2005 with written terms of reference in compliance with the Code. The Remuneration and Appraisal Committee comprises three independent non-executive Directors, namely Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng and one executive Director, namely, Mr. Zhang Wei Yang. Mr. Zhang has been appointed as the chairman of the Remuneration and Appraisal Committee.

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

The Remuneration and Appraisal Committee met once for the year ended 31 December 2010 to discuss the remuneration of the Directors and senior management and the relevant assessment policy. The following table shows the attendance records of individual members of the Remuneration and Appraisal Committee:

Name of Remuneration and Appraisal Committee members	Attendance/Number of meetings held
Mr. Zhang Wei Yang	1/1
Mr. Ye Ru Tang	1/1
Mr. Hao Ji Ming	1/1
Mr. Liu Xue Sheng	1/1
Average attendance rate	100%

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 9 November 2010 with written terms of reference detailing the duties of the Nomination Committee. The Nomination Committee comprises two independent non-executive Directors, namely Mr. Hao Ji Ming and Mr. Ye Ru Tang, and one executive Director, namely Mr. Zhang. Mr. Hao has been appointed as the chairman of the Nomination Committee. The principal responsibility of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The Nomination Committee meets as required from time to time. The Nomination Committee did not conduct any meeting during the year ended 31 December 2010 since its establishment on 9 November 2010.

STRATEGIC DEVELOPMENT COMMITTEE

The strategic development committee of the Company (the "Strategic Development Committee") was established on 9 November 2010 with written terms of reference detailing the duties of the Strategic Development Committee. The Strategic Development Committee comprises one executive Director, namely, Mr. Zhang Wei Yang, one non-executive Director, namely, Mr. Feng Tao and one independent non-executive Director, namely Mr. Ye Ru Tang. Mr. Zhang Wei Yang has been appointed as the chairman of the Strategic Development Committee. The principal responsibility of the Strategic Development Committee is to make recommendations to the Board regarding the development of strategic planning, major investment and financing programs, major capital operation, assets, operations research projects, etc.

The Strategic Development Committee meets as required from time to time. The Strategic Development Committee did not conduct any meeting during the year ended 31 December 2010 since its establishment on 9 November 2010.

AUDITORS' REMUNERATION

The remuneration for the Company's auditor, SHINEWING, for the year 2010 was totalling RMB1,900,000, of which RMB600,000 was annual audit fee and RMB1,300,000 was progress payment for reporting accountants of issuing A shares.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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

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

INTERNAL CONTROL AND INTERNAL AUDIT

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

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

The Company has established internal audit function to ensure the effectiveness of internal control system, as well as identify and prevent the potential risk. The head of internal audit submits working reports and recommendations on a regular basis to the executive Directors. The annual audit report for the year 2010 was submitted to the Board, and no major issues had been identified.

FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is the auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company's shareholders. The responsibilities of the auditors are set out in the report of the auditors on pages 38 to 39 of this report.



信永中和会计师事务所

ShineWing
certified public accountants

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XYZH/2010SZA1042

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF DONGJIANG ENVIRONMENTAL COMPANY LIMITED

We have audited the accompanying financial statements of Dongjiang Environmental Company Limited (hereinafter referred to as "Dongjiang Environmental"), which comprise the consolidated and Company balance sheets as at 31 December 2010, the consolidated and Company income statements, the consolidated and Company statements of change in shareholders' equity and the consolidated and Company cash flow statements for the year then ended and notes to these financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Dongjiang Environmental is responsible for preparing these financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

3. OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the consolidated and Company financial position of Dongjiang Environmental as at 31 December 2010 and of their financial performance and their cash flows for the year then ended.

ShineWing Certified Public Accountants

Guo Jinlong

Chinese Certified Public Accountant

Wang Yaming

Chinese Certified Public Accountant

Beijing, China

18 March 2011

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
Current assets			
Bank balances and cash	VIII.1	178,654,812.40	230,360,564.53
Held for trading financial assets	VIII.2	4,511,646.00	6,286,090.00
Bills receivables	VIII.3	52,407,555.18	690,000.00
Accounts receivables	VIII.4	158,038,481.61	120,509,018.09
Prepayments	VIII.5	66,875,351.10	109,290,612.82
Other receivables	VIII.6	69,116,661.93	80,023,133.98
Inventories	VIII.7	282,481,876.70	139,164,003.82
Total current assets		812,086,384.92	686,323,423.24
Non-current assets			
Investments in jointly controlled entities and associates	VIII.8	116,591,720.88	69,845,089.41
Other long-term equity investments	VIII.8	1,900,000.00	1,800,000.00
Investment properties	VIII.9	53,952,089.00	51,468,059.00
Fixed assets	VIII.10	378,101,272.84	268,742,041.72
Construction in progress	VIII.11	322,338,261.31	356,484,848.61
Intangible assets	VIII.12	59,968,007.02	65,816,896.49
Goodwill	VIII.13	26,883,677.58	26,883,677.58
Long-term prepayments	VIII.14	181,500.00	360,000.00
Deferred income tax assets	VIII.15	10,074,535.27	9,334,757.77
Total non-current assets		969,991,063.90	850,735,370.58
Total assets		1,782,077,448.82	1,537,058,793.82
Current liabilities			
Short-term borrowings	VIII.17	288,000,000.00	309,736,635.00
Held for trading financial liabilities	VIII.18	–	447,000.00
Accounts payables	VIII.19	145,704,548.17	79,111,924.19
Receipts in advance	VIII.20	55,346,052.98	42,416,177.25
Employee benefits payables	VIII.21	16,439,339.14	25,141,829.29
Tax payables	VIII.22	(3,705,441.77)	6,868,810.38
Other payables	VIII.23	34,868,399.03	32,735,772.45
Non-current liabilities repayable within one year	VIII.24	112,450,022.02	3,475,445.80
Deferred income realisable within one year	VIII.25	2,506,883.08	–
Total current liabilities		651,609,802.65	499,933,594.36

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
Non-current liabilities			
Long-term borrowings	VIII.26	265,587,320.00	249,000,000.00
Obligations under finance leases	VIII.27	2,743,746.44	5,459,345.33
Deferred income tax liabilities	VIII.15	1,403,846.70	1,051,181.48
Deferred income	VIII.28	21,902,527.71	20,779,297.38
Total non-current liabilities		291,637,440.85	276,289,824.19
Total liabilities		943,247,243.50	776,223,418.55
Shareholders' equity			
Share capital	VIII.29	125,476,374.40	62,738,187.20
Capital reserves	VIII.30	–	35,476,560.53
Surplus reserves	VIII.31	70,754,552.84	71,159,092.84
Undistributed profits	VIII.32	546,976,075.36	457,499,139.98
Exchange difference on translation of financial statements denominated in foreign currency		401,836.23	543,267.22
Equity attributable to shareholders of the Company		743,608,838.83	627,416,247.77
Minority interests	VIII.33	95,221,366.49	133,419,127.50
Total shareholders' equity		838,830,205.32	760,835,375.27
Total liabilities and shareholders' equity		1,782,077,448.82	1,537,058,793.82
Net current assets		160,476,582.27	186,389,828.88
Total assets less current liabilities		1,130,467,646.17	1,037,125,199.46

The financial statements as set out from pages 40 to 192 have been signed by:

Zhang Wei Yang
Director

Chen Shu Sheng
Director

Zhang Wei Yang
Legal Representative

Cao Ting Wu
Chief Financial Officer

Wang Min Yan
Head of Financial Section

BALANCE SHEET OF THE COMPANY

As at 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
Current assets			
Bank balances and cash		87,869,056.48	125,875,383.48
Held for trading financial assets		4,511,646.00	5,914,310.00
Bills receivables		50,875,526.00	–
Accounts receivables	XVII.1	110,735,057.89	67,271,136.90
Prepayments		10,432,536.06	57,658,879.42
Other receivables	XVII.2	369,597,158.75	328,769,868.31
Inventories		69,835,445.09	9,169,719.55
Total current assets		703,856,426.27	594,659,297.66
Non-current assets			
Investments in subsidiaries	XVII.3	244,594,422.58	228,636,320.54
Investments in jointly controlled entities and associates	XVII.3	99,885,439.91	69,845,089.40
Other long-term equity investments	XVII.3	1,900,000.00	1,800,000.00
Investment properties		53,952,089.00	51,468,059.00
Fixed assets		156,410,227.78	117,970,934.99
Construction in progress		18,046,080.14	74,987,050.72
Intangible assets		24,871,296.56	25,443,899.84
Deferred income tax assets		7,899,785.63	7,405,186.70
Total non-current assets		607,559,341.60	577,556,541.19
Total assets		1,311,415,767.87	1,172,215,838.85
Current liabilities			
Short-term borrowings		240,000,000.00	279,736,635.00
Held for trading financial liabilities		–	447,000.00
Accounts payables		41,096,320.96	24,874,828.41
Receipts in advance		30,782,705.98	18,228,469.92
Employee benefits payables		9,009,956.57	23,562,764.10
Tax payables		8,169,906.79	5,542,594.63
Other payables		135,819,900.18	89,513,583.10
Deferred income realisable within one year		2,506,883.08	–
Total current liabilities		467,385,673.56	441,905,875.16

BALANCE SHEET OF THE COMPANY

As at 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
Non-current liabilities			
Long-term borrowings		70,000,000.00	69,000,000.00
Deferred income tax liabilities		830,659.83	458,055.33
Deferred income		16,529,798.44	19,745,097.93
Total non-current liabilities		87,360,458.27	89,203,153.26
Total liabilities		554,746,131.83	531,109,028.42
Shareholders' equity			
Share capital		125,476,374.40	62,738,187.20
Capital reserves		4,107,466.93	35,476,560.53
Surplus reserves		56,708,797.72	56,708,797.72
Undistributed profits		570,376,996.99	486,183,264.98
Total shareholders' equity		756,669,636.04	641,106,810.43
Total liabilities and shareholders' equity		1,311,415,767.87	1,172,215,838.85
Net current assets		236,470,752.71	152,753,422.50
Total assets less current liabilities		844,030,094.31	730,309,963.69

The financial statements as set out from pages 40 to 192 have been signed by:

Zhang Wei Yang
Director

Chen Shu Sheng
Director

Zhang Wei Yang
Legal Representative

Cao Ting Wu
Chief Financial Officer

Wang Min Yan
Head of Financial Section

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
Total operating revenue	VIII.34	1,152,358,350.49	834,988,782.99
Total operating costs		970,125,006.44	715,661,895.48
Cost of operation	VIII.34	750,036,591.81	544,929,593.14
Sales tax and levies	VIII.35	8,007,009.41	5,050,779.18
Selling expenses	VIII.36	35,531,956.09	32,832,745.87
Administrative expenses	VIII.37	154,541,420.51	100,091,753.73
Finance costs	VIII.38	22,168,812.87	11,021,940.33
Impairment loss of assets	VIII.39	(160,784.25)	21,735,083.23
Gain on fair value changes	VIII.40	2,388,466.04	4,086,880.14
Share of profit (loss) of jointly controlled entities and associates	VIII.41	(4,285,458.62)	(1,213,254.64)
Other investment income (loss)	VIII.41	(346,450.95)	4,859,342.40
Operating profit		179,989,900.52	127,059,855.41
Add: non-operating income	VIII.42	19,257,088.74	21,522,504.74
Less: non-operating expenses	VIII.43	2,375,816.12	344,812.72
Total profit		196,871,173.14	148,237,547.43
Less: Income tax expenses	VIII.46	32,685,893.60	28,719,212.63
Net profit		164,185,279.54	119,518,334.80
Other comprehensive income	VIII.49	(141,430.99)	(7,033.69)
Total comprehensive income		164,043,848.55	119,511,301.11
Net profit attributable to:			
Shareholders of the Company		155,855,982.56	108,314,531.32
Minority interests		8,329,296.98	11,203,803.48
		164,185,279.54	119,518,334.80
Total comprehensive income attributable to:			
Shareholders of the Company		155,714,551.57	108,307,497.63
Minority interest		8,329,296.98	11,203,803.48
		164,043,848.55	119,511,301.11
Earnings per share			
Basic earnings per share	VIII.48	1.24	0.86
Diluted earnings per share	VIII.48	1.24	0.86
Dividends	VIII.47	31,369,093.60	–

INCOME STATEMENT OF THE COMPANY

For the year ended 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
Total operating revenue	<i>XVII.4</i>	691,486,461.04	436,049,976.99
Total operating costs		546,442,671.45	364,184,387.64
Cost of operation	<i>XVII.4</i>	450,257,571.15	294,748,221.39
Sales tax and levies		2,188,102.16	2,318,886.96
Selling expenses		9,312,807.34	7,712,837.87
Administrative expenses		75,631,429.22	44,395,811.85
Finance costs		13,103,224.91	5,690,239.75
Impairment loss of assets		(4,050,463.33)	9,318,389.82
Gain on fair value changes		2,388,466.04	4,086,880.14
Share of profit (loss) of jointly controlled entities and associates	<i>XVII.5</i>	(2,102,755.08)	(1,213,254.64)
Other investment income (loss)	<i>XVII.5</i>	6,895,363.22	125,711,027.63
Operating profit		152,224,863.77	200,450,242.48
Add: non-operating income		3,870,402.17	3,098,810.08
Less: non-operating expenses		2,034,865.32	57,715.82
Total profit		154,060,400.62	203,491,336.74
Less: Income tax expenses		12,909,587.00	11,541,388.24
Net profit		141,150,813.62	191,949,948.50
Other comprehensive income		—	—
Total comprehensive income		141,150,813.62	191,949,948.50

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		1,124,500,882.14	936,885,038.70
Refund of taxes and levies		23,245,039.90	–
Other cash receipts relating to operating activities	VIII.50	68,937,673.43	35,875,628.79
Sub-total of cash inflows from operating activities		1,216,683,595.47	972,760,667.49
Cash paid for goods and services		734,754,967.31	663,002,285.97
Cash paid to and on behalf of employees		123,505,361.72	74,773,307.94
Payments of taxes and levies		95,177,769.69	66,700,666.27
Other cash payments relating to operating activities	VIII.50	79,648,169.95	75,972,484.10
Sub-total of cash outflows from operating activities		1,033,086,268.67	880,448,744.28
Net cash flows from operating activities		183,597,326.80	92,311,923.21
II. Cash flows from investing activities			
Cash received from investments		20,280,109.85	–
Cash received from returns on investments		1,080,358.88	1,221,060.69
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		86,688.13	–
Net cash received from disposal of subsidiaries and other operating units		4,136,575.00	7,948,073.06
Other cash receipts relating to investing activities	VIII.50	22,380,000.00	–
Sub-total of cash inflows from investing activities		47,963,731.87	9,169,133.75
Cash paid to acquire fixed assets, intangible assets and other long-term assets		183,004,646.34	382,929,299.27
Cash paid on investments		65,208,935.33	51,372,738.85
Net cash paid on acquisition of subsidiaries and other operating units		13,300,000.00	–
Other cash payments relating to investing activities	VIII.50	27,647,632.11	–
Sub-total of cash outflows from investing activities		289,161,213.78	434,302,038.12
Net cash flows used in investing activities		(241,197,481.92)	(425,132,904.37)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
III. Cash flows from financing activities			
Cash received from investment from minority shareholders		1,000,000.00	–
Cash received from borrowings		456,587,320.00	578,526,635.00
Sub-total of cash inflows from financing activities		457,587,320.00	578,526,635.00
Cash payments for settlement of borrowings		351,736,635.00	235,088,045.10
Cash payments for interest expenses, distribution of dividend or profits		59,372,353.34	12,875,966.43
Cash payments for distribution of dividends to minority shareholders		5,270,000.00	3,800,000.00
Other cash payments relating to financing activities	VIII.50	5,909,788.40	–
Sub-total of cash outflows from financing activities		422,288,776.74	251,764,011.53
Net cash flows from financing activities		35,298,543.26	326,762,623.47
IV. Effect of foreign exchange rate changes		(1,073,360.44)	303,783.89
V. Decrease in cash and cash equivalents	VIII.50	(23,374,972.29)	(5,754,573.80)
Add: Cash and cash equivalents at beginning of year		197,611,550.70	203,366,124.50
VI. Cash and cash equivalents at end of year		174,236,578.41	197,611,550.70

CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		510,639,464.90	483,354,995.58
Other cash receipts relating to operating activities		240,638,233.06	85,924,460.97
Sub-total of cash inflows from operating activities		751,277,697.96	569,279,456.55
Cash paid for goods and services		399,511,661.13	355,736,120.16
Cash paid to and on behalf of employees		63,432,717.85	24,230,907.33
Payments of taxes and levies		22,108,346.47	23,476,569.08
Other cash payments relating to operating activities		106,704,230.42	115,036,586.88
Sub-total of cash outflows from operating activities		591,756,955.87	518,480,183.45
Net cash flows from operating activities	<i>XVII.6</i>	159,520,742.09	50,799,273.10
II. Cash flows from investing activities			
Cash received from investments		19,778,391.75	–
Cash received from returns on investments		2,077,037.27	7,008,096.92
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		80,944.50	403,639.14
Net cash received from disposal of subsidiaries and other operating units		4,136,575.00	7,948,073.06
Other cash receipts relating to investing activities		2,380,000.00	–
Sub-total of cash inflows from investing activities		28,452,948.52	15,359,809.12
Cash paid to acquire fixed assets, intangible assets and other long-term assets		27,242,609.13	155,239,341.63
Cash paid on investments		40,921,552.04	40,810,000.00
Net cash paid on acquisition of subsidiaries and other operating units		13,300,000.00	–
Other cash payments relating to investing activities		25,781,360.58	–
Sub-total of cash outflows from investing activities		107,245,521.75	196,049,341.63
Net cash flows used in investing activities		(78,792,573.23)	(180,689,532.51)

CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2010

Item	Notes	RMB	
		2010	2009 (Restated)
III. Cash flows from financing activities			
Cash received from borrowings		270,000,000.00	358,736,635.00
Sub-total of cash inflows from financing activities		270,000,000.00	358,736,635.00
Cash payments for settlement of borrowings		308,736,635.00	223,000,000.00
Cash payments for interest expenses, distribution of dividend or profits		49,234,690.74	10,179,984.58
Other cash payments relating to financing activities		2,700,000.00	–
Sub-total of cash outflows from financing activities		360,671,325.74	233,179,984.58
Net cash flows from financing activities		(90,671,325.74)	125,556,650.42
IV. Effect of foreign exchange rate changes		(424,010.38)	(38.90)
V. Decrease in cash and cash equivalents	<i>XVII.6</i>	(10,367,167.26)	(4,333,647.89)
Add: Cash and cash equivalents at beginning of year		95,321,223.74	99,654,871.63
VI. Cash and cash equivalents at end of year		84,954,056.48	95,321,223.74

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2010

RMB

Item	2010						Minority interests	Total shareholders' equity
	Attributable to shareholders of the Company							
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Exchange reserve	Sub-total		
Balance at beginning of year	62,738,187.20	35,476,560.53	71,159,092.84	457,499,139.98	543,267.22	627,416,247.77	133,419,127.50	760,835,375.27
Net profit	-	-	-	155,855,982.56	-	155,855,982.56	8,329,296.98	164,185,279.54
Other comprehensive income	-	-	-	-	(141,430.99)	(141,430.99)	-	(141,430.99)
Total comprehensive income	-	-	-	155,855,982.56	(141,430.99)	155,714,551.57	8,329,296.98	164,043,848.55
Injection from shareholders	-	-	-	-	-	-	1,000,000.00	1,000,000.00
Disposal of interests in a subsidiary	-	-	-	-	-	-	(27,683,090.10)	(27,683,090.10)
Acquisition of additional interests in subsidiaries	-	(4,107,466.93)	(404,540.00)	(3,640,859.98)	-	(8,152,866.91)	(14,573,967.89)	(22,726,834.80)
Sub-total of contribution from shareholders and reduction of capital	-	(4,107,466.93)	(404,540.00)	(3,640,859.98)	-	(8,152,866.91)	(41,257,057.99)	(49,409,924.90)
Dividends paid to shareholders	-	-	-	(31,369,093.60)	-	(31,369,093.60)	-	(31,369,093.60)
Dividend paid to minority shareholders	-	-	-	-	-	-	(5,270,000.00)	(5,270,000.00)
Sub-total of profits appropriation	-	-	-	(31,369,093.60)	-	(31,369,093.60)	(5,270,000.00)	(36,639,093.60)
Transfer of capital reserve to share capital	31,369,093.60	(31,369,093.60)	-	-	-	-	-	-
Transfer of undistributed profits to share capital	31,369,093.60	-	-	(31,369,093.60)	-	-	-	-
Sub-total of transfer	62,738,187.20	(31,369,093.60)	-	(31,369,093.60)	-	-	-	-
Increase (decrease) for the year	62,738,187.20	(35,476,560.53)	(404,540.00)	89,476,935.38	(141,430.99)	116,192,591.06	(38,197,761.01)	77,994,830.05
Balance at end of year	125,476,374.40	-	70,754,552.84	546,976,075.36	401,836.23	743,608,838.83	95,221,366.49	838,830,205.32

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2010

RMB

Item	2009 (Restated)							Minority interests	Total shareholders' equity
	Attributable to shareholders of the Company						Sub-total		
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Exchange reserve				
Balance at beginning of year	62,738,187.20	35,476,560.53	71,159,092.84	346,450,177.15	550,300.91	516,374,318.63	157,622,542.30	673,996,860.93	
Add: Changes in accounting policies	-	-	-	6,956,086.01	-	6,956,086.01	(6,956,086.01)	-	
Correction of errors of prior periods	-	-	-	(4,221,654.50)	-	(4,221,654.50)	(24,824,452.50)	(29,046,107.00)	
Balance at beginning of year (restated)	62,738,187.20	35,476,560.53	71,159,092.84	349,184,608.66	550,300.91	519,108,750.14	125,842,003.79	644,950,753.93	
Net profit	-	-	-	108,314,531.32	-	108,314,531.32	11,203,803.48	119,518,334.80	
Other comprehensive income	-	-	-	-	(7,033.69)	(7,033.69)	-	(7,033.69)	
Total comprehensive income	-	-	-	108,314,531.32	(7,033.69)	108,307,497.63	11,203,803.48	119,511,301.11	
Injection from shareholders	-	-	-	-	-	-	390,000.00	390,000.00	
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	(216,679.77)	(216,679.77)	
Sub-total of contribution from shareholders and reduction of capital	-	-	-	-	-	-	173,320.23	173,320.23	
Dividends paid to shareholders	-	-	-	-	-	-	(3,800,000.00)	(3,800,000.00)	
Sub-total of profits appropriation	-	-	-	-	-	-	(3,800,000.00)	(3,800,000.00)	
Increase (decrease) for the year	-	-	-	108,314,531.32	(7,033.69)	108,307,497.63	7,577,123.71	115,884,621.34	
Balance at end of year	62,738,187.20	35,476,560.53	71,159,092.84	457,499,139.98	543,267.22	627,416,247.77	133,419,127.50	760,835,375.27	

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the year ended 31 December 2010

Item	2010				RMB
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at beginning of year	62,738,187.20	35,476,560.53	56,708,797.72	486,183,264.98	641,106,810.43
Net profit	-	-	-	143,150,813.62	143,150,813.62
Dividends paid to shareholders	-	-	-	(31,369,093.60)	(31,369,093.60)
Transfer of capital reserve to share capital	31,369,093.60	(31,369,093.60)	-	-	-
Transfer of undistributed profits to share capital	31,369,093.60	-	-	(31,369,093.60)	-
Disposal of interests in a subsidiary (note)	-	-	-	3,781,105.59	3,781,105.59
Increase (decrease) for the year	62,738,187.20	(31,369,093.60)	-	84,193,732.01	115,562,825.61
Balance at end of year	125,476,374.40	4,107,466.93	56,708,797.72	570,376,996.99	756,669,636.04

Note: Due to the decrease in voting proportion in the subsidiary, Shenzhen Resources, it became an associate during the year. The amount represents the equity attributable to the Company accounted for using equity method of accounting from the date of acquisition to 31 December 2009. The details are set out in Note VII.2(2).

Item	2009 (Restated)				RMB
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at beginning of year	62,738,187.20	35,476,560.53	56,708,797.72	296,845,647.62	451,769,193.07
Add: Correction of errors of prior periods	-	-	-	(2,612,331.14)	(2,612,331.14)
Balance at beginning of year (restated)	62,738,187.20	35,476,560.53	56,708,797.72	294,233,316.48	449,156,861.93
Net profit	-	-	-	191,949,948.50	191,949,948.50
Balance at end of year	62,738,187.20	35,476,560.53	56,708,797.72	486,183,264.98	641,106,810.43

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

I. GENERAL INFORMATION

Dongjiang Environmental Company Limited 東江環保股份有限公司 (Formerly known as Shenzhen Environmental Company Limited 深圳市東江環保股份有限公司) (hereinafter referred to as the “Company”) was established in accordance with Companies Act of the People’s Republic of China on 18 July 2002 in the People’s Republic of China (the “PRC”) as joint stock limited company. The business registration licence number is 4403011032408. The legal representative is Mr.Zhang Wei Yang. The registered address of the Company is 1st Floor, 3rd Floor, North of 8th Floor, 9th-12th Floor, Dongjiang Environmental Building, No.9 Langshan Road, North Zone of Hitech Industrial Park, Nanshan District, Shenzhen, the PRC.

With the approval from 財政部財企 [2002]No. 267 – The Approval of Ministry of Finance to the Issues of Management of State-owned Shares of Shenzhen Dongjiang Environmental Company Limited (under preparation)” and 深府股 [2002] No. 26 of Shenzhen Municipal Government, the Company was reorganised from the original Shenzhen Dongjiang Environmental Technology Limited (深圳市東江環保技術有限公司) by its 7 shareholders, namely Mr. Zhang Wei Yang, Shanghai New Margin Venture Capital Company Limited (上海聯創投資有限公司)、Shenzhen Wen Ying Trading Limited (深圳市文英貿易有限公司) (hereafter referred to as “Wen Ying Trading”), Shenzhen Fang Yuan Petrochemical Industries Company Limited (深圳方元化工實業有限公司) (hereafter referred to as “Fang Yuan Petrochemical Industries”), China Venture Capital Inc. (中國風險投資有限責任公司), Shenzhen High and New Technology Industry Investment Service Company (深圳市高新技術產業投資服務公司) and He Jianjun acting as promoters. The net assets value of the original Shenzhen Dongjiang Environmental Technology Limited as at 31 March 2002 was RMB46,565,460.00 and was converted into 46,565,460 shares of RMB 1 each of the Company on 1 to 1 basis. The Company obtained business registration licence on 18 July 2002. The registered share capital was RMB46,565,460.00.

On 28 January 2003, the Company offered its H shares, by way of placement, to global public at the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited. The shares were listed after the public issue was completed. The par value of the H shares offered for subscription was RMB0.10 each. The Company issued 177,900,000 H shares comprising 16,172,728 shares converted from state-owned shares, 161,727,272 new shares (of which 154,327,272 new shares were issued as scheduled and 7,400,000 shares were for over-subscription). The issue price for each share was HK0.338. The Company completed the changes in business registration on 2 June 2003. The share capital of the Company after the issue was RMB62,738,187.20.

Pursuant to the resolution passed at the annual general meeting on 31 May 2010 in respect of the proposal of profit appropriation and capitalisation issue, the Company issued 1 bonus shares for every 1 shares held by the shareholders. A total of 627,381,872 shares were issued at par value of RMB0.10 each by transferring the balance of capital reserves and undistributed profits at as 31 December 2007. The share capital was increased by RMB62,738,187.20, of which RMB31,369,093.60 was transferred from capital reserves and RMB31,369,093.60 from the balance of undistributed profits at as 31 December 2007. After the bonus issue, the share capital of the Company was RMB125,476,374.40, comprising 898,963,744 domestic shares and 355,800,000 H shares.

As approved by China Securities Regulatory Commission (“CSRC”) and Stock Exchange of Hong Kong Limited on 9 August 2010 and 16 September 2010 respectively, the listing of the H shares of the Company was transferred from the Growth Enterprises Market to the Main Board. The shares were delisted from the Growth Enterprises Market on 28 September 2010 and listed on the Main Board at the same time. The stock code was 00895.

On 10 December 2010, the name of the Company was approved to be changed from Shenzhen Environmental Company Limited 深圳市東江環保股份有限公司 to Dongjiang Environmental Company Limited 東江環保股份有限公司, the present one, in accordance with the Notice (Record) of Shenzhen Market Administration [2010] No. 3185143.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

I. GENERAL INFORMATION (CONTINUED)

As at 31 December 2010, the share capital and capital structure of the Company were as follows:

Name of shareholders	Capital amount	Proportion of shareholding (%)
Zhang Wei Yang	43,158,960.00	34.40
Shanghai New Margin Venture Capital Company Limited	12,313,311.60	9.81
Li Yong Peng	6,385,160.00	5.09
Cai Hong	5,646,436.80	4.50
He Jianjun	4,246,770.00	3.38
China Venture Capital Inc	3,725,236.00	2.97
Jinshi Investment Company Limited	3,571,440.00	2.85
Chen Shu Sheng	3,256,300.00	2.60
Shenzhen Longdi Investment Development Company Limited	2,000,000.00	1.59
Jiangyin Xinyuan Investment Company Limited	2,000,000.00	1.59
Other domestic shares (89 natural persons)	3,592,760.00	2.86
Overseas listed foreign shares	35,580,000.00	28.36
Total	125,476,374.40	100.00

As at 31 December 2010, the Company had 1,254,760,000 shares, of which 355,800,000 shares was non-restricted for trading, representing 28.36%, 898,960,000 shares was restricted for trading representing 71.64%.

The Group are engaged in environmental protection industry. The operation scope mainly includes: collection, disposal and recycling of industrial waste, treatment of wastewater, waste gas and noise; construction and provision of environmental system and services; trading of chemicals; production and trading of environmental material, recycled products, environmental equipment; development, promotion and application of new environmental products; investment in industries; import and export of goods and technologies.

The major products of the Group includes: inorganic salts, organic solvents, basic industrial oil, etc which are widely applicable in industries such as animal feed, agricultural pesticides, wood preservatives, and dyes, medicines and conversion of methane in landfill field gas into electricity, etc.

The Company has established General Meeting, Board of Directors, Committees of Supervisors, Chief Executive, and Company Secretary. The Company has established such functional departments as Industrial Hazardous Waste Department, Municipal Solid Waste Department, Financial Management Department, Investment Management Department, Legal Department, Research and Development Center, Human Resources Department, Internal Audit Department, EHS Department. Major branches include Shajing Treatment Company, Engineering Company, Trading Company. Major subsidiaries are Renewable Energy, Resource Recycling, Shaoguan Green, Longgang Dongjiang, Hunan Dongjiang (The full name of the subsidiary are referred to VII.1).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

II. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The Company's financial statements were used to be prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") for disclosure purposes. According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Stock Exchange in December 2010, with effect from this financial year, the Company decided to prepare its financial statements in accordance with the "Accounting Standards for Business Enterprises" and other related regulations issued by the China Ministry of Finance ("PRC Accounting Standards"). The adoption of PRC Accounting Standards has been applied retrospectively and the comparative financial information for the year ended 31 December 2009 is converted in accordance with PRC Accounting Standards. The reconciliation of net profit and shareholders' equity from HK GAAP to PRC Accounting Standards is set out in Note XVIII.3.

The Group's financial statements have been prepared on a going concern basis and based on the actual transactions and matters incurred; in accordance with the PRC Accounting Standards, Information Disclosure Rule No. 15 of Public Offerings Company - Financial Reporting General Provisions (2010 Amendments) issued by CSRC and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Hong Kong Companies Ordinance"); and the accounting policies and estimates of the Group as stated in Note IV "Principal accounting policies and accounting estimates and basis of preparation of consolidated financial statements".

III. STATEMENT OF COMPLIANCE OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements have been prepared in conformity with the Accounting Standards for Business Enterprises, and present truly and completely the consolidated and Company's financial position as at 31 December 2010 and their financial performance and cash flow and other related information for the year then ended

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting period

The accounting year of the Group is from 1 January to 31 December of each calendar year.

2. Reporting currency

The reporting currency of the Company is Renminbi ("RMB"). The reporting currency for the overseas subsidiaries is the currency of the country in which they operate.

The financial statements of the Group are expressed in RMB.

3. Basis of preparation and principle of measurement

The Group's financial statements have been prepared on an accrual basis. Except for held for trading financial assets and investment properties, etc which are measured at fair value, the financial statements are prepared under the historical cost convention.

4. Cash and cash equivalents

Cash represents cash on hand and deposits held at call with banks. Cash equivalents represent short-term (3 months or less), and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Foreign currency transactions and translation of financial statements denominated in foreign currencies

(1) *Foreign currency transactions*

Foreign currency transactions are translated into RMB using the spot exchange rate of the transaction dates. On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of balance sheet date. Exchange differences arising thereon are directly expensed in the profit and loss of current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalization. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated into the reporting currency at the spot exchange rate at the date of transaction.

(2) *Translation of financial statements denominated in foreign currencies*

Asset and liability items in the balance sheet of foreign operations are translated at the spot exchange rates at the balance sheet date; equity items other than retained earnings are translated at the spot exchange rates at the date of the transactions. Income and expense items in the income statements are translated at average exchange rates during the period in which they incurred. All resulting translation differences are recognized as a separate component of equity. The cash flows in foreign currencies are translated at the rates prevailing at the date when the cash flows incurred. The impact of the foreign currency translation on the cash and cash equivalents is presented in the cash flow statement separately.

When a foreign operation is partially disposed of or sold, translation differences that were recorded in equity are recognized in the income statements as part of the disposal gain or loss.

6. Financial assets and financial liabilities

(1) *Financial assets*

Financial assets are classified into four categories according to the purposes of investments and the economic substance of the assets:

- 1) Financial assets at fair value through profit or loss are those financial assets that have been acquired principally for the purpose of selling in the short terms. They are presented in the balance sheets as "Held for trading financial assets".
- 2) Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Management intends and is able to hold to maturity
- 3) Loan and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market
- 4) Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets of any other class upon initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Financial assets and financial liabilities (Continued)

(1) *Financial assets (Continued)*

Financial assets are measured initially at fair value. Transaction costs for financial assets measured at fair value through profit or loss are directly charged to profit or loss as incurred. Transaction costs for other class of financial assets are included in the carrying amount of assets at initial recognition.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired; or all risks and rewards relating to the ownership of the financial asset have been transferred.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Loan and receivable and held-to-maturity investments are measured at amortised cost using the effective interest method.

Changes in the fair value of financial assets at fair value through profit or loss are recorded in the income statements in the current period as 'Gain or loss from fair value changes'. Interest or cash dividends received during the period in which such financial assets are held, are recorded in the income statements for the current period as 'Investment income'. On disposal, the difference between fair value and initial recognized amount are recognized as 'Gain or loss on Investment' and adjust the gain or loss from changes in fair value accordingly.

Changes in fair value of available-for-sale financial assets are recorded in shareholders' equity. Interests calculated using the effective interest method for the period in which the assets are held, is recognized as 'Investment income'. Dividends from available-for-sale equity instruments are recognized as 'Investment income' when the dividends are declared by the investee company. On disposal, the differences between the consideration received and the carrying amount of assets after deducting the accumulated fair value adjustments previously recorded in equity are recorded as 'Investment income'.

Other than financial assets at fair value through profit or loss, the Group assesses the carrying amount of financial assets at each balance sheet date. Provision for impairment is made when there is objective evidence indicating that a financial asset is impaired. When there is a significant or prolonged decline in the fair value of available-for-sale financial assets, accumulated loss in fair value that previously recorded in shareholder's equity should be recorded as impairment loss.

(2) *Financial liabilities*

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss include held for trading and those designated at fair value through profit or loss on initial recognition. They are subsequently measured at fair value. The net gain or loss arising from changes in fair value, dividends and interest paid are recorded in profit or loss for the period in which they are incurred.

Other liabilities are subsequently measured at amortized cost using the effective interest method.

A financial liability is derecognized when the underlying present obligations (or part of it) are discharged. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Provision for bad debts on receivables

Criteria for provision for bad debts: Provision for bad debts on receivable is made when the debtors are dissolved, bankrupt, insolvent, in significant financial difficulty, or suspended its business due to natural disaster and unable to settle the debts in the foreseeable period; or the receivable are defaulted for more than 3 years; or when there are objective evidences indicating the debts are not recovered or not likely to be recoverable.

Provision for bad debts is made using allowance account method. At the balance sheet date, receivables are assessed for impairment on individually or portfolio basis. Provision for bad debts is recognized in the profit or loss for the period. When there are objective evidences indicating the receivable are considered uncollectible, it is written off against the allowance account according to the approval procedures of the Group.

(1) Receivables that are individually significant and providing for bad debts on individual basis

Recognition criteria of individually significant receivable	Receivable of more than RMB5 million is regarded as individually significant receivable
Recognition method of provision for bad debts for individually significant receivables on individual basis	Provision for bad debts is made as the excess of the carrying amount over the present value of the estimated future cash flows.

(2) Receivables that are providing for bad debts on portfolio basis

Basis for determination of portfolio

Aged group	The credit risk characteristics group is determined by aging of the receivables.
Related party group	The credit risk characteristics group is determined by relationships with the Group of the parties of transaction.
Collateral group	The credit risk characteristics group is determined by nature of transaction.

Method of provision of bad debts on portfolio basis

Aged group	Aging analysis
Related party group	In general, no provision is made
Collateral group	In general, no provision is made

1) Proportion of provision for bad debts by aging analysis basis:

Aged	Proportion to accounts receivables (%)	Proportion to other receivable (%)
0-90 days	1.50	1.50
91-180 days	3.00	3.00
181-365 days	5.00	5.00
1-2 years	20.00	20.00
2-3 years	50.00	50.00
Over 3 years	100.00	100.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Provision for bad debts on receivables (Continued)

(2) *Receivables that are providing for bad debts on portfolio basis (Continued)*

2) Proportion of provision for bad debts by aging analysis basis:

Related party group	Provision for bad debts are generally not made for related parties of the Group (such as jointly controlled entities and associates) where the difference between the present value of future cash flows and their carrying amount is small.
Collateral group	Provision for bad debts are generally not made for those such as rental deposits, advanced payment for purchases and petty cash where the difference between the present value of future cash flows and their carrying amount is small.

(3) *Receivables that are individually insignificant but providing for bad debts individually*

Reason for providing for bad debts individually	Receivables with individually insignificant amount and provision for bad debts made on portfolio basis cannot reflect its credit risk characteristics.
Method of provision	Provision for bad debts is made as the excess of its carrying amount over the present value of the estimated future cash flows.

8. Inventories

Inventories include raw materials, packaging material, low-value consumables, work in progress and finished goods etc.

The Group maintains a perpetual inventory system.

Inventories are recorded at cost of purchase when received. Cost is calculated using weighted average method when the inventories are issued for consumable. Low value consumables and packaging material are amortised in full when received for use.

At the balance sheet date, inventories are stated at the lower of costs or net realizable value. Where the inventories become damaged, partially or wholly obsolete or whose selling price is lower than its cost sold at price lower than cost, provision for inventory impairment is made for the excess of its cost and net realizable value. For inventories that are voluminous and at relatively low unit price, provision is determined based on individual categories.

Net realisable value of finished goods, work in progress or held-for-sale raw materials are determined by their estimated selling price less estimated selling expenses and related taxes. Net realizable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Long-term equity investments

Long-term equity investments include equity investments in entity over which the Group has control, joint control or significant influence; and entity over which the Group does not have control, joint control or significant influence and investments which do not have quoted price in an active market and its fair value cannot be reliably measured.

Joint control is the contractual agreed sharing of control over an economic activity. Joint control exists only when any investor does not have power to control operating activities individually and the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

Significant influence exists when the investor has the power to influence the investee's financial and operating policy decision-making, but not able to control or jointly control, together with other parties, the formulation of these policies. Significant influence exists when the Group directly or indirectly owned 20% or more but less than 50% shares with voting rights in the investee company. Significant influence can not be established where there are objective evidences indicating that the Group is unable in participating in operating policy decision-making in the investee company.

The investment cost for long-term equity investment acquired through business combination under common control is the carrying value of the share of equity at the combination date in the acquired company. The investment cost for long-term equity investment acquired through business combination not under common control is the fair value at the date of combination (acquisition) of the assets given up, liabilities incurred or committed and equity instruments issued.

Apart from the long-term equity investments acquired through business combination mentioned above, the cost of investment for the long-term equity investments acquired by cash payment is the amount of cash paid. For long-term equity investment acquired by issuing equity instruments, the cost of investment is the fair value of the equity instrument issued. For long-term equity investment injected to the Group by the investor, the investment cost is the consideration as specified in the relevant contract or agreement. For long-term equity investment acquired through transactions such as debts restructuring, exchange of non-monetary assets, the cost of investment is determined according to the relevant accounting standards.

Investments in subsidiaries are accounted for by the Group using cost method and adjusted for by equity method when preparing consolidated financial statements. Investments in equities that the Group does not have control, joint control or significant influence and do not have quoted market price in active markets and and its fair value cannot be reliably measured are accounted for using cost method. Investments in entities over which the Group does not have control, joint control or significant influence but have quoted prices in active market and their fair value can be measured reliably are accounted for under available-for-sale financial assets.

Under the cost method, long-term equity investments are measured initially at its investment cost, and adjusted by the amount of additional investment and the amount recovered. Under the equity method, investment gain or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group shall recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. The unrealized gain or loss from internal transactions entered into between the Group and its associated companies and joint ventures is set off according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Long-term equity investments (Continued)

Where the Group reduces the investment in the investee company as a result the Group has no longer joint control or significant influence and there are no quoted prices in active market and its fair value cannot be measured reliably, the investment will be changed to account for using cost method. Where the Group has control over the investee company due to the reasons such as making additional investment in the investee company, the long-term equity investments will also be changed to account for using cost method. Where the Group has joint control or significant influence over the investee company due to such reasons as making additional investment in the investee company or where Group has no longer control but remain joint control or significant influence over the investee company due to the such reasons partially disposal of the investment, the investment will be changed to account for using equity method.

On disposal of a long-term equity investment, the difference between the carrying value and the actual consideration received is recognized as 'Investment income' for the period. For long-term investments accounted for under equity method, the movements of owner's equity, other than the net profit or loss, of the investee company, previously recorded in the owner's equity of the Company are recycled to investment income for the period on disposal.

10. Investment properties

The investment properties of the Group are buildings leased for rental income.

Investment property is initially measured at cost. The cost for investment properties purchased from outsiders includes purchase prices, related taxes and directly attributable expenditure. The cost of self-constructed investment properties includes construction expenses incurred bringing the assets to the status of intended use.

Investment properties of the Group are subsequently measured using fair value model. Gain or loss arising from the changes in fair value of properties is recognised directly in the income statement for the period.

The fair value of the investment properties are determined by the Management of the Group on an open market basis by reference to properties of same location and similar usage.

Where the usage of an investment property is change into owner-use, it is then converted into a fixed asset at the date of change. Where the usage of an owner-occupied is changed to earning rental income or capital appreciation, it is then transferred from fixed assets into investment property as from the date of change. On conversion, the carrying amount immediate before conversion is taken as the cost of the assets.

An investment property is derecognised when it is disposed or expected not bringing economic benefit through use or disposal. The Group recognises the amount of any proceeds on disposal, transfer, retirement or damaged of the asset net of the carrying amount and related taxes in profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Fixed assets

Fixed assets are tangible assets that are held for use in the production of goods or supply of services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year.

Fixed assets consist of buildings, plant and machinery, motor vehicles, office equipment and others. The cost for fixed assets is initially measured at cost. The cost of fixed assets purchased from outsiders includes purchase prices, related taxes and necessary expenses incurred bringing the assets to the status of intended use. The cost of self-constructed investment properties includes construction expenses incurred bringing the assets to the status of intended use. The cost of fixed assets injected by investors to the Group is measured at the considerations as specified in the investment contracts or agreements. In the case where the consideration of the contracts or agreements is not a fair value, the assets are measured at its fair value. The cost of fixed assets acquired under finance lease arrangement is measured at the lower of their fair value and the present value of the minimum lease payment at the inception of the leases.

Subsequent costs about fixed assets, such as repairing expenditures, renovation and improvements, are recognized as the cost of assets when they meet the recognition criteria. The carrying amount of the replaced parts is derecognized. Other subsequent expenditures not meeting the recognition criteria are all charged in the profit or loss for the period.

Depreciation is provided for fixed assets, except the assets that are fully depreciated but still in use and lands that are separated recorded, over their estimated useful lives of the fixed assets using the straight-line method. Depreciation charge is included in the cost of fixed assets or expenses for the period according to the usage of the assets. The useful life, estimated residual value and annual depreciation rate of each class of fixed assets are as follows:

Classes	Useful life (years)	Estimated residual percentage (%)	Annual depreciation (%)
Buildings	20-30 years	3.00	3.23-4.85
Plant and Machinery	5-10 years	3.00	9.70-19.40
Motor vehicles	5 years	3.00	19.40
Office equipment	5 years	3.00	19.40
Others	5 years	3.00	19.40

The Group reviews the estimated useful life and estimated net residual value of a fixed asset and the depreciation method at the end of each financial year. Any changes are accounted for as a change in an accounting estimate.

A fixed asset is derecognized when it is disposed or expected not bringing economic benefit through use or disposal. Proceeds from disposal, transfer, retired or damaged of the asset net of the carrying amount and related taxes in profit or loss for the current period.

12. Construction in progress

Cost of construction in progress is measured at the expenditure actually incurred for the construction. Cost of self-operating construction is recorded at all cost of direct materials, direct wages, and direct construction expenditures. Cost of sub-contracting construction is recorded at the amount of construction cost payable. Cost of equipment installation equipment is measured at value of the equipment being installed, installation cost, and test running cost. Cost of construction in progress also includes capitalized borrowing costs and exchange difference.

Construction in progress is transferred to the fixed assets when the assets are ready for their intended use at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciation is provided from the next month after it is put into use. The cost of the asset will be adjusted when the construction finalization procedures are completed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Borrowing cost

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, is commenced only when all of the following conditions are satisfied: (1) expenditures for the asset are being incurred; (2) borrowing costs are being incurred; and (3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above that amounts of specific-purpose borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

Qualifying assets are assets (fixed assets, investment property, inventories) that necessarily take a substantial period of time (usually more than 1 year) for acquisition, construction or production to get ready for their intended use or sale.

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production activities is resumed.

14. BOT projects

BOT projects are those projects involving building, operating and transferring in which the Group participates in public infrastructure construction. The Group does not provide actual construction services under the projects but rather subcontracting the construction works to contractors. No revenue on construction services is recognised. BOT projects are accounted for under construction in progress for the amount paid according to the contracts before the construction has completed. Upon the construction is completed, they are transferred to intangible assets as the operating rights under the BOT projects. The infrastructure structure constructed under BOT projects are not included as fixed assets of the Group.

15. Intangible assets

Intangible assets, which include land use right, patents, technologies, BOT projects, are initially recognized at cost. The cost of intangible assets purchased from outsiders includes purchase prices and necessary expenses. The cost of intangible assets injected by investors to the Group is measured at the considerations as specified in the investment contracts or agreements. In the case where the consideration of the contracts or agreements is not a fair value, the assets are measured at its fair value.

Land-use rights are amortised over lease terms from the date of purchase. Patents, technologies and BOT projects are amortised over the shortest of their estimated useful lives, contractual beneficial period and useful life specified in the law.

Amortisation charge is included in the cost of assets or expenses, as appropriate, for the period according to the usage of the assets.

The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at the end of each financial year. Any changes are accounted for as a change in an accounting estimate. Intangible assets with infinite useful lives are not amortized. The estimated useful lives of intangible assets with indefinite useful lives are reviewed in each accounting period. Where there are objective evidences indicating that the useful life become definite, amortisation is then provided over its estimated useful life.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Research and development expenditure

Research and development expenditures is classified into expenditure on the research phase and expenditure on the development phase according to the nature of expenditures and uncertainty of the final achievement. Expenditure on the research phase is expensed in the period as incurred. Expenditure on the development phase is recognised as an intangible asset only when all of the following below are satisfied:

- (1) it is technically feasible that the intangible asset can be used or sold upon completion;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; or there is market for the intangible asset itself;
- (4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

Expenditure not meeting the above recognition conditions are expensed in the period as incurred. Expenditure expensed in prior periods will not be recognized as an asset in subsequent periods. Capitalised expenditure on the research phase are stated in the balance sheet as 'Development Expenditure' and transfer to as 'Intangible assets' when it gets ready for their intended use.

17. Impairment of non-financial assets

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments, fixed assets, construction in progress and intangible assets with definite useful lives may be impaired. If there is any indication that an asset may be impaired, the asset will be tested for impairment. Goodwill arising in a business combination and intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. The recoverable amount of the asset is estimated individually. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the asset will be determined on group or portfolio basis.

If the recoverable amount of an asset is less than its carrying amount, the difference is recognised as an impairment loss and charged to profit or loss for the current period. Once an impairment loss on the assets is recognised, it is not reversed in a subsequent period. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

The indicators for impairment are as follows:

- (1) The current market price of an asset declines substantially. The decline is more than that as expected caused by passage of time or normal application.
- (2) There are significant changes in the economic, technical or legal environment in which the enterprise is operating and in the market of an asset in the current or near future period resulting in adverse impacts on the enterprise;
- (3) The market interest rate or rate of return of other investment has stood high in the period. It affects the discount rate used by enterprise to calculate the present value of estimated cash flow leading to a substantial decline in the recoverable amount of the assets.
- (4) There is evidence to demonstrate that the asset has gone obsolete or damaged;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Impairment of non-financial assets (Continued)

- (5) The asset has already been or will be left idle, stopped using, or disposed advance ahead of schedule.
- (6) There are evidence from the internal reports that economic returns of asset such as generation of net cash flows or realisation operating profit (loss), has been or will be lowered (higher) than that as expected.
- (7) Other signs to indicate that assets value have already been impaired.

18. Goodwill

Goodwill represents the excess of the cost of equity investment or cost of business combination not under common control over the Group's share of the net identifiable assets of the invested company or acquiree at the date of acquisition or combination.

Goodwill relating to subsidiaries is presented in consolidated financial statements as a separate item. Goodwill relating to associates and jointly controlled entities is included in the carrying amount of the long-term equity investment.

19. Long-term prepayments

Long-term prepayments are expenditures which have incurred but that shall be amortised over the current period and subsequent periods of more than one year. They are amortized evenly over the estimated benefit period. If the long-term prepayments are no longer beneficial to the subsequent accounting periods, the unamortized balance is then transferred to profit or loss for the period.

20. Employee benefits

The Group recognises employee benefits as liabilities during the accounting period when employees render services and allocates to related cost of assets and expenses based on different beneficiaries. Compensation for termination of relationship with employees is recognized in the profit or loss for the period.

Employee benefits include salaries, bonus, allowance and subsidy; staff benefits; social security insurance; housing fund; union fund and staff education fund and expenditure incurred in connection with the rendering of employee services.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a compensation liability arising from the termination of employment relationship with employees should be charged to the profit or loss for the current period.

21. Provisions

Provision is recognized for an obligation related to an contingency, such as guarantee given to external parties, discounted bills and notes, pending litigation or arbitration, product quality warranty, as a liability when all of the following conditions are satisfied: 1) The obligation is a present obligation of the Group; 2) It is probable that an outflow of economic benefits from the Group will be required to settle the obligation; 3) The amount of the obligation can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Provisions (Continued)

Provision is measured at the best estimate of the consideration required to settle the present obligations taking into account the risks and uncertainties surrounding the obligation. Where the effect of time value of money is material, the amount of provision is measure using the cash flows estimated to settle present obligation. Provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

22. Recognition of revenue

The business revenues are generated mainly from sales of goods, rendering of services and transferring of assets use rights. The principles of revenue recognition are as follows:

- (1) *Revenue from sales of goods (including revenue from industrial wastes recycling and utilisation; revenue from trading and others; and revenue from renewable energy utilisation)*

Sales of goods are recognized when the major risks and returns in the ownership of commodities to the customer; when the Group no longer exercises continuing management generally related to the ownership and no longer has actual control over the commodities sold; when the amount of revenue can be reliably measured; when it is very likely that an inflow of economic benefits to the Company will occur; and when costs related, incurred or to be incurred can be reliably measured.

- (2) *Revenue from rendering services (including revenue from industrial wastes disposal, revenue from municipal wastes treatment and disposal; and revenue from environment engineering and services)*

Revenue from rendering services is recognised when total revenue and total costs of the services can be measure reliably and the associated economic benefits are probably flow to the Group. When the provision of services is started and completed in different accounting years and the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue is recognized using the percentage of completion method as determined by the proportion of services rendered to date over the total contracted services. Where the results of the service rendering transaction cannot be reliably estimated and the costs incurred are expected to be recoverable, revenue is recognized to the extent of the costs incurred and such costs are transferred as cost of service. Where the results of the service rendering transaction cannot be reliably estimated and the costs incurred are not expected to be recoverable, no revenue will be recognised. The costs incurred are expensed in the period as incurred.

- (3) *Revenue from transferring assets use rights*

Revenue from Assignment of asset use rights is recognized when the economic benefits in connection with the transaction to the Company are probably flow to the Group and the amount of revenue can be reliably estimated.

- (4) *Recognition of construction contracts are set out in Note IV.23.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Construction contracts

When the total revenue from the contracts can be measure reliably; the associated economic benefit are probably flow to the Group; contract costs actually incurred can be clearly identified and measured reliably; and when the progress of the contract and the future costs to be incurred for the completion of the contract can be measured reliably, contract revenue and cost are recognised using the percentage of completion method. The stage of completion is measured by the proportion that contract costs incurred for works performed to date bear to the estimated total contracts costs/ volumn of work completed bear to total volumn of contract work/by actual measurement.

Where the results of the construction contract cannot be reliably estimated and the cost incurred are expected to be recoverable, revenue from construction contracts is recognized to the extent of the cost incurred and such costs are recognised as cost of contract. Where the contract cost is not expected to be recoverable, it will be recognised as an expense for the period and no revenue will be recognised.

Construction contracts are reviewed at the end of each period. Where it is probable that the total contract costs will exceed total contract revenue, provision for loss will be made and recognized as an expense for the period.

24. Government grants

A government grant is recognised when the Group complies with the conditions attaching to the grant and when the Group is able to receive the grant. Where a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. Where a government grant is in a form of fixed amount, it is measured at the amount receivable. Where a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value. If fair value is not reliably determinable, the item is measured at a nominal amount of RMB1.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit t or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognized in profit t or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit t or loss for the current period.

25. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and liabilities are recognized based on the differences between tax bases of assets and liabilities and respective book value (temporary differences). For deductible tax losses or tax credit that can be brought forward in accordance with tax law requirements for deduction of taxable income in subsequent years, it is considered as temporary differences and related deferred income tax assets are recognized. On the balance sheet date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference. On the balance sheet date, the carrying value of the recognized deferred income tax assets is reviewed. If it is very likely that no future taxable profits will be available to deduct the gain from deferred income tax assets, the carrying value of the deferred income tax assets will be reduced. If it is very likely that sufficient taxable profits will be available, the amount reduced will be reversed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Leases

Leases are classified as finance leases and operating leases at the date of inception.

Finance lease is a lease that substantially transfers all the risks and rewards of ownership of the assets. The Group, as a lessee, recognized the assets under finance lease at the inception of the leases at the lower of their fair value and the present value of minimum lease payments. The corresponding liability is recorded as "Long-term payable" at the amount of minimum lease payments. Their difference is recorded as unrecognized finance lease charge.

Operating leases are leases other than finance leases. The Group, as a lesser, recognised lease payments as a cost of an assets or an expense on a straight-line basis over the terms of the relevant lease. The Group, as a lessor, recognised leases payments as rental income on a straight-line basis over the terms of the relevant lease.

27. Accounting for income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are deal with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying value of goodwill. All other current tax and deferred tax are recognises in the profit or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprises in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred income tax assets and deferred tax liabilities that should be recognised using the balance sheet liabilities approach at the end of period and their balances originally recognised.

28. Segment information

Operating segments are identified on the basis of internal organization structure, management requirements and internal reporting policies. The reporting segments are determined on the basis of operating segments. An operating segment represents a component of the Group that satisfied both of the following criteria: 1) it engages in business activities from which it may earn revenues and incur expenses; and 2) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available

The price of intra-segment transactions is determined on market rates. Expenses, other than those which are unable to be allocated reasonable, are allocated between segments on the basis of revenue.

29. Business combination

A business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. The Group recognises assets and liabilities obtained through a business combination at the combination date or acquisition date. A combination date or acquisition date is the date on which the absorbing party or acquirer effectively obtains control of the party being absorbed or acquired.

(1) *Business combination involving entities under common control*

Assets and liabilities that are obtained though a business combination involving entities under common control are measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is adjusted to capital reserve in capital reserve and with any excess over capital reserve being adjusted against undistributed earnings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Business combination (Continued)

(2) *Business combination not involving entities under common control*

For a business combination not involving entities under common control, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the period after re-assessment.

30. Preparation of consolidated financial statements

(1) *Determination of consolidation scope*

The scope of consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefit from its operating activities.

(2) *Accounting method for consolidated financial statements*

The consolidated financial statements are prepared in accordance with Accounting Standards for Business Enterprises No. 33 - Consolidated financial statements and relevant requirements. On consolidation, all the significant intra-group balances, transactions and unrealized profit or loss are eliminated in the preparation of the consolidated financial statements. The portion of the shareholders' equity and net profit or loss of the subsidiaries, which is not attributable to the parent company, is separately presented as minority interests and minority profit and loss in the shareholders' equity and net profit in the consolidated financial statements.

When there is any inconsistency on the accounting policies or financial period adopted between subsidiaries and the Company, the financial statements of subsidiaries are adjusted according to the accounting policies or financial period adopted by the Company.

For subsidiaries acquired under business combinations not under common control, when preparing consolidated financial statements, adjustments are made on the financial statements of subsidiaries based on the fair value of the net identifiable assets acquired on the acquisition date. For subsidiaries acquired from business combinations under common control, when preparing consolidated financial statements, the consolidated financial statements include the assets, liabilities, operating results and cash flows of such subsidiaries from the earliest period presented as if the business combinations had occurred at the beginning of the earliest comparative period presented.

31. Key sources of estimation uncertainty and accounting judgements

In the preparation of financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Key sources of estimation uncertainty and accounting judgements (Continued)

(1) *Construction contracts*

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

(2) *Buildings*

The property usage permits of certain of the Group's buildings were not granted by relevant government authorities as detailed in notes VIII.10 (9), respectively. In the opinion of the directors of the Company, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group.

(3) *Depreciation of fixed assets*

Fixed assets 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.

(4) *Impairment of fixed assets, land use rights, patents and BOT projects*

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

(5) *Estimate of fair value of investment property*

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

(6) *Allowances for bad debts of accounts receivables and other receivables*

The policy for allowance of bad debts of accounts receivables and other 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Key sources of estimation uncertainty and accounting judgements (Continued)

(7) *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 2010, the carrying amount of goodwill was approximately RMB26,883,677.58 (2009: RMB26,883,677.58) (net of impairment loss of approximately RMB13,791,922.16 (2009: RMB13,791,922.16)).

(8) *Amortisation of patents*

Patents is amortised on a straight-line basis over its estimated useful lives. The determination of the useful lives involves management's estimation. The Group re-assesses the useful life of the patents 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.

V. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS OF PRIOR PERIODS

1. Changes in accounting policies and their effect

Pursuant to the requirements of Explanation Note No. 4 of Accounting Standards for Business Enterprises (財會[2010] No. 15) ("Explanation Note No. 4"), where the share of loss for the period borne by the minority shareholders of a subsidiary exceeded their share of the opening equity balance in the consolidated financial statements, the excess should be deducted from the minority shareholders' equity. Explanation Note No. 4 needs to be applied retrospectively. Accordingly, the share of such loss originally borne by the Company is taken up by the minority shareholders of the subsidiaries. This change in accounting policies was approved by the Board. The new accounting policy was applied retrospectively resulting in the increase of profit attributable to shareholders of the Company for the year ended 31 December 2009 by RMB2,634,409.03 and the decrease of profit attributable to minority interest by the same amount; and the increase in the undistributed profits as at 1 January 2009 by RMB6,956,086.01 and at 31 December 2009 by RMB9,590,495.04 and the decrease of minority interests by the same amount.

2. Changes in accounting estimates and their effect

There are no changes in accounting estimates during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

V. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS OF PRIOR PERIODS (CONTINUED)

3. Correction of errors of prior periods and their effect

(1) Correction of accounting errors of prior periods made retrospectively during the year

- 1) It was found that the individually significant accounts receivables that have been individually assessed for impairment and for which no impairment were made had not been re-assessed for impairment on the credit risk characteristics portfolio basis in the years of 2007 to 2009. On approval of the Board, the error was corrected retrospectively in the financial statements for the year ended 31 December 2010. The correction results in the decrease in undistributed profits as at 1 January 2009 by RMB5,640,530.01 and as at 31 December 2009 by RMB8,501,913.88, the decrease in net profit for the year ended 31 December 2009 by RMB2,861,383.87 and the increase in the balance of provision of bad debts as at 1 January 2009 by 5,640,530.01 and at 31 December 2009 by RMB8,501,913.88.
- 2) It was found that the subsidiary, Huizhou Dongjiang Veolia Environmental Services Company Limited (惠州東江威立雅環境服務有限公司) (“Dongjiang Veolia”) where the Group owns 51% equity interest and has 50% voting rights, was mistakenly incorporated into the consolidated financial statements of the Group for the year 2007 to 2009. With the approval of the Board, the error was corrected retrospectively in the financial statements for the year ended 31 December 2010. Dongjiang Veolia was excluded from the consolidation scope and accounted for as an associated company under equity method. The correction results in the increase of retained profits as at 1 January 2009 by RMB1,234,523.72 and 31 December 2009 by RMB1,098,924.32 and the decrease in minority interests by RMB23,405,576.99 and the decrease of the net profit for the year ended 31 December 2009 by RMB135,599.40 and the profit attributable to minority interest by RMB350,405.00.

(2) The effect on basis and diluted earning per share resulting from the matters mentioned above are as follow:

Basis and diluted earning before adjustment (Note)	0.84
Prior period adjustments	0.02
	<hr/>
Basis and diluted earning after adjustment	0.86

(Note: The number of shares used for the calculation has been adjusted for effect of bonus issue on 30 April 2010 and the share consolidation taken place after the balance sheet date.)

(3) There were no corrections of errors of prior periods made prospectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VI. TAX

1. Enterprise Income Tax ("EIT")

Pursuant to the regulations of State Tax, the charge of EIT for the Company and the subsidiaries operating at other cities of the Mainland are at the tax rate of 25% on the assessable profits. Subsidiaries operating in Hong Kong are charged at the rate of 16.5% on the estimated assessable profits.

The rates of EIT applicable to the Company and subsidiaries are as follows: (Full name of subsidiaries are set out in Note VII.1)

Name	Statutory tax rate for 2010	Actual implementation tax rate		Entitlement of preferential tax incentives
		2010	2009	
The Company	25%	15%	15%	It is eligible for preferential tax incentive of "High-New Technology Enterprises" where EIT tax rate was reduced to at 15%. 90% of the revenue from sale of recycling products was charged for EIT. An extra of 50% of the R&D expenses are deducted from calculation of income charging for EIT rates.
Recycled Resources	25%	22%	20%	Eligible for EIT Transitional Preferential Policy
Dongjiang Heritage	25%	11%	10%	It is eligible for EIT Transitional Preferential Policy and being a foreign-invested production enterprise, it is also eligible for the full exemption of 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. Its first profit-making year was 2006, full exemption in 2007, 50% deduction in 2008 to 2010.
Longgang Dongjiang	25%	22%	20%	Eligible for EIT Transitional Preferential Policy
Huizhou Dongjiang	25%	25%	25%	
Qiandeng Wastes Treatment	25%	25%	25%	
Kunshan Kunpeng	25%	25%	25%	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VI. TAX (CONTINUED)

1. Enterprise Income Tax ("EIT") (Continued)

Name	Statutory tax rate for 2010	Actual implementation tax rate		Entitlement of preferential tax incentives
		2010	2009	
Beijing Novel	25%	15%	25%	It is eligible for preferential tax incentive of "High-New Technology Enterprises" where EIT tax rate was reduced to at 15%.
Huabao Technology	25%	22%	20%	Eligible for EIT Transitional Preferential Policy
Qingyuan Dongjiang	25%	25%	25%	
Qingdao Dongjiang	25%	25%	25%	
Hunan Dongjiang	25%	25%	25%	
Chengdu Treatment Centre	25%	25%	25%	
Renewable Energy	25%	11%	–	It is eligible for EIT Transitional Preferential Policy and being a production enterprise, it is also eligible for full exemption of exempt from PRC EIT for two years commencing from their first profit-making year, followed by a 50% tax reduction for the next three years. Its first profit-making year was 2008, full exemption in 2009, 50% deduction in 2010 to 2012.
Shaoguan Dongjiang	25%	25%	25%	
Shaoguan Green	25%			It is engaged in public facility projects of government priorities. It is eligible for exempted from PRC enterprise income tax for three years from the date of generation of taxable income and followed by a 50% tax deduction for the next three years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VI. TAX (CONTINUED)

1. Enterprise Income Tax ("EIT") (Continued)

Name	Statutory tax rate for 2010	Actual implementation tax rate		Entitlement of preferential tax incentives
		2010	2009	
Dongjiang Lisai	25%	22%	20%	Eligible for EIT Transitional Preferential Policy
Dongjiang Property Service	25%	25%		
Yunnan Dongjiang	25%	25%		
Dongjiang HK	16.5%	16.5%	16.5%	
Lik Shun Services	16.5%	16.5%	16.5%	
Dongjiang Transport	25%	25%	25%	

2. Value added tax ("VAT")

The rate of VAT on sales for subsidiaries, being a general VAT tax payer, is 17%. The VAT paid on purchase of materials can be offset with the VAT on sales. The amount of VAT payable is the net amount of VAT on sales less input VAT on purchases for the period.

The applicable VAT tax rate for subsidiaries, being the small-scale VAT taxpayer is 3%.

Tax incentives:

Resource Recycling is engaged in the recycling of wastes. According to Cai Shui [2008] No.157 (Notice of VAT on Resources Recycling from Ministry of Finance, State Tax Administration Bureau (hereafter referred to as the "Notice"), Resource Recycling is entitled to the policy of "Resources Recycling Enterprises VAT Pay and then Refund Policy". According to the Rule No. 2 of Notice, 70% of the VAT realised on the sales of recycling products for 2009 and 50% for 2010 were refunded to the tax payers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VI. TAX (CONTINUED)

2. Value added tax ("VAT") (Continued)

According to "Notice of Identification of Recycling Resources Enterprises" (Shen Ke Gong Mau Xin Den Zi Zi [2010] No. 146) jointly issued by Shenzhen Municipal Science and Technology Industry and Information Technology Commission, Shenzhen Finance Committee, Shenzhen State Administration of Taxation, Shenzhen Local Taxation Bureau, Renewable Energy was accredited as a resources utilisation enterprises of Shenzhen and was entitled to the policy of "Resources Utilisation VAT Instant Pay and Instant Refund Policy". The effective period for the incentive was from 1 June 2010 to 31 December 2011.

3. Business Tax

According to the tax regulation of the State, the business tax is charged at 3% on the construction contract income and 5% on service income.

Tax incentives:

According to the Minutes of Meeting of Municipal Government Office No. 63 of 14 February 2008 issued by Shenzhen Municipal Government Office, the sludge solidification income received by the Company and Renewable Energy from construction of sludge solidification projects, which was one of the projects in the construction investment guidance framework prepared by Shenzhen Urban Management Bureau, is exempted from business tax.

4. Property Tax

Self-owned properties: The charge is calculated at the tax rate of 1.2% on the 70% of the original cost of the properties.

Leased properties: The charge is calculated at the tax rate of 12% on the rental income.

Tax incentives:

In accordance with the Rule No. 9 of Shenzhen Special Economic Zone Real Estate Tax Implementation Method, the newly constructed or purchased properties (excluding the illegal construction) are exempted from property tax for three years from the month of completion or purchase. The construction of the Company's research and development building located in Shenzhen was completed in November 2009. Pursuant to the above requirement, the Company is exempted from the property tax for the period from November 2009 to October 2012.

5. Other principal taxes and tax rates

Type	Calculation basis	Tax rate
Urban maintenance and construction tax	Turnover tax payable	7%、5%、1%
Education sur-tax	Turnover tax payable	3%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiaries

								RMB'000
Name of company	Place of registration	Business nature	Registered capital	Business scope	Actual investment made by the Group as at 31 December 2010	Proportion of share holding (%)	Proportion of voting rights (%)	Whether consolidated
Subsidiaries obtained through business combination involving entities not under common control								
Beijing Novel	Beijing	Engineering	30,000.00	Environmental engineering, consultation and trading	220.00	55.00	55.00	yes
Huabao Technology	Shenzhen	Services	500.00	Consultation of environmental testing technology, laboratory testing	500.00	100.00	100.00	yes
Shaoguan Green	Shaoguan	Industrial	80,000.00	Sales and purchase of zinc wastes (HW23) and copper wastes (HW22)	117,800.00	60.00	60.00	yes
Subsidiaries obtained through other methods								
Resource Recycling	Shenzhen	Industrial	1,000.00	Collection and sales of industrial wastewater	2,094.00	100.00	100.00	yes
Dongjiang Heritage	Shenzhen	Industrial	25,000.00	Production and sales of chemical products	15,500.00	62.00	60.00	yes
Longgang Dongjiang	Shenzhen	Industrial	20,000.00	Collection, disposal and utilization of industrial wastes	2,550.00	51.00	51.00	yes
Huizhou Dongjiang	Huizhou	Industrial	5,000.00	Collection, disposal and utilization of industrial wastes	6,458.40	100.00	100.00	yes
Qiandeng Wastes Treatment	Kunshan	Industrial	10,000.00	Collection, disposal and utilization of industrial wastes	3,916.80	51.00	56.00	yes
Kunshan Kunpeng	Kunshan	Industrial	6,600.00	Collection, disposal and utilization of industrial wastes; and environmental technology consultation	3,439.00	51.00	51.00	yes
Qingyuan Dongjiang	Qingyuan	Industrial	2,000.00	Treatment of industrial wastes	2,000.00	100.00	100.00	yes
Qingdao Dongjiang	Qingdao	Industrial	15,000.00	Development of utilization of landfill gas; and investment and management of energy recycling projects	15,000.00	100.00	100.00	yes

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (Continued)

								RMB'000
Name of company	Place of registration	Business nature	Registered capital	Business scope	Actual investment made by the Group as at 31 December 2010	Proportion of share holding (%)	Proportion of voting rights (%)	Whether consolidated
Hunan Dongjiang	Hunan Provincial	Industrial	10,000.00	Environmental industries and utilisation	9,500.00	95.00	95.00	yes
Chengdu Treatment Centre	Chengdu	Industrial	10,000.00	Treatment of wastes and technology consultation	6,105.50	100.00	100.00	yes
Renewable Energy	Shenzhen	Industrial	10,000.00	Power generation from landfill gas	10,000.00	100.00	100.00	yes
Shaoguan Dongjiang	Shaoguan	Industrial	5,000.00	Collection, disposal and utilization of industrial wastes	4,500.000	100.00	100.00	yes
Dongjiang Lisai	Shenzhen	Industrial	10,000.00	Development of utilization of landfill gas; and industrial investment	11,255.10	80.00	80.00	yes
Dongjiang HK	Hong Kong	Services	HKD24,700.00	Environmental services and international trade	22,755.80	100.00	100.00	yes
Dongjiang Property Service	Shenzhen	Leasing	1,000.00	Property management	1,000.00	100.00	100.00	yes
Yunnan Dongjiang	Kunming	Industrial	10,000.00	Research and promotion of environmental technology and treatment of wastewater.	10,000.00	100.00	100.00	yes
Dongjiang Transport	Huizhou	Services	10,000.00	Transportation of dangerous goods	10,000.00	100.00	100.00	yes
Lik Shun Services	Hong Kong	Services	HKD10,000.00	Collection and disposal of municipal domestic wastes	HKD10,000.00	100.00	100.00	yes

Note:

- 1) The subsidiaries of the Company are unlisted companies and with limited liabilities.
- 2) Other than Hong Kong Dongjiang and Lik Shun Services whose shares are ordinary shares, the type of shares of other subsidiaries are registered capital.
- 3) Other than the investment cost, there were no balance of other amounts that constitute net investment in the subsidiaries.
- 4) None of the subsidiaries had issued any debt securities at the end of the year and any time during the year.
- 5) The balance of minority interests of each subsidiaries and the details of the offset the profit or loss of minority interests against the equity of minority interests are set out in note VIII.33.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (Continued)

(1) *Beijing Novel*

Full name: Beijing Novel Environmental Protection Company Limited (北京永新環保有限公司)

Beijing Novel was established on 1 July 1994 with approval from Beijing Commercial and Industrial Administrative Bureau with registration no. 110000410133241. It is formally known as Beijing Qinghua Shuangyi Environmental Engineering Limited. Its registered capital is RMB30,000,000. The legal representative is Mr. Zhang Wei Yang. In 2007, the Company acquired 55% equity interests in Beijing Novel at a consideration of RMB220,000. As at 31 December 2010, the equity interests of the Beijing Novel was owned by the Company of 55% and C&L Company Limited of 45%.

(2) *Huabao Technology*

Full name: Shenzhen Huabao Technology Company Limited (深圳市華保科技有限公司)

Huabao Technology was established on 9 January 2006 with approval from Shenzhen Commercial and Industrial Administrative Bureau with registration no. 440306103720849. Its registered capital is RMB500,000. The legal representative is Ms. Yao Qiong. On 1 January 2008, the Company acquired equity interests of 40%, 30% and 30% equity interests in Huabao Technology from the original shareholders Liao Jiaru, Yu Weiguo and Chen Qiuzhang respectively at a total consideration of RMB500,000. After the acquisition has completed, the Company owned 100% equity interests in Huabao Technology. As at 31 December 2010, the equity interests in Huabao Technology was wholly owned by the Company.

(3) *Shaoguan Green*

Full name: Shaoguan Green Resource Recycling Development Company Limited (韶關綠然再生資源發展有限公司)

Shaoguan Green was established on 30 September 2006 with approval from Shaoguan Commercial and Industrial Administrative Bureau with registration no. 440229000001506. Its original registered capital was RMB13,880,000. On 1 January 2008, the Company invested RMB50,000,000 to Shaoguan Green as additional capital and the original shareholders also increased their investment on a pro-rata basis. After the investment has completed, the Company owned 50% equity interests in Shaoguan Green and the registered capital was changed to RMB40,000,000. In December 2008, the shareholders invested again an additional capital of RMB40,000,000. The registered capital of Shaoguan Green was then changed to RMB80,000,000. The legal representative is Mr. Zhang Guoyan.

Pursuant to the investment agreement entered between the two natural person shareholders and the Articles of Shaoguan Green, other than those specified material matters which have to be resolved at the Directors' meeting, the Company has the rights to determine the operating and financial policies of Shaoguan Green. Accordingly, Shaoguan Green was included in the scope of consolidation in 2009.

On 11 December 2009, Mr. Tang Xiaoguan and the Company entered into a share transfer agreement. Pursuant of which, the Company acquired 10% equity interests in Shaoguan Green from Mr. Tang Xiaoguan at a consideration of RMB17,800,000. As at 31 December 2010, the equity interests in Shaoguan Green of 60%, 30% and 10% were owned by the Company, Mr. Zhang Guoyan and Mr. Tang Xiaoguan respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (Continued)

(4) *Resource Recycling*

Full name: Shenzhen Dongjiang Environment Recycled Resources Company Limited (深圳市東江環保再生資源有限公司)

Resource Recycling was established on 19 November 2003 with approval from Shenzhen Commercial and Industrial Administrative Bureau with registration no. 440301103644517. Its registered capital was RMB1,000,000. The legal representative is Mr. Chen Shu Sheng. As at 31 December 2010, the equity interests in Resource Recycling was wholly owned by the Company.

(5) *Dongjiang Heritage*

Full name: Shenzhen Dongjiang Heritage Technologies Company Limited (深圳東江華瑞科技有限公司)

Dongjiang Heritage was established on 16 March 2004 with approval from Shenzhen Commercial and Industrial Administrative Bureau with registration no. 440306501133460. Its registered capital was RMB25,000,000. The legal representative is Mr. Zhang Wei Yang. As at 31 December 2010, the equity interests of Dongjiang Heritage of 62% and 38% were owned by the Company and Heritage Technologies Asia, LLC respectively.

(6) *Longgang Dongjiang*

Full name: Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited (深圳市龍崗區東江工業廢物處置有限公司)

Longgang Dongjiang was established on 2 July 2003 with approval from Shenzhen Commercial and Industrial Administrative Bureau with registration no. 440307103656838. Its registered capital was RMB20,000,000. The legal representative is Mr. 廖若岸. As at 31 December 2010, the equity interests of Longgang Dongjiang of 51%, 30% and 19% were owned by the Company and Meidadi Environmental Engineering Company Limited and Shenzhen Longguan District Environmental Technologies Services Centre respectively.

(7) *Huizhou Dongjiang*

Full name: Huizhou Dongjiang Environment Technology Company Limited (惠州市東江環保技術有限公司)

Huizhou Dongjiang was established on 22 May 2002 with approval from Huizhou Commercial and Industrial Administrative Bureau with registration no. 4413002002604. Its registered capital was RMB5,000,000. The legal representative is Mr. Diao Weihua. As at 31 December 2010, the equity interests in Huizhou Dongjiang was wholly owned by the Company.

(8) *Qiandeng Wastes Treatment*

Full name: Kunshan Qiandeng Wastes treatment Company Limited (昆山市千燈三廢淨化有限公司)

Qiandeng Wastes Treatment was established on 16 June 2004 with approval from Kunshan Commercial and Industrial Administrative Bureau of Suzhou with registration no. 320583000010561. Its registered capital was RMB10,000,000. The legal representative is Mr. Chen Shu Sheng. As at 31 December 2010, the equity interests of Qiandeng Wastes Treatment of 51%, 19%, 10 and 10% were owned by the Company, Qiandeng Datang Economic Cooperative, Chen Deming and Gu Ying ying respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (Continued)

(9) Kunshan Kunpeng

Full name: Kunshan Kunpeng Environmental Technology Company Limited (昆山市昆鵬環境技術有限公司)

Kunshan Kunpeng was established on 18 December 2000 with approval Kunshan Commercial and Industrial Administrative Bureau of Suzhou with registration no. 320583000035525. Its registered capital was RMB6,600,000. The legal representative is Mr. Chen Shu Sheng. As at 31 December 2010, the equity interests of Kunshan Kunpeng of 51%, 29%, 10 and 10% were owned by the Company, Guo Quandi, Chen Yunming and Ren Peiyang respectively.

(10) Qingyuan Dongjiang

Full name: Qingyuan Dongjiang Environmental Technology Company Limited (清遠市東江環保技術有限公司)

Qingyuan Dongjiang was established on 12 July 2007 with approval from Qingyuan Kunshan Commercial and Industrial Administrative Bureau with registration no. 441800000000590. Its registered capital was RMB2,000,000. The equity interests of Qingyuan Dongjiang of 90% and 10% were owned by the Company and Ye Zijun respectively. The legal representative is Mr. Zhang Wei Yang.

In June 2010, the Company acquired 10% equity interests in Qingyuan Dongjiang from Qingyuan FogangYifeng Recycled Resources Company Limited at a consideration of RMB200,000. As at 31 December 2010, the equity interests in Qingyuan Dongjiang was wholly owned by the Company.

(11) Qingdao Dongjiang

Full name: Qingdao Dongjiang Environmental Renewables Company Limited (青島市東江環保再生能源有限公司)

Qingdao Dongjiang was a wholly owned subsidiary established by the Company on 13 June 2008 with approval Qingdao Commercial and Industrial Administrative Bureau with registration no. 370214020000235. Its registered capital was RMB15,000,000. The legal representative is Xie Henghua. As at 31 December 2010, the equity interests of Qingdao Dongjiang was wholly owned by the Company.

(12) Hunan Dongjiang

Full name: Hunan Dongjiang Environmental Investment & Development Company Limited (湖南東江環保投資發展有限公司)

Hunan Dongjiang was established on 6 December 2007 with approval from Hunan Commercial and Industrial Administrative Bureau with registration no. 430000000016917. Its registered capital was RMB10,000,000. The legal representative is Mr. Zhang Wei Yang. As at 31 December 2010, the equity interests in Hunan Dongjiang of 95% and 5% were owned by the Company and Yuan Yu respectively.

(13) Chengdu Treatment Centre

Full name: Chengdu Hazardous Waste Treatment Centre Company Limited (成都市危險廢物處理中心有限公司)

Chengdu Treatment Centre was established on 25 June 2001 with approval from Chengdu Commercial and Industrial Administrative Bureau with registration no. 5101001809268. Its registered capital was RMB10,000,000. The legal representative is Mr. Li Yong Peng. In May 2007, the Company acquired 49% shareholding from the minority shareholder Sichuan Xingli Wheel Company. As at 31 December 2010, the equity interests in Chengdu Treatment Centre was wholly owned by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (Continued)

(14) *Renewable Energy*

Full name: Shenzhen Dongjiang Environmental Renewable Energy Company Limited (深圳市東江環保再生能源有限公司)

Renewable Energy was established on 23 March 2006 with approval from Shenzhen Commercial and Industrial Administrative Bureau with registration no. 440301102885046. Its registered capital was RMB10,000,000. The legal representative is Mr. Li Yong Peng. As at 31 December 2010, the equity interests in Renewable Energy was wholly owned by the Company.

(15) *Shaoguan Dongjiang*

Full name: Shaoguan Dongjiang Environmental Technology Company Limited (韶關市東江環保技術有限公司)

Shaoguan Dongjiang was established on 27 October 2005 with approval from Shaoguan Commercial and Industrial Administrative Bureau with registration no. 440200000006382. Its registered capital was RMB5,000,000. The legal representative is Mr. Li Yong Peng. As at 31 December 2010, the equity interests in Shaoguan Dongjiang of 90% and 10% were owned by the Company and Huizhou Dongjiang respectively.

(16) *Dongjiang Lisai*

Full name: Shenzhen Dongjiang Lisai Renewable Energy Company Limited (深圳市東江利賽再生能源有限公司)

Dongjiang Lisai was established jointly by the Company and Shenzhen Lisai Industrial Development Limited on 14 May 2008 with approval from Shenzhen Commercial and Industrial Administrative Bureau with registration no. 440306103351553. Its registered capital was RMB5,000,000. The equity interests in Dongjiang Lisai of 51% and 49% were owned by the Company and Shenzhen Lisai Industrial Development Limited respectively. The legal representative is Mr. Xie Henghua.

Pursuant to the resolution passed at the shareholders' meeting on 21 January 2010, Shenzhen Lisai Industrial Development Limited would transfer its shareholding of 29%, 10%, and 10% in Dongjiang Lisai to the Company, Mr. Chen Dezhong and Ms. Yang Huizhu respectively. In March 2010, the Company acquired 29% equity interests Shenzhen Lisai Industrial Development Limited in Dongjiang Lisai at a consideration of RMB4,700,000.

Pursuant to the resolution passed at the shareholders' meeting on 26 November 2010, the shareholders increase their shareholdings in Dongjiang Lisai on a pro-rata basis. The registered capital was changed to RMB10,000,000. The Company invested RMB4,000,000. As at 31 December 2010, the equity interests in Dongjiang Lisai of 80%, 10% and 10% were owned by the Company, Mr. Chen Dezhong and Ms. Yang Huizhu respectively.

As at 31 December 2010, the 80% equity interests in Dongjiang Lisai held by the Company was pledged to bank for bank loans granted. (Note VIII.26).

(17) *Dongjiang HK*

Full name: Dongjiang Environmental (Hong Kong) Company Limited (東江環保(香港)有限公司)

Dongjiang HK was a wholly owned subsidiary established by the Company on 5 October 2005 in Hong Kong. Its issued and fully paid share capital was HK\$24,700,000. As at 31 December 2010, the equity interests in Dongjiang HK was wholly owned by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (Continued)

(18) *Dongjiang Property Service*

Full name: Shenzhen Dongjiang Property Service Company Limited (深圳市東江物業服務有限公司)

Dongjiang Property Service was a wholly owned subsidiary established by the Company on 25 December 2009 with registration no. 440301104434566. Its registered capital was RMB1,000,000. The legal representative is Mr. Lan Yonghui. As at 31 December 2010, the equity interests in Dongjiang Property Service was wholly owned by the Company.

(19) *Yunnan Dongjiang*

Full name: Yunnan Dongjiang Environmental Technology Company Limited (雲南東江環保技術有限公司)

Yunnan Dongjiang was a wholly owned subsidiary established by the Company on 16 August 2010 with registration no. 530102000007511. Its registered capital was RMB10,000,000. The legal representative is Mr. Xie Henghua. As at 31 December 2010, the equity interests in Yunnan Dongjiang was wholly owned by the Company.

(20) *Dongjiang Transport*

Full name: Huizhou Dongjiang Transport Company Limited (惠州東江運輸有限公司)

Dongjiang Transport was a limited company established jointly by Huijiang Dongjiang and Resource Recycling in April 2009 by making contribution of RMB1,600,000 and RMB400,000 respectively. Its registration no. is 441300000073398 and the original registered capital was RMB2,000,000. In June 2010, the shareholders made additional investment in Dongjiang Transport on a pro-rata basis. The registered capital was then changed to RMB10,000,000. As at 31 December 2010, the equity interests in Dongjiang Transport was indirectly wholly owned by the Company.

(21) *Lik Shun Services*

Full name: Lik Shun Services Limited (力信服務有限公司)

Lik Shun Services is a limited company established in Hong Kong on 11 December 1988 with issued and fully paid share capital of HK\$10,000. On 19 November 2008, Dongjiang HK acquired 100% shareholding from an independent third party at a consideration of HK\$3,600,000 and injected additional funds of HK\$9,990,000 to Lik Shun Services at the same time. Its share capital was then changed to HK\$10,000,000. As at 31 December 2010, the equity interests in Lik Shun Services was indirectly wholly owned by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Changes in consolidation scope during the year

(1) Details of subsidiaries newly included in consolidation scope during the year

Name of company	Reason for newly included in scope of consolidation	Proportion of shareholding (%)	Net Assets as at 31 December 2010	Net profit (loss) for the year
Dongjiang Property Service	Newly established	100.00	932,653.82	(67,346.18)
Yunnan Dongjiang	Newly established	100.00	9,581,115.62	(418,884.38)

(2) Details of subsidiaries excluded from consolidation scope during the year

Name of company	Reason for excluding from scope of consolidation	Proportion of shareholding (%)	Net assets at 1/9/2010 (Date of disposals)	Net profit for 1/1/2010 to 1/9/2010 (Date of disposals)
Shenzhen Resource	Decrease in voting rights proportion	50.00	55,366,180.20	4,309,969.02

The full name of Shenzhen Resource is Shenzhen Resource Environmental Technology Company Limited (深圳市萊索思環境技術有限公司). The Company originally held 50% equity interests in Shenzhen Resource. Pursuant to the framework agreement of Shenzhen Resources of 19 August 2010, 1% of the equity interests in Shenzhen Resource held by the Company would be transferred to the other shareholder of Shenzhen Resources, Shenzhen City Dangerous Wastes Treatment Station Limited ("City Dangerous Waste Treatment Station"). And that, at the same time, the structure of the Board of Directors of Shenzhen resource would be adjusted whereby City Dangerous Waste Treatment Station had the rights to nominate 4 out of 7 directors while the Company has rights to nominate 3. On 1 September 2010, the composition of the Board was changed and accordingly the Company had no longer had control over Shenzhen Resource. Shenzhen Resource was then excluded from the consolidation scope and accounted for as an associated company using equity method of accounting. As at 31 December 2010, the Company still owned 50% equity interests in Shenzhen Resource. The procedures for the share transfer were being undertaken.

As at the date of loss of control, current assets of Shenzhen Resource was RMB34,017,291.71, non-current assets was RMB41,470,489.14 and current liabilities was RMB20,121,600.65. The net assets of Shenzhen Resource attributable to the Group was RMB27,683,090.10.

3. There was no business combination for the year.

4. Translation of financial statements denominated in foreign currency

The consolidated financial statements incorporated the financial statements of Dongjiang HK and Lik Shun Services whose functional currency was Hong Kong Dollars. The asset and liability items in the balance sheets were translated at the rate of exchange prevailing at the balance sheet date (i.e. HKD: RMB = 0.8509:1). Other than the undistributed profits, other equity items are translated at the spot rates. Income and expense items in the income statement are translated at the average rate for the period (i.e. Hong Kong Dollars: RMB = 0.8657: 1).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

1. Bank balances and cash

Item	Foreign currency	2010 Exchange rate	Amount in RMB	Foreign currency	2009 Exchange rate	Amount in RMB
Cash						
RMB	144,962.22	1.0000	144,962.22	263,562.08	1.0000	263,562.08
HKD	35,000.00	0.8509	29,781.50	-	-	-
Sub-total			<u>174,743.72</u>			<u>263,562.08</u>
Bank deposits						
RMB	170,335,726.11	1.0000	170,335,726.11	193,813,022.34	1.0000	193,813,022.34
HKD	2,250,972.25	0.8509	1,915,364.80	1,897,075.36	0.8805	1,670,374.94
USD	36.82	6.6227	243.85	272,960.05	6.8282	1,863,637.06
EURO	89.17	8.8065	785.59	89.17	9.7971	954.28
Sub-total			<u>172,252,120.35</u>			<u>197,347,988.62</u>
Other bank balances and cash						
RMB	4,724,661.35	1.0000	4,724,661.35	30,755,623.46	1.0000	30,755,623.46
HKD	1,766,640.00	0.8509	1,503,286.98	2,263,930.00	0.8805	1,993,390.37
Sub-total			<u>6,227,948.33</u>			<u>32,749,013.83</u>
Total			<u>178,654,812.40</u>			<u>230,360,564.53</u>

As at 31 December 2010, the restricted bank deposits of the Group was RMB4,418,233.99 which were the guarantee deposits for performance of contracts.

2. Held for trading financial assets

Item	2010	2009
Listed shares in the PRC, at fair value	<u>4,511,646.00</u>	<u>6,286,090.00</u>
Total	<u>4,511,646.00</u>	<u>6,286,090.00</u>

As at 31 December 2010, the market value of the listed investment was RMB4,511,646.00 (2009:RMB6,286,090.00).

There was no material restrictions in the realisation of the above held for trading financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Bills receivable

(1) Categories of bills receivable

Category	2010	2009
Bank acceptance notes	52,107,555.18	690,000.00
Commercial acceptance notes	300,000.00	–
Total	52,407,555.18	690,000.00

As 31 December 2010, the bills receivables of the Group was increased by RMB51,717,555.18, representing 7,495% as compared with last year. It was caused by the changes in mode of settlement of the customers.

(2) As at 31 December 2010, the Top five bills that were endorsed to other parties for payments and yet to mature were as follows:

Type of bills	Drawer	Date of draft	Due date	Amount
Bank acceptance notes	Zengcheng Hongxiang Chemical Company Limited	2010-11-09	2011-02-09	1,130,000.00
Bank acceptance notes	Jieshou Yongfeng Industrial Company Limited	2010-11-05	2011-05-05	500,000.00
Bank acceptance notes	Hongxiang Chemical Company Limited	2010-07-02	2011-01-02	500,000.00
Bank acceptance notes	Shenzhen Shangshan Logistic Company Limited	2010-10-13	2011-01-13	500,000.00
Bank acceptance notes	Huizhou Xingbang Industrial Company Limited	2010-07-12	2011-01-12	400,000.00
Total				3,030,000.00

In the opinion of Directors, the risks of being recourse by the parties accepting such bills were extremely remote, accordingly such bills and corresponding liabilities had been derecognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivables

	2010	2009
Accounts receivables	171,965,694.20	136,407,590.13
Less: Provision for bad debts	(13,927,212.59)	(15,898,572.04)
	158,038,481.61	120,509,018.09

(1) *The aging analysis of accounts receivable (net of bad debt provision) presented based on the invoice date at the reporting date is as follows:*

Item	2010	2009
0-90 days	120,039,542.87	100,840,903.39
91-180 days	16,704,603.41	7,563,713.40
181-365 days	12,267,935.94	4,585,416.56
1-2 years	7,842,886.21	7,334,974.99
2-3 years	1,167,487.18	184,009.75
Over 3 years	16,026.00	–
Total	158,038,481.61	120,509,018.09

The Group allows an average credit period of 90 days to its trade customers.

The accounts receivables of the Group as at 31 December 2010 was increased by 37,529,463.52, representing 31.14% as compared with last year. The increase was due to the increase in revenue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivables (Continued)

(2) Disclosure of accounts receivables by categories is as follows:

Category	2010		Bad debt provision	
	Book balance Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivables that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Accounts receivables that are provided for bad debts on portfolio basis				
Aged group	146,938,279.37	85.45	7,021,096.36	4.78
Related party group	19,245,298.60	11.19	1,140,000.00	5.92
Sub-total	166,183,577.97	96.64	8,161,096.36	4.91
Accounts receivables that are individually insignificant but are individually provided for bad debts	5,782,116.23	3.36	5,766,116.23	99.72
Total	171,965,694.20		13,927,212.59	
Category	2009		Bad debt provision	
	Book balance Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivables that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Accounts receivables that are provided for bad debts on portfolio basis				
Aged group	123,570,634.98	90.59	5,254,869.77	4.25
Related party group	3,333,252.88	2.44	1,140,000.00	34.20
Sub-total	126,903,887.86	93.03	6,394,869.77	5.04
Accounts receivables that are individually insignificant but are individually provided for bad debts	9,503,702.27	6.97	9,503,702.27	100.00
Total	136,407,590.13		15,898,572.04	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivables (Continued)

- 1) Details of accounts receivables that are provided for bad debts based on ageing analysis are as follows:

Item	2010			2009		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	103,211,745.92	1.50	1,542,540.55	100,183,298.78	1.50	1,535,648.27
91-180 days	17,499,557.34	3.00	525,119.03	7,797,642.68	3.00	233,929.28
181-365 days	12,946,421.47	5.00	651,455.53	4,826,754.27	5.00	241,337.71
1-2 years	9,763,825.26	20.00	1,952,765.05	9,168,718.74	20.00	1,833,743.75
2-3 years	2,334,974.38	50.00	1,167,487.20	368,019.51	50.00	184,009.76
Over 3 years	1,181,755.00	100.00	1,181,729.00	1,226,201.00	100.00	1,226,201.00
Total	146,938,279.37		7,021,096.36	123,570,634.98		5,254,869.77

- 2) As at 31 December 2010, accounts receivables that are individually insignificant but are individually provided for bad debts.

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
China Sinopec Group Tianjin Petrochemical Company	1,107,274.60	1,107,274.60	100.00	Irrecoverable
Bao'an District Shajing Shataubao Electronics Factory	735,708.53	735,708.53	100.00	Irrecoverable
Shenzhen Bao'an District Municipal Management Office Wastes Treatment Station	590,000.00	574,000.00	97.29	Irrecoverable
Yun County Construction Bureau	282,355.00	282,355.00	100.00	Irrecoverable
PetroChina Urumqi Petrochemical Company	218,900.00	218,900.00	100.00	Irrecoverable

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivables (Continued)

2) As at 31 December 2010, accounts receivables that are individually insignificant but are individually provided for bad debts. (Continued)

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
Jinan Second Machine Factory	171,312.00	171,312.00	100.00	Irrecoverable
Zaozhuang Huaging Environmental Equipment Company Limited	159,390.00	159,390.00	100.00	Irrecoverable
Rongsheng Construction Engineering Company Limited	150,000.00	150,000.00	100.00	Irrecoverable
Zaozhuang Huiying Environmental Engineering Company Limited	150,000.00	150,000.00	100.00	Irrecoverable
Zaozhuang Drainage Management Office	120,000.00	120,000.00	100.00	Irrecoverable
Xingtai Iron and Steel Company Limited	117,030.55	117,030.55	100.00	Irrecoverable
Kaifeng Xianglong Industry and Trade Company Limited.	100,000.00	100,000.00	100.00	Irrecoverable
Others (Items under RMB100,000)	1,880,145.55	1,880,145.55	100.00	Irrecoverable
Total	<u>5,782,116.23</u>	<u>5,766,116.23</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivables (Continued)

(3) Details of reversal of bad debts provision

Name	Book value of accounts receivable	Balance of bad debt provision before reversal	Amount reversed in 2010
Bao'an District Shajing Shataubao Electronics Factory	735,708.53	3,993,361.74	3,748,305.92
Total	735,708.53	3,993,361.74	3,748,305.92

The amount was expected irrecoverable because the business of the debtor was ceased as a result of financial crisis. Accordingly, provision for bad debts was made in prior period.

During the year ended 31 December 2010, the business of the debtor was resumed due to the recovery of economy. Part of the amount outstanding was recovered.

(4) *There were no accounts receivables from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2010.*

(5) *Top five accounts receivables outstanding as at 31 December 2010 were as follows:*

Name	Relationships with the Company	Amount	Aged	Proportion to total accounts receivables (%)
Heritage Technologies, LLC	Holding company of a subsidiary's minority shareholder	24,542,051.05	1-90 days	14.27
Shenzhen Mirconutrients	Associate of the Company	11,443,035.00	1-90 days	6.65
Shenzhen Xiaping Solid Waste Landfill	Independent third party	10,397,748.09	1-90 days	6.05
Shenzhen Suntak Multilayer PCB Company Limited	Independent third party	10,000,000.00	90-180 days	5.82
Daye Hua Sheng Mining Company Limited	Independent third party	7,447,386.24	1-90 days	4.33
Total		63,830,220.38		37.12

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivables (Continued)

(6) Details of accounts receivables from related parties

As at 31 December 2010, the accounts receivables from related parties was RMB19,245,298.60, representing 11.19% of total accounts receivables (2009: RMB 3,333,252.88, 2.44%). The details are set out in note IX.3(1).

(7) Accounts receivable comprised the following balances in foreign currencies:

Foreign currency	2010		Amount in RMB	2009		Amount in RMB
	Amount in foreign currency	Exchange rate		Amount in foreign currency	Exchange rate	
USD	3,705,747.06	6.6227	24,542,051.05	1,411,290.00	6.8282	9,636,570.38
HKD	3,332,047.60	0.8509	2,835,239.30	3,574,892.60	0.8805	3,147,692.93
Total			<u>27,377,290.35</u>			<u>12,784,263.31</u>

5. Prepayments

(1) The aged analysis of prepayments is as follows:

Item	2010		2009	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	59,152,098.52	88.45	101,804,655.80	93.15
1-2 years	5,684,680.33	8.50	6,963,494.54	6.37
2-3 years	1,719,483.70	2.57	261,771.00	0.24
Over 3 years	319,088.55	0.48	260,691.48	0.24
Total	<u>66,875,351.10</u>	<u>100.00</u>	<u>109,290,612.82</u>	<u>100.00</u>

The prepayments of the Group as at 31 December 2010 was decreased by RMB42,415,261.72, representing 38.81%, as compared with last year. It was mainly caused by the deposits paid for the purchase of dynamo last year had examined and put into production this year.

(2) As at 31 December 2010, provision for bad debts on prepayments were as follows:

Name	Book value	Bad debts provision	Proportion (%)
Weijun Electronic Kunshan Company	1,101,244.43	982,993.43	89.26
Total	<u>1,101,244.43</u>	<u>982,993.43</u>	

Weijun Electronic Kunshan Company is a material supplier of Qiandeng Wastes Treatment which is going to be bankrupted. Qiandeng Wastes Treatment has filed petition against it. Provision for bad debts was made for the amount after offsetting the material cost payable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Prepayments (Continued)

(3) Details of the top five prepayments at 31 December 2010:

Name	Relationship with the Company	Amount	Aged	Reason of outstanding
Inner Mongolia Second Construction Company	Independent third party	13,927,021.83	Within 1 year	Progress payments as contracted
Dalian Lipp Environmental Energy Engineering Technology Company Limited	Independent third party	3,499,520.00	Within 1 year	Progress payments as contracted
Huizhou Construction Engineering Corporation	Independent third party	3,321,000.00	Within 1 year	Progress payments as contracted
Shenzhen Guangchuan Electrical Industrial Company Limited	Independent third party	2,922,000.00	Within 1 year	Progress payments as contracted
Guangzhou Shenfa Machinical and Electrical Industrial Development Company Limited	Independent third party	2,701,942.00	Within 1 year	Progress payments as contracted
Total		26,371,483.83		

(4) There were no prepayments from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2010.

(5) Prepayments comprised the following balances in foreign currencies:

Foreign currency	2010		Amount in RMB	2009		Amount in RMB
	Amount in foreign currency	Exchange rate		Amount in foreign currency	Exchange rate	
HKD	3,785,899.18	0.8509	3,221,421.61	3,191,955.85	0.8805	2,810,517.13
USD	-	-	-	2,214,600.39	6.8282	15,121,734.38
Total			3,221,421.61			17,932,251.51

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables

	2010	2009
Other receivables	84,005,856.08	96,619,244.07
Less: Provision for bad debts	(14,889,194.15)	(16,596,110.09)
	<u>69,116,661.93</u>	<u>80,023,133.98</u>

(1) Disclosure of other receivables by categories is as follows:

Category	2010		Bad debt provision	
	Book balance Amount	Proportion(%)	Amount	Proportion(%)
Other receivables that are individually significant and are provided for bad debts on individual basis	5,000,000.00	5.95	5,000,000.00	100.00
Other receivables that are provided for bad debts on portfolio basis				
Aged group	13,904,171.82	16.55	5,067,664.75	36.04
Related party group	31,287,273.23	37.24	571,117.32	1.83
Collateral group	29,499,878.95	35.12	-	-
Sub-total	<u>74,691,324.00</u>	<u>88.91</u>	<u>5,638,782.07</u>	<u>7.55</u>
Other receivables that are individually insignificant but are individually provided for bad debts	4,314,532.08	5.14	4,250,412.08	98.51
Total	<u>84,005,856.08</u>		<u>14,889,194.15</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

(1) Disclosure of other receivables by categories is as follows: (Continued)

Category	2009		Bad debt provision	
	Book balance Amount	Proportion(%)	Amount	Proportion(%)
Other receivables that are individually significant and are provided for bad debts on individual basis	5,000,000.00	5.17	5,000,000.00	100.00
Other receivables that are provided for bad debts on portfolio basis				
Aged group	22,130,351.72	22.90	3,824,689.57	17.28
Related party group	24,632,695.15	25.49	931,788.34	3.78
Collateral group	22,211,890.59	22.99	1,612,695.13	7.26
Sub-total	68,974,937.46	71.39	6,369,173.04	9.23
Other receivables that are individually insignificant but are individually provided for bad debts	22,644,306.61	23.44	5,226,937.05	23.08
Total	96,619,244.07		16,596,110.09	

1) As at 31 December 2010, details of other receivables that are individually significant and are provided for bad debts on individual basis are as follows:

Name	Book value	Bad debts provision	Proportion (%)	Reasons for provision
Shantou Jianan (Group) Corporation Huizhou Branch	5,000,000.00	5,000,000.00	100.00	In dispute
Total	5,000,000.00	5,000,000.00		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

(1) Disclosure of other receivables by categories is as follows: (Continued)

2) Details of other receivables that are provided for bad debts based on ageing analysis are as follows:

Item	2010			2009		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	3,851,071.02	1.50	59,623.70	4,925,329.72	1.50	73,879.94
91-180 days	797,649.23	3.00	23,395.68	7,090,669.19	3.00	212,720.08
181-365 days	1,334,370.73	5.00	74,716.04	445,240.42	5.00	22,262.02
1-2 years	988,682.68	20.00	216,756.53	5,834,603.99	20.00	1,166,920.80
2-3 years	4,477,650.71	50.00	2,241,225.35	2,971,203.33	50.00	1,485,601.66
Over 3 years	2,454,747.45	100.00	2,451,947.45	863,305.07	100.00	863,305.07
Total	13,904,171.82		5,067,664.75	22,130,351.72		3,824,689.57

3) As at 31 December 2010, other receivables that are individually insignificant but are individually provided for bad debts:

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
CB (Holding) LTD	1,696,407.31	1,696,407.31	100.00	Irrecoverable
Huizhou Shengtianhan Industrial Company Limited	500,000.00	500,000.00	100.00	Irrecoverable
Xue Yaochun	300,000.00	300,000.00	100.00	Irrecoverable
Shenzhen Kaixiang Industrial Development Company Limited	300,000.00	300,000.00	100.00	Irrecoverable
Others	1,518,124.77	1,454,004.77	95.78	Irrecoverable
Total	4,314,532.08	4,250,412.08	98.51	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

(2) Details of reversal of bad debts provision during the year ended 31 December 2010:

Name	Book value of other receivable	Balance of bad debt provision before reversal	Amount reversed
Shenzhen Kaixiang Industrial Development Company Limited.	300,000.00	650,000.00	350,000.00
Total	300,000.00	650,000.00	350,000.00

The amount was expected irrecoverable in prior years. During the year ended 31 December 2010, part of the amount outstanding was recovered through a related party of the Group.

(3) Except as disclosed in note IX.3(2), there were no other receivables from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2010.

(4) Top five other receivable outstanding as at 31 December 2010 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total other receivables (%)	Nature
Shuangxin Cement	Jointly controlled entity	29,524,126.48	Within 2 years	35.15	Loan, current account
Guangdong Yition Electronic Technology Company Limited.	Independent third party	7,500,000.00	Within 2 years	8.93	Deposit
Shantou Jianan (Group) Corporation Huizhou Branch	Independent third party	5,000,000.00	Over 3 years	5.95	Loan for construction work
Shenzhen Zhongjin Lingnan Nonfemet Company Limited Shaoguan Smelter	Independent third party	3,023,000.00	2-3 years	3.60	Deposit for performance of contracts
Xin Qiang Electronic (Qingyuan) Company Limited	Independent third party	2,000,000.00	2-3 years	2.38	Deposit
Total		47,047,126.48		56.01	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

(5) Other receivables from related parties as at 31 December 2010 was RMB31,287,273.23, representing 37.24% of the total other receivables (2009: RMB24,632,695.15, 25.39%). The details are set out in note IX.3(2).

(6) Other receivables comprised the following balances in foreign currencies:

Foreign currency	2010			2009		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	1,727,934.56	0.8509	1,470,299.52	1,738,615.17	0.8805	1,530,850.66
EURO	153,379.83	8.8065	1,350,739.47	153,379.83	9.7971	1,502,677.53
Total			<u>2,821,038.99</u>			<u>3,033,528.19</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Inventories

(1) Categories of inventories are as follows:

Item	Cost	2010	Carrying Book value
		Allowance for inventories	
Raw material	145,665,070.38	46,922.67	145,618,147.71
Work-in-progress	33,829,856.25	–	33,829,856.25
Finished goods	98,053,236.42	458,564.36	97,594,672.06
Consumables	5,439,200.68	–	5,439,200.68
Total	282,987,363.73	505,487.03	282,481,876.70

Item	Cost	2009	Carrying Book value
		Allowance for inventories	
Raw materials	120,363,029.91	1,572.64	120,361,457.27
Work-in-progress	8,233,232.77	–	8,233,232.77
Finished goods	10,113,506.31	458,564.36	9,654,941.95
Consumables	914,371.83	–	914,371.83
Total	139,624,140.82	460,137.00	139,164,003.82

As at 31 December 2010, the inventories of the Group was increased by approximately RMB143,317,872.88, representing 102.98% as compared with last year. It was caused by the expansion of production capability increasing the finished goods at the year ended.

(2) Provision for inventories

Item	As at 1 January 2010	Provision for the year	Decrease		As at 31 December 2010
			Reversal	Other transfer	
Raw material	1,572.64	45,350.03	–	–	46,922.67
Finished goods	458,564.36	–	–	–	458,564.36
Total	460,137.00	45,350.03	–	–	505,487.03

(3) Cost of inventories recognised for the year was RMB750,036,591.81 (2009: RMB544,929,593.14).

(4) On 3 June 2009, Shaoguan Green entered into a Loan Agreement (Contract No.: She Zi [2009] No.1009245140) with Shenzhen Jingtian Branch of China Merchants Bank Company Limited whereby the Group obtained banking facilities of approximately RMB185,000,000 for the terms of 2 years. As at 31 December 2010, the outstanding balance of the loans was RMB110,000,000 (2009: RMB60,000,000). The loans were secured by Shaoguan Green inventories, with carrying value of RMB107,900,000. The details are set out in note VIII.26(2).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments

(1) *The category of long-term equity investments assets is as follows:*

Item	2010	2009
Unlisted long-term equity investments	118,491,720.88	71,645,089.41
Total	118,491,720.88	71,645,089.41
Item	2010	2009
Investments in jointly controlled entities and associates - accounted for using equity method of accounting	117,121,369.88	70,374,738.41
Less: Provision for impairment loss	(529,649.00)	(529,649.00)
Carrying value of investments in jointly controlled entities and associates	116,591,720.88	69,845,089.41
Other long-term equity investments-accounted for using cost method	1,900,000.00	1,800,000.00
Total	118,491,720.88	71,645,089.41

As at 31 December 2010, the long-term investments of the Group was increased by RMB46,846,631.47, representing 65.38% as compared with last year. It was mainly because:

- 1) The Board of Directors of Shenzhen Resource was restructured in September 2010, the Company loss control over Shenzhen Resource and it was then became an associate of the Group. The details are set out in Note VII.2 (2).
- 2) The Company invested RMB16,734,000.00 in Dongjiang Songzao which was newly established during the year ended 31 December 2010.
- 3) The Company acquired the equity interests in Zhuhai Qingxin at a consideration of RMB6,615,000.00 during the year ended 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments (Continued)

(2) Investments in jointly controlled entities and associates

Name	As at 31 December 2010		Cost of Investment	As at	Increase	Decrease	As at 31 December 2010
	Proportion of Shareholding (%)	Proportion of voting rights (%)		1 January 2010			
Jointly controlled entity							
Shuangxin Cement	50.00	50.00	43,900,000.00	42,550,468.00	-	(8,484,252.50)	34,066,215.50
Dongjiang Veolia	51.00	50.00	22,440,000.00	27,294,621.41	-	3,613,865.91	30,908,487.32
Associate							
Dongjiang Songzao	51.00	40.00	16,734,000.00	-	16,734,000.00	(154,613.52)	16,579,386.48
Shenzhen Micronutrients	38.00	40.00	760,000.00	529,649.00	-	674,282.20	1,203,931.20
Shenzhen Resource	50.00	42.86	21,747,000.00	-	27,683,090.10	(61,635.21)	27,621,454.89
Zhuhai Qingxin	35.00	35.00	6,615,000.00	-	6,615,000.00	-	6,615,000.00
Lisheng Membrane	45.00	45.00	450,000.00	-	-	126,894.49	126,894.49
Zhejiang Shuangyi	30.00	30.00	150,000.00	-	-	-	-
Beijing Shuangyi	50.00	50.00	3,000,000.00	-	-	-	-
Total			115,796,000.00	70,374,738.41	51,032,090.10	(4,285,458.63)	117,121,369.88

The full name of jointly controlled entities and associates are set out in Note VIII.8 (3)

No cash dividends were received from the investee companies during the year.

(3) Particulars of the jointly controlled entities and associates

Name	As at 31 December 2010		Place of registration	Business nature	Legal representative	Registered capital (RMB'000)	organisation
	Proportion of Shareholding (%)	Proportion of voting rights(%)					
Jointly controlled entities							
Shuangxin Cement	50.00	50.00	Huizhou	Industrial	Liu Qingfang	58,800	19607202-1
Dongjiang Veolia	51.00	50.00	Huizhou	Industrial	Zhang Wei Yang	60,000	77402216-6
Associates							
Dongjiang Songzao	51.00	40.00	Chongqing	Industrial	Xie Henghua	32,812	69659686-8
Shenzhen Resource	50.00	42.86	Shenzhen	Industrial	Chen Shu Sheng	35,000	72303063-3
Shenzhen Micronutrients	38.00	38.00	Shenzhen	Trading and services	Frederick A. Steward	2,000	75567274-5
Zhuhai Qingxin	35.00	35.00	Zhuhai	Industrial	Diao Weihua	9,000	73217958-7
Lisheng Membrane	45.00	45.00	Beijing	Industrial	Chen Lianggang	1,000	78779638-X
Zhejiang Shuangyi	30.00%	30.00%	Hangzhou	Ceased business	Zhang Yi	500	
Beijing Shuangyi	50.00%	50.00%	Beijing	Ceased business	Chen Lujun	6,000	

All the jointly controlled entities and associates of the Group are limited company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments (Continued)

(3) Particulars of the jointly controlled entities and associates (Continued)

i) Shuangxin Cement

Full name: Huizhou Huiyang Shuangxin Cement Company Limited (惠州市惠陽雙新水泥有限公司).

It was established in 1987 by reforming Huiyang Shuangxin Cement Factory. As at 31 December 2010, its registered capital was RMB58,800,000. The Company invested RMB43,900,000 and owned 50% equity interests therein. Its business scope was production and sales of cement 42.5R.

ii) Dongjiang Veolia

Full name: Huizhou Dongjiang Veolia Environmental services Company Limited (惠州東江威立雅環境服務有限公司)

Its registered capital was RMB60,000,000. The Company invested RMB30,822,200 and owned 51% equity interests therein. The Board of Directors of Dongjiang Veolia comprise 6 directors, 3 of them were appointed by the Company and the other 3 were appointed by the another shareholders who had one additional vote in the matters relating to the design, construction or operating technology, including the allocation of manpower requirement, equipment and material resources. Accordingly, it is classified as a jointly controlled entity and accounted for using equity method of accounting.

iii) Dongjiang Songzao

Full name: Chongqing Dongjiang Songzao Renewable Energy Development Company Limited (重慶東江松藻再生能源開發有限公司)

It is a foreign joint ventures established jointly by Renewable Energy, Aian Climate Strategy Company Limited, Chongqing Songzao Coal Company Limited. Its registered capital was RMB32,812,000. The proportion of equity was 51%, 44% and 5% respectively. Renewable Energy invested RMB16,734,000 and fully paid in 2010. It is mainly engaged in construction, management and operation of Songzao VAM projects.

The board of directors of Dongjiang Songzao comprised of 5 directors. Of them, 2 were appointed by Renewable Energy, 2 by Aian Climate Strategy Company Limited and 1 by Songzao Coal. The Articles of Dongjiang Songzao required that resolutions of material matters must be passed by three-fifth votes of the directors participating in the meeting and that at least one director of each side must be present in the meeting. Accordingly, Renewable Energy did not have control over the board of directors. Dongjiang Songzao is not included in the consolidation scope and accounted for under equity method of accounting.

iv) Shenzhen Mirconutrients

Full name: Heritage Dongjiang Mirconutrients Additives (Shenzhen) Company Limited (華瑞東江微營養添加劑(深圳)有限公司)

Its registered capital was RMB2,000,000. The Company invested RMB760,000 and owned 38% equity interests therein. Its business scope was research and development of new technologies of feed additive; provision of technical services and consultation concerning feed; importing, exporting and wholesaling of feed additive; technical advice; in feed additives in the wholesale, import and export of feed additives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments (Continued)

(3) Particulars of the jointly controlled entities and associates (Continued)

v) Shenzhen Resource

Full name: Shenzhen Resource Environmental Technology Company Limited (深圳市萊索思環境技術有限公司)

Its registered capital was RMB35,000,000. The Company invested RMB17,500,000. The equity interest in Shenzhen Resource of 50% and 50% were owned by the Company and Shenzhen Hazardous Wastes Treatment Station Company Limited respectively.

The changes in the shareholding and control over Shenzhen Resource are set out in Note VII.2(2).

vi) Zhuhai Qingxin

Full name: Zhuhai Qingxin Industrial Environmental Protection Company Limited (珠海市清新工業環保有限公司)

Its registered capital was RMB9,000,000. The Company acquired 35% equity interest in Zhuhai Qingxin at a consideration of RMB6,615,000 in October 2010. The legal representative was Mr. Diao Weihua. It is mainly engaged in wholesaling and retailing; and provision of dangerous wastes treatment.

vii) Lisheng Membrane

Full name: Beijing Novel Lisheng Membrane Technology Company Limited (北京永新立升膜技術有限公司)

Its registered capital was RMB1,000,000. Beijing Novel invested RMB450,000 and owned 45% equity interest therein. It is mainly engaged in production of membrane separation products and equipment.

viii) Zhejiang Shuangyi

Full name: Zhejiang Novel Shuangyi Environmental Protection Company Limited (浙江永新雙益環保工程有限公司)

Its registered capital was RMB500,000. Beijing Novel invested RMB150,000 and owned 30% equity interest therein. Due to the persistent loss and negative asset value, the carrying value of the long-term equity investments had been reduced to zero. It had ceased business.

ix) Beijing Shuangyi

Full name: Beijing Novel Shuangyi Environmental Protection Company Limited (北京永新雙益環保有限公司)

Its registered capital was RMB6,000,000. Beijing Novel invested RMB3,000,000 and owned 50% equity interest therein. Due to the persistent loss and negative asset value, the carrying value of the long-term equity investments had been reduced to zero. It had ceased business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments (Continued)

(4) The financial information of jointly controlled entities and associates are as follows:

Name	As at 31 December 2010			For the year ended 31 December 2010	
	Total assets	Total liabilities	Total net assets	Total operating revenue	Net profit
Jointly controlled entity					
Shuangxin Cement	120,494,281.45	65,653,022.36	54,841,259.09	46,281,157.47	(16,968,507.00)
Dongjiang Veolia	189,479,451.92	128,471,542.88	61,007,909.04	77,124,098.55	7,489,043.54
Associates					
Dongjiang Songzao	33,136,098.67	627,262.44	32,508,836.23	-	(303,163.77)
Shenzhen Resource	78,245,153.03	15,004,758.99	63,240,394.04	68,838,972.38	4,184,182.86
Shenzhen Mirconutrients	13,683,068.40	10,805,189.96	2,877,878.44	38,479,454.64	1,564,421.61
Zhuhai Qingxin	6,870,372.85	90,499.98	6,779,872.87	-	(1,398,260.13)
Lisheng Membrane	719,878.61	437,890.85	281,987.76	940,170.90	416,078.72
Total	442,628,304.93	221,090,167.46	221,538,137.47	231,663,853.94	(5,016,204.17)

(5) Provision for impairment loss for long-term equity investments

Name	As at 1 January 2010	Increase	Decrease	As at 31 December 2010	Reason for provision
	Shenzhen Mirconutrients			529,649.00	
Total	529,649.00	-	-	529,649.00	

Impairment loss on investments in jointly controlled entities and associates once recognised will not be reversed in subsequent years.

(6) Other long-term equity investments

Name	Proportion of Shareholding (%)	Proportion of voting rights (%)	Cost of Investment	As at 1 January 2010	Increase	Decrease	As at 31 December 2010
				Wuhan Yunfeng			11.00
Dongjiang Green Resources	10.00	10.00	100,000.00	-	100,000.00	-	100,000.00
Total			1,900,000.00	1,800,000.00	100,000.00	-	1,900,000.00

i) Wuhan Yunfeng

Full name: Wuhan Yunfeng Recycled Resources Company Limited (武漢雲峰再生資源有限公司)

Wuhan Yunfeng was established on 23 November 2005. Its registered capital was RMB8,680,000. The Company invested RMB1,800,000 and owned 11% equity interests therein. The business scope was collection of torn and waste material, processing and sales of metals.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Long-term equity investments (Continued)

(6) Other long-term equity investments (Continued)

ii) Dongjiang Green Resources

Full name: Dongjiang Green Resources Investment Company Limited (深圳市東江綠源投資有限公司)

The registered capital of Dongjiang Green Resources was RMB1,000,000. The Company invested RMB100,000 and owned 10% equity interests therein. The business scope was development of waste gas treatment technology, environment and energy-saving products and technology.

- 1) No cash dividends were received from the investee companies during the year.
 - 2) Wuhan Yunfeng and Dongjiang Green Resources are private entities incorporated in the PRC. It is measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.
- (7) *There is no restriction on the ability of the investee to transfer capital to the Group.*

9. Investment properties

(1) Investment properties measured by fair value model

Item	Fair value	Increase		Fair value	
	as at 1 January 2010	Additions	Change in fair value	Decrease	As at 31 December 2010
Cost					
Buildings	48,414,356.82	-	-	-	48,414,356.82
Changes in fair value					
Buildings	3,053,702.18	-	2,484,030.00	-	5,537,732.18
Net carrying value					
Buildings	51,468,059.00	-	-	-	53,952,089.00

On 31 December 2010, the investment properties were revalued by Shenzhen Tianjian Guozhonglian Assets Appraisal and Valuation Company Limited on an open market basis.

- (2) *The investment properties were located in the PRC and were held under medium-term leases (more than 10 years but less than 50 years).*
- (3) *Rental income generated from investment properties for the year was RMB5,462,502.42 (2009: RMB222,653.13).*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets

(1) Breakdown of fixed assets are as follows:

Item	As at 1 January 2010	Increase	Decrease	As at 31 December 2010
Cost				
Buildings	186,997,655.73	53,024,270.71	5,531,061.51	234,490,864.93
Plant and Machinery	122,682,185.54	81,224,854.76	6,213,685.66	197,693,354.64
Motor vehicles	56,785,418.05	12,729,742.10	4,664,396.98	64,850,763.17
Office equipment	12,120,325.78	3,389,269.71	840,695.53	14,668,899.96
Others	19,629,058.56	9,578,825.22	2,782,324.82	26,425,558.96
	<u>398,214,643.66</u>	<u>159,946,962.50</u>	<u>20,032,164.50</u>	<u>538,129,441.66</u>
Accumulated depreciation				
Buildings	17,736,876.65	8,722,873.96	989,238.36	25,470,512.25
Plant and Machinery	48,640,240.79	16,464,513.98	4,191,628.60	60,913,126.17
Motor vehicles	22,518,291.36	8,437,061.88	2,812,484.19	28,142,869.05
Office equipment	6,664,761.18	1,700,163.95	572,624.09	7,792,301.04
Others	10,497,499.21	2,741,008.86	720,181.03	12,518,327.04
	<u>106,057,669.19</u>	<u>38,065,622.63</u>	<u>9,286,156.27</u>	<u>134,837,135.55</u>
Net carrying amount				
Buildings	169,260,779.08	44,301,396.75	4,541,823.15	209,020,352.68
Plant and Machinery	74,041,944.75	64,760,340.78	2,022,057.06	136,780,228.47
Motor vehicles	34,267,126.69	4,292,680.22	1,851,912.79	36,707,894.12
Office equipment	5,455,564.60	1,689,105.76	268,071.44	6,876,598.92
Others	9,131,559.35	6,837,816.36	2,062,143.79	13,907,231.92
	<u>292,156,974.47</u>	<u>121,881,339.87</u>	<u>10,746,008.23</u>	<u>403,292,306.11</u>
Provision for impairment losses				
Buildings	12,372,075.23	–	140,015.32	12,232,059.91
Plant and Machinery	8,638,227.33	2,235,309.11	306,826.86	10,566,709.58
Motor vehicles	1,273,804.87	–	502.69	1,273,302.18
Office equipment	8,804.67	–	–	8,804.67
Others	1,122,020.65	–	11,863.72	1,110,156.93
	<u>23,414,932.75</u>	<u>2,235,309.11</u>	<u>459,208.59</u>	<u>25,191,033.27</u>
Net carrying value				
Buildings	156,888,703.85	44,301,396.75	4,401,807.83	196,788,292.77
Plant and Machinery	65,403,717.42	62,525,031.67	1,715,230.20	126,213,518.89
Motor vehicles	32,993,321.82	4,292,680.22	1,851,410.10	35,434,591.94
Office equipment	5,446,759.93	1,689,105.76	268,071.44	6,867,794.25
Others	8,009,538.70	6,837,816.36	2,050,280.07	12,797,074.99
	<u>268,742,041.72</u>	<u>119,646,030.76</u>	<u>10,286,799.64</u>	<u>378,101,272.84</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets (Continued)

(1) *Breakdown of fixed assets are as follows: (Continued)*

The net carrying value of fixed assets of the Group as at 31 December 2010 was increased by RMB109,359,231.12, representing 40.69% as compared with the same period last year. It is mainly caused by the transfer of copper technology improvement project, power generating project, lead selection project of Shaoguan Green from work in progress after the construction work have completed.

Impairment loss on fixed assets once recognised will not be reversed in subsequent years.

(2) *The amount of construction in progress transferred to fixed assets during the year ended 31 December 2010 was RMB84,352,096.25.*

(3) *Depreciation on fixed assets recognised in income statement for the year was RMB38,065,622.63 (2009: RMB36,274,416.14). Loss on disposal of fixed assets for the year was RMB13,126.31 (2009: gain of RMB559,282.41).*

(4) *The carrying value of buildings comprises the following:*

Item	2010	2009
Situation at the PRC under:		
Short lease (less than 10 years)	1,886,989.65	–
Medium-term lease (more than 10 years but less than 50 years)	194,901,303.12	156,888,703.85
Total	196,788,292.77	156,888,703.85

(5) *Pledge of fixed assets*

On 1 November 2010, Qiandeng Wastes Treatment and Kunshan Branch of China Merchant Bank Company Limited entered into a "Maximum Amount of Pledge Contract" (Contract No.: 蘇招銀抵字 [2010]No.7101101213). Pursuant to which, Qiandeng Wastes Treatment obtained a banking facilities of RMB9,800,000. On 29 December 2010, a short-term loan RMB8,000,000 for 11 months was granted. The loan was secured by the land and buildings located at Kunshan with an aggregate net carrying value of RMB18,629,800, including buildings of RMB15,893,600 and land of RMB2,736,200. (Note VIII.12(4) and VIII.17(2))

(6) *As at 31 December 2010, there were no idle fixed assets (2009: NIL).*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets (Continued)

(7) As at 31 December 2010, assets held under finance leases were as follows:

Item	2010	2009
Cost		
Plant and Machinery	544,549.26	1,981,042.23
Motor vehicles	<u>10,763,605.05</u>	<u>14,052,480.63</u>
	<u>11,308,154.31</u>	<u>16,033,522.86</u>
Accumulated depreciation		
Plant and Machinery	210,587.15	477,964.46
Motor vehicles	<u>3,460,956.66</u>	<u>3,477,827.96</u>
	<u>3,671,543.81</u>	<u>3,955,792.42</u>
Net carrying value		
Plant and Machinery	333,962.11	1,503,077.77
Motor vehicles	<u>7,302,648.39</u>	<u>10,574,652.67</u>
Total	<u>7,636,610.50</u>	<u>12,077,730.44</u>

(8) Details of fixed assets leased out under operating leases as at 31 December 2010 are set out in Note XV.3(2).

(9) Fixed assets without property rights certificates

As at 31 December 2010, the net carrying value of fixed assets of the Group without property rights certificates was RMB54,994,900, including:

- 1) The property rights certificate has not been obtained for the factory building located at Chengdu of Chengdu Dangerous Wastes, with original cost of RMB12,421,700 and net carrying value as at 31 December 2010 of RMB1,550,600 because the application for the related land use rights certificate has not processed.
- 2) The property rights certificates have not been obtained for certain factory building and staff quarter of Shaji Branch of the Company with original cost of RMB29,580,200 and net carrying value as at 31 December 2010 of RMB28,337,200. The relevant procedures were under process. In addition, the property rights certificate has not been obtained for certain yards with original cost of RMB519,100 and net carrying value as at 31 December 2010 of RMB3,777,200 because it was built on the land leased by the Company and not qualified for property rights certificate.
- 3) The property rights certificates have not been obtained for the factory building of Shaoguan Green, with original cost of RMB15,859,800 and net carrying value as at 31 December 2010 of RMB15,757,000. The relevant procedures were under process.
- 4) Renewable Energy and Shenzhen Xiaping Solid Waste Landfill entered into agreement of "Shenzhen Xiaping Solid Waste Landfill under the Landfill Gas Power Generation Project Cooperation Agreement" on 30 May 2010. Pursuant to the agreement Renewable Energy was granted with the land use rights for a piece of land located at the landfill for the project under the agreement. Property rights certificate was not required for buildings built on the land by Renewable Energy. The original cost of the building was RMB4,827,000 and net carrying value as at 31 December 2010 was RMB3,890,900.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets (Continued)

(9) Fixed assets without property rights certificates (Continued)

- 5) Qingdao Dongjiang and Qingdao Solid Waste Treatment Company Limited entered into agreement of “Qingdao Xiaojianxi Integrated Solid Waste Disposal Landfill Gas Collection and Utilization of Electricity Generation CDM Project Operating Agreement” on 3 June 2008. Pursuant to agreement Qingdao Dongjiang was granted with the land use rights for a piece of land for the project under the agreement. Property rights certificate was not required for buildings built on the land by Qingdao Dongjiang. The original cost of the building was RMB1,716,800 and net carrying value as at 31 December 2010 was RMB1,682,000.

11. Construction in progress

(1) Breakdown of construction in progress were as follows:

Item	2010		Carrying value	2009		Carrying value
	Carrying amount	Provision for impairment		Carrying amount	Provision for impairment	
Hazardous waste disposal center in Northern Guangdong	107,780,306.06	-	107,780,306.06	109,860,479.77	-	109,860,479.77
Shaoyang Municipal Wastes Landfill	62,716,671.90	-	62,716,671.90	62,852,096.90	-	62,852,096.90
Copper renovation project (Shajing Treatment Base)	-	-	-	38,866,724.97	-	38,866,724.97
Power generation project	22,474,679.45	-	22,474,679.45	29,899,679.46	-	29,899,679.46
Factory construction (Qingyuan Dongjiang)	44,714,244.99	-	44,714,244.99	26,814,861.90	-	26,814,861.90
Factory construction (Langfang Resources)	-	-	-	23,928,844.15	-	23,928,844.15
Hazardous waste landfill (Shaoguan Green)	15,284,697.49	-	15,284,697.49	12,922,382.95	-	12,922,382.95
Lead selection project (Shaoguan Green)	-	-	-	11,343,152.73	-	11,343,152.73
Solid wastes easy-storage/ interim storage	-	-	-	9,713,139.00	-	9,713,139.00
Zinc oxide project (Shaoguan Green)	22,422,742.16	-	22,422,742.16	8,481,102.82	-	8,481,102.82

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (Continued)

(1) Breakdown of construction in progress were as follows: (Continued)

Item	2010		Carrying value	2009		Carrying value
	Carrying amount	Provision for impairment		Carrying amount	Provision for impairment	
Factory construction (Shajing Treatment Base)	-	-	-	6,220,646.29	-	6,220,646.29
Staff quarter (Shajing Treatment Base)	-	-	-	5,484,653.56	-	5,484,653.56
Canteen project	3,010,041.00	-	3,010,041.00	2,896,812.00	-	2,896,812.00
CDM development project (Dongjiang Lisai)	5,397,660.87	-	5,397,660.87	2,062,645.98	-	2,062,645.98
Slag project (Shaoguan Green)	2,055,984.23	-	2,055,984.23	1,917,056.28	-	1,917,056.28
Factory construction (Qingdao Dongjiang)	-	-	-	1,535,988.30	-	1,535,988.30
Shenzhen Longgang Industrial hazardous wastes treatment base	28,005,038.00	-	28,005,038.00	1,050,000.00	-	1,050,000.00
Bucket washing equipment project	-	-	-	320,216.97	-	320,216.97
Corrosion engineering	247,206.84	-	247,206.84	247,206.84	-	247,206.84
Production line renovation	143,005.59	-	143,005.59	35,196.58	-	35,196.58
Waste water treatment project (Shaoguan Green)	841,961.16	-	841,961.16	31,961.16	-	31,961.16
Research and development building	2,996,400.69	-	2,996,400.69	-	-	-
Copper workshop - Ammonia project	3,818,768.16	-	3,818,768.16	-	-	-
Others	473,227.19	44,374.47	428,852.72	44,374.47	44,374.47	-
Total	322,382,635.78	44,374.47	322,338,261.31	356,529,223.08	44,374.47	356,484,848.61

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (Continued)

(2) Movements of significant construction in progress projects during the year ended 31 December 2010 were as follows:

Name of project	As at 1 January 2010	Increase	Decrease		As at 31 December 2010	Budget amount	Investment to budget proportion (%)	Progress (%)	Accumulated capitalized interest	Including: Interest capitalized for the year	Source of funds
			Transfer to fixed assets	Other deductions							
Hazardous waste disposal center in Northern Guangdong	109,860,479.77	16,175,312.96	2,126,172.49	16,129,314.18	107,780,306.06	160,000,000.00	79.00	90.00	10,651,277.05	8,075,253.33	Borrowing own funds
Shaoyang Municipal Wastes Landfill	62,852,096.90	19,864,575.00	-	20,000,000.00	62,716,671.90	150,000,000.00	55.00	65.00	-	-	Owned fund
Copper renovation project	38,866,724.97	5,625,593.52	35,423,592.38	9,068,726.11	-	85,981,400.00	52.00	100.00	-	-	Owned fund
Power generation project	29,899,679.46	24,508,119.64	31,933,119.65	-	22,474,679.45	59,873,400.00	91.00	100.00	-	-	Owned fund
Factory construction (Qingyuan Dongjiang)	26,814,861.90	17,899,383.09	-	-	44,714,244.99	70,000,000.00	64.00	95.00	-	-	Owned fund
Hazardous waste landfill (Shaoguan Green)	12,922,382.95	2,362,314.54	-	-	15,284,697.49	30,000,000.00	51.00	85.00	-	-	Owned fund

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (Continued)

(2) *Movements of significant construction in progress projects during the year ended 31 December 2010 were as follows: (Continued)*

Name of project	As at 1 January 2010	Increase	Decrease		As at 31 December 2010	Budget amount	Investment to budget proportion (%)	Progress (%)	Accumulated capitalized interest	Including: Interest capitalized for the year	Source of funds
			Transfer to fixed assets	Other deductions							
Lead selection project (Shaoguan Green)	11,343,152.73	2,842,024.18	14,185,176.91	-	-	16,000,000.00	89.00	100.00	-	-	Owined fund
Solid wastes easy-storage/ interim storage	9,713,139.00	194,451.52	9,907,590.52	-	-	9,907,590.52	100.00	98.00	-	-	Owined fund
Zinc oxide project	8,481,102.82	13,941,639.34	-	-	22,422,742.16	26,000,000.00	86.00	95.00	-	-	Owined fund
Factory construction (Shajing Treatment Base)	6,220,646.29	1,749.40	6,222,395.69	-	-	16,998,954.70	37.00	100.00	-	-	Owined fund
Staff quarter (Shajing Treatment Base)	5,484,653.56	-	5,484,653.56	-	-	-	100.00	100.00	-	-	Owined fund

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (Continued)

(2) Movements of significant construction in progress projects during the year ended 31 December 2010 were as follows: (Continued)

Name of project	As at 1 January 2010	Increase	Decrease		As at 31 December 2010	Budget amount	Investment to budget proportion (%)	Progress (%)	Accumulated capitalized interest	Including: Interest capitalized for the year	Source of funds
			Transfer to fixed assets	Other deductions							
CDM development project (Dongjiang Lisai)	2,062,645.98	3,335,014.89	-	-	5,397,660.87	13,960,921.85	39.00	40.00	-	-	Owned fund
Factory construction (Qingdao Dongjiang)	1,535,988.30	2,811,781.25	4,347,769.55	-	-	8,876,600.00	49.00	100.00	-	-	Owned fund
Shenzhen Longgang Industrial hazardous wastes treatment base	1,050,000.00	26,955,038.00	-	-	28,005,038.00	178,000,000.00	16.00	20.00	-	-	Owned fund
Factory construction (Langfang Resources)	23,928,844.15	-	-	23,928,844.15	-	640,414,190.52	-	-	-	-	Owned fund
Total	351,036,398.78	136,516,997.33	109,630,470.75	69,126,884.44	308,796,040.92	1,466,013,057.59			10,651,277.05	8,075,253.33	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (Continued)

(3) Provision for impairment loss on construction in progress

Item	2010	2009	Reason for provision
TBCC project	44,374.47	44,374.47	Technical renovation
Total	44,374.47	44,374.47	

There were no movements in provision for impairment loss on construction in progress.

Impairment loss on construction in progress once recognised will not be reversed in subsequent years.

12. Intangible assets

(1) Breakdown for intangible assets were as follows:

Item	As at 1 January 2010	Increase	Decrease	As at 31 December 2010
Cost				
Land use rights	52,337,551.68	9,879,276.50	5,906,175.50	56,310,652.68
Patents	515,400.00	138,455.00	–	653,855.00
Software	172,930.00	33,114.53	16,800.00	189,244.53
Operating rights under BOT projects	24,952,323.69	92,139.00	–	25,044,462.69
	77,978,205.37	10,142,985.03	5,922,975.50	82,198,214.90
Amortisation				
Land use rights	3,741,309.58	1,336,347.70	449,885.85	4,627,771.43
Patents	153,713.39	152,496.43	–	306,209.82
Software	33,333.73	22,045.68	–	55,379.41
Operating rights under BOT projects	8,232,952.18	9,007,895.04	–	17,240,847.22
	12,161,308.88	10,518,784.85	449,885.85	22,230,207.88
Carrying value				
Land use rights	48,596,242.10			51,682,881.25
Patents	361,686.61			347,645.18
Software	139,596.27			133,865.12
Operating rights under BOT projects	16,719,371.51			7,803,615.47
Total	65,816,896.49			59,968,007.02

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Intangible assets (Continued)

- (2) *Amortisation on intangible assets recognised in income statement for the year was RMB10,518,784.85(2009: RMB8,232,952.18).*
- (3) *The land was situated in the PRC and held under medium-term lease (more than 10 years but less than 50 years)*
- (4) *Pledge of intangible assets*

As disclosed in Note VIII.10(5), as at 31 December 2010, the land use rights of the Group with net carrying value of RMB2,736,200 together with certain other fixed assets were secured to bank for banking facilities granted to the subsidiary (Note VII.17(2)).

13. Goodwill

Item	2010	2009
Goodwill	40,675,599.74	40,675,599.74
Less: Provision impairment losses	(13,791,922.16)	(13,791,922.16)
	<u>26,883,677.58</u>	<u>26,883,677.58</u>

- (1) *The breakdown of goodwill was as follows:*

Investee company	Carrying amount		Provision for impairment	
	2010	2009	2010	2009
Shaoguan				
Green	30,831,658.44	30,831,658.44	7,000,000.00	7,000,000.00
Beijing Novel	4,746,912.09	4,746,912.09	4,746,912.09	4,746,912.09
Chengdu				
Treatment				
Centre	2,045,010.07	2,045,010.07	2,045,010.07	2,045,010.07
Lik Shun Services	3,052,019.14	3,052,019.14	-	-
Total	<u>40,675,599.74</u>	<u>40,675,599.74</u>	<u>13,791,922.16</u>	<u>13,791,922.16</u>

- (2) *Impairment loss on goodwill was provided for as the difference between the estimated recoverable amount of the group of assets to which the goodwill belonged and the carrying amount of that assets group. As at 31 December 2010, the provision for impairment losses on goodwill was RMB13,791,922.16 (2009: RMB13,791,922.16). Impairment loss on goodwill once recognised will not be reversed in subsequent years.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Goodwill (Continued)

(3) *The formation of goodwill is as follows:*

Item	Shaoguan Green	Beijing Novel	Chengdu Treatment Centre	Lik Shun Services
Cost of acquisition	50,000,000.00	220,000.00	5,360,451.06	3,600,000.00
Fair value of net assets attributable to the Group at the date of acquisition	68,336,683.12	(8,230,749.25)	6,183,194.52	547,980.86
Goodwill	15,831,658.44	4,746,912.09	745,010.07	3,052,019.14
Goodwill on acquisition of additional interests	15,000,000.00	—	1,300,000.00	—
Total	30,831,658.44	4,746,912.09	2,045,010.07	3,052,019.14

14. Long-term prepayments

Item	As at 1 January 2010	Increase	Amortisation	As at 31 December 2010
Sludge Technical Services fee	360,000.00	—	180,000.00	180,000.00
ISL Management fee	—	1,500.00	—	1,500.00
Total	360,000.00	1,500.00	180,000.00	181,500.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Deferred income tax assets and deferred income tax liabilities

(1) Recognised deferred income tax assets and deferred income tax liabilities

Item	2010	2009
Deferred income tax assets		
Assets impairment losses	4,724,173.49	4,096,845.13
Deferred income	2,855,502.23	2,961,764.70
Difference of fixed assets depreciation	988,703.45	1,249,343.04
Changes in fair value of held for trading financial assets	777,931.50	763,596.91
Equity adjustments to long-term equity investments	514,366.67	241,568.46
Preliminary expenses	-	21,639.53
Unrealised gain on intra-group sales	213,857.93	-
Total	10,074,535.27	9,334,757.77
Deferred income liabilities		
Difference of fixed assets depreciation	573,186.87	593,126.15
Changes in fair value of investment properties	830,659.83	458,055.33
Total	1,403,846.70	1,051,181.48

(2) Breakdown of unrecognized deferred income tax assets

Item	2010	2009
Deductible temporary difference	25,724,162.15	27,232,576.26
Deductible tax losses	67,316,962.23	44,845,379.23
Total	93,041,124.38	72,077,955.49

(3) Deductible tax losses of unrecognized deferred income tax assets will expire by the following periods:

Item	2010	2009
2010	-	2,414,233.06
2011	4,322,833.14	4,322,833.14
2012	1,877,308.60	1,877,308.60
2013	20,276,861.12	20,276,861.12
2014	15,954,143.31	15,954,143.31
2015	24,885,816.06	-
Total	67,316,962.23	44,845,379.23

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Deferred income tax assets and deferred income tax liabilities (Continued)

(4) Breakdown of taxable temporary difference and deductible temporary difference as at 31 December 2010 were as follows:

Item	2010	2009
Taxable temporary difference		
Changes in fair value of investment properties	5,537,732.18	3,053,702.20
Difference of fixed assets depreciation	3,473,859.82	3,594,700.32
Total	9,011,592.00	6,648,402.52
Deductible temporary difference		
Provision for bad debts	15,745,659.99	13,260,722.46
Provision for inventories	1,051,269.44	568,187.00
Provision for impairment loss on construction in progress	44,374.47	44,374.47
Provision for impairment loss on fixed assets	13,415,502.26	13,806,352.27
Provision for impairment loss on fixed assets	4,426,900.30	7,070,135.65
Difference of fixed assets depreciation	529,649.00	529,649.00
Equity adjustments to long-term equity investments	3,429,111.13	1,610,456.40
Changes in fair value of held for trading financial assets	5,186,210.00	5,090,646.04
Deferred income	19,036,681.52	19,745,097.93
Unrealised gain on intra-group sales	1,425,719.53	129,852.45
Total	64,291,077.64	61,855,473.67

16. Breakdown of assets impairment losses

Item	As at 1 January 2010	Increase	Decrease		As at 31 December 2010
	Reversal		Other transfer		
Provision for bad debts (note 1)	32,494,682.12	3,871,635.93	6,313,079.32	253,838.56	29,799,400.17
Provision for inventories	460,137.00	45,350.03	-	-	505,487.03
Provision for long-term equity investments	529,649.00	-	-	-	529,649.00
Provision for impairment losses on fixed assets (note 2)	23,414,932.75	2,235,309.11	-	459,208.59	25,191,033.27
Provision for impairment losses on construction in progress	44,374.47	-	-	-	44,374.47
Provision for impairment loss on goodwill	13,791,922.16	-	-	-	13,791,922.16
Total	70,735,697.50	6,152,295.07	6,313,079.32	713,047.15	69,861,866.10

Note 1: Other transfer of provision for bad debts represents the transfer on the disposal of partial interests in Shenzhen Resource which was excluded from consolidation scope during the year.

Note 2: Other transfer of provision for impairment losses of fixed assets represent the transfer on disposal or retirement of the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Short-term borrowings

(1) *Category of short-term borrowings*

Category	2010	2009
Bank loans (Note VIII.26)	288,000,000.00	309,736,635.00
Total	288,000,000.00	309,736,635.00

The short-term bank loans were charged at floating rate of interest.

(2) *Category of short-term bank loans*

Category	2010	2009
Secured	8,000,000.00	54,736,635.00
Guaranteed	280,000,000.00	255,000,000.00
Total	288,000,000.00	309,736,635.00

Assets pledged as collateral to secure for the bank and other loans at the end of the year was stated in Note VIII.10(5) and VIII.12(4).

(3) *There was no loan overdue as at 31 December 2010 (2009: NIL)*

18. Held for trading financial liabilities

Item	2010	2009
Derivative financial liabilities, at fair value	–	447,000.00
Total	–	447,000.00

19. Accounts payables

(1) *The following is an aged analysis of accounts payables presented based on invoice date:*

	2010	2009
Within 90 days	100,156,306.82	65,294,871.00
91- 180 days	23,748,123.98	1,685,613.08
181- 365 days	16,743,699.35	2,563,078.90
Over 1 year	5,056,418.02	9,568,361.21
Total	145,704,548.17	79,111,924.19

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Accounts payables (Continued)

- (1) *The following is an aged analysis of accounts payables presented based on invoice date: (Continued)*

Accounts payables of the Group as at 31 December 2010 was increased by RMB66,592,623.98, representing 84.18%, as compared with last year. It was caused by the increase in operating capacity and purchase.

The significant balances with aged over 1 year as at 31 December 2010 represent the retention money for construction work. Subsequent the balance sheet date, amount totalling of RMB587,365.29 were settled.

- (2) *There were no accounts payables due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 December 2010.*
- (3) *Accounts payables comprised the following balances in foreign currencies:*

Foreign currency	2010			2009		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	<u>771,805.16</u>	<u>0.8509</u>	<u>666,446.04</u>	854,437.08	0.8805	<u>752,331.85</u>
Total			<u>666,446.04</u>			<u>752,331.85</u>

20. Receipts in advance

Item	2010	2009
Within 1 year	<u>51,522,716.99</u>	40,783,198.96
Over 1 year	<u>3,823,335.99</u>	<u>1,632,978.29</u>
Total	<u>55,346,052.98</u>	<u>42,416,177.25</u>

Receipts in advance of the Group as at 31 December 2010 was increased by RMB12,929,875.73, representing 30.48% as compared with last year. It was caused by the receipt of contracting fee for construction.

- (1) Amounts with aged over 1 year were mainly receipts of contracting fee for projects yet to complete. After the balance sheet date, no amount was settled.
- (2) There were no receipts in advance due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Employee benefit payables

Item	As at 1 January 2010	Increase	Decrease	As at 31 December 2010
Salaries (including bonus, allowance and subsidies)	2,059,015.87	95,766,362.64	81,393,118.45	16,432,260.06
Staff welfare	–	5,686,622.79	5,685,020.79	1,602.00
Social security				
Medical insurance	(6,955.77)	1,512,525.36	1,505,569.60	(0.01)
Basic pension	(32,351.51)	5,329,133.58	5,300,099.67	(3,317.60)
Unemployment insurance	(491.17)	200,604.46	200,113.29	–
Injury insurance	(774.03)	180,385.17	179,611.14	–
Maternity insurance	(379.74)	122,303.57	121,923.83	–
Sub-total	<u>(40,952.22)</u>	<u>7,344,952.14</u>	<u>7,307,317.53</u>	<u>(3,317.61)</u>
Housing provident fund	2,584.42	1,500,262.00	1,500,262.00	2,584.42
Union operation cost and staff education cost	1,181.22	71,017.63	65,988.58	6,210.27
Others	<u>23,120,000.00</u>	<u>4,341.00</u>	<u>23,124,341.00</u>	<u>–</u>
Total	<u>25,141,829.29</u>	<u>110,373,558.20</u>	<u>119,076,048.35</u>	<u>16,439,339.14</u>

Employee benefit payables of the Group as at 31 December 2010 was decreased by RMB8,702,490.15, representing 34.61% as compared with last year. It was caused by the payment of staff incentive fund accrued in prior periods.

The negative balances as at 31 December 2010 represent the prepayment of expenses for the following year.

- (1) Included in employee benefit payables of the Group as at 31 December 2010 was the accrued salaries, bonus, subsidies, etc totalling of RMB16,981,998.32. They were paid in January and February 2011. There were no unpaid salaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Tax payable

Item	2010	2009
Business tax	2,023,479.90	1,364,918.84
VAT	(25,507,679.39)	(13,062,428.38)
Urban maintenance and construction tax	177,164.06	140,293.53
EIT	19,189,194.36	17,790,317.76
Individual income tax	244,908.66	293,731.30
Property tax	33,314.47	46,345.36
Embayment fee	611.85	959.27
Stamp duty	5,649.10	45,870.73
Education surcharge	125,665.22	168,794.77
Land use tax	2,250.00	80,007.20
Total	(3,705,441.77)	6,868,810.38

Tax payable of the Group as at 31 December 2010 was decreased by RMB10,784,395.52, representing 153.95% as compared with last year. It was caused by the increase in VAT input tax from the purchase of raw material and production equipment.

23. Other payables

Item	2010	2009
Within 1 year	14,121,151.28	21,107,117.23
Over 1 year	20,747,247.75	11,628,655.22
Total	34,868,399.03	32,735,772.45

Other payables with aged over 1 year were mainly the retention money payable for the construction works. After the balance sheet date, RMB763,233.59 were settled.

(1) *Other payables due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 December 2010 were as follows:*

Name	2010	2009
Mr. Zhang Wei Yang	–	1,034,762.94
Fang Yuan Petrochemical Industries	–	64,831.25
Total	–	1,099,594.19

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Other payables (Continued)

(2) As at 31 December 2010, other payables with significant amount were as follows:

Item	Amount	Aged	Nature
Shenzhen Shekou Construction and Installation Engineering Company Limited	6,984,898.03	Within 2 years	Construction fee
Shenzhen Construction Supervision Company Limited	1,584,000.00	1-2 years	Construction supervision fee
Shenzhen Bao'an Wastes Treatment Station	1,500,000.00	Within 1 year	Technical services fee
Sichuan Xingli Tyres Company Limited	4,400,000.00	Over 3 years	Loan
Chengdu Qingbaijiang Municipal Government	1,600,000.00	Over 3 years	Land cost
Zhang Guoyan	1,500,000.00	Within 1 year	Loan
Total	17,568,898.03		

(3) Other payables comprised the following balances in foreign currencies

Foreign currency	2010			2009		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	1,375,999.56	0.8509	1,170,838.03	886,538.66	0.8805	780,597.29
EURO	-	-	-	108,499.83	9.7971	1,062,983.68
Total			1,170,838.03			1,843,580.97

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Non-current liabilities repayable within one year

Item	2010	2009
Long-term borrowings – repayable within 1 year (Note VIII.26)	110,000,000.00	–
Obligations under finance leases – repayable within 1 year (Note VIII.27)	2,450,022.02	3,475,445.80
Total	112,450,022.02	3,475,445.80

25. Deferred income realisable within one year

Item	2010	2009
Deferred income – realizable within 1 year		
Environmental special fund	1,786,883.08	–
Subsidies of energy- saving and emission- reduction projects	720,000.00	–
Total	2,506,883.08	–

The deferred income represents asset-related government grants.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Long-term borrowings

Item	2010	2009
Long-term bank loans	375,587,320.00	249,000,000.00
Short-term bank loans	288,000,000.00	309,736,635.00
Total bank loans	663,587,320.00	558,736,635.00
Less: Short-term borrowings (Note VIII.17)	(288,000,000.00)	(309,736,635.00)
Non-current liabilities – repayable within 1 year (Note VIII.24)	(110,000,000.00)	–
Long-term borrowings repayable after 1 year	265,587,320.00	249,000,000.00

(1) *The maturities of the bank loans are as follows:*

Item	2010	2009
Within 1 year	398,000,000.00	309,736,635.00
In more than 1 year but less than 2 years	30,000,000.00	–
In more than 2 years but less than 5 years	235,587,320.00	129,000,000.00
After 5 years	–	120,000,000.00
Total	663,587,320.00	558,736,635.00

(2) *Category of long-term bank loans*

Category	2010	2009
Secured (Note 1)	140,587,320.00	60,000,000.00
Guaranteed	235,000,000.00	189,000,000.00
Total	375,587,320.00	249,000,000.00

Notes: The secured bank loan of RMB110,000,000 (2009: RMB60,000,000) was secured by the inventories of Shaoguan Green (Note VIII.7). The loan of RMB30,587,320 was secured by the 80% equity interests in Dongjiang Lisai held by the Company (Note VII.1.16) and the rights of receiving electricity charge from CDM project of electricity generation from landfill gas.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Long-term borrowings (Continued)

(3) Top five long-term bank loans were as follows:

Lender	Commencement date	Due date	Interest rate (%)	2010	2009
Bank of China Shenzhen Branch	2009-06-01	2015-06-01	Floating rate	165,000,000.00	120,000,000.00
Industrial Bank Shenzhen High-Tech District Branch	2009-11-11	2013-11-11	Floating rate	40,000,000.00	40,000,000.00
Shenzhen Development Bank Head Office	2010-02-09	2012-02-09	Floating rate	30,000,000.00	30,000,000.00
Ping An Bank Shenzhen Wuzhou Branch	2010-06-01	2015-06-01	Floating rate	30,587,320.00	-
China Merchants Bank Jintian Branch	2009-06-03	2011-06-03	Floating rate	110,000,000.00	110,000,000.00

27. Obligations under finance leases

Item	2010	2009
Obligations under finance leases	5,193,768.46	8,934,791.13
Less: Amount repayable within 1 year (Note VIII.24)	2,450,022.02	3,475,445.80
Amount repayable after 1 year	2,743,746.44	5,459,345.33

As at 31 December 2010, the obligations under finance leases were secured by the assets leased by the Group.

(1) Details of the obligations under finance leases are as follows:

Name	2010		2009	
	Foreign currency (HKD)	Amount in RMB	Foreign currency (HKD)	Amount in RMB
GM Money	437,839.17	372,557.35	2,782,565.21	2,450,048.67
Bank of East Asia Limited	1,288,217.52	1,096,144.29	1,737,911.88	1,530,231.41
Hitachi Capital (Hong Kong) Limited	-	-	808,960.97	712,290.13
Wing Hang Finance Company Limited	1,865,467.02	1,587,325.89	3,425,891.38	3,016,497.36
Wing Hang Finance Company Limited	849,664.23	722,979.29	-	-
China Construction Bank	847,921.55	721,496.45	1,392,076.73	1,225,723.56
China Construction Bank (Asia) Company Limited	814,743.44	693,265.19	-	-
Total	6,103,852.93	5,193,768.46	10,147,406.17	8,934,791.13

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Deferred income

Item	2010	2009
Deferred income of asset-related government grants	24,409,410.79	20,779,297.38
Less: Amount realizable within 1 year (Note VIII.25)	2,506,883.08	–
Total	21,902,527.71	20,779,297.38

(1) *Movements of deferred income during the year ended 31 December 2010 were as follows:–*

Category	As at 1 January 2010	Government grants received during the year (Note VIII.42)	Credited to non-operating income	Exchange adjustment	As at 31 December 2010
Special funds for environmental protection	16,145,097.93	–	1,548,416.41	–	14,596,681.52
Subsidies for energy conservation	3,600,000.00	–	600,000.00	–	3,000,000.00
Environmental emergency response equipment and supplies allowance	–	1,440,000.00	–	–	1,440,000.00
Resource conservation and environmental protection project funds	–	4,500,000.00	–	–	4,500,000.00
Replacement of environmentally-friendly vehicles subsidies	1,034,199.45	55,307.86	185,175.38	(31,602.66)	872,729.27
Total	20,779,297.38	5,995,307.86	2,333,591.79	31,602.66	24,409,410.79

There were no returns of government grants for the year (2009: NIL).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Share capital

	As at 1 January 2010		Movements		Sub-total	As at 31 December 2010	
	Amount	Proportion (%)	Transfer of reserve to capital	Transfer of undistributed profits to capital		Amount	Proportion (%)
Restricted shares							
Domestic legal person shares	15,100,637.20	24.07	7,550,318.60	11,121,758.60	18,672,077.20	33,772,714.40	26.92
Domestic natural person shares	29,847,550.00	47.57	14,923,775.00	11,352,335.00	26,276,110.00	56,123,660.00	44.73
	44,948,187.20	71.64	22,474,093.60	22,474,093.60	44,948,187.20	89,896,374.40	71.64
Non-restricted shares							
Overseas listed foreign shares	17,790,000.00	28.36	8,895,000.00	8,895,000.00	17,790,000.00	35,580,000.00	28.36
Total share capital	62,738,187.20	100.00	31,369,093.60	31,369,093.60	62,738,187.20	125,476,374.40	100.00

The Company's shares are ordinary shares of RMB0.1 each. The Company had 627,381,872 shares as at 1 January 2010. On 30 April, the number of shares of the Company was increase by 627,381,872 share as the result of the transfer of RMB31,369,093.60 and RMB31,369,093.60 from capital reserves and undistributed profits respectively. As at 31 December 2010, the Company had 1,254,763,744 shares. Such increase in share capital was verified by ShineWing Certified Public Accountants (Capital verification report No.XYZH/2009SZA1070).

30. Capital reserves

Item	As at	Increase	Decrease		As at
	1 January 2010		Transfer to share capital	Others	31 December 2010
Share premium	30,308,863.03	-	30,308,863.03	-	-
Other capital reserves	5,167,697.50	-	1,060,230.57	4,107,466.93	-
Total	35,476,560.53	-	31,369,093.60	4,107,466.93	-

(1) *Reasons for the movements in capital reserves:*

- Pursuant to the resolution passed at the annual general meeting on 31 May 2010 and the amended Articles of the Company, a sum of RMB31,369,093.60 was transferred from capital reserves to share capital. The basis of transfer was 30 April 2010. The change was verified by ShineWing Certified Public Accountants.
- The difference of the consideration and the carrying value of the equity interests obtained from the minority shares on then acquisition of additional interest in Shaoguan Green, Qingyuan Dongjiang, Dongjiang Lisai was charged to capital reserve of RMB4,107,466.93, surplus reserves RMB404,540.00 and undistributed profits of RMB 3,640,859.98.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Surplus reserves

Item	As at 1 January 2010	Increase	Decrease	As at 31 December 2010
Statutory surplus reserves	71,159,092.84	–	404,540.00	70,754,552.84
Total	71,159,092.84	–	404,540.00	70,754,552.84

The details of the decrease in surplus reserve was set out in Note VIII.30(1)2).

32. Undistributed profits

Item	Amount
Balance as at 31 December 2009 (Originally stated)	454,753,292.27
Adjustment:	
Changes in accounting policies	9,590,495.04
Correction of accounting errors	(6,844,647.33)
Balance as at 31 December 2009 (Re-stated) and at 1 January 2010	457,499,139.98
Add: Net profit for the year attributable to shareholders of the Company	155,855,982.56
Payment of 2009 dividend	(31,369,093.60)
Transfer to share capital (Note VIII.29)	(31,369,093.60)
Acquisition of additional interests in subsidiaries from minority shareholders (Note VIII.30)	(3,640,859.98)
Balance at 31 December 2010	546,976,075.36

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Minority interests

Name	Proportion of equity held by minority shareholders as at 31 December 2010	As at 1 January 2010	Movements		As at 31 December 2010
			Net profit for the year	Acquisition of additional interest	
Beijing Novel Shaoguan	45.00	(9,590,495.04)	1,134,621.99	–	(8,455,873.05)
Green	40.00	67,604,043.80	(12,675,617.96)	(13,508,898.72)	41,419,527.12
Dongjiang Heritage	38.00	16,028,858.90	380,848.16	–	16,409,707.06
Longgang Dongjiang	49.00	12,693,452.00	4,720,467.68	–	17,413,919.68
Qiandeng Wastes Treatment	49.00	12,746,727.10	7,170,632.56	–	19,917,359.66
Kunshan Kunpeng	49.00	6,517,215.80	485,569.84	–	7,002,785.64
Qingyuan Dongjiang	–	86,764.80	–	(86,764.80)	–
Hunan Dongjiang	5.00	246,221.20	(111,524.66)	–	134,696.54
Dongjiang Lisai	20.00	1,737,815.00	598,002.82	(956,573.98)	1,379,243.84
Shenzhen Resources	–	25,348,523.94	2,334,566.16	(27,683,090.10)	–
Total		133,419,127.50	4,037,566.59	(42,235,327.60)	95,221,366.49

(1) Offset of the profit or loss of minority interests against the equity of minority

Name	2010	2009
Beijing Novel	21,955,873.04	23,090,495.05
Hunan Dongjiang	365,303.46	253,778.80
Shaoguan Green	14,580,472.88	2,060,045.66
Dongjiang Lisai	620,756.16	711,910.60
Qingyuan Dongjiang	–	113,237.57
Total	37,522,405.54	26,229,467.68

(2) The excess of losses in subsidiaries over the Group's investment cost borne by the Group was as follows:

Beijing Novel recorded net liabilities of RMB18,790,828.97 as at 31 December 2010. Such deficit attributable to minority shareholder was RMB8,455,873.05 and the amounts borne by the Group was RMB10,344,955.92.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Operating revenue and operation costs

Item	2010	2009
Operating revenue	1,152,358,350.49	834,988,782.99
Other operating revenue	–	–
Total	1,152,358,350.49	834,988,782.99
Operating costs	750,036,591.81	544,929,593.14
Other operating costs	–	–
Total	750,036,591.81	544,929,593.14

Operating revenue, which is also the Group's turnover, represents the net amounts received and receivables for processing and sale of goods and rendering of services by the Group to outside customers, less trade discounts during the year.

(1) Operating revenue and operation costs – by principal operations

	2010		2009	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Industrial waste recycling	678,413,051.43	446,201,112.27	417,199,036.90	255,702,126.30
Industrial waste treatment and disposal	131,273,151.52	35,653,935.65	95,123,588.75	27,200,447.59
Municipal waste treatment and disposal	120,653,782.62	94,048,503.72	86,394,045.65	67,988,046.78
Renewable energy utilization	30,760,458.28	20,141,945.84	22,148,252.44	14,165,355.30
Environment engineering and services	106,828,773.61	77,726,789.36	94,005,724.61	63,377,410.73
Trading and others	84,429,133.03	76,264,304.97	120,118,134.64	116,496,206.44
Total	1,152,358,350.49	750,036,591.81	834,988,782.99	544,929,593.14

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Operating revenue and operation costs – by principal operations (Continued)

(2) Operating revenue and operation costs – by geographical locations

Location	2010		2009	
	Operating revenue	Operating cost	Operating revenue	Operating costs
Shenzhen	393,726,588.77	243,175,445.09	592,533,541.72	391,005,350.22
Other regions of Pearl River Delta	71,476,899.47	44,946,314.05	20,404,847.54	10,092,828.95
Other regions of Guangdong province	111,399,351.02	71,080,321.93	2,486,900.00	1,524,221.01
Other provinces	482,293,412.50	324,123,739.45	159,924,240.10	99,891,249.27
Oversea regions	93,462,098.73	66,710,771.29	59,639,253.63	42,415,943.69
Total	<u>1,152,358,350.49</u>	<u>750,036,591.81</u>	<u>834,988,782.99</u>	<u>544,929,593.14</u>

(3) The top five customers of operating revenue for the year ended 31 December 2010 were as follows:

Name of customer	Operating revenue	Proportion to total operating revenue (%)
Shenzhen Municipal Management Bureau	69,195,455.05	6.00
Heritage Technologies, LLC	65,436,139.16	5.68
Changsha Xingjia Biological Engineering Company Limited	52,752,120.51	4.58
Jiangxin Xinjinye Industrial Company Limited	52,620,046.11	4.57
Daye Hua Sheng Mining Company Limited	34,544,200.00	3.00
Total	<u>274,547,960.83</u>	<u>23.83</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Business taxes and levies

Item	2010	2009
Business tax	5,018,175.70	3,209,377.47
Urban maintenance and construction tax	1,149,125.55	760,515.98
Education surcharge	1,835,748.16	1,080,885.73
Others	3,960.00	–
Total	8,007,009.41	5,050,779.18

36. Selling expenses

Item	2010	2009
Transportation	13,892,031.29	10,565,696.51
Salaries	10,054,857.74	6,909,531.81
Technical consultation fee	2,172,795.17	2,620,536.27
Travelling	2,710,523.27	1,866,075.32
Rental	1,375,255.33	1,502,368.78
Repairs and maintenance	778,299.51	1,381,390.90
Office expenses	954,142.07	1,172,194.28
Entertainment	925,345.35	963,233.10
Labour insurance	1,101,633.78	1,091,180.57
Others	1,567,072.58	4,760,538.33
Total	35,531,956.09	32,832,745.87

37. Administrative expenses

Item	2010	2009
Salaries	40,719,217.20	27,438,851.35
Depreciation	13,788,655.71	14,841,690.33
Research and development expenses	18,209,276.27	10,960,540.53
Entertainment	6,701,689.24	5,364,872.99
Office expenses	7,165,779.10	5,664,638.44
Rental	4,026,022.33	3,768,992.29
Travelling	3,503,512.59	9,297,578.70
Labour insurance	3,630,897.18	3,569,220.03
Staff welfare	4,420,372.35	3,092,257.97
Deficits of inventories	18,590,856.61	–
Professional fee	7,941,124.26	–
Others	25,844,017.67	16,093,111.10
Total	154,541,420.51	100,091,753.73

Administrative expenses of the Group for the year ended 31 December 2010 was increased by RMB54,449,666.78, representing 54.40% as compared with the same period last year. It was caused by the deficits of inventories and the payment of professional fee relating to the listing of the Company's shares and the increase in staff costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Finance costs

(1) Details of finance costs are as follows:

Item	2010	2009
Interest expenses	25,062,268.55	13,155,688.39
Less: Interest income	(3,909,568.24)	(1,980,905.07)
Add: Exchange difference	675,879.27	(312,470.04)
Add: Other expenses	340,233.29	159,627.05
Total	22,168,812.87	11,021,940.33

Finance costs of the Group for the year ended 31 December 2010 was increased by RMB11,146,872.54, representing 101.13% as compared with the same period last year. It was caused by increase in borrowings for meeting the operations of the Group.

(2) Interest expenses comprises the following:

Item	2010	2009
Interest on bank loans		
– Wholly repayable within 5 years	33,212,914.70	16,128,286.67
– Not wholly repayable within 5 years	–	2,576,023.72
	33,212,914.70	18,704,310.39
Finance lease charge	806,472.45	938,785.37
Less: amount capitalised	(8,957,118.60)	(6,487,407.37)
Total	25,062,268.55	13,155,688.39

Borrowing cost capitalized during the year is calculated by applying a capitalization rate of 1.47% (2009: 0.67%) per annum to expenditure on qualifying assets.

39. Assets impairment losses

Item	2010	2009
Provision (reversal) for bad debts	(2,441,443.39)	14,715,449.23
Impairment loss on inventories	45,350.03	–
Impairment loss on fixed assets	2,235,309.11	19,634.00
Impairment loss on goodwill	–	7,000,000.00
Total	(160,784.25)	21,735,083.23

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Gain on fair value changes

Item	2010	2009
Derivative financial instruments	–	(1,094,686.04)
Other held for trading financial assets	(95,563.96)	2,945,050.00
Sub-total for financial assets	(95,563.96)	1,850,363.96
Investment properties at fair value	2,484,030.00	2,236,516.18
Total	2,388,466.04	4,086,880.14

41. Investment income (loss)

(1) *The investment income (loss) were arising from:*

Item	2010	2009
Share of loss of jointly controlled entities and associates	(4,285,458.62)	(1,213,254.64)
Other investment income (loss)		
Gain on disposal of long-term equity investments	–	3,618,871.25
Income received from held for trading financial assets during the period of ownership	75,181.76	19,410.46
Gain (loss) on disposal of held for trading financial assets	(421,632.71)	1,221,060.69
Sub-total	(346,450.95)	4,859,342.40
Total	(4,631,909.57)	3,646,087.76

Investment loss arising from listed equity investments for the year was RMB346,450.95 (2009: investment gain of RMB1,240,471.15).

(2) *Share of loss of jointly controlled entities and associates:*

Item	2010	2009	Reason for changes
Shuangxin Cement	(8,484,252.50)	(1,349,532.00)	Operating loss
Dongjiang Veolia	3,613,865.92	412,078.55	Increase in profitability
Shenzhen Mircronutrients	674,282.20	(275,801.19)	Changes from loss to profit
Shenzhen Resource	(61,635.21)	–	Newly becoming as an associate in September 2010
Dongjiang Songzao	(154,613.52)	–	Newly established during the year
Lisheng Membrane	126,894.49	–	Resumption of operation during the year
Total	(4,285,458.62)	(1,213,254.64)	

(3) *There are no significant restrictions on remittance of investment gains back to the Company.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Non-operating income

(1) Breakdown of non-operating income

Item	2010	2009	Recorded as non-recurring profit or loss
Gain on disposal of fixed assets	125,097.39	619,014.91	125,097.39
Gain on disposal of intangible assets	2,323,000.29	–	2,323,000.29
Gain on disposal of non-current assets	2,448,097.68	619,014.91	2,448,097.68
Government grants	16,323,967.14	18,729,361.08	4,923,206.31
Waiver of accounts payables	–	919,485.86	–
Others	485,023.92	1,254,642.89	485,023.92
Total	19,257,088.74	21,522,504.74	7,856,327.91

(2) Details of government grants

Item	2010			Source and basis
	Amount received	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	
Refund of VAT for Resource Recycling	7,433,913.88	–	7,433,913.88	Ministry of Finance, State Tax Administration Bureau (Cai Shui [2008] No. 157)
Pay and instant refund of VAT for Renewable Energy	3,966,846.95	–	3,966,846.95	Ministry of Finance, State Administration Taxation Bureau (Cai Shui [2008] No. 156)
Demonstration projects for integrated utilization of recycling resources products	1,300,000.00	–	1,300,000.00	發改辦環資[2008] No. 889 of Shenzhen Development and Reform Bureau
Subsidies of interest expenses for joint project of government, bank and enterprise	650,000.00	–	650,000.00	Weng Cai Qi [2010] No. 15 of Wengyuan County Finance Bureau

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Non-operating income (Continued)

(2) Details of government grants (Continued)

Item	Amount received	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Subsidies for technical development in Futian District	300,000.00	–	300,000.00	Chief Chamber of Commerce, Shenzhen
Subsidies for technical renovation	200,000.00	–	200,000.00	Kun Ke Zi [2010]No. 53, Kun Cai Zi [2010] No. 237 of Kunshan Technology Bureau, Kunshan Finance Bureau
Replacement of environmentally-friendly vehicles subsidies	55,307.86	55,307.86	–	Subsidies Scheme of Replacement of Pre-Euro and Euro I Diesel Commercial Vehicles to New Commercial Vehicles "of Hong Kong Environmental Protection Department
Environmental emergency response equipment and supplies allowance	1,440,000.00	1,440,000.00	–	Shen Fu [2006]No. 196 of Shenzhen Environmental Protection Bureau
Resource conservation and environmental protection project funds	4,500,000.00	4,500,000.00	–	發改辦環資[2010] No. 26 of Office of National Development and Reform Commission
Others	139,614.52	–	139,614.52	
Sub-total	19,985,683.21	5,995,307.86	13,990,375.35	
Amortisation of asset-related government grants (Note VIII.28)	–	–	2,333,591.79	
Total	19,985,683.21	5,995,307.86	16,323,967.14	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Non-operating income (Continued)

(2) Details of government grants (Continued)

2009

Item	Amount received	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Pay and refund of VAT resources	11,844,279.07	-	11,844,279.07	State Administration of taxation (Cai Shui [2008] No.157)
2009 Provincial environmental protection subsidies 2009	4,000,000.00	-	4,000,000.00	粵環[2009] NO.65 of Guuandong Provincial Environmental Protection Bureau
Research and development fund from Technology Bureau	1,200,000.00	-	1,200,000.00	Shen Ke Xin [2009] No. 202 of Shenzhen Technology and Information Bureau
Subsidies of interest expenses for joint project of government, bank and enterprise	350,000.00	-	350,000.00	Weng Cai Qi [2009] No. 32 of Wengyuan County Finance Bureau
Research and development fund from Technology Bureau	270,000.00	-	270,000.00	Shen Bao Ke Lian [2009] No. 6 of Shenzhen Baoan District Science and Technology Bureau, Shenzhen Baoan Finance Bureau
Matching funds for copper wastes treatment project in Futian District	200,000.00	-	200,000.00	Futian District Technology Bureau

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Non-operating income (Continued)

(2) Details of government grants (Continued)

2009 (Continued)

Item	Amount received	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Subsidies for technical renovation	100,000.00	–	100,000.00	Kun Cai Zi [2009] No. 55 of Kunshan Finance Bureau
Special funds for environmental protection	5,154,000.00	5,154,000.00	–	Shen Fu [2006] No. 196 of Shenzhen Environmental Protection Bureau
Special funds for environmental protection	2,000,000.00	2,000,000.00	–	Shen Jian [2006] No. 318 of Shenzhen Environmental Protection Bureau
Others	95,660.00	–	95,660.00	
Sub-total	25,213,939.07	7,154,000.00	18,059,939.07	
Amortisation of asset-related government grants	–	–	669,422.01	
Total	25,213,939.07	7,154,000.00	18,729,361.08	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Non-operating expenses

Item	2010	2009	Recorded as non-recurring profit or loss
Loss on disposal of fixed assets	138,361.70	59,732.50	138,361.70
Donations	1,906,500.00	40,000.00	1,906,500.00
Others	330,954.42	245,080.22	330,954.42
Total	2,375,816.12	344,812.72	2,375,816.12

44. Auditors' remuneration

The auditors' remuneration for the year was RMB600,000 (2009: RMB600,000).

45. Emoluments of Directors, Supervisors and Employees

(1) Emoluments of Directors and Supervisors

	2010	2009
Fee of directors and supervisors		
Executive directors	–	–
Non-executive directors and Independent non-executive directors	396,000.00	396,000.00
Supervisors	–	–
	396,000.00	396,000.00
Other emoluments of executive directors		
Basic salaries and allowances	3,504,489.79	904,000.00
Retirement benefits scheme contributions	63,767.53	60,000.00
	3,568,257.32	964,000.00
Supervisors		
Basic salaries and allowances	140,854.00	89,000.00
Retirement benefits scheme contributions	15,768.00	16,000.00
	156,622.00	105,000.00
Total	4,120,879.32	1,465,000.00

No directors or supervisors waived any emoluments in the year.

No emolument was paid to directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Emoluments of Directors, Supervisors and Employees (Continued)

(1) Emoluments of Directors and Supervisors (Continued)

1) The breakdown of emoluments of directors and supervisors were as follows:

2010

Name	Fee of directors and supervisors	Other emoluments		Total
		Basic salaries and allowances	Retirement benefits scheme contributions	
Executive directors				
Zhang Wei Yang	–	1,877,287.41	21,356.76	1,898,644.17
Chen Shu Sheng	–	1,090,868.03	21,356.76	1,112,224.79
Li Yong Peng	–	536,334.35	21,054.01	557,388.36
Sub-total	–	3,504,489.79	63,767.53	3,568,257.32
Non-executive directors				
Feng Tao	–	–	–	–
Wu Shui Qing	–	–	–	–
Sun Ji Ping	–	–	–	–
Sub-total	–	–	–	–
Independent non-executive directors				
Ye Ru Tang	132,000.00	–	–	132,000.00
Hao Ji Ming	132,000.00	–	–	132,000.00
Liu Xue Sheng	132,000.00	–	–	132,000.00
Sub-total	396,000.00	–	–	396,000.00
Supervisors				
Yuan Wei	–	–	–	–
Luo Xiao Hong	–	–	–	–
Liu An	–	140,854.00	15,768.00	156,622.00
Sub-total	–	140,854.00	15,768.00	156,622.00
Total	396,000.00	3,645,343.79	79,535.53	4,120,879.32

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Emoluments of Directors, Supervisors and Employees (Continued)

(1) Emoluments of Directors and Supervisors (Continued)

1) The breakdown of emoluments of directors and supervisors were as follows: (Continued)

2009

Name	Fee of directors and supervisors	Other emoluments		Total
		Basic salaries and allowances	Retirement benefits scheme contributions	
Executive directors				
Zhang Wei Yang	–	600,000.00	21,000.00	621,000.00
Chen Shu Sheng	–	108,000.00	18,000.00	126,000.00
Li Yong Peng	–	196,000.00	21,000.00	217,000.00
Sub-total		904,000.00	60,000.00	964,000.00
Non-executive directors				
Feng Tao	–	–	–	–
Wu Shui Qing	–	–	–	–
Sun Ji Ping	–	–	–	–
Sub-total	–	–	–	–
Independent non-executive directors				
Ye Ru Tang	132,000.00	–	–	132,000.00
Hao Ji Ming	132,000.00	–	–	132,000.00
Liu Xue Sheng	132,000.00	–	–	132,000.00
Sub-total	396,000.00	–	–	396,000.00
Supervisors				
Yuan Wei	–	–	–	–
Luo Xiao Hong	–	–	–	–
Liu An	–	89,000.00	16,000.00	105,000.00
Sub-total	–	89,000.00	16,000.00	105,000.00
Total	–	1,425,000	76,000.00	1,465,000.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Emoluments of Directors, Supervisors and Employees (Continued)

(2) Five individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, two (2009: two) were directors of the Company. The emoluments of the remaining three(2009: three) individuals were as follows:

Item	2010	2009
Basic salaries and allowances	1,724,222.82	589,000.00
Retirement benefits scheme contributions	64,070.28	64,000.00
Total	1,788,293.10	653,000.00

No emolument was paid to the five individuals with highest emoluments as an inducement to join or upon joining the Company or as compensation for loss of office.

1) Their emoluments were within the following bands:

Item	2010 (Number)	2009 (Number)
0 - RMB1,000,000	3	5
RMB1,000,001 - RMB1,500,000	1	–
RMB1,500,001 - RMB2,000,000	1	–
Total	5	5

46. Income tax expenses

(1) Income tax expenses comprise:

Item	2010	2009
Current income tax	33,068,906.50	27,124,495.75
Deferred income tax	(383,012.90)	1,594,716.88
Total	32,685,893.60	28,719,212.63

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. Income tax expenses (Continued)

(2) Current income tax

Item	2010	2009
Current income tax		
– PRC	37,122,778.65	29,168,161.04
– Hong Kong	210,143.37	–
	37,332,922.02	29,168,161.04
Over-provision in prior years		
– PRC	(4,264,015.52)	(2,043,665.29)
Total	33,068,906.50	27,124,495.75

(3) Reconciliation of total profit to current income tax for the year

Item	2010	2009
Consolidated total profit	196,871,173.14	148,237,547.43
Add: Increase in amount by tax adjustments	21,849,387.10	32,145,811.68
Less: Decrease in amount by tax adjustments	(46,728,402.38)	(12,375,636.60)
Less: offset by tax losses of prior periods	(2,913,054.79)	1,898,894.09
Add: Loss for the year of subsidiaries	47,220,405.60	19,014,512.92
Assessable income for the year	216,299,508.67	185,123,341.34
Statutory income tax rate (25%)		
Income tax payable for the year	54,074,877.17	46,280,835.33
Less: Amount relieved	17,357,343.10	17,112,674.29
Tax payable for the year	36,717,534.07	29,168,161.04
Add: Other adjustments	(3,648,627.57)	(2,043,665.29)
Current income tax	33,068,906.50	27,124,495.75

47. Dividends

Item	2010	2009
Dividends recognised and distributed during the year		
Payment of final dividends of 2009, RMB0.5 per share (2009: NIL)	31,369,093.60	–
Total	31,369,093.60	–

The Board does not recommend the payment of any dividends for the year (2009: RMB0.05 per share).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Calculation of basic and diluted earning per shares

Item	No.	2010	2009
Net profit attributable to shareholders of the Company	1	155,855,982.56	108,314,531.32
Non-recurring profit or loss attributable to the shareholders of the Company	2	12,343,193.44	12,384,557.48
Net profit attributable to shareholder of the Company, excluding non-recurring profit or loss	3=1-2	143,512,789.12	95,929,973.84
Number of shares at beginning of year	4	627,381,872.00	627,381,872.00
Addition of shares by bonus issue (I)	5	627,381,872.00	627,381,872.00
Addition of shares by new allotment or capitalisation issue (II)	6		
Number of months to end of year following the addition of shares (II)	7		
Deduction of number of shares by re-purchase	8		
Number of months to end of year following the deduction of shares	9		
Number of shares reduced	10	1,129,287,369.60	1,129,287,369.60
Number of months for the reporting period	11	12.00	12.00
Weighted-average of ordinary shares issued	12=4+5+6 × 7 ÷ 11 -8 × 9 ÷ 11-10	125,476,374.40	125,476,374.40
Basic earning per shares (I)	13=1 ÷ 12	1.24	0.86
Basic earning per shares (Excluding non-recurring profit (loss) (II))	14=3 ÷ 12	1.14	0.76
Interest expenses for potential diluted ordinary shares	15		
Conversion costs	16		
Income tax rate	17		
Increase in weighted average number of shares by share warrants, options, convertible bonds, etc	18		
Diluted earning per shares (I)	19=[1+(15-16) × (1-17)] ÷ (12+18)	1.24	0.86
Diluted earning per shares (Excluding non-recurring profit (loss) (II))	19=[3+(15-16) × (1-17)] ÷ (12+18)	1.14	0.76

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49. Other comprehensive income (loss)

Item	2010	2009
Translation of financial statements denominated in foreign currency	(141,430.99)	(7,033.69)
Total	(141,430.99)	(7,033.69)

50. Supplementary information of consolidated cash flow statement

(1) Other cash receipts relating to operating activities

Item	2010	2009
Government grants	8,584,922.38	15,648,357.29
Interest income	2,859,517.42	1,775,840.07
Current accounts with other companies and individuals	57,493,233.63	18,451,431.43
Total	68,937,673.43	35,875,628.79

(2) Other cash payments relating to operating activities

Item	2010	2009
Current accounts with other companies and individuals	14,440,987.38	17,159,995.30
Guarantee deposit for bills	–	10,493,440.52
Research and development expenses	8,379,706.54	–
Transportation	7,473,139.80	7,667,275.00
Office expenses	7,164,294.04	5,462,795.61
Motor vehicles expenses	6,304,781.42	7,611,968.72
Entertainment	6,141,961.40	5,611,523.69
Rent	5,298,968.90	4,917,397.07
Travelling	4,952,391.95	4,826,106.44
Professional fee	5,673,331.00	1,422,566.20
Preliminary expenses	1,328,879.41	–
Consultation fee	2,566,175.54	2,670,501.10
Water and electricity	1,989,949.28	1,521,692.41
Technical services fee	2,028,166.51	1,898,636.27
Communication	984,223.68	1,614,911.89
Repairs and maintenance	729,021.41	1,776,252.27
Securities	496,410.38	1,317,421.61
Others	3,695,781.31	–
Total	79,648,169.95	75,972,484.10

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Supplementary information of consolidated cash flow statement (Continued)

(3) Other cash receipts relating to investing activities

Item	2010	2009
Recovery of land acquisition cost advanced	20,000,000.00	–
Recovery of intention money for acquisition of associates	2,380,000.00	–
Total	22,380,000.00	–

(4) Other cash payments relating to investing activities

Item	2010	2009
Cash outflow on exclusion of Shenzhen Resources in consolidation scope	25,067,632.11	–
Payment of intention money for acquisition of associates	2,380,000.00	–
Payment of guarantee deposits for loans	200,000.00	–
Total	27,647,632.11	–

(5) Other cash payments relating to financing activities

Item	2010	2009
Repayment of loans from Mr. Zhang Wei Yang	3,209,788.40	–
Payments of guarantee deposit for loans	2,700,000.00	–
Total	5,909,788.40	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Supplementary information of consolidated cash flow statement (Continued)

(6) Reconciliation of consolidated net profits as cash flows from operating activities

Item	2010	2009
Net profits	164,185,279.54	119,518,334.80
Add: Provision for assets impairment	(160,784.25)	21,735,083.22
Depreciation of fixed assets	38,065,622.63	36,274,416.14
Amortisation of intangible assets	10,518,784.85	9,196,777.29
Amortisation of long-term prepayments	180,000.00	180,000.00
(Gain) loss on disposal of fixed assets, intangible assets and other long-term assets	(2,329,030.06)	(543,099.81)
(Gain) loss on written off of disposal fixed assets	19,294.08	(16,182.60)
(Gain) loss on changes in fair value on Finance costs	(2,388,466.04)	(2,236,516.18)
(Gain) loss on investment	4,631,909.57	(3,646,087.76)
(Increase) decrease in deferred income tax assets	(739,777.50)	848,803.41
Increase in deferred income tax liabilities	352,665.22	745,169.84
Increase in inventories	(143,363,222.91)	(105,784,266.22)
Decrease (increase) in operating accounts receivables	8,763,416.65	(106,052,171.74)
Increase in operating accounts payables	80,123,487.20	109,248,444.47
Net cash flow from operating activities	183,597,326.80	92,311,923.21

(7) Significant non-cash investing and financing transactions

Item	2010	2009
Acquisition of fixed assets under finance leases	1,766,598.00	1,973,000.55

(8) Changes in cash and cash equivalents

Item	2010	2009
Cash and cash equivalents at end of year	174,236,578.41	197,611,550.70
Add: Cash and cash equivalents at beginning of year	(197,611,550.70)	(203,366,124.50)
Changes in cash and cash equivalents	(23,374,972.29)	(5,754,573.80)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Supplementary information of consolidated cash flow statement (Continued)

(9) Information of acquisition of or disposal of subsidiary or other operating units

Item	2010	2009
Information on disposal of subsidiaries		
1. Consideration of disposal of subsidiaries or other operating undertakings	–	12,766,575.00
2. Cash and cash equivalents received from disposal of subsidiaries or other operating units	4,136,575.00	8,650,000.00
Less: Cash and cash equivalent balance of the disposing subsidiaries or other operating units	–	701,926.94
3. Net cash received from disposal of subsidiaries or other operating units	4,136,575.00	7,948,073.06
4. Net assets of the disposing subsidiaries		
Current assets	–	9,577,025.52
Non-current assets	–	2,719,217.69
Current liabilities	–	–
	–	12,296,243.21

(10) Cash and cash equivalents

Item	2010	2009
Cash on hand	174,743.72	263,562.08
Bank deposits readily available for payments	172,252,120.35	197,347,988.62
	172,426,864.07	197,611,550.70
Other bank depositand cash	6,227,948.40	32,749,013.83
Less: other bank deposit and cash restricted for use	(4,418,233.99)	(32,749,013.83)
Other bank depositand cash readily available for payment	1,809,714.34	–
Cash and cash equivalents at end of reporting period	174,236,578.41	197,611,550.70

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1. Relationships of related parties

(1) Ultimate controlling shareholder

The ultimate controlling shareholder of the Company was the shareholder of the Company, Mr. Zhang Wei Yang.

The shareholdings or equity interests of ultimate controlling shareholder and the movement during the year are as follows:

	Shareholdings		Proportion (%)	
	2010	2009	2010	2009
Mr. Zhang Wei Yang	<u>43,158,960.00</u>	<u>23,365,196.60</u>	<u>34.40</u>	<u>37.26</u>

(2) Subsidiaries

Details of subsidiaries of the Group are set out in Note VII.1.

(3) Jointly controlled entities and associates

Details of the Group's jointly controlled entities and associates are set out in Note VIII.8 (3)

(4) Other related parties

Category	Name of related party	Nature of transactions	Organisation code
Shareholders holding more than 5% of the Company's shares	Fang Yuan Petrochemical Industries	Lease of properties	27969305-0
Shareholders holding more than 5% of the Company's shares	Li Yong Peng	Current accounts	
Company controlled by the company's director	Shenzhen Guoce Appraisal Transactions Limited	Lease of properties	19238174-0

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions

(1) Purchase of goods or receiving of services

Related party	Nature of transactions	Pricing policy	2010		2009	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Jointly controlled entities and associates						
Dongjiang Veolia	Receiving waste treatment service	Contracted price	14,040,975.72	39.38	5,706,574.09	20.98
Shenzhen Mircronutrients	Receiving technical services	Contracted price	965,255.00	1.27	850,000.00	0.33
Shenzhen Resources	Purchase of raw material		26,424.14	0.03	-	-
Total			<u>15,032,654.86</u>	<u>40.68</u>	<u>6,556,574.09</u>	<u>21.31</u>

(2) Sales of goods or rendering of services

Related party	Nature of transactions	Pricing policy	2010		2009	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Jointly controlled entities and associates						
Dongjiang Veolia	Rendering of waste treatment services	Contracted price	3,169,302.20	2.41	738,937.60	0.78
Dongjiang Veolia	Sale of finished goods	Contracted price	137,092.69	0.16	117,477.78	0.10
Dongjiang Veolia	Payment of transportation costs	Contracted price	1,182,499.80	1.40	152,500.60	0.13
Shenzhen Resources	Sales of raw material	Contracted price	5,985,290.42	7.09	-	-
Shenzhen Mircronutrients	Sales of finished goods	Contracted price	34,445,344.10	5.08	1,445,475.52	0.35
Total			<u>44,919,529.21</u>	<u>16.14</u>	<u>2,454,391.50</u>	<u>1.36</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions

(3) Leasing – The Group as lessor

Lessee	Nature of assets leased	Date of commencement	Date of termination	Basis for rental income	Recognised rental income for the year
Shenzhen Micronutrients	Properties	2009-10-14	2012-10-13	Contracted price	77,323.75

(4) Leasing – The Group as lessee

Lessor	Nature of assets leased	Date of commencement	Date of termination	Basis for rental income	Recognised rental income for the year
Fang Yuan Petrochemical Industries	Properties	2004-03-01	2010-04-30	Contracted price	200,000.00
Fang Yuan Petrochemical Industries	Properties	2008-01-01	2010-04-30	Contracted price	59,325.00
Total					259,325.00

(5) Guarantee with related parties

As at 31 December 2010, financial guarantee provided by the Group was RMB31,400,000 (2009: RMB28,900,000) to banks for securing banking facilities granted to Dongjiang Veolia. The maximum amount during the year was RMB33,900,000 (2009: RMB32,500,000). Details of the guarantee were as follows:

Amount of guarantee	Date of commencement	Date of termination	Completed
2,500,000.00	2007-12-24	2010-12-31	Yes
5,000,000.00	2007-12-24	2011-12-31	No
5,000,000.00	2008-01-25	2011-12-31	No
5,000,000.00	2008-03-13	2011-12-31	No
5,000,000.00	2008-05-13	2011-12-31	No
6,400,000.00	2009-12-22	2011-12-22	No
5,000,000.00	2010-07-08	2011-07-08	No

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (Continued)

(5) Guarantee with related parties (Continued)

As at 31 December 2010, financial guarantee provided by the Company's shareholder, Mr. Zhang Wei Yang was RMB585,000,000 (2009: RMB330,000,000) to banks for securing banking facilities granted to the Group. The maximum amount during the year was RMB645,000,000 (2009: RMB474,000,000). Details of the guarantee were as follows:

Amount of guarantee	Date of commencement	Date of termination	Completed
60,000,000.00	2009-11-30	2010-11-30	Yes
30,000,000.00	2010-03-08	2011-01-08	No
30,000,000.00	2010-03-16	2011-03-16	No
20,000,000.00	2010-03-25	2011-03-16	No
20,000,000.00	2010-05-18	2011-05-18	No
10,000,000.00	2010-06-24	2011-06-24	No
10,000,000.00	2010-01-19	2011-01-19	No
30,000,000.00	2010-03-04	2011-03-04	No
10,000,000.00	2010-09-21	2011-09-21	No
30,000,000.00	2010-06-07	2011-06-07	No
30,000,000.00	2010-02-09	2012-02-09	No
40,000,000.00	2009-10-25	2013-10-25	No
20,000,000.00	2010-11-23	2011-11-23	No
30,000,000.00	2010-11-26	2011-11-26	No
120,000,000.00	2009-06-01	2015-06-01	No
110,000,000.00	2009-07-25	2013-06-03	No
45,000,000.00	2010-03-31	2015-06-01	No

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (Continued)

(6) Loans with related parties

Name	Original loan amount	Commencement date	Due date	Balance at 31 December 2010
Jointly controlled entities and associates				
Dongjiang Veolia	14,000,000.00	2009-09-04	2010-06-18	–
Shuangxin Cement	200,000.00	2009-10-26	2010-12-21	–
Shuangxin Cement	1,000,000.00	2009-11-01	2010-12-21	–
Shuangxin Cement	1,575,000.00	2009-11-23	2011-11-22	1,575,000.00
Shuangxin Cement	1,337,100.00	2009-01-24	2011-01-23	1,337,100.00
Shuangxin Cement	331,000.00	2009-01-27	2011-01-26	331,000.00
Shuangxin Cement	4,000,000.00	2009-12-07	2011-12-06	4,000,000.00
Shuangxin Cement	9,000,000.00	2009-12-21	2011-12-20	9,000,000.00
Shuangxin Cement	5,000,000.00	2010-02-23	2011-02-22	5,000,000.00
Shuangxin Cement	5,000,000.00	2010-03-25	2011-03-24	5,000,000.00
Shuangxin Cement	13,300,000.00	2010-01-18	2010-12-21	–

The loans to related parties are unsecured and charged interest at 5.31% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Current accounts balances with related parties

(1) Accounts receivable due from related parties

Related party	2010			2009		
	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts
Jointly controlled entities						
Dongjiang Veolia	2,228,562.00	1.30	-	886,849.60	0.64	-
Shenzhen Resources Shenzhen	4,433,701.60	2.58	-	-	-	-
Mircronutrients	11,443,035.00	6.65	-	1,306,403.28	0.96	-
Beijing Shuangyi	1,140,000.00	0.66	1,140,000.00	1,140,000.00	0.84	1,140,000.00
Total	19,245,298.60	11.19	1,140,000.00	3,333,252.88	2.44	1,140,000.00

(2) Other receivables due from related parties

Related party	2010			2009		
	Carrying amount	Proportion to total other receivables (%)	Provision for bad debts	Carrying amount	Proportion to total other receivables (%)	Provision for bad debts
Jointly controlled entities and associates						
Shuangxin Cement	29,524,126.48	35.15	-	16,922,738.85	17.52	253,841.08
Dongjiang Veolia	1,034,479.50	1.23	-	7,121,995.05	7.37	106,829.93
Beijing Shuangyi	361,117.33	0.43	361,117.33	361,117.33	0.37	361,117.33
Lisheng Membrane	120,000.00	0.14	120,000.00	120,000.00	0.12	120,000.00
Zhejiang Shuangyi	90,000.00	0.11	90,000.00	90,000.00	0.09	90,000.00
Shenzhen Mircronutrients	-	-	-	16,843.92	0.02	-
Sub-total	31,129,723.31	37.06	571,117.33	24,632,695.15	25.49	931,788.34
Other related parties						
Li Yong Peng	157,549.92	0.19	-	-	-	-
Total	31,287,273.23	37.24	571,117.33	24,632,695.15	25.49	931,788.34

Li Yong Peng is a director of the Company and holding 5.09% of issued shares of the Company. The amount due from Li Yong Peng is petty cash to be incurred by him for the Company and is unsecured, non-interest bearing and has no fixed terms of repayment. The maximum balance outstanding during the year ended 31 December 2010 was RMB157,549.92 (2009: NIL).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Current accounts balances with related parties

(3) Accounts payables due to related parties

Related party	2010	2009
Jointly controlled entities and associates		
Dongjiang Veolia	8,116,106.32	371,066.25
Shenzhen Resources	4,870.00	–
Shenzhen Mircronutrients	–	50,000.00
Total	8,120,976.32	421,066.25

(4) Other payables due to related parties

Related party	2010	2009
Jointly controlled entities and associates		
Shenzhen Mircronutrients	425,000.00	14,675.30
Shenzhen Resources	16,717.68	–
Sub-total	441,717.68	14,675.30
Ultimate controlling shareholder		
Mr. Zhang Wei Yang	–	1,034,762.94
Total	441,717.68	1,049,438.24

X. SHARE-BASED PAYMENTS

There was no share based payment.

XI. CONTINGENT LIABILITIES

1. Contingent liabilities relating to provision of financial guarantees

Contingent liabilities relating to financial guarantees provided to related parties are set out in Note IX.2(5).

- Due to the existing collection and processing of industrial waste method adopted by the Group, the Group has not incurred any significant expenditure on environmental rehabilitation since their establishment. There is, however, no assurance that stringent environmental policies and/or standards on environmental rehabilitation will not be implemented by the relevant authorities in the PRC in the future which require the Group to undertake the environmental measures. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental policies and/or standards.
- Other than as disclosed above, the Group had no significant contingent liabilities at 31 December 2009 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XII. COMMITMENTS

1. Capital commitment

	2010	2009
Construction in progress	28,335,880.38	31,915,000.00
Intangible assets - BOT Projects	88,809,004.20	98,971,000.00
Sub-Total	117,144,884.58	130,886,000.00
Acquisition of equipment	26,617,102.60	26,940,000.00
Establishment of an associate	–	16,734,000.00
Total	143,761,987.18	174,560,000.00

(1) Details of sub-contracting contracts with significant amount contracted for and readily for execution in respect of construction in progress and BOT projects as at 31 December 2010 were as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised	Estimated investment period
				amount as at 31 December 2010	
Shaoyang Municipal Wastes Landfill project	137,895,882.02	62,710,671.90	–	75,185,210.12	2013
Hazardous waste disposal center project in Northern Guangdong	124,769,874.50	109,642,668.36	308,012.00	14,819,194.14	2012
Shenzhen Langgang Industrial hazardous wastes treatment base project	36,076,800.00	18,564,300.00	4,665,412.50	12,847,087.50	2011
Factory construction (Qingyuan Dongjiang)	34,802,200.00	28,811,835.00	–	5,990,365.00	2011
Research and development building for Head Office	26,470,409.00	16,820,130.63	9,650,278.37	–	2011
Factory construction (Dongjiang Lisai)	10,874,336.30	4,331,308.48	–	6,543,027.82	2011
Kunming construction wastes recycling treatment demonstration project	2,700,000.00	940,000.00	–	1,760,000.00	2011
Water and electricity installation for electro-plating of copper sulphate	190,000.00	180,500.00	9,500.00	–	2011
Total	373,779,501.82	242,001,414.37	14,633,202.87	117,144,884.58	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XII. COMMITMENTS (CONTINUED)

1. Capital commitment (Continued)

(2) Details of acquisition of equipments contracted for or readily for execution as at 31 December 2010 were as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2010	Estimated investment period
Acquisition of power generation equipment (Dongjiang Lisai)	31,063,850.00	12,897,500.00	-	18,166,350.00	2012
Acquisition of equipment for hazardous waste disposal center in Northern Guangdong	18,924,504.00	16,368,460.20	166,660.00	2,389,383.80	2011
Acquisition of equipment for factory under construction (Qingyuan Dongjiang)	8,706,000.00	4,992,600.00	4,000.00	3,709,400.00	2011
Acquisition of equipment for Shajing Treatment Base	2,245,000.00	1,299,700.00	144,900.00	800,400.00	2011
Complete set of equipment for evaporation and condensation of highly concentrated waste liquid for Qiandeng Wastes Treatment	1,850,000.00	1,511,390.00	-	338,610.00	2011
Acquisition of motor vehicles for Dongjiang Transport	764,000.00	229,200.00	-	534,800.00	2011
Acquisition of waste landfill equipment for Lik Shun Services	663,769.65	46,374.05	-	617,395.60	2011
Construction of on-line monitoring system for wastewater, waste gas emission pipes and absorbing tower	445,572.00	366,393.80	18,415.00	60,763.20	2011
Total	64,662,695.65	37,711,618.05	333,975.00	26,617,102.60	

2. Lease agreement contracted for or readily for executive and their financial effect

As at 31 December 2010, the Group had contracted with landlord for the minimum lease payment under non-cancellable operating leases in respect of office building and motor vehicles:

Period	2010	2009
Within 1 year	3,423,146.03	2,813,199.00
In 1-2 years	2,635,118.60	3,423,146.03
In 2-3 years	2,245,318.40	2,635,118.60
After 3 years	1,833,618.00	4,100,000.00
Total	10,137,201.03	12,971,463.63

3. Implementation of commitments in prior periods

Acquisition agreements contracted and in execution

The commitment of acquisition of 10% additional equity interest in Shaoguan Green and set up Dongjiang Songzao has been completed during this year.

4. Other than as disclosed above, the Group had no significant commitments at 31 December 2009 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XIII. POST-BALANCE SHEET EVENTS

1. Proposal of issuing A shares

On 20 September 2010, the Company announced that in relation to apply to the relevant regulatory authorities in the PRC for the allotment and issue of not more than 250,000,000 A Shares with a nominal value of RMB0.10 each or, subject to the implementation of the share consolidation, 25,000,000 A Shares with a nominal value of RMB1.00 each (subject to any adjustment resulting from any change to the issued share capital of the Company up to the completion of the issue of A Shares) to natural persons, legal persons and other institutional investors recognized by the CSRC, who maintain A share account with the Shanghai Stock Exchange or the Shenzhen Stock Exchange (as the case may be) (except those prohibited by PRC laws and regulations, and other regulatory requirements to which the Company is subject to), and to apply to the Shanghai Stock Exchange or the Shenzhen Stock Exchange (to be decided by the Board depending on the requirements of relevant regulatory authorities in the PRC) for the listing of, and permission to deal in, the A Shares. The proposed issue of A Shares was approved by the Shareholders at the EGM of the Company held on 9 December 2010, the class meeting for holders of Domestic Shares held on 9 December 2010.

The application for administrative permission for initial public offer of A shares was accepted by CSRC and assigned with an acceptance notification (No. 102323).

2. Proposal of issuing short-term commercial papers

At the extraordinary general meeting of the Company held on 21 October 2010, approval has granted by the Shareholders of the Company to issue short-term commercial papers in an aggregate amount not exceeding RMB300,000,000. The interest rate of the commercial papers will be determined according to the relevant regulatory rules and the market rates. The proceeds from the issue are intended to be applied to supplement the general working capital and to proposed repay outstanding repay indebtedness of the Group.

3. Shares consolidation

As authorized by an extraordinary general meeting and a class general meeting of the Company held on 9 December 2010, the Board resolved to consolidate the issued or unissued share of the Company at the rate of every 10 ordinary shares of RMB0.1 each into 1 ordinary share of RMB1 each. After consolidation, the amount of the registered capital remains unchanged at RMB125,476,374 while the number of domestic shares and H Shares will be changed to 89,896,374 and 35,580,000 shares respectively; and the number of H Shares for each lot for trading is changed from 2,000 to 200. The above share consolidation became effective on 20 January 2011.

4. Other than as disclosed above, the Group had no significant post balance sheet events.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XIV. SEGMENT INFORMATION

In accordance with the disclosure requirements of "Accounting Standards for Business Enterprise No. 35 - Segment Reporting", operating segment has been identified on the basis of internal organization structure, management requirements and internal reporting policies. The reporting segments are determined on the basis of operating segments. An operating segment represents a component of the Group that satisfied both of the following criteria: 1) it engages in business activities from which it may earn revenue and incur expenses; and 2) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The price of intra-segment transactions is determined on market rates. Expenses incurred for more than one segment, other than those which is unable to be allocated reasonable, are allocated between segments on the basis of revenue. The segments are:

Operating segment	Principle activities
Industrial waste recycling	Processing and sale of recycled products
Industrial waste treatment and disposal	Collection, treatment and disposal of industrial waste
Municipal waste treatment and disposal	Collection, treatment and disposal of municipal waste
Renewable energy utilization	Operation of methane-to-energy power plants
Environmental engineering and services	Construction contract work as a main contractor or subcontractor system and services in respect of environmental services, such as design and construction of environmental projects; operation of environment protection facilities, assessment of environmental impact, environment monitoring and consulting
Trading and others	Sales of chemical products and leasing activities

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XIV. SEGMENT INFORMATION (CONTINUED)

2010

	Industrial waste recycling	Industrial waste treatment and disposal	Municipal waste treatment and disposal	Renewable energy utilization	Environmental engineering and services	Trading and others	Unallocated amount	Elimination	Total
Operating revenue	693,536,039.65	132,910,370.86	124,029,969.97	30,760,458.28	108,788,773.61	133,092,302.33		(70,759,564.21)	1,152,358,350.49
Including:									
Revenue from external transactions	678,413,051.43	131,273,151.52	120,653,782.62	30,760,458.28	106,828,773.61	84,429,133.03		-	1,152,358,350.49
Intra-segment transactions	15,122,988.22	1,637,219.34	3,376,187.35	-	1,960,000.00	48,663,169.30		(70,759,564.21)	-
Operating expenses	569,488,268.47	59,555,568.20	101,390,194.42	20,151,639.61	95,173,634.49	125,788,994.40	68,630,484.21	(70,053,777.36)	970,125,006.44
Gain from changes in fair value	-	-	-	-	-	-	2,388,466.04	-	2,388,466.04
Investment income	522,697.17	3,020.63	(127,561.23)	(64,584.26)	126,894.49	-	4,792,608.14	(9,884,984.51)	(4,631,909.57)
Operating profit (loss)	124,570,468.34	73,357,823.29	22,512,214.33	10,544,234.40	13,742,033.61	7,303,307.93	(61,449,410.03)	(10,590,771.35)	179,989,900.52
Total assets	944,836,625.51	103,658,378.80	90,597,682.52	174,572,164.66	106,161,950.65	92,250,308.43	953,340,597.30	(683,340,259.05)	1,782,077,448.82
Total liabilities	178,789,133.19	50,940,521.06	42,231,789.99	134,248,168.27	100,310,808.74	70,611,363.48	789,800,800.14	(423,685,341.37)	943,247,243.50
Supplementary information									
Depreciation and amortization	3,719,945.14	16,793,962.15	18,294,463.54	7,042,161.05	615,410.33	177,871.43	1,940,593.84	-	48,584,407.48
Capital expenditure	135,901,814.97	48,723,554.00	3,413,459.43	48,247,585.35	1,134,543.00	499,809.70	6,507,597.88	-	244,428,364.33
Assets impairment losses	(1,110,459.21)	(720,301.53)	1,364,954.93	1,112,729.59	(1,076,631.54)	54,134.54	214,788.97	-	(160,784.25)
Non-cash expenses other than depreciation and assets impairment	3,311,576.00	-	-	-	2,834,630.59	-	800,000.00	(3,010,130.59)	3,936,076.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XIV. SEGMENT INFORMATION (CONTINUED)

2009

	Industrial waste recycling	Industrial waste treatment and disposal	Municipal waste treatment and disposal	Renewable energy utilization	Environmental engineering and services	Trading and others	Unallocated amount	Elimination	Total
Operating revenue	418,030,916.85	95,225,641.26	86,394,045.65	22,148,252.44	95,009,418.59	142,108,218.32		(23,927,710.12)	834,988,782.99
Including:									
Revenue from external transactions	417,199,036.90	95,123,588.75	86,394,045.65	22,148,252.44	94,005,724.61	120,118,134.64			834,988,782.99
Intra-segment transactions	831,879.95	102,052.51			1,003,693.98	21,990,083.68		(23,927,710.12)	
Operating expenses	330,969,476.35	44,326,849.86	82,334,341.46	13,858,286.46	78,948,074.30	140,447,887.29	48,262,208.89	(23,485,229.14)	715,661,895.48
Gain from changes in fair value	-	-	-	-	-	-	4,086,880.14	-	4,086,880.14
Investment income	(602,407.30)	285,630.91	547,928.76	201,221.86	-	0.00	124,085,694.44	(120,871,980.91)	3,646,087.76
Operating profit (loss)	86,459,033.20	51,184,422.31	9,283,794.24	3,815,026.54	16,061,344.29	1,660,331.03	79,910,365.69	(131,175,845.76)	127,059,855.41
Total assets	1,003,082,778.06	76,096,247.40	106,852,076.50	117,407,286.27	70,891,971.91	77,747,011.30	928,461,295.85	(843,479,873.47)	1,537,058,793.82
Total liabilities	360,712,935.42	36,963,908.83	96,286,081.08	31,035,993.33	71,553,918.12	47,474,491.02	740,178,221.36	(607,982,130.61)	776,223,418.55
Supplementary information									
Depreciation and amortization	16,370,789.81	8,176,544.99	12,483,421.15	6,144,641.91	512,317.68	145,807.74	1,817,670.15		45,651,193.43
Capital expenditure	181,786,804.84	41,217,589.90	23,418,804.37	33,603,588.87	1,715,936.98	302,246.35	75,227,352.00	(856,512.82)	356,415,810.49
Assets impairment losses		3,252,345.82	1,824,434.10		1,796,919.44		14,861,383.87		21,735,083.23
Non-cash expenses other than depreciation and assets impairment	2,371,346.42				1,032,300.00		527,188.98	(2,334,483.48)	1,596,351.92

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XV. OTHER SIGNIFICANT EVENTS

1. There were no non-monetary transactions during the year (2009: NIL).
2. There were no debts restructuring during the year (2009: NIL).
3. Leasing

(1) *Minimum lease payments made under finance leases*

Unexpired lease terms	2010	2009
Within 1 year	2,748,406.21	3,925,699.56
In 1-2 years	1,760,566.17	3,527,268.91
In 2-3 years	990,873.00	1,718,876.88
After 3 years	208,082.56	535,752.55
Total	5,707,927.94	9,707,597.90

As at 31 December 2010, the unrecognised finance lease charge was RMB385,384.58 (2009: RMB877,690.83).

(2) *Assets leased out under operating leases*

Category	2010	2009
Plant and equipment	169,589.63	215,633.72
Motor vehicles	235,922.98	253,876.30
Investment properties	53,952,089.00	51,468,059.00
Total	54,357,601.61	51,937,569.02

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Assets and liabilities measured at fair value

Item	As at 1 January 2010	Decrease	Changes in fair value	As at 31 December 2010
Financial assets				
Financial assets at fair value through profit or loss	6,111,415.00	(1,504,205.04)	(95,563.96)	4,511,646.00
Investment properties	51,468,059.00	–	2,484,030.00	53,952,089.00
Total	<u>57,579,474.00</u>	<u>(1,504,205.04)</u>	<u>2,388,466.04</u>	<u>58,463,735.00</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss	447,000.00	(447,000.00)	–	–

5. Financial assets and financial liabilities denominated in foreign currency

Item	2010	2009	Balance of 2010 was arrived at after charging: Provision for impairment losses
Financial assets			
Loan and receivables			–
Bank deposit and cash	3,449,462.72	5,528,356.65	–
Accounts receivables	27,377,290.35	12,784,263.31	410,659.36
Prepayments	3,221,421.61	17,932,251.51	–
Other receivables	2,821,038.99	3,033,528.19	474,765.06
	<u>36,869,213.67</u>	<u>39,278,399.66</u>	<u>885,424.42</u>
Financial liabilities			
Accounts payables	666,446.04	752,331.85	–
Other payables	1,170,838.03	1,843,580.97	–
Obligations under finance leases	5,193,768.46	8,934,791.13	–
	<u>7,031,052.53</u>	<u>11,530,703.95</u>	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Major financial instruments of the Group include cash and bank balances, held-for-trading financial assets, bills receivables, accounts receivables, other receivables, borrowings, held-for-trading financial liabilities, accounts payables, Accrued staff salaries, other payables, etc. Detailed descriptions of these financial instruments are set out in Note VIII. Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

1. Objective and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimized, in order to maximize the benefits of shareholders and other stakeholders. Based on such objective in risk management, the underlying strategy of the Group's risk management is to ascertain and analyze all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(1) Market risks

1) Foreign exchange risk

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with HKD and USD; except for certain subsidiaries of the Company which effect purchases and sales in HKD and USD, all the business activities of the remaining principal operations of the Group are settled with RMB. On 31 December 2010, except for the HKD and USD balances in assets and liabilities, odd monies in EUR as set out below, all the balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities in such HKD and USD balances may affect the operating results of the Group. As at 31 December 2010, the details of financial assets and financial liabilities denominated in foreign currency are set out in Note XV.5.

The Group closely monitors changes in foreign exchange rates as to their effects to the Group's exposure in foreign exchange risk. Currently, the Group has not adopted other policies to circumvent foreign exchange risks.

2) Interest rate risk

The risk that changes in interest rate lead to changes in cash flow of the financial instruments of the Group is mainly associated with floating-rate bank borrowings (details set out in Note VIII.17 and 26). The Group's policy is to maintain these borrowings in floating rates, so as to eliminate fair value risks arising from changes in interest rate.

3) 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 FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

1. Objective and policies of risk management (Continued)

(2) *Credit risk*

On 31 December 2010, the most significant credit risk exposure that might incur financial losses on the Group was mainly attributable to a contractual counterparty's failure to perform its obligations, the effects of which could lead to losses in financial assets of the Group and financial guarantee undertaken by the Group, specific details are set out as follows:

The carrying amount of financial assets recognized in the consolidated balance sheet: in respect of financial instruments carried at fair value, the carrying amount reflects the risk exposure; however, such amount does not represent the maximum credit exposure which changes in line with future changes in fair value.

In order to mitigate credit risk, the Group established a committee to be responsible for determining credit limits, approving credit applications and carrying out other monitoring procedures to ensure necessary actions are taken to collect overdue debts. Besides, the Group reassesses the collectability of each amount receivable on an individual basis at each balance sheet date, in order to ensure sufficient provision is allocated for amounts that are not recoverable. As such, the management of the Group believes the credit risk assumed by the Group has been significantly reduced.

The Group places its bank balances and cash in banks with relatively higher credit ratings; therefore, the credit risk with respect to liquid funds is low.

Since the Group's risk exposures are distributed among various contractual parties and various customers, the Group has no significant concentration risk.

(3) *Liquidity risk*

In managing liquidity risk, the Group maintains cash and cash equivalent at a level deemed sufficient by the management and carry out monitoring, in order to satisfy the operating needs of the Group and lower the effects of fluctuations in cash flows. The management of the Group monitors the utilization of bank borrowings and makes sure the related borrowing agreements are complied with.

The primary source of funding for the Group is bank borrowings. On 31 December 2010, the Group had unutilized bank facilities of RMB339,000,000. (2009: RMB345,000,000)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

1. Objective and policies of risk management (Continued)

(3) Liquidity risk (Continued)

Maturity analysis of financial assets and financial liabilities of the Group at undiscounted remaining contractual obligations are set out as follows:

Item	Within 1 month	1-3 months	3-12 months	1-5 years
Financial assets				
Bank balances and cash	178,654,812.40	–	–	–
Held for trading financial assets	4,511,646.00	–	–	–
Bills receivables	1,903,050.00	49,232,476.00	1,272,029.18	–
Accounts receivables	–	121,662,646.42	30,421,976.77	19,881,071.01
Other receivables	7,381.34	18,715,128.84	30,794,303.66	35,400,561.71
Total financial assets	185,076,889.74	189,610,251.26	62,488,309.61	55,281,632.72
Financial liabilities				
Accounts payables	–	100,156,306.82	40,491,823.33	5,056,418.02
Other payables	–	11,116,243.33	3,004,907.95	20,747,247.75
Employee benefit payables	–	16,439,339.14	–	–
Borrowings	32,831,561.61	145,413,553.23	242,958,274.53	306,655,655.35
Total financial liabilities	32,831,561.61	273,125,442.52	286,455,005.81	332,459,321.12

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

2. Fair value

(1) *The fair value of financial assets and financial liabilities are determined as follows:*

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments; and
- The fair value of derivatives instruments is calculated using quoted prices.

(2) *Fair value measurement recognised in the financial statements*

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

2. Fair value (Continued)

(2) Fair value measurement recognised in the financial statements (Continued)

As at 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading financial assets	4,511,646.00	–	–	4,511,646.00
As at 31 December 2009				
Financial assets				
Held for trading financial assets	6,286,090.00	–	–	6,286,090.00
Financial liabilities				
Held for trading financial liabilities	447,000.00	–	–	447,000.00

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

3. Sensitivity analysis

The Group adopts sensitivity analysis techniques to analyze the possible effects of rational and probable changes in risk variables to profit and loss for the current period or to the beneficial interests. Since risk variables seldom change on a stand-alone basis, while the correlation between variables has significant influence to the ultimate amount of change effected by the change in a single risk variable; therefore, the below analysis is based on the assumption that the changes in each variable occurred separately.

(1) Sensitivity analysis of Foreign exchange risk

Should the exchange rates of foreign currency to RMB change by 5%, the effects to the net profit for the current period and shareholders' equity would be:

Foreign currency	Changes in exchange rate	2010		2009	
		Increase (decrease) in net profit	Increase (decrease) in shareholders' equity	Increase (decrease) in net profit	Increase (decrease) in shareholders' equity
USD	Increase 5%	1,239,476.76	1,239,476.76	1,131,432.53	1,131,432.53
USD	Decrease 5%	(1,239,476.76)	(1,239,476.76)	(1,131,432.53)	(1,131,432.53)
HKD	Increase 5%	495,538.22	767,299.71	472,133.66	918,873.22
HKD	Decrease 5%	(495,538.22)	767,299.71	(472,133.66)	(918,873.22)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

3. Sensitivity analysis (Continued)

(2) Sensitivity analysis of interest rate risk

Should the interest rates of floating rates borrowings change by 1%, the effects to the net profit for the current period and shareholders' equity would be:

Item	Changes in interest rate	2010		2009	
		Increase (decrease) in net profit	Increase (decrease) in shareholders' equity	Increase (decrease) in net profit	Increase (decrease) in shareholders' equity
Floating rates borrowings	Increase 1%	4,954,873.20	4,954,873.20	5,004,261.40	5,004,261.40
Floating rates borrowings	Decrease 1%	(4,954,873.20)	(4,954,873.20)	(5,004,261.40)	(5,004,261.40)

(3) Sensitivity analysis of other price risk

Should the quoted price of held for trading financial assets change by 5%, the effects to the net profit for the current period and shareholders' equity would be:

Item	Changes in price	2010		2009	
		Increase (decrease) in net profit	Increase (decrease) in shareholders' equity	Increase (decrease) in net profit	Increase (decrease) in shareholders' equity
Quoted shares	Increase 5%	225,582.00	225,582.00	314,305.00	314,305.00
Quoted shares	Decrease 5%	(225,582.00)	(225,582.00)	(314,305.00)	(314,305.00)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

1. Accounts receivables

	2010	2009
Accounts receivables	117,868,966.24	77,584,857.18
Less: Provision for bad debts	(7,133,908.35)	(10,313,720.28)
	110,735,057.89	67,271,136.90

(1) Disclosure of accounts receivables by categories is as follows:

Category	2010			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivables that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Accounts receivables that are provided for bad debts on portfolio basis				
Aged group	86,422,973.85	73.32	4,672,374.79	5.41
Related party group	28,968,458.83	24.58	-	-
Sub-total	115,391,432.68	97.90	4,672,374.79	4.05
Accounts receivables that are individually insignificant but are individually provided for bad debts	2,477,533.56	2.10	2,461,533.56	99.35
Total	117,868,966.24		7,133,908.35	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Accounts receivables (Continued)

(1) Disclosure of accounts receivables by categories is as follows: (Continued)

Category	2009			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivables that are individually significant and are provided for bad debts on individual basis	–	–	–	–
Accounts receivables that are provided for bad debts on portfolio basis				
Aged group	67,148,717.50	86.55	3,713,784.42	5.53
Related party group	3,848,150.56	4.96	11,946.74	0.31
Sub-total	70,996,868.06	91.51	3,725,731.16	5.25
Accounts receivables that are individually insignificant but are individually provided for bad debts	6,587,989.12	8.49	6,587,989.12	100.00
Total	77,584,857.18		10,313,720.28	

The accounts receivables of the Company as at 31 December 2010 was increased by 43,463,920.99 representing 64.61% as compared with last year. The increase was due to the increase in revenue caused by the price of the copper risen in 2010.

1) Details of accounts receivables that are provided for provision for bad debts based on ageing analysis are as follows:

Item	2010			2009		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	52,625,314.37	1.50	789,127.71	48,203,797.60	1.50	723,056.96
91-180 days	16,129,712.99	3.00	483,891.39	6,180,592.00	3.00	185,417.76
181-365 days	10,183,852.87	5.00	509,192.65	4,439,049.22	5.00	221,952.46
1-2 years	4,778,479.24	20.00	955,695.84	7,145,958.68	20.00	1,429,191.74
2-3 years	1,542,294.38	50.00	771,147.20	50,309.00	50.00	25,154.50
Over 3 years	1,163,320.00	100.00	1,163,320.00	1,129,011.00	100.00	1,129,011.00
Total	86,422,973.85		4,672,374.79	67,148,717.50		3,713,784.42

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Accounts receivables (Continued)

(1) Disclosure of accounts receivables by categories is as follows: (Continued)

2) As at 31 December 2010, accounts receivables that are individually insignificant but are individually provided for bad debts.

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
Bao'an District Shajing Shataubao Electronics Factory	735,708.53	735,708.53	100.00	Irrecoverable
Shenzhen Bao'an District Minicipal Management Office Wastes Treatment Station	590,000.00	574,000.00	97.29	Irrecoverable
Aggregate of small amount items	1,151,825.03	1,151,825.03	100.00	Irrecoverable
Total	<u>2,477,533.56</u>	<u>2,461,533.56</u>	<u>99.35</u>	

(2) Details of reversal of bad debts provision

Name	Book value of accounts receivable	Balance of bad debt provision before reversal	Amount reversed in 2010
Bao'an District Shajing Shataubao Electronics Factory	<u>735,708.53</u>	<u>3,993,361.74</u>	<u>3,748,305.92</u>
Total	<u>735,708.53</u>	<u>3,993,361.74</u>	<u>3,748,305.92</u>

The amount was expected irrecoverable because the business of the debtor was ceased as a result of financial crisis. Accordingly, provision for bad debts was made in prior period.

During the year ended 31 December 2010, the business of the debtor was resumed due to the recovery of economy. Part of the amount outstanding was recovered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

1. Accounts receivables (Continued)

(3) There were no accounts receivables from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2010.

(4) Top five accounts receivable outstanding as at 31 December 2010 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total accounts receivables (%)
Shenzhen Municipal Management Bureau	Independent third party	10,397,748.09	1-90 days	8.82
Shenzhen Suntak Multilayer PCB Company Limited	Independent third party	10,000,000.00	90-180 days	8.48
Daye Hua Sheng Mining Company Limited	Independent third party	7,447,386.24	1-90 days	6.32
Shenzhen Suntak Multilayer PCB Company Limited	Independent third party	5,927,285.00	1-2 years	5.03
Yangxin Yinyuan Environmental Technology Company Limited	Independent third party	5,847,890.00	1-90days	4.96
Total		<u>39,620,309.33</u>		<u>33.61</u>

(5) Accounts receivables due from related parties as at 31 December 2010 were as follows:

Name	Relationships with the Company	Amount	Proportion to total accounts receivables (%)
Dongjiang Heritage	Subsidiary	20,832,345.48	17.67
Recylced Resources	Subsidiary	2,399,724.65	2.04
Shenzhen Resource	Associate	4,433,701.60	3.76
Huizhou Dongjiang	Subsidiary	1,229,919.10	1.04
Dongjiang Veolia	Joint controlled entity	72,768.00	0.06
Total		<u>28,968,458.83</u>	<u>24.57</u>

2. Other receivables

	2010	2009
Other receivables	377,130,312.61	337,176,930.28
Less: Provision for bad debts	(7,533,153.86)	(8,407,061.97)
	<u>369,597,158.75</u>	<u>328,769,868.31</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other receivables (Continued)

(1) Disclosure of other receivables by categories is as follows:

Category	2010			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	5,000,000.00	1.33	5,000,000.00	100.00
Other receivables that are provided for bad debts on portfolio basis				
Aged group	3,054,455.12	0.81	1,244,661.28	40.75
Related party group	360,478,006.91	95.58	–	–
Collateral group	7,245,238.00	1.92	–	–
Sub-total	370,777,700.03	98.31	1,244,661.28	0.34
Other receivables that are individually insignificant but are individually provided for bad debts	1,352,612.58	0.36	1,288,492.58	95.26
Total	377,130,312.61		7,533,153.86	
Category	2009			
	Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	5,000,000.00	1.48	5,000,000.00	100.00
Other receivables that are provided for bad debts on portfolio basis				
Aged group	17,950,294.27	5.32	1,749,345.56	9.75
Related party group	304,944,163.08	90.44	120,503.23	0.04
Collateral group	9,115,259.75	2.71	1,370,000.00	15.03
Sub-total	332,009,717.10	98.47	3,239,848.79	0.98
Other receivables that are individually insignificant but are individually provided for bad debts	167,213.18	0.05	167,213.18	100.00
Total	337,176,930.28		8,407,061.97	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other receivables (Continued)

(1) Disclosure of other receivables by categories is as follows: (Continued)

- 1) As at 31 December 2010, details of other receivables that are individually significant and are provided for bad debts on individual basis are as follows:

Name	Book value	Bad debts provision	Proportion (%)	Reasons for provision
Shantou Jianan (Group) Corporation Huizhou Branch	5,000,000.00	5,000,000.00	100.00	In dispute
Total	<u>5,000,000.00</u>	<u>5,000,000.00</u>	<u>100.00</u>	

- 2) Details of other receivables that are provided for bad debts based on ageing analysis are as follows:

Item	2010			2009		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	555,246.21	1.50	10,618.27	9,955,532.43	1.50	149,332.99
91-180 days	547,478.97	3.00	15,890.57	3,734,530.69	3.00	112,035.92
181-365 days	543,803.40	5.00	27,310.17	145,685.10	5.00	7,284.26
1-2 years	161,555.34	20.00	32,311.07	1,971,767.07	20.00	394,353.41
2-3 years	175,680.00	50.00	87,840.00	2,112,880.00	50.00	1,056,440.00
Over 3 years	1,070,691.20	100.00	1,070,691.20	29,898.98	100.00	29,898.98
Total	<u>3,054,455.12</u>		<u>1,244,661.28</u>	<u>17,950,294.27</u>		<u>1,749,345.56</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other receivables (Continued)

(1) Disclosure of other receivables by categories is as follows: (Continued)

3) As at 31 December 2010, other receivables that are individually insignificant but are individually provided for bad debts.

Name	Book value	Bad debts provision	Proportion (%)	Reasons for provision
Huizhou Shengtianhan Industrial Company Limited	500,000.00	500,000.00	100.00	Irrecoverable
Xue Yaochun	300,000.00	300,000.00	100.00	Irrecoverable
Shenzhen Kaixiang Industrial Development Company Limited	300,000.00	300,000.00	100.00	Irrecoverable
Shajing Gonghe Development Company	100,000.00	48,230.00	48.23	Irrecoverable
Aggregate of small amount items	152,612.58	140,262.58	91.91	Irrecoverable
Total	1,352,612.58	1,288,492.58	95.26	

(2) Details of reversal of bad debts provision

Name	Book value of other receivable	Balance of bad debt provision before reversal	Amount reversed
Shenzhen Kaixiang Industrial Development Company Limited	300,000.00	300,000.00	350,000.00
Total	300,000.00	300,000.00	350,000.00

The amount was expected irrecoverable in prior years. During the year ended 31 December 2010, part of the amount outstanding was recovered through a related party of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other receivables (Continued)

(3) *There were no other receivables from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2010.*

(4) *Top five other receivable outstanding as at 31 December 2010 are as follows:*

Name	Relationships with the Company	Amount	Aged	Proportion to total other receivables (%)	Nature
Renewable Energy	subsidiary	64,745,906.79	Within 2 years	17.17	Payment on behalf
Hunan Dongjiang	subsidiary	64,350,479.00	Over 3 years	17.06	Payment on behalf
Qingyuan Dongjiang	subsidiary	51,404,879.01	Within 2 years	13.63	Payment on behalf
Huizhou Dongjiang	subsidiary	45,352,131.25	Within 2 years	12.03	Loans and current accounts
Qingdao Dongjiang	subsidiary	32,633,398.30	2-3 years	8.65	Payment on behalf
Total		<u>258,486,794.35</u>		<u>68.54</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

2. Other receivables (Continued)

(5) Other receivables due from related parties as at 31 December 2010 were as follows:

Name	Amount	Proportion to total other receivables (%)
Due from Subsidiaries		
Renewable Energy	64,745,906.79	17.17
Hunan Dongjiang	64,350,479.00	17.06
Qingyuan Dongjiang	51,404,879.01	13.63
Huizhou Dongjiang	45,352,131.25	12.03
Qingdao Dongjiang	32,633,398.30	8.65
Beijing Novel	21,169,709.59	5.61
Dongjiang HK	15,970,027.93	4.23
Shaoguan Dongjiang	14,468,927.86	3.84
Chengdu Treatment Centre	8,613,300.00	2.28
Shaoguan Green	4,700,000.00	1.25
Dongjiang Lisai	2,515,300.00	0.67
Resource Recycling	2,496,260.00	0.66
Dongjiang Transport	1,166,930.60	0.31
Dongjiang Heritage	60,756.55	0.02
Yunnan Dongjiang	301,659.50	0.08
Huabao Technology	7,437.12	–
Dongjiang Property Service	(37,702.57)	(0.01)
Sub-total of amount due from subsidiaries	329,919,400.93	87.48
Due from jointly controlled entities		
Shuangxin Cement	29,524,126.48	7.83
Dongjiang Veolia	1,034,479.50	0.27
Sub-total of amount due from jointly controlled entities	30,558,605.98	8.10
Total	360,478,006.91	95.58

(6) Other receivables comprised the following balances in foreign currencies:

Foreign currency	2010			2009		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	18,768,395.73	0.8509	15,970,027.93	16,604,766.97	0.8805	14,620,497.32
Total			15,970,027.93			14,620,497.32

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term equity investments

(1) *The category of long-term equity investments assets is as follows:*

Item	2010	2009
Accounted for using cost methods		
Investments in subsidiaries	244,594,422.58	228,636,320.54
Other long-term equity investments	1,900,000.00	1,800,000.00
	246,494,422.58	230,436,320.54
Accounted for using equity method of accounting		
Investments in jointly controlled entities and associates	100,415,088.91	70,374,738.40
Less: Impairment losses	529,649.00	529,649.00
Carrying value of investments in jointly controlled entities and associates	99,885,439.91	69,845,089.40
Total carrying value of long-term equity investments	346,379,862.49	300,281,409.94

(2) *Disclosures of investments in subsidiaries and amount due from (to) subsidiaries under Hong Kong Companies Ordinance is as follows:*

	2010	2009
Cost of investment	244,594,422.58	228,636,320.54
Amounts due from subsidiaries	354,381,390.16	300,270,543.86
Amounts due to subsidiaries	(141,014,429.70)	(76,850,750.05)

The amounts due from or to subsidiaries are unsecured, and have no fixed terms of repayments. Except for the amount due from subsidiaries totalling of RMB63,500,000 which are charged at interest at the rate of 5.4% per annum, all other amounts are interest free.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term equity investments

(3) Movements of investments in subsidiaries during the year

Name	Proportion of shareholding (%)	Proportion of voting rights(%)	Investment cost	As at 1 January 2010	Increase	Decrease	As at 31 December 2010	Cash dividends received during the year
Beijing Novel	55.00	55.00	220,000.00	220,000.00	-	-	220,000.00	-
Huabao Technology	100.00	100.00	500,000.00	500,000.00	-	-	500,000.00	-
Shaoguan Green	60.00	60.00	100,000,000.00	100,000,000.00	17,800,000.00	-	117,800,000.00	-
Resource Recycling	100.00	100.00	2,093,966.50	2,093,966.50	-	-	2,093,966.50	-
Dongjiang Heritage	62.00	60.00	15,500,000.00	15,500,000.00	-	-	15,500,000.00	-
Longgang Dongjiang	51.00	51.00	2,550,000.00	2,550,000.00	-	-	2,550,000.00	-
Qiandeng Wastes Treatment	51.00	56.00	3,916,800.00	3,916,800.00	-	-	3,916,800.00	1,275,000.00
Huizhou Dongjiang	100.00	100.00	6,458,352.90	6,458,352.90	-	-	6,458,352.90	-
Kunshan Kumpeng	51.00	51.00	1,602,970.01	3,438,970.01	-	-	3,438,970.01	255,000.00
Qingyuan Dongjiang	100.00	100.00	1,800,000.00	1,800,000.00	200,000.00	-	2,000,000.00	-
Qingdao Dongjiang	100.00	100.00	15,000,000.00	15,000,000.00	-	-	15,000,000.00	-
Hunan Dongjiang	95.00	95.00	9,500,000.00	9,500,000.00	-	-	9,500,000.00	-
Chengdu Treatment Centre	100.00	100.00	6,400,000.00	6,105,461.13	-	-	6,105,461.13	-
Renewable Energy	100.00	100.00	10,000,000.00	10,000,000.00	-	-	10,000,000.00	-
Shaoguan Dongjiang	100.00	100.00	4,500,000.00	4,500,000.00	-	-	4,500,000.00	-
Dongjiang Lisai	80.00	80.00	2,550,000.00	2,550,000.00	8,705,102.04	-	11,255,102.04	-
Dongjiang HK	100.00	100.00	22,755,770.00	22,755,770.00	-	-	22,755,770.00	-
Dongjiang Property Service	100.00	100.00	1,000,000.00	-	1,000,000.00	-	1,000,000.00	-
Yunnan Dongjiang	100.00	100.00	10,000,000.00	-	10,000,000.00	-	10,000,000.00	-
Total			<u>216,347,859.41</u>	<u>206,889,320.54</u>	<u>37,705,102.04</u>		<u>244,594,422.58</u>	<u>1,530,000.00</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

3. Long-term equity investments (Continued)

(4) Movements of other long-term equity investments during the year

Name	Proportion of shareholding (%)	Proportion of voting rights(%)	Investment cost	As at			As at 31 December 2010	Cash dividends received during the year
				1 January 2010	Increase	Decrease		
Wuhan Yunfeng	11.00	11.00	1,800,000.00	1,800,000.00	-	-	1,800,000.00	-
Dongjiang Green Resources	10.00	10.00	100,000.00	-	100,000.00	-	100,000.00	-
Total			1,900,000.00	1,800,000.00	100,000.00	-	1,900,000.00	-

(5) Movements of investments in jointly controlled entities and associates during the year

Name	Proportion of shareholding (%)	Proportion of voting rights(%)	Investment cost	As at			As at 31 December 2010	Cash dividends received during the year
				1 January 2010	Increase	Decrease		
Jointly controlled entities								
Shuangxin Cement	50.00	50.00	43,900,000.00	42,550,468.00	-	8,484,252.50	34,066,215.50	-
Dongjiang Veolia	51.00	50.00	22,440,000.00	27,294,621.40	3,613,865.92	-	30,908,487.32	-
Associates								
Shenzhen								
Mircronutrients	38.00	40.00	760,000.00	529,649.00	797,725.25	123,443.05	1,203,931.20	-
Shenzhen Resource	50.00	43.00	4,247,000.00	21,747,000.00	5,874,454.89	-	27,621,454.89	-
Zhuhai Qingxin	35.00	35.00	6,615,000.00	-	6,615,000.00	-	6,615,000.00	-
Total			77,962,000.00	92,121,738.40	16,901,046.06	8,607,695.55	100,415,088.91	-

(6) Provision for impairment for investments in associate

Name	As at			As at 31 December 2010
	1 January 2010	Increase	Decrease	
Shenzhen				
Mircronutrients	529,649.00	-	-	529,649.00
Total	529,649.00	-	-	529,649.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

4. Operating revenue and operation costs - by principal operations

Item	2010	2009
Operating revenue	691,486,461.04	436,049,976.99
Other operating revenue	—	—
Total	691,486,461.04	436,049,976.99
Operating costs	450,257,571.15	294,748,221.39
Other operating costs	—	—
Total	450,257,571.15	294,748,221.39

(1) Operating revenue and operation costs – by principal operations

	2010		2009	
	Operating revenue	Operating cost	Operating revenue	Operating costs
Industrial waste recycling	371,197,310.90	243,137,816.27	166,596,141.96	112,500,257.63
Industrial waste treatment and disposal	99,395,358.11	24,474,912.84	74,778,100.39	17,057,810.61
Municipal waste treatment and disposal	58,393,421.24	43,070,368.20	—	—
Environment engineering and services	52,973,915.36	39,500,753.29	68,792,763.49	45,716,532.61
Trading and others	109,526,455.43	100,073,720.55	125,882,971.15	119,473,620.54
Total	691,486,461.04	450,257,571.15	436,049,976.99	294,748,221.39

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

4. Operating revenue and operation costs - by principal operations (Continued)

(2) *The top five customers of operating revenue for the year ended 31 December 2010 were as follows:*

Name of customer	Operating revenue	Proportion to total operating revenue (%)
Changsha Xingjia Biological Engineering Company Limited	52,752,120.51	7.63
Daye Huasheng Mining Company Limited	34,544,200.00	5.00
Shenzhen Municipal Management Bureau	32,109,857.89	4.64
Shenzhen Xiaping Solid Waste Landfill	27,596,883.00	3.99
Guangdong Guanghua Technology Company Limited	23,301,162.39	3.37
Total	<u>170,304,223.79</u>	<u>24.63</u>

5. Investment income (loss)

(1) *The investment income was arising from:*

Item	2010	2009
Dividends from subsidiaries	7,730,000.00	126,200,000.00
Share of loss of jointly controlled entities and associates	(2,102,755.08)	(1,213,254.64)
Loss on disposal of long-term equity investments	-	(1,297,069.29)
Income received from held for trading financial assets during the period of ownership	75,181.76	19,410.46
Gain (loss) on disposal of held for trading financial assets	(909,818.54)	788,686.46
Total	<u>4,792,608.14</u>	<u>124,497,772.99</u>

There are no significant restrictions on remittance of investment gains back to the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

5. Investment income (loss) (Continued)

(2) Breakdown of dividends received from subsidiaries are as follows:

Item	2010	2009	Reason for changes
Resource Recycling	–	120,000,000.00	No distribution for the year
Dongjiang Heritage	6,200,000.00	6,200,000.00	
Qiandeng Wastes Treatment	1,275,000.00	–	Dividends received
Kunshan Kunpeng	255,000.00	–	Dividends received
Total	<u>7,730,000.00</u>	<u>126,200,000.00</u>	

(3) Breakdown of share of profit (loss) of jointly controlled entities and associates

Item	2010	2009	Reason for changes
Shuangxin Cement	(8,484,252.50)	(1,349,532.00)	Operating loss
Dongjiang Veolia	3,613,865.92	412,078.55	Increase in profitability
Shenzhen Micronutrients	674,282.20	(275,801.19)	Changes from loss to profit
Shenzhen Resource	2,093,349.30	–	Newly becoming as an associate in September 2010
Total	<u>(2,102,755.08)</u>	<u>(1,213,254.64)</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (CONTINUED)

6. Supplementary information of cash flow statement of the Company

(1) Reconciliation of net profits as cash flows from operating activities

Items	2010	2009
Net profits	141,150,813.62	191,949,948.50
Add: Provision for assets impairment	(4,050,463.33)	9,318,389.82
Depreciation of fixed assets	13,645,554.54	9,175,253.71
Amortisation of intangible assets	572,603.28	563,038.63
(Gain) loss on disposal of fixed assets, intangible assets and other long-term assets	(8,542.76)	–
(Gain) loss on written off of disposal fixed assets	71,401.58	–
(Gain) loss on changes in fair value	(2,388,466.04)	(4,086,880.14)
Finance costs	18,406,589.16	10,180,023.48
(Gain) loss on investment	(4,792,608.14)	(124,497,772.99)
(Increase) decrease in deferred income tax assets	(494,598.93)	–
Increase in deferred income tax liabilities	372,604.50	–
Increase in inventories	(60,665,725.54)	10,333,318.87
Decrease (increase) in operating accounts receivables	(25,262,400.88)	(136,496,614.46)
Increase in operating accounts payables	82,963,981.03	84,360,567.68
Net cash flow from operating activities	159,520,742.09	50,799,273.10

(2) Changes in cash and cash equivalents

	2010	2009
Cash and cash equivalents at end of year	84,954,056.48	95,321,223.74
Less: Cash and cash equivalents at beginning of year	95,321,223.74	99,654,871.63
Changes in cash and cash equivalents	(10,367,167.26)	(4,333,647.89)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVIII. SUPPLEMENTARY INFORMATION

1. Non-recurring profit (loss) for the year

In accordance with the requirements of "Interpretation on Information Disclosures by Listed Companies No. 1 [2008] - Non-recurring profit or loss" issued by the CSRC, the non-recurring profit or loss items are as follows:

Item	2010	2009
Gain on disposal of non-current assets	2,309,735.98	559,282.41
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	3,723,096.34	2,109,234.22
Government grants credited to profit for the year	4,923,206.31	6,885,082.01
Except for effective hedging for the ordinary course of operations of the company, profit or loss arising from fair value change in held for trading financial assets and held for trading financial liabilities; and investment income from gain or loss on disposal of held for trading financial assets, held for trading financial liabilities and available for sale financial assets	(469,208.95)	3,090,835.11
Reversal of provision for bad debts for accounts receivables which was individually tested for impairment	4,489,844.12	-
Changes in fair value of investment properties measured at fair value	2,484,030.00	2,236,516.18
Other non-operating income and expense	(1,752,430.50)	1,889,048.53
Sub-total	15,708,273.30	16,769,998.46
Effect on income tax	(2,295,995.02)	(2,411,672.63)
Effect on minority interest (after tax)	(1,069,084.84)	(1,973,768.35)
Total	12,343,193.44	12,384,557.48

2. Returns on net assets and earning per share

In accordance with the requirements of "Compilation Rules for Information Disclosures by Listed Companies No. 9 - Calculations and disclosures for the return on net assets and earnings per share" (as amended in 2010) issued by the CSRC, the returns on net assets, basic earnings per share and diluted earnings per share of the Company for the year ended 31 December 2010 are as follows:

Profit for the period	Weighted average returns on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of the Company	22.10	1.24	1.24
Net profit attributable to shareholders of the Company (excluding non-recurring profit and loss)	20.35	1.14	1.14

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Reconciliation of net profit and shareholders' equity from HK GAAP to PRC Accounting Standards

(1) Reconciliation of net profit for the year ended 31 December 2009

	Under HK GAAP (note 1)	Prior period adjustments (Note 2)	Under HK GAAP (Restated)	Difference of HK GAAP and PRC Accounting Standards		Under PRC Accounting Standards
				Share of loss by minority shareholders	BOT Project (Note 4)	
Operating revenue	935,704,703.32	(44,261,768.33)	891,442,934.99	-	(56,454,152.00)	834,988,782.99
Operating costs	629,025,076.73	(32,016,008.09)	597,009,068.64	-	(52,079,475.50)	544,929,593.14
Sales taxes and levies	5,050,779.18	-	5,050,779.18	-	-	5,050,779.18
Selling expenses	33,377,718.24	(544,972.37)	32,832,745.87	-	-	32,832,745.87
Administrative expenses	106,943,322.41	(6,851,568.68)	100,091,753.73	-	-	100,091,753.73
Finance costs	15,818,718.61	(4,796,778.28)	11,021,940.33	-	-	11,021,940.33
Impairment loss for assets	19,319,773.86	2,415,309.37	21,735,083.23	-	-	21,735,083.23
Gain on fair value changes	4,086,880.14	-	4,086,880.14	-	-	4,086,880.14
Share of profit (loss) of jointly controlled entities and associates	(1,625,333.19)	412,078.55	(1,213,254.64)	-	-	(1,213,254.64)
Other investment income	4,859,342.40	-	4,859,342.40	-	-	4,859,342.40
Operating profit	133,490,203.64	(2,055,671.73)	131,434,531.91	-	(4,374,676.50)	127,059,855.41
Non-operating income	22,920,403.88	(1,397,899.14)	21,522,504.74	-	-	21,522,504.74
Less: Non-operating expenses	450,995.32	(106,182.60)	344,812.72	-	-	344,812.72
Total profit	155,959,612.20	(3,347,388.27)	152,612,223.93	-	(4,374,676.50)	148,237,547.43
Less: Income tax expenses	24,533,665.26	5,279,216.50	29,812,881.75	-	(1,093,669.13)	28,719,212.63
Net profit	131,425,946.94	(8,626,604.77)	122,799,342.17	-	(3,281,007.38)	119,518,334.80
Other comprehensive income	(8,111.70)	1,078.01	(7,033.69)	-	-	(7,033.69)
Total comprehensive income	131,417,835.24	(8,625,526.76)	122,792,308.48	-	(3,281,007.38)	119,511,301.11
Net profit attributable to:						
Shareholders of the						
Company	116,156,136.69	(7,902,209.32)	108,253,927.38	2,634,409.02	(2,573,805.08)	108,314,531.32
Minority shareholders	15,269,810.25	(724,395.45)	14,545,414.80	(2,634,409.02)	(707,202.30)	11,203,803.48
	131,425,946.94	(8,626,604.77)	122,799,342.17	-	(3,281,007.38)	119,518,334.80
Total comprehensive income attributable to:						
Shareholders of the						
Company	116,148,024.99	(7,901,131.31)	108,246,893.69	-	(2,573,805.08)	108,307,497.63
Minority shareholders	15,269,810.25	(724,395.45)	14,545,414.80	-	(707,202.30)	11,203,803.48
	131,417,835.24	(8,625,526.76)	122,792,308.48	-	(3,281,007.38)	119,511,301.11
Earnings per share						
Basic earnings per share	0.93	(0.05)	0.88	-	(0.02)	0.86
Diluted earnings per share	0.93	(0.05)	0.88	-	(0.02)	0.86

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

VIII. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Reconciliation of net profit and shareholders' equity from HK GAAP to PRC Accounting Standards (Continued)

(2) Reconciliation of equity as at 31 December 2009

	Under HK GAAP (note 1)	Prior period adjustments (Note 2)	Under HK GAAP (Restated)	Difference of HK GAAP and PRC Accounting Standards		Under PRC Accounting Standards
				Share of loss by minority shareholders	BOT Project (Note 4)	
Current assets						
Bank deposits and cash	242,193,798.50	(11,833,233.97)	230,360,564.53	-	-	230,360,564.53
Held for trading						
financial assets	7,616,728.96	(1,330,638.96)	6,286,090.00	-	-	6,286,090.00
Bills receivables	690,000.00	-	690,000.00	-	-	690,000.00
Accounts receivables	137,489,100.22	(16,980,082.13)	120,509,018.09	-	-	120,509,018.09
Prepayment	111,706,110.89	(2,415,498.07)	109,290,612.82	-	-	109,290,612.82
Other receivables	78,447,614.55	1,575,519.43	80,023,133.98	-	-	80,023,133.98
Inventories	140,473,819.52	(1,309,815.70)	139,164,003.82	-	-	139,164,003.82
Total current assets	718,617,172.64	(32,293,749.40)	686,323,423.24	-	-	686,323,423.24
Non-current assets						
Long-term equity						
investments	44,350,468.00	27,294,621.41	71,645,089.41	-	-	71,645,089.41
Investment properties	51,468,059.00	-	51,468,059.00	-	-	51,468,059.00
Fixed assets	271,082,617.76	(2,340,576.04)	268,742,041.72	-	-	268,742,041.72
Construction in progress	356,484,848.61	-	356,484,848.61	-	-	356,484,848.61
Intangible assets	217,482,670.00	(146,323,347.78)	71,159,322.22	-	(5,342,425.73)	65,816,896.49
Goodwill	26,883,677.58	-	26,883,677.58	-	-	26,883,677.58
Long-term prepayments	360,000.00	-	360,000.00	-	-	360,000.00
Deferred income tax						
assets	9,334,757.77	-	9,334,757.77	-	-	9,334,757.77
Total non-current assets	977,447,098.72	(121,369,302.41)	856,077,796.31	-	(5,342,425.73)	850,735,370.58
Total assets	1,696,064,271.36	(153,663,051.81)	1,542,401,219.55	-	(5,342,425.73)	1,537,058,793.82

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVIII. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Reconciliation of net profit and shareholders' equity from HK GAAP to PRC Accounting Standards (Continued)

(2) Reconciliation of equity as at 31 December 2009 (Continued)

	Under HK GAAP (note 1)	Prior period adjustments (Note 2)	Under HK GAAP (Restated)	Difference of HK GAAP and PRC Accounting Standards		Under PRC Accounting Standards
				Share of loss by minority shareholders	BOT Project (Note 4)	
Current liabilities						
Short-term borrowings	309,736,635.00	-	309,736,635.00	-	-	309,736,635.00
Held for trading financial liabilities	-	447,000.00	447,000.00	-	-	447,000.00
Accounts payables	89,316,327.09	(10,204,402.90)	79,111,924.19	-	-	79,111,924.19
Receipts in advance	42,416,177.25	-	42,416,177.25	-	-	42,416,177.25
Employee benefits payables	26,489,878.63	(1,348,049.34)	25,141,829.29	-	-	25,141,829.29
Tax payables	7,052,319.26	(183,508.88)	6,868,810.38	-	-	6,868,810.38
Other payables	38,107,695.52	(5,371,923.07)	32,735,772.45	-	-	32,735,772.45
Non-current liabilities repayable within one year	7,300,000.00	(3,824,554.20)	3,475,445.80	-	-	3,475,445.80
Total current liabilities	520,419,032.75	(20,485,438.39)	499,933,594.36	-	-	499,933,594.36
Non-current liabilities						
Long-term borrowings	316,700,000.00	(67,700,000.00)	249,000,000.00	-	-	249,000,000.00
Long-term payables	5,459,345.33	-	5,459,345.33	-	-	5,459,345.33
Deferred incometax liabilities	2,144,850.61	-	2,144,850.61	-	(1,093,669.13)	1,051,181.48
Other non-current liabilities	53,863,415.53	(33,084,118.15)	20,779,297.38	-	-	20,779,297.38
Total non-current liabilities	378,167,611.47	(100,784,118.15)	277,383,493.32	-	(1,093,669.13)	276,289,824.19
Total liabilities	898,586,644.22	(121,269,556.54)	777,317,087.68	-	(1,093,669.13)	776,223,418.55

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVIII. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Reconciliation of net profit and shareholders' equity from HK GAAP to PRC Accounting Standards (Continued)

(2) Reconciliation of equity as at 31 December 2009 (Continued)

	Under HK GAAP (note 1)	Prior period adjustments (Note 2)	Under HK GAAP (Restated)	Difference of HK GAAP and PRC Accounting Standards		Under PRC Accounting Standards
				Share of loss by minority shareholders	BOT Project (Note 4)	
Shareholders' equity						
Share capital	62,738,187.20	-	62,738,187.20	-	-	62,738,187.20
Capital reserve	30,308,863.03	-	30,308,863.03	-	5,167,697.50	35,476,560.53
Surplus reserve	74,226,572.46	-	74,226,572.46	-	(3,067,479.62)	71,159,092.84
Undistributed profits	460,176,840.86	(6,844,647.33)	453,332,193.53	9,590,495.04	(5,423,548.59)	457,499,139.98
Exchange difference on translation of financial statements denominated in foreign currency	542,189.21	1,078.01	543,267.22	-	-	543,267.22
Equity attributable to shareholders of the Company	627,992,652.76	(6,843,569.32)	621,149,083.44	9,590,495.04	(3,323,330.72)	627,416,247.77
Minority interests	169,484,974.38	(25,549,925.95)	143,935,048.43	(9,590,495.04)	(925,425.89)	133,419,127.50
Total shareholders' equity	<u>797,477,627.14</u>	<u>(32,393,495.27)</u>	<u>765,084,131.87</u>	<u>-</u>	<u>(4,248,756.61)</u>	<u>760,835,375.27</u>
Total liabilities and shareholders' equity	<u>1,696,064,271.36</u>	<u>(153,663,051.81)</u>	<u>1,542,401,219.55</u>	<u>-</u>	<u>(5,342,425.73)</u>	<u>1,537,058,793.82</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

(Unless otherwise stated, the amounts in the notes to financial statements are expressed in RMB)

XVIII. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Reconciliation of net profit and shareholders' equity from HK GAAP to PRC Accounting Standards (Continued)

(2) Reconciliation of equity as at 31 December 2009 (Continued)

Note:

1. The financial statements prepared under HK GAAP have been reclassified to confirm with the presentation of current year.
2. Details of prior period adjustments for accounting errors are set out in Note V.3.
3. According to "Hong Kong Accounting Standards No. 27 - Consolidated and Separate Financial Statements" effective for the accounting period beginning 1 January 2010, the minority shareholders should share the loss of the subsidiary even if this results in the minority interests having a deficit balance. This requirement is to be applied prospectively. However, according to the Explanatory Note No. 4, such accounting policy has to be applied retrospectively. Accordingly, the financial statements prepared under the PRC Accounting Standards are adjusted to increase the profit attributable to the shareholder of the Company for the year ended 31 December 2009 by RMB2,634,409.03 and reduce the profit attributable to minority shareholders by the same amount; and to increase the undistributed profits of the Group as at 1 January 2009 by RMB6,956,086.02 and as at 31 December 2009 by RMB9,590,495.04 and reduce the minority interests by the same amount.
4. According to the accounting policy adopted for preparing the financial statements under HK GAAP, revenue and cost are recognised for BOT projects at their fair value during the course of construction. When the construction is completed, the cost, being the fair value previously recognised, is amortised over their economic useful life. However, under the PRC Accounting Standards, no revenue and cost are recognised for the BOT projects which are constructed by sub-contractors. These projects are recorded under construction in progress at the actual cost incurred during the course of construction. When the construction of the projects is completed, they are transferred to as intangible assets and amortised over the estimated useful life. The BOT projects of the Group are constructed by sub-contractors, accordingly, the financial statements prepared under the PRC Accounting Standards are adjusted to decrease the operating revenue for the year ended 31 December 2009 by RMB56,454,152.00, cost of operations by RMB52,079,475.00, net profit by RMB3,281,007.38, intangible assets by RMB5,342,425.73 and to increase deferred income tax liabilities by RMB1,093,669.13.
5. Should the financial statements of the Group for the year ended 31 December 2010 still be prepared under HK GAAP, the profit attributable to shareholders of the Company will be RMB156,647,114.56, which is RMB791,132.00 more than that prepared under the PRC Accounting Standards. The difference is mainly arising from the changes in fair value of the BOT projects which are not recognised under the PRC Accounting Standards.

XIX. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 18 March 2011.

Dongjiang Environmental Company Limited

18 March 2011