



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)

ANNUAL REPORT

2011

\* For identification purposes only

## CONTENTS

CORPORATE INFORMATION	2
FINANCIAL SUMMARY	3
CHAIRMAN'S STATEMENT	4
MANAGEMENT DISCUSSION AND ANALYSIS	6
MANAGEMENT PROFILE	16
DIRECTORS' REPORT	19
SUPERVISORY COMMITTEE'S REPORT	28
CORPORATE GOVERNANCE REPORT	29
REPORT OF THE AUDITORS	35
CONSOLIDATED BALANCE SHEET	37
BALANCE SHEET OF THE COMPANY	39
CONSOLIDATED INCOME STATEMENT	41
INCOME STATEMENT OF THE COMPANY	42
CONSOLIDATED CASH FLOW STATEMENT	43
CASH FLOW STATEMENT OF THE COMPANY	45
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	47
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY	49
NOTES TO FINANCIAL STATEMENTS	50

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

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

## NON-EXECUTIVE DIRECTORS

FENG Tao (*Vice-chairman*)  
FENG Bo  
SUN Ji Ping

## INDEPENDENT NON-EXECUTIVE DIRECTORS

YE Ru Tang  
HAO Ji Ming  
WANG Ji De

## SUPERVISORS

YUAN Wei  
CAI Wen Sheng  
LIU An

## COMPANY SECRETARY

LO Wah Wai, *HKICPA, AICPA*

## AUDIT COMMITTEE

WANG Ji De (*Chairman*)  
YE Ru Tang  
HAO Ji Ming

## REMUNERATION AND APPRAISAL COMMITTEE

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

## 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 CO., LTD.

## 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  
Tesbury Centre  
28 Queen's Road East  
Wanchai  
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  
The People's Republic of China

## COMPANY HOMEPAGE

<http://www.dongjiang.com.cn>

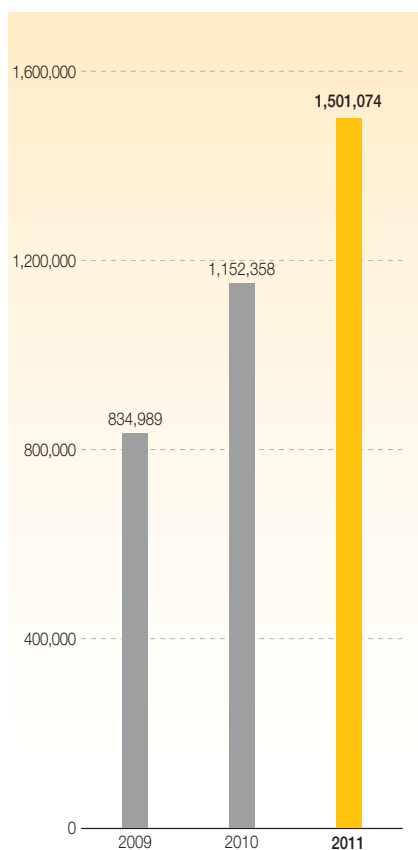
## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

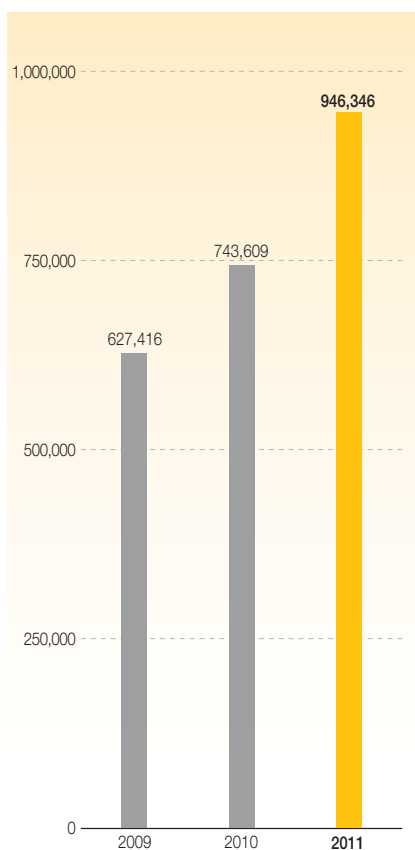
# FINANCIAL SUMMARY

	2011	2010	2009	2008	2007
	RMB'000	RMB'000	(Restated) RMB'000	(Restated) RMB'000	(Restated) RMB'000
<b>Result</b>					
Total operating revenue	<b>1,501,074</b>	1,152,358	834,989	731,440	672,836
Gross profit	<b>522,685</b>	402,322	290,059	321,809	296,562
Gross profit ratio	<b>34.82%</b>	34.91%	34.74%	44.00%	44.08%
Net profit attributable to shareholders of the Company	<b>203,725</b>	155,856	108,315	114,442	143,844
<b>Financial position</b>					
Total assets	<b>1,983,716</b>	1,782,077	1,537,059	1,016,631	700,709
Total liabilities	<b>934,033</b>	943,247	776,223	371,680	262,921
Minority interests	<b>103,338</b>	95,221	133,419	125,842	34,067
Equity attributable to shareholders of the Company	<b>946,346</b>	743,609	627,416	519,109	403,721

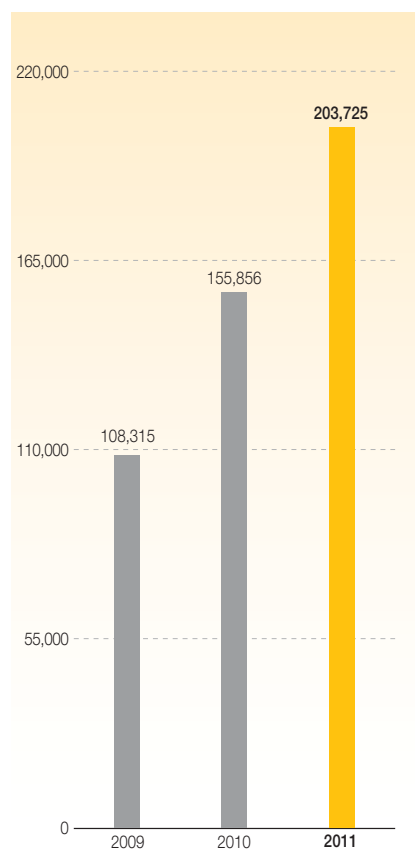
**Total operating revenue**  
RMB'000



**Equity attributable to shareholders of the Company**  
RMB'000



**Net profit attributable to shareholders of the Company**  
RMB'000



# CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Director") of Dongjiang Environmental Company Limited\* (東江環保股份有限公司) (the "Company"), I would like to present the consolidated audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

## REVIEW

2011 was the first year for China to implement its 12th Five-Year Plan. The Chinese government issued a series of framework documents on environmental protection policy such as the 12th Five-Year Plan on National Environmental Protection, in directing the future development of environmental protection industry. In December 2011, the Seventh National Conference on Environmental Protection was convened successfully. In this conference, it is expecting to implement tasks of energy saving and emission reduction in all provinces and cities. At the same time, a series of industrial planning and supporting policies, which will really benefit industrial development will be introduced. The Group fully grasped the good opportunity for industry development, strived to drive technical innovation, actively expanded businesses and market layout, enhanced operating capability and efficiency, optimized product structure and maintained the sound and stable growth momentum.

For the year ended 31 December 2011, the Group's total operating revenue was increased by approximately 30.26% to RMB1,501,074,353 as compared to that in 2010, and the net profit attributable to the shareholders of the Company increased by approximately 30.71% to RMB203,725,280 as compared to that in 2010.

In 2011, industrial waste treatment business of the Group has an ideal development. Through constant strengthened market expansion strategies, the market position of the business in Guangdong Province was further consolidated and enhanced and we expanded to regions with developed industry such as central China and Yangtze River Delta. The Group's industrial waste treatment bases which have been in operation maintained stable operation and outperformed in respect of improvement in treatment capability, technical upgrade and product diversification. Among others, many bases significantly improved treatment capability and efficiency through technical upgrade and process transformation. According to the Group's development strategies on diversification and high-end trend of products, various bases vigorously boosted adjustment of product structure and realized production linkage of many kinds of copper salt products and industrialization of high value-added products.

In addition, the Group made great effort in constructing industrial waste treatment infrastructure. Among others, the North Guangdong Hazardous Center's synthetic utilization project of water granulated slag has entered into the pilot production stage. Leveraging on this project, the Group had successfully expanded into the comprehensive utilization of tailing and slag from heavy metal mining. Meanwhile, Phase 1 of Qingyuan Worn-Out Electric and Appliances Disassembly and Comprehensive Utilization Base has been completed and will be in operation soon. In new projects development, the Group focused on status of hazardous waste treatment and disposal projects in regions such as Jiangmen, West Guangdong and Hubei province and vigorously developed environmental engineering services in Yangtze River Delta to perfect regional layout.

In 2011, the Group continued to implement the operating strategy of "Using the Experience of One Point to Promote Business in the Entire Area" to consistently develop municipal waste treatment business and focus on building the brand name of "Dongjiang". The operation and management of Xiaping Domestic Waste Sanitary Landfill have been conducted successfully and currently we have formed standardized operating model and proficient management team. Shaoyang Domestic Waste Sanitary Landfill which is the first landfill constructed by the Group using Built-Operation-Transfer model has been put into trial operation during the year.

In the field of renewable energy, the existing Xiaping Landfill Gas Comprehensive Utilization Project comprehensively enhance collection rate and power generation efficiency of landfill gas through improvement of technology and operating model. The newly-built projects of Shenzhen Laohukeng and Qingdao Xiaojianxi also have been completed and in operation. In addition, the Comprehensive Treatment Demonstration Project of Construction Waste in Kunming has completed construction and equipment installation and it's expected to put into trial operation in the first half of 2012. Putting these projects into production of successively will provide financial performance basis for the subsequent development of municipal waste treatment business.

At the same time, we are pleased to see that the overall technology research and development of the Group has made a great progress. The Technology and Research Department of the Group has conducted many research projects and industrialized many research achievements during the year. The research project "Municipal Technologies and Equipments of Anaerobic Digestion of Sludge and Safe Operation in Southern Regions" applied by the Group as principal was listed in the first batch of national research topics for the 12th Five-Year Plan. In addition, the Group successfully won the bid of "The Collaborated Research of the Treatment Strategy for Polluted Sediment in Shenzhen River-the Laboratory Experiment for On-site Solidification/Stabilization Treatment Technology". It will bring a opportunity for the Group in the business of river sediment treatment in future. Meanwhile, the Group has initiated the construction of research and development ("R&D") pilot base. With the completing the construction of the pilot base, it will be used as a technology incubator to transform the research achievement into production, as will upgrade the and optimize the entire production structure and development of the Group.

In corporate development, the application of the A share issue of the Group has passed the review of China Securities Regulatory Commission. In 2012, the Group will continue the A share issue and related work.

### OUTLOOK

Energy saving and environmental protection industry will still be one of the emerging industries in China with best prospects. In accordance with the 12th Five-Year Plan on National Environmental Protection, during the period of the 12th Five-Year Plan, total emission of priority pollutants shall decrease significantly, heavy metal pollution shall be effectively controlled and investment demand for energy saving and environmental protection industry in the whole society shall amount to RMB3.4 Trillion.

In front of historic development opportunities arising from rapid growth of China environmental protection industry, the Group will consistently focus on the development strategies of our core business, waste treatment and resource recovery. We will continue to integrate our resource and adhere to the development strategy of combining the increase of market share with the expansion of production capacity. We will prepare for the overall upgrade of technology, industry and concepts, rapid growth of corporate performance with multiple engines to create the best returns to our shareholders.

### 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")

7 February 2012

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

2011 was the beginning year of the 12th Five-Year Plan implemented by China. The Chinese government continued to adjust economic structure and transform economic development modes. During this year, a series of framework documents on environmental protection such as the “12th Five-Year Plan on National Environmental Protection”, the “Opinions on Further Strengthening the Treatment of Urban Domestic Wastes”, the “Opinions on Further Strengthening the Supervision of Hazardous Wastes and Medical Wastes” and the “12th Five-Year Plan on Comprehensive Prevention of Heavy Metal Pollution” were issued; the Seventh National Environmental Protection Conference held smoothly and environmental protection industry faced the best development opportunity.

In 2011, the Group maintained continuous and stable growth in its various businesses through persistent innovation, active expansion of upstream markets, adjustment of product structure and strengthening exploration of potential waste value. For the year ended 31 December 2011, the Group’s total operating revenue was increased by approximately 30.26% to RMB1,501,074,353 as compared to that in 2010, and the net profit attributable to the shareholders of the Company was increased by approximately 30.71% to RMB203,725,280 as compared to that in 2010.

## 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 2011, the Group continued to expand in the solid waste market, and put forth effort to optimize and upgrade the structure of recycled products, as a result, the industrial waste treatment business realized sustainable development. For the year ended 31 December 2011, this business recorded an operating revenue of RMB1,185,008,417, representing an increase of approximately 46.35% as compared to that in 2010.

In 2011, the Group’s industrial waste treatment bases which have been in operation maintained stable operation and outperformed in respects of improvement in treatment capability, technical upgrade and product diversification.

### *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. In 2011, through technical renovation and modification of the process lines, Shajing Treatment Base further enhanced the recycling and treatment capacity of copper-containing wastes and implemented production complex of copper sulphate in feed-grade and electroplating-grade and copper oxide used for fireworks manufacture as well as basic copper chloride. Meanwhile, treatment capacity of 8,000 tons per year for waste copper clad laminates was established through the built of automatic recycling facilities. The sludge dehydration efficiency and copper products recovery rate were improved through the improvement of the facilities in sludge volume reduction and ion exchange equipment. In addition, financial gain was achieved by actively exploiting the potential value in the waste recycling and treatment processes, by analyzing the precious metals, such as gold and silver in metals containing sludge derived from the copper containing wastewater and physico-chemical treatments. For the year ended 31 December 2011, Shajing Treatment Base achieved an operating revenue of RMB526,971,272, representing an increase of approximately 45.76% as compared to 2010.

### *Dongjiang Heritage TBCC Project*

Dongjiang Heritage TBCC Project is a resource recovery project jointly developed by the Group and Heritage Technologies, LLC, which adopted U.S. advanced technology to produce a new recycled chemical, tri-basic copper chloride (“TBCC”). TBCC has been certified by China Ministry of Agriculture as a new type of feed additive for copper supplement, with benefits of a high bioavailability, low vitamin loss rate through oxidation, good miscibility with feeds and low impact on environment. Currently, the project is the second TBCC



production line in the world. In 2011, the project maintained continuous and stable production and product quality has been improved continuously. The production realized steady growth through continuous perfection of processes of TBCC production. In November 2011, the project obtained certificates of the two quality systems, FAMI-QS (A quality system conform with European Regulation on Feed Hygiene) and HACCP (Hazard Analysis & Critical Control Points) which laid a foundation for marketing this product in European Union and South America. For the year ended 31 December 2011, 4,100 tons of TBCC were sold with revenue of RMB125,878,688, representing an increase of approximately 24.17% as compared to 2010.

### *Huizhou Treatment Base*

Huizhou Treatment Base is an industrial waste treatment base invested and built by the Group in Huizhou, Guangdong in 2002. The major operation of the base is treatment of industrial wastes including copper containing waste etchant, heavy metal-containing sludge and high concentration industrial waste water and production of recycled products including copper sulfate, basic copper chloride and nickel sulfate. In 2011, Huizhou Treatment Base aggressively expanded market, strictly controlled cost and effectively overcome the impacts of price fluctuation in raw material market. In addition, both of the recovery rate of copper salt products and the treatment efficiency of high-concentration industrial waste water were steadily improved through continuous technology upgrade and process renovation, as set a solid foundation for annual revenue growth. For the year ended 31 December 2011, Huizhou Treatment Base recorded an operating revenue of RMB20,695,155 in solid waste treatment, representing an increase of approximately 40.40% as compared to 2010.

### *Kunshan Treatment Base*

Kunshan Treatment Base is an industrial waste treatment base invested by the Group in Kunshan, Jiangsu, a selected location based on national business development strategy. The major operation of the base is treatment of industrial wastes including copper containing waste etchant, tin-stripping liquid waste and nickel containing liquid waste, and production of recycled products including copper sulfate, copper oxide and semi-finished product of nickel salt. In 2011, the expansion project of copper-containing waste treatment facilities of Kunshan Treatment Base was completed and passed acceptance inspection, as well as successfully received permit of expansion for business scope in hazardous wastes. The collection volume and treatment volume of wastes are increased in same pace. Meanwhile, product structure was adjusted towards high-end direction. The annual production capacity of electroplating-grade copper sulfate and electroplating-grade copper oxide amounted approximately 2,400 tons and 1,200 tons respectively. For the year ended 31 December 2011, Kunshan Treatment Base recorded an operating revenue RMB339,808,379, representing an increase of approximately 55.45% as compared to 2010.

### *Guangdong Integrated Hazardous Waste Treatment Demonstration Center*

As a hazardous waste treatment center invested and built in Huizhou jointly by 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 Inert Wastes Treatment Facilities. In 2011, the Demonstration Center obtained certificates for ISO9000, ISO14000, OHSAS18000 and SA8000, treated a total 69,129 tons of wastes, representing an increase of approximately 57.39% as compared to that in 2010.



## MANAGEMENT DISCUSSION AND ANALYSIS

In 2011, the Group actively boosted construction of infrastructure of industrial waste treatment. The latest progress of planned projects and projects under construction are as follows:

### *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 a 2-year construction period) in 2009. Covering an area of 145,000 square meters, the base's planned construction facilities included physics/chemical treatment workshop, stabilization/solidification treatment and safety landfill disposal workshop, and may annually treat of approximately 19,350 tons of hazardous wastes. In 2011, the construction of the base proceeded well. Currently, the engineering has come to the end. The next stage will be focusing on completing assignments such as acceptance of works and it is expected that the base can be put into full operation by the end of 2012.

### *The North Guangdong Hazardous Waste Treatment and Disposal Center*

The North Guangdong Hazardous Waste Treatment and Disposal Center (the "North Guangdong Hazardous 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. In 2011, the North Guangdong Hazardous Center's synthetic utilization project of water granulated slag has entered into the pilot production stage. After the project achieved the design capacity, it can treat 200,000 tons of water granulated slag annually. The second-phase construction has completed environmental impact assessment ("EIA") and is conducting preliminary procedures such as project approval. Construction is expected to commence in the second half of 2012. The second phase of the engineering includes main parts such as comprehensive utilization workshop, physical/chemical treatment workshop, stabilization/solidification workshop, incineration disposal workshop and safe landfill and intends to treat and dispose of 41 types of hazardous wastes such as waste mineral oil, copper wastes, wastes containing chromium, zincous wastes and smelting wastes of non-ferrous metals.

### *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. In 2011, the first-phase construction has built six processing lines including a printed circuit board treatment line, a refrigerator disassembling line, a television disassembling line, an air conditioner disassembling line and a glass cleaning line and it is conducting acceptance procedures of works. It's expected to put into operation in the first half of 2012. 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, another worn-out electric appliance disassembly and comprehensive utilization project of the Group located in Hubei Province was executing preliminary work of projects for construction currently.

## **Municipal Waste Treatment**

Municipal waste treatment is 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. Through innovation on the mix of business, 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. In 2011, all projects of the municipal waste treatment were well under way. For the year ended 31 December 2011, this business recorded an operating revenue of RMB163,041,825, representing an increase of approximately 7.68% as compared to that in 2010.

## *Domestic Waste Treatment*

In 2011, the operation and management project of Xiaping Domestic Waste Landfill (“Xiaping Landfill”) undertaken by the Group operated smoothly and achieved an operating revenue of RMB35,704,911. The Group also successfully won bids of the projects such as bad smell control and deep treatment of percolate in Xiaping field during Shenzhen Universiade. In addition, Shaoyang Domestic Waste Sanitary Landfill, the first landfill constructed in Built-Operation-Transfer (“BOT”) model by the Group, has been put into trial operation in the second half of 2011. It treated domestic wastes of 40,884 tons and achieved a revenue of RMB7,667,800 for the year ended 31 December 2011.

## *Municipal Sludge Treatment*

In October 2008, the Group constructed and operated the project of Shenzhen Xiaping sludge modified solidification treatment plant in BOT model. The project adopted the treatment process “modified solidification plus landfill” to treat municipal sludge arising from sewage plants in Shenzhen City with daily treatment capacity of 700 tons. In order to further enhance the treatment level of the project, the Group conducted the expansion of relocation and technical transformation on the project after negotiation with relevant government authorities. The expansion project is expected to be completed in 2012. Being impacted by this, the sludge treatment capacity of the project in 2011 decreased by approximately 50% as compared to that in 2010 to 153,000 tons and the project achieved a revenue of RMB40,614,350. In addition, the Group undertook the operation of emergency works of Shenzhen Fuyong Sludge Treatment Plant (Phase 1) in September 2011 and averagely treated approximately 200 tons of sludge per day.

## *Construction Waste Treatment and the Recycling*

In 2011, the Comprehensive Treatment Demonstration Project of Construction Waste in the Western Area of Kunming implemented by the Group proceeded well and has completed civil engineering and equipment installation, and is expected to put into commissioning in the first half of 2012. 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.

## *Renewable Energy Utilization and Clean Development Mechanism (“CDM”) Project*

In 2011, the Group was proceeding well with projects of renewable energy utilization and CDM. Shenzhen Xiaping Landfill Gas Power Comprehensive Utilization Project maintained stable operation and the average in-grid rate of power generation sets was up to 87%, representing an increase of 7% as compared to that in 2010. Its in-grid electricity volume for the year ended 31 December 2011 amounted to approximately 55.6 million KWh, achieved an operating revenue of RMB34,481,114. The landfill gas power generation and CDM project of the Qingdao Xiaojianxi Domestic Waste Landfill (“Qingdao Project”) smoothly passed acceptance and was put into operation during the year. Its in-grid electricity volume amounted to approximately 20.8 million KWh and realized an operating revenue of RMB5,991,688. Meanwhile, the project has obtained approval for preferential in-grid tariff and certified selling price of electricity is RMB0.5940 per KWh (tax included).

The landfill gas power generation and CDM project of the Shenzhen Laohukeng Domestic Waste Landfill (“Shenzhen Laohukeng Project”) was put into trial operation in March 2011 and three sets of power generating units started generate power in full capacity in December 2011. For the year ended 31 December 2011, the project sold electricity of approximately 11,000,000KWh and realized an operating revenue of RMB6,689,561. Relevant CDM project has been successfully registered with the United Nations (“UN”) in July 2011, and currently it has completed the first monitoring plan for emission reduction and laid a good foundation for reduction verification for the first phase.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Environmental Engineering and Services

To cope with the development of a full-functional environmental service platform, the Group actively expanded its 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 EIA and environmental inspection.

In 2011, while grasping quality and efficiency of services, environmental engineering and service business also focused on building corporate brand externally and actively exploited external market. The business established efficient and practical operation and management mechanism and achieved outstanding performance through optimizing workflows and strengthening service awareness. As of 31 December 2011, the business achieved an operating revenue of RMB108,056,429, representing an increase of approximately 1.15% as compared to that in 2010.

### *Environmental Engineering Services in Construction, Operation and Consultancy*

The Group performed 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 a subsidiary named Beijing Novel Environmental Protection Co., Ltd. (“Novel Environmental Protection”). In order to respond to the trend of structure transformation and upgrade of Shenzhen City, the Group’s Shenzhen Engineering Service Branch actively conducted improvement and innovation of technical process and implemented the scientific research project “new treatment process of waste water containing ammonia nitrogen from manufacture of printing circuit boards”. The project adopted the latest treatment process to provide solutions for the problem of the treatment of low-concentration industrial waste water containing ammonia nitrogen.

In 2011, Novel Environmental Protection further consolidated marketing activities and better controlled over various costs. Its business growth met expectation and newly contracted value reached RMB76 million through reasonable planning and resource distribution. For the year ended 31 December 2011, Novel Environmental Protection achieved an operating revenue of RMB64,972,180, representing an increase of approximately 24.44% as compared to 2010.

### *Environmental Inspection Services*

Shenzhen Huabao Technology Co., Ltd. (深圳市華保科技有限公司) (“Huabao”), a subsidiary of the Group, was an inspection agency specializing in analysis and testing services. In 2011, Huabao Technology further enhanced quality and efficiency of inspection through various work such as innovation and improvement of operation and management system, specification of technical details and intensification of service awareness. It actively participated in environmental supervision of the 26th Summer Universiade held in Shenzhen and expanded business from Shenzhen region to various areas such as Zhuhai, Huizhou, Qingyuan and Meizhou. Huabao Technology completed nearly 50,000 inspection units in total and its brand and image has been highly recognized by the industry and governmental departments.

## Research and Development (“R&D”)

To implement the transformation of the Group’s business mode from “resource oriented” to “technology oriented”, and to further emphasize the strategic importance of technology development, the Group established the Technical Research & Development Department in 2010 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 2011, the Technical Research & Development Department completed 4 patents application which presented in 2010 with satisfied responses to actual review and presented 8 new patent applications, and all of them have been accepted by relevant authorities. The Group has 4 additional technology achievements

passed evaluations, and 8 projects approved and supported by the government. Meanwhile, the Group has initiated the construction of pilot scale R&D facility. With the completion of the facility, the corporate is able to eliminate technical bottleneck and to use the facility as technology incubator to overcome technical issues, such as weak technical force, small construction scale and lack of facilities, thus accelerating the comprehensive optimization and upgrade of industrial structure of the Group.

In 2011, through a research center co-founded with Tsinghua University, the Group conducted comprehensive collaboration focusing on technologies of solid waste treatment and disposal, and of heavy metals recycling; and has participated in the national 863 research project “Demonstration for Electronic-Wastes Management and Pollution Control in Macao”. Teamed with Tianjin University, Tongji University and other institutes, the Company jointly initiated several special topics of national science and technology support plan in the national 12th Five-Year Plan, among which the topic “Municipal Technologies and Equipments of Anaerobic Digestion of Sludge and Safe Operation in Southern Regions” mainly declared by the Company was listed as one of the first batch of national research topics for the National 12th Five-Year Plan. In addition, the Group successfully won the bid of Shenzhen-Hong Kong cooperation research proposal, “The Collaborated Research of the Treatment Strategy for Polluted Sediment in Shenzhen River—the Laboratory Experiment for On-site Solidification/Stabilization Treatment Technology”. The success of this study will make significant progress in the business of river sediment treatment in future for the Group.

## Corporate Development

In order to improve the corporate image and recognition of the Group and expand financing channels while strengthening integrated competition capability of the Group, the Board proposed to apply for issuing A shares in China in September 2010 and has passed issuance approval by the China Securities Regulatory Commission in December 2011. In 2012, the Group will continue advance the related follow-up work for listing and issuance of A shares.

## FINANCIAL REVIEW

### Total Operating Revenue

For the year ended 31 December 2011, the Group’s total operating revenue increased by approximately 30.26% to RMB1,501,074,353 (2010: RMB1,152,358,350) as compared to the corresponding period in 2010. The increase was mainly due to the proactive expansion of various businesses of the Group by keep seizing the opportunities arising from the rebound of the economy of China. The operating revenue arising from business of industrial waste recycling was increase by 52.76% to RMB1,036,310,111 (2010: RMB678,413,051) as compared with that in 2010 was attributable to the rise in the output, sales and price of recycled products. As for renewable energy utilization business, the operating revenue recorded an increase of 53.27% to RMB47,145,227 (2010: RMB30,760,458) as compared to that in 2010, due to the Shenzhen Laohukeng Project and Qingdao Project commenced operation, and the sufficient supply of the landfill gas for the projects.

### Profit

For the year ended 31 December 2011, the Group’s gross profit was increased by approximately 29.92% to RMB522,684,920 (2010: RMB402,321,759). Among which, the gross profit from the industrial waste recycling recorded an increase of approximately 48.57% to RMB344,993,351 (2010: RMB232,211,939), while the gross profit from business of Renewable Energy Utilization recorded an increase of approximately 66.31% to RMB17,659,127 (2010: RMB10,618,512).

For the year ended 31 December 2011, the Group’s gross profit margin was approximately 34.82% (2010: approximately 34.91%).

## MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2011, net profit attributable to shareholders of the Company increased by approximately 30.71% to RMB203,725,280 (2010: RMB155,855,983). The increase was mainly because of the Group's existing waste treatment bases and projects were running well with business volume rising steadily, while the Group continued to strength its control of the procurement and production cost as well as various expenses.

### Selling Expenses

For the year ended 31 December 2011, the Group's selling expenses was RMB56,397,850 (2010: RMB35,531,956), representing approximately 3.76% (2010: approximately 3.08%) of the total operating revenue. The increase in selling expenses was mainly due to active market expansion of the Group and the growth of overall business volume.

### Administrative Expenses

For the year ended 31 December 2011, the Group's administrative expenses was RMB179,152,888 (2010: RMB154,541,421), representing approximately 11.93% (2010: approximately 13.41%) of the Group's total operating revenue. The increase in administrative expenses was mainly due to continuous increase in investment in research and development by the Group. In addition, events including the increase in number of staff due to business expansion, and continuous inflation within the PRC also gave rise to the increase in administrative expenses.

### Finance Costs

For the year ended 31 December 2011, the Group's finance cost was RMB19,641,288 (2010: RMB22,168,813), representing approximately 1.31% (2010: approximately 1.92%) of the Group's total operating revenue. The decrease in financial expense was mainly because the Group cut down the bank loans to reduce funding cost and control financial risk in light of the intensifying national macro control and the increase in bank loan interest rates.

### Income Tax Expenses

For the year ended 31 December 2011, the Group's income tax expenses was RMB37,468,454 (2010: RMB32,685,894), representing approximately 14.60% of the Group's total profit before tax (2010: approximately 16.60%). 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 2011, the Group had net current assets of RMB371,384,090 (2010: RMB160,476,582), including cash and cash equivalent of RMB235,813,762 (2010: RMB174,236,578).

As at 31 December 2011, the Group's total liabilities was RMB934,032,866 (2010: RMB943,247,244). The Group's gearing ratio was approximately 47.09% (2010: approximately 52.93%) which is calculated based on the Group's total liabilities and total assets. The current liabilities of the Group was RMB501,942,283 (2010: RMB651,609,803). As at 31 December 2011, the Group had outstanding bank loans of RMB525,987,269 (2010: RMB666,037,342).

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

## SUBSTANTIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

In April 2011, the Company disposed of its entire 50% equity interest in Huizhou Huiyang Shuangxin Cement Company Limited (惠州市惠陽雙新水泥有限公司) ("Shuangxin Cement"), its then jointly controlled entity, with the consideration of RMB33,000,000. The reason for disposal is that the original plan of investment in Shuangxin Cement, which was utilizing the traditional cement production facilities to treat waste, has not been implemented as expected.

In September 2011, the Company invested RMB2,000,000 to establish a wholly-owned company, namely Shenzhen Dongjiang Environmental Products Trade Co., Ltd..

In November 2011, the Company invested RMB16,800,000 to the registered capital of Qingyuan Dongjiang Environmental Technology Co.,Ltd., the subsidiary 100% owned by the Company, with the land use right amounting to a market value of RMB13,040,000 and cash of RMB3,760,000, respectively.

Save as disclosed in this report, the Group does not have any substantial investments, acquisitions and disposals of subsidiaries, jointly controlled entities 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 any expected material risk, the management will consider taking any necessary actions.

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 on the fluctuation of the benchmark interest rate announced by the People's Bank of China generated from the Group's borrowings in RMB.

### Foreign Exchange Risk

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## PLEDGE OF ASSETS

At at 31 December 2011, certain assets of the Group were pledged to secure bank borrowings and letter of credit facilities granted to the Group, as follows:

	<b>2011</b>	2010
	<b>RMB</b>	RMB
Fixed assets	<b>7,100,006</b>	15,893,000
Intangible assets-land use rights	-	2,736,000
Inventories	-	107,900,000
Total	<b>7,100,006</b>	126,529,000

## INFORMATION ON EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the number of full-time employees stood at 2,209 (2010: 1,960) with a total staff cost of RMB132,700,064 (2010: RMB110,373,558). The Group offered continual training, remuneration package of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

## CONTINGENT LIABILITIES

During the year, the Group provide financial guarantee of RMB49,500,000 (2010: RMB31,400,000) to banks for securing banking facilities granted to the jointly controlled entity, Huizhou Dongjiang Veolia Environmental Services Company Limited. The maximum amount utilized during the year was RMB40,000,000 (2010: RMB33,900,000). As at 31 December 2011, the amount utilized was RMB40,000,000 (2010: RMB33,900,000).

Due to the existing method of collection and processing of industrial waste 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.

Save as disclosed above, the Group had no significant contingent liabilities at 31 December 2010 and 2011.

## Capital Commitments

As at 31 December 2011, the capital commitments of the Group are as follow:

	<b>2011</b>	2010
	<b>RMB</b>	RMB
Construction in progress	<b>21,723,299.66</b>	28,335,880.38
Intangible assets		
– Built-Operation-Transfer (BOT) Projects	<b>21,189,110.00</b>	88,809,004.20
Intangible assets – land	<b>31,146,659.00</b>	-
Sub-Total	<b>74,059,068.66</b>	117,144,884.58
Acquisition of equipment	<b>17,354,389.66</b>	26,617,102.60
Total	<b>91,413,458.32</b>	143,761,987.18



## FUTURE PROSPECTS

Energy conservation and environmental protection is still one of the emerging industries in China with the best development prospects in future. On 15 December 2011, the 12th Five-Year Plan of National Environmental Protection was introduced. In accordance with the plan, during the period of the 12th Five-Year Plan, total emission of major pollutants shall decrease significantly, heavy metal pollution shall be effectively controlled and investment demand for energy conservation and environmental protection industries in the whole society shall amount to RMB3.4 Trillion.

In front of the historic development opportunities arising from rapid growth of China environmental protection industry, the Group will stand on its development strategy of keep focusing on, waste treatment and recycling as its core business, leveraging on the strength of the complete industry chain to develop a full-service platform in solid waste treatment combining waste treatment and disposal, value-added resource recovery and environment engineering services businesses to achieve leapfrog development.

In the coming year, the Group will strengthen its efforts in market expansion, optimize customer structure, implement customer value management, improve of customer service quality, reinforce establishment of business channels and management of refined and specialized markets. The Group will develop its business on treatment of new type of waste such as scraped and off-market or used circuit boards, used catalysts and waste oil sludge, promote production of high-end products, market more kinds of high valued-added new products and actively develop a comprehensive utilization model for disassembling of obsolete and old home appliance.

Following policy guidelines of the 12th Five-Year Plan on National Environmental Protection, the Group will vigorously increase investment efforts in Bohai Rim region, eastern coastal cities and mid-west industrial transfer region with its base on the Pearl River Delta. In addition, the Group will accelerate construction of projects under construction such as Qingyuan and North Guangdong, and put such projects into operation; will emphasis on tracking hazardous waste treatment and disposal projects in regions such as West Guangdong, North Hubei and Jiangmen; and will vigorously developed environmental protection engineering service business in Yantze River Delta Region to enable such business exert synergy as soon as possible.

During the 12th Five-Year Plan, following the reform of environmental duties and dues, and the maturity of marketization and of franchising system, the implementation of preferential tax policies and the enhancement of imposition level of treatment fee, the markets for treatment and operation services of municipal waste, wastewater and sludge will develop rapidly. The Group will put additional efforts on expanding its business scope of municipal solid waste treatment, mainly focus on treatment, disposal and recycling projects of domestic waste, restaurant-kitchen waste, construction waste and municipal sludge, strive for more high-quality operation projects and build operation service brands. In addition, the Group will actively explore development models for urban environmental industrial parks and effectively improve integrated utilization ratio of waste resources.

As for technical development, the Group continuously drives upgrade and transformation of production technologies and adds value into products. The Group focuses on research on environmental restoration, especially on experimental research relating to remediation of soils contaminated by heavy metals and organic pulutants. The Group will develop and integrate a set of techniques for on-site recovery of copper-containing wastewater and extension of industrial chain, technique for deep treatment and recovery of industrial wastewater of PCB plants. The Group will strengthen the declaration and protection of technology achievements and boosted research work for national special topics of the 12th Five-Year Plan.

# MANAGEMENT PROFILE

## EXECUTIVE DIRECTORS

**Mr. Zhang Wei Yang (張維仰)**, aged 46, 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 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 45, 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 37, 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 44, is a non-executive Director and the vice-chairman of the Board. Mr. Feng Tao 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)) and Ecogreen Fine Chemicals Group Limited (listed on the Main Board of the Stock Exchange (Stock code: 2341)). He was also a director of Jiangsu Lianhuan Pharmaceutical Co., Ltd. (listed on the Shanghai Stock Exchange (Stock code: 600513)) and Western Mining Co., Ltd. (listed on the Shanghai Stock Exchange (Stock code: 601168)) before 22 May 2009 and 21 February 2011 respectively. Mr. Feng Tao is a brother of Feng Bo, a non-executive Director. Mr. Feng Tao was appointed as a non-executive Director on 28 November 2001.

**Mr. Feng Bo (馮波)**, aged 42, is a non-executive Director. Mr. Feng Bo was studied in College of Marin (加州摩雲大學) from 1987 to 1992. From 1997 to 2003, Mr. Feng Bo has worked as China Vest's representative in Beijing and co-founded Chengwei Ventures. Since 2004, Mr. Feng Bo has been a founding partner of Ceyuan Ventures (聯創策源基金). Mr. Feng Bo was a director of Beijing Venustech Inc. (listed on Shenzhen Stock Exchange (Stock code: 002439)) before 26 July 2011. Mr. Feng Bo is a brother of Mr. Feng Tao, a non-executive Director. Mr. Feng Bo was appointed as a non-executive Director on 8 June 2011.

**Ms. Sun Ji Ping (孫集平)**, aged 55, 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 (首都經濟貿易大學) in 2002. She worked with China Petroleum and Chemical Group Limited (中國石油化學工業部) for about three years and with Petrochina Group Limited (中國石油天然氣集團公司) for over 20 years. Ms. Sun is the senior vice president of China Venture Capital Inc. (中國風險投資有限公司). She is also a director of Jiangsu Welle Environmental Co., Ltd (listed on ChiNext of the Shenzhen Stock Exchange (Stock code: 300190)). Ms. Sun was a director of Beijing Dinghan Technology Company (listed on ChiNext of the Shenzhen Stock Exchange (Stock code: 300011)) before 27 January 2011. 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 71, 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 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 2003, and the Tenth Standing Member of the National People's Congress (全國人大常務委員會) and the Vice Director Member of the Tenth Committee of Environment and Resource Protection of the National People's Congress 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 65, 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 is a director of Hangzhou Xingyuan Filter Technology Co., Ltd. (listed on ChiNext of the Shenzhen Stock Exchange (Stock code: 300266)). Mr. Hao was appointed as an independent non-executive Director on 19 June 2008.

**Mr. Wang Ji De (王繼德)**, aged 61, is an independent non-executive Director. Mr. Wang is a Certificated Public Accountant of the PRC. Mr. Wang worked for Finance Bureau of Da Tong City in Shanxi province between 1972 to 1992. He obtained a bachelor degree from the Finance Department of Hubei Institute of Finance and Economics (湖北財經學院) in 1985, majoring in Financial Revenue. Since 1993, Mr. Wang had been serving as the Commissioner of Audit Department and the Inspector of Goods Service Tax Department in The State Administration of Taxation (國家稅務總局) of the PRC. Mr. Wang has retired, and did not hold any position in any government department currently. Mr. Wang was appointed as an independent non-executive Director on 8 June 2011.

### SUPERVISORS

**Ms. Yuan Wei (袁桅)**, aged 41, 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 funding and managing partner of South River Capital Partners (無錫江南仁 and 新能源投資管理中心(有限合伙)). Ms. Yuan was appointed as a supervisor of the Company on 28 November 2001.

## MANAGEMENT PROFILE

**Mr. Cai Wen Sheng (蔡文生)**, aged 46, 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 39, 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.

### COMPANY SECRETARY

**Mr. Lo Wah Wai (盧華威)**, aged 48, 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) in 1989, and obtained a degree of MBA in finance from Chinese University of Hong Kong. Mr. Cao has over 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 35, 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 9 years of experience in the field of investment and management.

# DIRECTORS' REPORT

The Directors present this report and the audited financial statements of the Group for the year ended 31 December 2011.

## 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 2011.

## RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 41.

## DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2011 (2010: NIL).

## 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 extraordinary general meeting ("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, with a validity period of 12 months commencing from 9 December 2010.

Furthermore, SHINEWING CERTIFIED PUBLIC ACCOUNTANTS (信永中和會計師事務所有限責任公司) ("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.

The Company has applied to the China's regulatory authorities for the proposed issue of A shares on the Shenzhen Stock Exchange, and the application has been accepted.

The validity period of the shareholders' approval for the proposed issue of A shares was extended for a period of 12 months commencing from 9 December 2011 to 8 December 2012 by the approvals of the shareholders at the third extraordinary general meeting in 2011 of the Company held on 8 December 2011, the first class meeting for holders of H Shares in 2011 and the first class meeting for holders of domestic shares in 2011 held on 8 December 2011.

## DIRECTORS' REPORT

On 16 December 2011, the Company has submitted a draft of the Prospectus to the CSRC in connection with the proposed issue of A shares. The draft of the Prospectus is not, and is not intended to be, an offer of securities of the Company for sale in Hong Kong. The Prospectus has not been and will not be registered under the Companies Ordinance (Chapter 32 of the laws of Hong Kong). On 21 December 2011, at a meeting held by the Public Offering Review Committee of the CSRC, the application for initial issue of A shares of the Company has been reviewed and passed while the formal written approval from CSRC is still pending.

Please refer to the circulars of the Company dated 13 October 2010 and 20 October 2011 and the announcements of the Company dated 20 September 2010, 9 December 2010, 28 September 2011, 8 December 2011, 16 December 2011 and 21 December 2011 for details of the aforesaid.

### CONSOLIDATED 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 of the Company 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 by the shareholders at the extraordinary general meeting 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 became effective on 20 January 2011, the board lot size of the H shares for trading on the Stock Exchange has 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 relevant procedures in relation thereto had been completed.

### DISMISSAL OF INTERNATIONAL AUDITORS

At the first EGM 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.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS AND SUPERVISORS

At the annual general meeting of the Company held on 8 June 2011, Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng have been re-elected as executive Directors, Mr. Feng Tao and Ms. Sun Ji Ping have been re-elected as non-executive Directors, and Mr. Ye Ru Tang and Mr. Hao Ji Ming have been re-elected as independent non-executive Directors. Mr. Feng Bo and Mr. Wang Ji De have also been appointed as non-executive Director and independent non-executive Director respectively. Mr. Wu Shui Qing and Mr. Liu Xue Sheng have retired as a non-executive Director and an independent non-executive Director, respectively, with effect from the conclusion of the annual general meeting. Ms. Yuan Wei and Mr. Cai Wensheng have been re-elected as supervisors (as shareholders' representatives). Mr. Liu An have been re-elected as staff representative supervisor.

**PROVISIONS OF GUARANTEES**

At the second EGM in 2011 of the Company held on 7 November 2011, it was resolved that the following guarantees in an aggregate amount of RMB481,400,000 be provided to independent third parties of the Group to secure bank facilities in an aggregate amount of RMB530,000,000 for certain subsidiaries and a jointly controlled entity of the Company:

- (i) the provision of guarantee by the Company to licensed bank(s) in the PRC against the entire facility amounting to RMB30,000,000 to be provided to Yunnan Dongjiang Environmental Technology Co., Ltd. (雲南東江環保技術有限公司), a wholly-owned subsidiary of the Company;
- (ii) the provision of guarantee by the Company to licensed bank(s) in the PRC against RMB85,500,000 out of the entire facility amounting to RMB90,000,000 to be provided to Hunan Dongjiang Environmental Investment & Development Co., Ltd. (湖南東江環保投資發展有限公司), a non-wholly owned subsidiary of the Company;
- (iii) the provision of guarantee by the Company to licensed bank(s) in the PRC against RMB45,900,000 out of the entire facility amounting to RMB90,000,000 to be provided to Huizhou Dongjiang Veolia Environmental Services Co., Ltd. (惠州東江威立雅環境服務有限公司), a jointly controlled entity of the Company;
- (iv) the provision of guarantee by the Company to licensed bank(s) in the PRC against the entire facility amounting to RMB90,000,000 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 entire facility amounting to RMB200,000,000 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; and
- (vi) the provision of guarantee by the Company to licensed bank(s) in Hong Kong against the entire facility amounting to RMB30,000,000 (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.

Please refer to the circular of the Company dated 22 September 2011 and the announcement of the Company dated 7 November 2011 for details of the aforesaid.

**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.



# DIRECTORS' REPORT

## 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 2011 are set out in the consolidated statement of changes in shareholders' equity.

## DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to approximately RMB750,701,355.81. 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 2011, sales to the Group's five largest customers accounted for 33.26% of the total sales for the year and sales to the largest customer included therein amounted to 14.37%. Purchases from the Group's five largest suppliers accounted for approximately 25.59% of the total purchases for the year and purchase from the Group's largest supplier accounted for 8.89% for the year ended 31 December 2011.

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 2011 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. Feng Bo (appointed on 8 June 2011), Ms. Sun Ji Ping and Mr. Wu Shui Qing (retired on 8 June 2011) as the non-executive Directors; Mr. Ye Ru Tang, Mr. Hao Ji Ming, Mr. Wang Ji De (appointed on 8 June 2011) and Mr. Liu Xue Sheng (retired on 8 June 2011) as the independent non-executive Directors.

The Supervisors during the year ended 31 December 2011 and up to the date of this report were: Ms. Yuan Wei, Mr. Cai Wen Sheng 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 16 to 18 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 commencing from the conclusion of the annual general meeting held on 8 June 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 2011.

Save as disclosed in this report, no contract of significance has been entered into during the year ended 31 December 2011 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.48 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

As at 31 December 2011, 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 and 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 Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity	Number and class of shares held	Percentage of equity of the Company/ shareholding in this class
Zhang Wei Yang	Beneficial owner	43,158,964 domestic shares	34.40%/48.01%
Li Yong Peng	Beneficial owner	6,385,155 domestic shares	5.09%/7.10%
Chen Shu Sheng	Beneficial owner	3,256,299 domestic shares	2.60%/3.62%

## DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2011, none of the Directors, Supervisors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2011, the following persons (other than Directors, Supervisors and chief executive of the Company) had an interest or short position in the shares and underlying shares 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 equity of the Company/ shareholding in this class
Shanghai New Margin Venture Capital Co., Ltd. (Note 1)	Beneficial owner	12,313,311 domestic shares	9.81%/13.70%
Cai Hong	Beneficial owner	5,646,437 domestic shares	4.50%/6.28%
CITIC Securities International Investment Management (HK) Limited	Investment manager	3,463,200 H shares	2.76%/9.73%
China Alpha Fund Management Limited	Investment manager	2,862,500 H shares	2.29%/8.05%
Wang Jun Yan	Beneficial owner	2,862,500 H shares	2.29%/8.05%
Edmond de Rothschild Asset Management Hong Kong Limited	Investment manager	2,493,800 H shares	1.99%/7.01%
Edmond de Rothschild Asset Management	Investment manager	2,493,800 H shares	1.99%/7.01%
Leading Environmental Solutions and Services (Note 2)	Interest of a controlled corporation	2,300,000 H shares	1.83%/6.46%
China Environment Fund 2002 Management Limited	Interest of a controlled corporation	2,300,000 H shares	1.83%/6.46%
China Environmental Fund 2002, LP	Beneficial owner	2,300,000 H shares	1.83%/6.46%
China Alpha II Fund Limited	Beneficial owner	2,158,500 H shares	1.72%/6.07%

Notes:

1. 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 Asiagrowth Investments Limited.
2. Leading Environmental Solutions and Services and China Environment Fund 2002 Management Ltd. own approximately 76.92% and 0.10% of the shares of China Environmental Fund 2002, LP, which holds 2,300,000 H shares of the Company.

Save as disclosed above, as at 31 December 2011, 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 2011, none of the Directors, Supervisors and chief executives of the Company had any rights to acquire H share of the Company.

## **DISCLOSURE OF INFORMATION ON DIRECTORS**

Pursuant to rule 13.51B of the Listing Rules, the changes of information on the Directors are as follows:

Mr. Hao Ji Ming, an independent non-executive Director, is a director of Hangzhou Xingyuan Filter Technology Co., Ltd. ("Xingyuan") since 26 December 2009. Xingyuan was listed on ChiNext of the Shenzhen Stock Exchange on 27 September 2011 and the stock code is 300266.

## **SHARE OPTION SCHEME**

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

# DIRECTORS' REPORT

## CONNECTED TRANSACTIONS

### Continuing Connected Transactions

Details of continuing connected transactions of the Group during the year ended 31 December 2011 are set out as follows:

The Company entered into a supply and purchase agreement on 29 September 2009 (the "Sales Agreement") 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 Dongilang Heritage Technologies Company), which is a 62% owned subsidiary of the Company. Heritage is therefore a connected person of the Company. The Sales Agreement constitutes a continuing connected transaction for the Company.

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

For the year ended 31 December 2011, the aggregate fees paid by Heritage Group to the Group under the Sales Agreement amounted to RMB130,954,896.

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.

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.

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 2011 did not exceed the annual cap amounts as disclosed in the relevant announcements disclosing the relevant transaction.

## Connected Transactions

During the year ended 31 December 2011, there were no connected transaction, 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.1 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 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.

## 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.

## 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 "Dismissal of International Auditors", following the Shareholders' approval at the first extraordinary general meeting in 2011 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. At the 2010 annual general meeting of the Company held on 8 June 2011 SHINEWING was re-appointed as the auditors of the Company for the year ended 31 December 2011.

ON BEHALF OF THE BOARD

**Dongjiang Environmental Company Limited\***

### **ZHANG Wei Yang**

*Chairman*

Shenzhen, Guangdong Province, the PRC

7 February 2012

*\* For identification purpose only*

# SUPERVISORY COMMITTEE'S REPORT

**To all shareholders of  
Dongjiang Environmental Company Limited\* (the "Company")**

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

On 7 February 2012, the Supervisory Committee convened a meeting, which the 2011 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

7 February 2012

*\* For identification purpose only*



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Code on Corporate Governance Practices 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 responsibilities of the chairman and chief executive officer of the Company are clearly set out in the articles of association 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.

Taking into account that Mr. Zhang Wei Yang is the founder of the Company, and his 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 2011.

## 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, half-year 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. Feng Bo and Ms. Sun Ji Ping; and three independent non-executive Directors, being Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Wang Ji De. 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 16 to 18 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 responsibility 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 20 meetings during the year. The following table shows the attendance record of individual Directors:

<b>Name of Directors</b>	<b>Attendance/Number of meetings held</b>
Executive Directors	
Mr. Zhang Wei Yang ( <i>Chairman</i> )	20/20
Mr. Chen Shu Sheng	20/20
Mr. Li Yong Peng	20/20
Non-executive Directors	
Mr. Feng Tao ( <i>Vice Chairman</i> )	20/20
Mr. Feng Bo (appointed on 8 June 2011)	12/12
Mr. Wu Shui Qing (retired on 8 June 2011)	8/8
Ms. Sun Ji Ping	20/20
Independent Non-executive Directors	
Mr. Ye Ru Tang	20/20
Mr. Hao Ji Ming	20/20
Mr. Wang Ji De (appointed on 8 June 2011)	12/12
Mr. Liu Xue Sheng (retired on 8 June 2011)	8/8
Average attendance rate	100%

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

Mr. Feng Bo (non-executive Director) is a brother of Mr. Feng Tao (non-executive Director).

## NON-EXECUTIVE DIRECTORS

Since the listing of the Company, 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 service contract with the Company for a term of three years.

## NOMINATION, ELECTION AND RE-ELECTION OF DIRECTORS

Subject to the election by Shareholders in the general meeting, 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.

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, where applicable 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 currently comprises three independent non-executive Directors, namely, Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Wang Ji De. Mr. Wang Ji De 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 2011.

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.

## CORPORATE GOVERNANCE REPORT

The Audit Committee met four times in the year ended 31 December 2011 to discuss the Group's 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:

<b>Name of Audit Committee members</b>	<b>Attendance/Number of meetings held</b>
Mr. Ye Ru Tang	4/4
Mr. Hao Ji Ming	4/4
Mr. Wang Ji De (appointed on 8 June 2011)	3/3
Mr. Liu Xue Sheng (retired on 8 June 2011)	1/1
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 currently comprises three independent non-executive Directors, namely Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Wang Ji De 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 2011 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:

<b>Name of Remuneration and Appraisal Committee members</b>	<b>Attendance/Number of meetings held</b>
Mr. Zhang Wei Yang	1/1
Mr. Ye Ru Tang	1/1
Mr. Hao Ji Ming	1/1
Mr. Wang Ji De (appointed on 8 June 2011)	0/0
Mr. Liu Xue Sheng (retired on 8 June 2011)	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 Wei Yang. Mr. Hao has been appointed as the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee are to review the Board structure, size and composition and the independent element of the Board and make recommendations to the Board regarding candidates to fill vacancies on the Board.

The Nomination Committee met once for the year ended 31 December 2011 to review the structure, size and composition of the Board, assess the independence of independent non-executive Directors and make recommendation to the Board regarding candidates to fill vacancies on the Board. The following table shows the attendance records of individual members of the Nomination Committee:

<b>Name of Nomination Committee members</b>	<b>Attendance/Number of meetings held</b>
Mr. Zhang Wei Yang	1/1
Mr. Hao Ji Ming	1/1
Mr. Ye Ru Tang	1/1
Average attendance rate	100%

## 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 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 met once for the year ended 31 December 2011 to discuss the long term strategic planning and major investment and financing programs of the Company. The following table shows the attendance records of individual members of the Strategic Development Committee:

<b>Name of Strategic Development Committee members</b>	<b>Attendance/Number of meetings held</b>
Mr. Zhang Wei Yang	1/1
Mr. Ye Ru Tang	1/1
Mr. Feng Tao	1/1
Average attendance rate	100%

# CORPORATE GOVERNANCE REPORT

## AUDITORS' REMUNERATION

The remuneration for the Company's auditor, SHINEWING, for the year 2011 was totalling RMB1,450,000, of which RMB600,000 was annual audit fee and RMB850,000 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 2011 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 35 to 36 of this report.

# REPORT OF THE AUDITORS



XYZH/2011SZA1019

## 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 2011, 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 the preparation and the fair presentation of these financial statements. These responsibilities include (1) preparing financial statements in accordance with Accounting Standards for Business Enterprises that are fairly presented; (2) 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. 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 and the fair presentation 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.

# REPORT OF THE AUDITORS

## 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 2011 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**

7 February 2012



# CONSOLIDATED BALANCE SHEET

As at 31 December 2011

RMB

Item	Note	2011	2010
<b>Current assets</b>			
Bank balances and cash	VIII.1	252,003,101.76	178,654,812.40
Held for trading financial assets	VIII.2	3,594,220.00	4,511,646.00
Bills receivables	VIII.3	22,922,114.22	52,407,555.18
Accounts receivables	VIII.4	180,256,667.63	158,038,481.61
Prepayments	VIII.5	147,663,844.20	66,875,351.10
Other receivables	VIII.6	41,733,393.31	69,116,661.93
Inventories	VIII.7	225,153,031.61	282,481,876.70
<b>Total current assets</b>		<b>873,326,372.73</b>	812,086,384.92
<b>Non-current assets</b>			
Long-term equity investments	VIII.8	91,016,769.82	118,491,720.88
Investment properties	VIII.9	53,548,000.00	53,952,089.00
Fixed assets	VIII.10	473,101,766.87	378,101,272.84
Construction in progress	VIII.11	300,798,350.44	322,338,261.31
Intangible assets	VIII.12	169,684,002.97	59,968,007.02
Goodwill	VIII.13	3,052,019.14	26,883,677.58
Long-term prepayments	VIII.14	–	181,500.00
Deferred income tax assets	VIII.15	9,147,910.43	10,074,535.27
Other non-current assets	VIII.16	10,040,880.00	–
<b>Total non-current assets</b>		<b>1,110,389,699.67</b>	969,991,063.90
<b>Total assets</b>		<b>1,983,716,072.40</b>	1,782,077,448.82
<b>Current liabilities</b>			
Short-term borrowings	VIII.18	128,107,000.00	288,000,000.00
Accounts payables	VIII.19	154,155,835.27	145,704,548.17
Receipts in advance	VIII.20	86,559,820.11	55,346,052.98
Employee benefits payables	VIII.21	24,877,711.68	16,439,339.14
Tax payables	VIII.22	(11,020,968.97)	(3,705,441.77)
Other payables	VIII.23	60,540,177.39	34,868,399.03
Non-current liabilities repayable within one year	VIII.24	55,065,824.12	112,450,022.02
Other current liabilities	VIII.25	3,656,883.08	2,506,883.08
<b>Total current liabilities</b>		<b>501,942,282.68</b>	651,609,802.65

# CONSOLIDATED BALANCE SHEET

As at 31 December 2011

RMB

Item	Note	2011	2010
<b>Non-current liabilities</b>			
Long-term borrowings	VIII.26	<b>341,964,445.00</b>	265,587,320.00
Long-term payables	VIII.27	<b>36,195,090.57</b>	2,743,746.44
Deferred income tax liabilities	VIII.15	<b>2,590,371.17</b>	1,403,846.70
Other non-current liabilities	VIII.28	<b>51,340,676.35</b>	21,902,527.71
<b>Total non-current liabilities</b>		<b>432,090,583.09</b>	291,637,440.85
<b>Total liabilities</b>		<b>934,032,865.77</b>	943,247,243.50
<b>Shareholders' equity</b>			
Share capital	VIII.29	<b>125,476,374.40</b>	125,476,374.40
Capital reserve	VIII.30	<b>-</b>	-
Surplus reserve	VIII.31	<b>70,754,552.84</b>	70,754,552.84
Undistributed profits	VIII.32	<b>750,701,355.81</b>	546,976,075.36
Exchange difference on translation of financial statements denominated in foreign currency		<b>(586,590.15)</b>	401,836.23
<b>Equity attributable to shareholders of the Company</b>		<b>946,345,692.90</b>	743,608,838.83
Minority interests	VIII.33	<b>103,337,513.73</b>	95,221,366.49
<b>Total shareholders' equity</b>		<b>1,049,683,206.63</b>	838,830,205.32
<b>Total liabilities and shareholders' equity</b>		<b>1,983,716,072.40</b>	1,782,077,448.82
<b>Net current assets</b>	VIII.34	<b>371,384,090.05</b>	160,476,582.27
<b>Total assets less current liabilities</b>	VIII.35	<b>1,481,773,789.72</b>	1,130,467,646.17

The financial statements as set out from pages 37 to 184 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 2011

		RMB	
Item	Note	2011	2010
<b>Current assets</b>			
Bank balances and cash		<b>126,607,614.93</b>	87,869,056.48
Held for trading financial assets		<b>3,594,220.00</b>	4,511,646.00
Bills receivables		<b>11,828,526.34</b>	50,875,526.00
Accounts receivables	XVII.2	<b>123,450,837.63</b>	110,735,057.89
Prepayments		<b>37,395,176.17</b>	10,432,536.06
Other receivables	XVII.3	<b>464,831,262.48</b>	369,597,158.75
Inventories		<b>23,278,666.67</b>	69,835,445.09
<b>Total current assets</b>		<b>790,986,304.22</b>	703,856,426.27
<b>Non-current assets</b>			
Long-term equity investment	XVII.4	<b>338,470,557.72</b>	346,379,862.49
Investment properties		<b>53,548,000.00</b>	53,952,089.00
Fixed assets		<b>164,791,468.83</b>	156,410,227.78
Construction in progress		<b>9,870,898.20</b>	18,046,080.14
Intangible assets		<b>12,906,468.53</b>	24,871,296.56
Deferred income tax assets		<b>7,080,290.67</b>	7,899,785.63
Other non-current assets		<b>10,040,880.00</b>	–
<b>Total non-current assets</b>		<b>596,708,563.95</b>	607,559,341.60
<b>Total assets</b>		<b>1,387,694,868.17</b>	1,311,415,767.87
<b>Current liabilities</b>			
Short-term borrowings		<b>80,000,000.00</b>	240,000,000.00
Accounts payables		<b>91,459,014.66</b>	43,096,320.96
Receipts in advance		<b>21,514,852.98</b>	30,782,705.98
Employee benefits payables		<b>16,653,657.58</b>	9,009,956.57
Tax payables		<b>6,392,915.91</b>	8,169,906.79
Other payables		<b>115,763,350.97</b>	135,819,900.18
Non-current liabilities due within 1 year		<b>30,000,000.00</b>	–
Deferred income realisable within one year		<b>2,506,883.08</b>	2,506,883.08
<b>Total current liabilities</b>		<b>364,290,675.18</b>	469,385,673.56

# BALANCE SHEET OF THE COMPANY

As at 31 December 2011

RMB

Item	Note	2011	2010
<b>Non-current liabilities</b>			
Long-term borrowings		55,000,000.00	70,000,000.00
Deferred income tax liabilities		964,124.52	830,659.83
Deferred income		17,472,915.36	16,529,798.44
<b>Total non-current liabilities</b>		<b>73,437,039.88</b>	87,360,458.27
<b>Total liabilities</b>		<b>437,727,715.06</b>	556,746,131.83
<b>Shareholders' equity</b>			
Share capital		125,476,374.40	125,476,374.40
Capital reserve		4,107,466.93	4,107,466.93
Surplus reserve		56,708,797.72	56,708,797.72
Undistributed profits		763,674,514.06	568,376,996.99
<b>Total shareholders' equity</b>		<b>949,967,153.11</b>	754,669,636.04
<b>Total liabilities and shareholders' equity</b>		<b>1,387,694,868.17</b>	1,311,415,767.87
<b>Net current assets</b>	XVII.5	<b>426,695,629.04</b>	234,470,752.71
<b>Total assets less current liabilities</b>	XVII.6	<b>1,023,404,192.99</b>	842,030,094.31

The financial statements as set out from pages 37 to 184 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 2011

RMB

Item	Note	2011	2010
<b>Total operating revenue</b>	VIII.36	<b>1,501,074,352.89</b>	1,152,358,350.49
<b>Total operating costs</b>		<b>1,275,625,367.07</b>	970,125,006.44
Cost of operation	VIII.36	<b>978,389,432.53</b>	750,036,591.81
Sales tax and levies	VIII.38	<b>16,248,393.53</b>	8,007,009.41
Selling expenses	VIII.39	<b>56,397,849.69</b>	35,531,956.09
Administrative expenses	VIII.40	<b>179,152,888.47</b>	154,541,420.51
Finance costs	VIII.41	<b>19,641,288.13</b>	22,168,812.87
Impairment loss of assets	VIII.42	<b>25,795,514.72</b>	(160,784.25)
Gain on fair value changes	VIII.43	<b>(483,619.00)</b>	2,388,466.04
Share of profit (loss) of jointly controlled entities and associates	VIII.44	<b>5,560,783.98</b>	(4,285,458.62)
Other investment income (loss)	VIII.44	<b>4,970,972.91</b>	(346,450.95)
<b>Operating profit</b>		<b>235,497,123.71</b>	179,989,900.52
Add: non-operating income	VIII.45	<b>24,129,854.14</b>	19,257,088.74
Less: non-operating expenses	VIII.46	<b>2,967,095.96</b>	2,375,816.12
<b>Total profit</b>		<b>256,659,881.89</b>	196,871,173.14
Less: Income tax expenses	VIII.49	<b>37,468,454.20</b>	32,685,893.60
<b>Net profit</b>		<b>219,191,427.69</b>	164,185,279.54
<b>Other comprehensive income</b>	VIII.50	<b>(988,426.38)</b>	(141,430.99)
<b>Total comprehensive income</b>		<b>218,203,001.31</b>	164,043,848.55
<b>Net profit attributable to:</b>			
Shareholders of the Company		<b>203,725,280.45</b>	155,855,982.56
Minority interests		<b>15,466,147.24</b>	8,329,296.98
		<b>219,191,427.69</b>	164,185,279.54
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		<b>202,736,854.07</b>	155,714,551.57
Minority interests		<b>15,466,147.24</b>	8,329,296.98
		<b>218,203,001.31</b>	164,043,848.55
<b>Earnings per share</b>			
Basic earnings per share	VIII.51	<b>1.62</b>	1.24
Diluted earnings per share	VIII.51	<b>1.62</b>	1.24
<b>Dividends</b>	VIII.52	<b>-</b>	31,369,093.60

# INCOME STATEMENT OF THE COMPANY

For the year ended 31 December 2011

RMB

Item	Note	2011	2010
<b>Total operating revenue</b>	XVII.7	<b>923,298,597.09</b>	691,486,461.04
<b>Total operating costs</b>		<b>729,052,872.71</b>	546,442,671.45
Cost of operation	XVII.7	<b>618,268,754.27</b>	450,257,571.15
Sales tax and levies		<b>3,590,558.24</b>	2,188,102.16
Selling expenses		<b>11,333,482.69</b>	9,312,807.34
Administrative expenses		<b>89,802,291.28</b>	75,631,429.22
Finance costs		<b>6,441,966.54</b>	13,103,224.91
Impairment loss of assets		<b>(384,180.31)</b>	(4,050,463.33)
Gain on fair value changes		<b>(483,619.00)</b>	2,388,466.04
Share of profit (loss) of jointly controlled entities and associates	XVII.9	<b>6,326,430.27</b>	(2,102,755.08)
Other investment income (loss)	XVII.9	<b>12,611,979.78</b>	6,895,363.22
<b>Operating profit</b>		<b>212,700,515.43</b>	152,224,863.77
Add: non-operating income		<b>6,059,027.44</b>	3,870,402.17
Less: non-operating expenses		<b>1,404,139.11</b>	2,034,865.32
<b>Total profit</b>		<b>217,355,403.76</b>	154,060,400.62
Less: Income tax expenses		<b>22,057,886.69</b>	12,909,587.00
<b>Net profit</b>		<b>195,297,517.07</b>	141,150,813.62
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income</b>		<b>195,297,517.07</b>	141,150,813.62

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

RMB

Item	Note	2011	2010
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods and rendering of services		<b>1,719,790,809.50</b>	1,124,500,882.14
Refund of taxes and levies		<b>13,105,294.31</b>	23,245,039.90
Other cash receipts relating to operating activities	VIII.53	<b>96,745,079.93</b>	68,937,673.43
Sub-total of cash inflows from operating activities		<b>1,829,641,183.74</b>	1,216,683,595.47
Cash paid for goods and services		<b>998,169,349.70</b>	734,754,967.31
Cash paid to and on behalf of employees		<b>125,286,990.10</b>	123,505,361.72
Payments of taxes and levies		<b>161,003,142.09</b>	95,177,769.69
Other cash payments relating to operating activities	VIII.53	<b>144,449,396.36</b>	79,648,169.95
Sub-total of cash outflows from operating activities		<b>1,428,908,818.25</b>	1,033,086,268.67
<b>Net cash flows from operating activities</b>		<b>400,732,305.49</b>	183,597,326.80
<b>II. Cash flows from investing activities</b>			
Cash received from investments		<b>628,110.66</b>	20,280,109.85
Cash received from returns on investments		<b>580,161.62</b>	1,080,358.88
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>821,798.54</b>	86,688.13
Net cash received from disposal of subsidiaries and other operating units		<b>37,065,401.18</b>	4,136,575.00
Other cash receipts relating to investing activities	VIII.53	-	22,380,000.00
Sub-total cash inflows from investing activities		<b>39,095,472.00</b>	47,963,731.87
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>212,907,024.57</b>	183,004,646.34
Cash paid on investments		<b>10,040,880.00</b>	65,208,935.33
Net cash paid on acquisition of subsidiaries and other operating units		-	13,300,000.00
Other cash payments relating to investing activities	VIII.53	-	27,647,632.11
Sub-total cash outflows from investing activities		<b>222,947,904.57</b>	289,161,213.78
<b>Net cash flows used in investing activities</b>		<b>(183,852,432.57)</b>	(241,197,481.92)

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

RMB

Item	Note	2011	2010
<b>III. Cash flows from financing activities</b>			
Cash received from investment from minority shareholders		<b>12,000,000.00</b>	1,000,000.00
Cash received from borrowings		<b>407,084,125.00</b>	456,587,320.00
Cash received from other financing activities	VIII.53	<b>2,700,000.00</b>	–
Sub-total cash inflows from financing activities		<b>421,784,125.00</b>	457,587,320.00
Cash payments for settlement of borrowings		<b>525,479,711.30</b>	351,736,635.00
Cash payments for interest expenses, distribution of dividend or profits		<b>31,864,483.06</b>	64,642,353.34
Other cash payments relating to financing activities	VIII.50	<b>5,066,148.97</b>	5,909,788.40
Sub-total cash outflows from financing activities		<b>562,410,343.33</b>	422,288,776.74
<b>Net cash flows from financing activities</b>		<b>(140,626,218.33)</b>	35,298,543.26
<b>IV. Effect of foreign exchange rate changes</b>		<b>(2,676,471.24)</b>	(1,073,360.44)
<b>V. Decrease in cash and cash equivalents</b>		<b>73,577,183.35</b>	(23,374,972.29)
Add: Cash and cash equivalents at beginning of year		<b>174,236,578.41</b>	197,611,550.70
<b>VI. Cash and cash equivalents at end of year</b>		<b>247,813,761.76</b>	174,236,578.41



# CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2011

RMB

Item	Note	2011	2010
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods and rendering of services		<b>1,006,706,150.04</b>	510,639,464.90
Other cash receipts relating to operating activities		<b>51,704,484.42</b>	240,638,233.06
Sub-total of cash inflows from operating activities		<b>1,058,410,634.46</b>	751,277,697.96
Cash paid for goods and services		<b>580,000,146.72</b>	399,511,661.13
Cash paid to and on behalf of employees		<b>53,487,264.33</b>	63,432,717.85
Payments of taxes and levies		<b>54,241,810.98</b>	22,108,346.47
Other cash payments relating to operating activities		<b>148,190,776.49</b>	106,704,230.42
Sub-total of cash outflows from operating activities		<b>835,919,998.52</b>	591,756,955.87
<b>Net cash flows from operating activities</b>	<i>XVII.10</i>	<b>222,490,635.94</b>	159,520,742.09
<b>II. Cash flows from investing activities</b>			
Cash received from investments		<b>628,110.66</b>	19,778,391.75
Cash received from returns on investments		<b>8,230,161.62</b>	2,077,037.27
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>115,578.92</b>	80,944.50
Net cash received from disposal of subsidiaries and other operating units		<b>37,065,401.18</b>	4,136,575.00
Other cash receipts relating to investing activities		-	2,380,000.00
Sub-total cash inflows from investing activities		<b>46,039,252.38</b>	28,452,948.52
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>37,531,935.32</b>	27,242,609.13
Cash paid on investments		<b>33,800,880.00</b>	40,921,552.04
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 cash outflows from investing activities		<b>71,332,815.32</b>	107,245,521.75
<b>Net cash flows used in investing activities</b>		<b>(25,393,562.94)</b>	(78,792,573.23)

## CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2011

RMB

Item	Note	2011	2010
<b>III. Cash flows from financing activities</b>			
Cash received from borrowings		<b>210,000,000.00</b>	270,000,000.00
Cash received from other financing activities		<b>2,700,000.00</b>	–
Sub-total cash inflows from financing activities		<b>212,700,000.00</b>	270,000,000.00
Cash payments for settlement of borrowings		<b>355,000,000.00</b>	308,736,635.00
Cash payments for interest expenses, distribution of dividend or profits		<b>13,514,724.84</b>	49,234,690.74
Other cash payments relating to financing activities		–	2,700,000.00
Sub-total cash outflows from financing activities		<b>368,514,724.84</b>	360,671,325.74
<b>Net cash flows from financing activities</b>		<b>(155,814,724.84)</b>	(90,671,325.74)
<b>IV. Effect of foreign exchange rate changes</b>		<b>(768,129.70)</b>	(424,010.38)
<b>V. Decrease in cash and cash equivalents</b>	<i>XVII. 10</i>	<b>40,614,218.45</b>	(10,367,167.26)
Add: Cash and cash equivalents at beginning of year		<b>84,954,056.48</b>	95,321,223.74
<b>VI. Cash and cash equivalents at end of year</b>		<b>125,568,274.93</b>	84,954,056.48

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011

RMB

Item	2011							
	Attributable to shareholders of the Company				Exchange reserve	Sub-total	Minority Total shareholders' interests equity	
	Share capital	Capital reserve	Surplus reserve	Undistributed profits				
Balance at beginning 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
Net profit	-	-	-	203,725,280.45	-	203,725,280.45	15,466,147.24	219,191,427.69
Other comprehensive income	-	-	-	-	(988,426.38)	(988,426.38)	-	(988,426.38)
Total comprehensive income	-	-	-	203,725,280.45	(988,426.38)	202,736,854.07	15,466,147.24	218,203,001.31
<b>Profits appropriation</b>								
Dividend paid to minority shareholders	-	-	-	-	-	-	(7,350,000.00)	(7,350,000.00)
Increase (decrease) for the year	-	-	-	203,725,280.45	(988,426.38)	202,736,854.07	8,116,147.24	210,853,001.31
Balance at end of year	125,476,374.40	-	70,754,552.84	750,701,355.81	(586,590.15)	946,345,692.90	103,337,513.73	1,049,683,206.63

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011

RMB

Item	2010					Sub-total	Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Exchange reserve			
<b>Balance at beginning of year</b>	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)
<b>Total comprehensive income</b>	-	-	-	155,855,982.56	(141,430.99)	155,714,551.57	8,329,296.98	164,043,848.55
<b>Contribution from shareholders and reduction of capital</b>								
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)
<b>Sub-total</b>	-	(4,107,466.93)	(404,540.00)	(3,640,859.98)	-	(8,152,866.91)	(41,257,057.99)	(49,409,924.90)
<b>Profits appropriation</b>								
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)
<b>Sub-total</b>	-	-	-	(31,369,093.60)	-	(31,369,093.60)	(5,270,000.00)	(36,639,093.60)
<b>Transfer</b>								
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)	-	-	-	-
<b>Sub-total</b>	62,738,187.20	(31,369,093.60)	-	(31,369,093.60)	-	-	-	-
<b>Increase (decrease) for the year</b>	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
<b>Balance at end of year</b>	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

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the year ended 31 December 2011

	2011				RMB
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
<b>Balance at beginning of year</b>	<b>125,476,374.40</b>	<b>4,107,466.93</b>	<b>56,708,797.72</b>	<b>568,376,996.99</b>	<b>754,669,636.04</b>
Net profit	-	-	-	195,297,517.07	195,297,517.07
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	195,297,517.07	195,297,517.07
<b>Balance at end of year</b>	<b>125,476,374.40</b>	<b>4,107,466.93</b>	<b>56,708,797.72</b>	<b>763,674,514.06</b>	<b>949,967,153.11</b>

	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	-	-	-	141,150,813.62	141,150,813.62
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	141,150,813.62	141,150,813.62
Profits appropriation					
Dividends paid to shareholders	-	-	-	(31,369,093.60)	(31,369,093.60)
Transfer					
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	62,738,187.20	(31,369,093.60)	-	(31,369,093.60)	-
<b>Disposal of subsidiaries (Note)</b>	-	-	-	3,781,105.59	3,781,105.59
<b>Increase (decrease) for the year</b>	<b>62,738,187.20</b>	<b>(31,369,093.60)</b>	<b>-</b>	<b>82,193,732.01</b>	<b>113,562,825.61</b>
<b>Balance at end of year</b>	<b>125,476,374.40</b>	<b>4,107,466.93</b>	<b>56,708,797.72</b>	<b>568,376,996.99</b>	<b>754,669,636.04</b>

Note: Due to the decrease in voting rights 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 Dongjiang Environmental Company Limited (深圳市東江環保股份有限公司) (herein after referred as the “Company”) was established in accordance with Companies Law 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 Ministry of Finance Cai Qi [2002] No. 267 “The Approval of Ministry of Finance to the Issues of Management of State-owned Shares of Shenzhen Dongjiang Environmental Limited Company (under preparation)” and Shen Fu Gu [2002] No. 26 of Shenzhen Municipal Government, the Company was reorganised from the original Shenzhen Dongjiang Environmental Technology Limited Company 深圳市東江環保技術有限公司 to Shenzhen Dongjiang Environmental Company Limited 深圳市東江環保股份有限公司 by its 7 shareholders, namely Mr. Zhang Wei Yang, Shanghai New Margin Venture Capital Co., 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 Co., 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 Company as at 31 March 2002 was RMB 46,565,460.00 and was converted into 46,565,460 shares of the Company for RMB 1 each on 1 to 1 basis. The Company obtained business registration licence on 18th July 2002. The registered share capital was RMB 46, 565,460.00.

On 28 January 2003, the Company offered its H shares to global public at the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited. The shares were listed after the public issue has completed. The par value of the H shares offered for subscription was RMB 0.10 each. The Company issued 177,900,000 H shares comprising 16,172,728 shares converted from state-owned shares and 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 HK\$0.338. The Company completed the changes in business registration on 30 December 2003. The share capital of the Company after the issue was RMB 62,738,187.20.

Pursuant to the resolution approved in a general meeting held on 31 May 2010 in respect of the proposal of profit appropriation and capitalisation issue, the Company issued 1 bonus shares for every 1 share held by the shareholders. A total of 627,381,872 shares were issued at par value of RMB 0.10 each by transferring the balance of capital reserves and undistributed profits as at 31 December 2007. In the meantime share capital was increased by RMB 62,738,187.20, of which RMB 31,369,093.60 was transferred from capital reserves and RMB 31,369,093.60 from the balance of undistributed profits at as 31 December 2007. After the bonus issue, the share capital of the Company was RMB 125,476,374.40, comprising 898,963,744 domestic shares and 355,800,000 H shares.

The Company obtained approval from China Securities Regulatory Commission (“CSRC”) and the Stock Exchange of Hong Kong Limited on 9 August 2010 and 16 September 2010 respectively for the transfer of listing of the H shares 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.

With the approval the Notice (Record) of Shenzhen Market Administration [2010] No. 3185143, the name of the Company was changed from Shenzhen Dongjiang 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 on 10 December 2010.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### I. GENERAL INFORMATION (Continued)

As at 31st December 2011, 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 Co., 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 Co., Limited	3,571,440.00	2.85
Chen Shu Sheng	3,256,300.00	2.60
Shenzhen Longdi Investment Development Co., Limited	2,000,000.00	1.59
Jiangyin Xinyuan Investment Co., 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
<b>Total</b>	<b>125,476,374.40</b>	<b>100.00</b>

As at 31 December 2011, the Company had 125,476,374 shares, of which 35,580,000 shares were non-restricted for trading, representing 28.36%, and 89,896,374 shares, accounting for 71.64%, were restricted for trading.

The Company and its subsidiaries (collectively referred to as 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, fatty acid series and coating materials, etc which are widely applicable in industries such as animal feed, agricultural pesticides, wood preservatives, and dyes, medicines, construction coatings and conversion of methane in landfill field gas into electricity, etc.

The controlling shareholder of the Company and ultimate controller of the Group is Mr. Zhang Wei Yang. 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, Research and Development Department, Financial Management Department, Investment Management Department, Legal Department, Human Resources Department, Internal Audit Department, EHS Department. Major branches include Shajing Treatment Base Company, Engineering Company, Trading Company. Major subsidiaries are Renewable Energy, Recycled Resource, Shaoguan Green, Longgang Dongjiang, Hunan Dongjiang (The full names of the subsidiaries are referred to note VII.1)

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## II. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The Group's financial statements have been prepared based on a going concern basis and the accrual basis; in accordance with "Accounting Standards for Business Enterprises" and other related regulations issued by the China Ministry of Finance ("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 requirements of the Rules Governing the Listing of Securities on the Stock Exchange and 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 2011 and their financial performance and cash flows 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. Recording currency

The functional currency of the Company is Renminbi ("RMB"). The functional currency for the oversea 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 financial assets held for trading 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 FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 at 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 qualified assets which are eligible for capitalisation. Non-monetary items in foreign currencies carried at fair value are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items 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 transactions.

#### *(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 undistributed profits 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 recognised 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 recognised in the income statements as part of the disposal gain or loss.

### 6. Financial assets and financial liabilities

#### *(1) Financial assets*

##### 1) Classification of financial assets

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

- (i) 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 “Financial assets held-for-trading”.
- (ii) 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.
- (iii) Loan and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

##### 1) Classification of financial assets *(Continued)*

(iv) 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.

##### 2) Recognition and measurement of financial assets

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.

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 changes in fair value'. 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 of disposal and initial recognised amount are recognised 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 recognised as 'Investment income'. Dividends from available-for-sale equity instruments are recognised 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'.

##### 3) Impairment of financial assets

Other than financial assets at fair value whose changes are recorded in profit or loss of current period, the Group assesses the carrying amount of financial assets at each balance sheet date. Impairment of financial assets is provided when there is objective evidence indicating that a financial asset is impaired.

When financial assets at amortised cost are impaired, provision for impairment is recognized for the amount of the carrying value in excess of the net present value of the future expected cash flows (except for future credit loss that is not incurred yet). If there is objective evidence indicating that the financial asset is recovered and objectively related to events after recognition of loss, impairment loss recognised previously is reversed into profit and loss in current period.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

#### 3) Impairment of financial assets *(Continued)*

When there is a significant or prolonged decline in the fair value of available-for-sale financial assets, accumulated losses in fair value that previously recorded in shareholder's equity should be recognised as impairment loss. For the available-for-sale investment on debt instruments whose impairment loss has been recognised, if there is an increase in their fair value in subsequent period and that is objectively related to events after recognition of the previous impairment loss, the recognised impairment loss is then reverse into profit and loss in current period. As far as the available-for-sale equity instrument whose impairment loss has been recognised, the rise in fair value at the subsequent period is directly charged into shareholders' equity.

#### 4) Transfer of financial assets

A financial asset is derecognition when any one of the following conditions is satisfied:

- i) the rights to receive cash flows from the asset have expired,
- ii) the financial asset has been transferred and all risks and rewards relating to the ownership of the Group have been transferred to transferee,
- iii) the financial asset has been transferred, although the Group neither transferred nor retained all risks and rewards of the financial asset, the Group gave up its control of the financial asset.

In regard of entity who neither transferred nor retained all risks and rewards of financial assets and then gave up its control of the financial assets, its financial assets are recognised according to the extent to which the entity is involved with subsequent transfer of financial assets. At the meantime, related financial liabilities should be recognised retrospectively. The extent to which the entity is involved with subsequent transfer of financial assets means risk level the entity encountering because of changes in the value of financial assets.

In the case where financial assets as a whole qualifies for the derecognition conditions, the difference between the carrying value of transferred financial assets and the sum of amount received for transfer and accumulated change of fair value previously recorded under other comprehensive income is charged into profit or loss in current period.

In the case where only part of the financial assets qualifies for the derecognition conditions, the carrying amount of financial assets, as a whole, that is going to be transferred should be allocated between the portion to be derecognised and the portion not to be derecognised according to their relative fair value. The difference of the sum of consideration received for the transfer and the accumulated fair value changes originally recorded in other comprehensive income attributable to the derecognising portion and the above allocated carrying amount should be charged to profit or loss for the period.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

#### *(2) Financial liabilities*

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

- i) 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.
- ii) Other liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised 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.

### 7. Provision for bad debts on receivables

Criteria for provision for bad debts: Provision for bad debts on receivables 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 receivables 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 individual or portfolio basis. Provision for bad debts is recognised in the profit or loss for the period. When there are objective evidences indicating the receivable are considered recoverable, it is written off against the allowance account according to the approval procedures of the Group.

#### *(1) Receivables that are individually significant and provided 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 provided for bad debts on portfolio basis*

Basis for determination of portfolio

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

Method of provision of bad debts on portfolio basis

Aged group	Aging analysis
Related party group	No provision will be made, in general
Collateral group	No provision will be made, in general

1) Proportion of provision for bad debts for aged group:

Aged	Proportion to accounts receivable (%)	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

2) Provision for bad debts for accounts receivable made by other method:

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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

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

Reason for provision 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 one-time written off.

At the balance sheet date, inventories are stated at the lower of costs or net realisable value. Where the inventories become damaged, partially or wholly obsolete or whose selling price is lower than its cost, provision for inventory impairment is made for the excess of its cost and net realisable value. For finished goods and raw material, inventory impairment provision is provided at the difference of cost of individual item of inventory exceeding its net realizable value. For inventories with tremendous number and relatively low unit price, provision is determined according to the type of inventory.

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 realisable 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.

### 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 equity investments in entity over which the Group does not have control, joint control or significant influence and it has no quoted price in an active market and the fair value cannot be reliably measured.

Joint control is the contractual agreement sharing of control over an economic activity. Joint control exists only when any investor does not have power to control operating activities unilaterally and decisions relating to the basis operating activity of the entity require the unanimous consent of the parties sharing the control.

Significant influence exists when the investor has the power to participate in 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 incapable of participating in the decision-making of operating policies in the investee company.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

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 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 will recognise 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 unrealised gain or loss from internal transactions entered into between the Group and its associated companies and joint ventures is offset according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis.

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

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

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 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 statements 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 changed into owner-occupied, it will be converted into fixed assets at the date of change. Where the usage of an owner-occupied is changed to earning rental income or capital appreciation, it will be 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 is recognised in profit or loss for the current period.

### 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 fixed assets 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 will be recorded at their fair value. The cost of fixed assets acquired under fiancé 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 relating to fixed assets, such as repairing expenditures, renovation and improvements, are recognised as the cost of assets when they meet the recognition criteria. The carrying amount of the replaced parts is derecognised. 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 separately 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:



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 (Continued)

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 derecognised 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 is recognised 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 such cost as 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 work is measured at such cost as cost of the equipment being installed, installation cost, and test running cost. Cost of construction in progress also includes capitalised borrowing costs and exchange difference.

Construction in progress is transferred to the fixed assets or intangible 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 or amortization is provided for from the next month of the transfer. The cost of the asset will be adjusted when the construction finalisation procedures are completed.

#### 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 when expenditures for the asset are being incurred; borrowing costs are being incurred; and 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.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 *(Continued)*

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.

Capitalisation 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. Build, Operate and Transfer (“BOT”) projects

The Group participates in public infrastructure construction projects that involve building, operating and transferring. Where 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 during the course of construction. Before the construction work is completed, BOT projects are accounted for under construction in progress for the amount paid according to the contracts. When the construction work is completed, they are transferred from construction in progress 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, operating rights under BOT projects, are initially recognised 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 operating rights under 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 15. Intangible assets *(Continued)*

The estimated useful lives and amortisation 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. 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.

### 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 conditions 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 recognised 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

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 of impairment are as follows:

- (1) The market price of an asset declines substantially during the period. The decline is explicitly 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 period or in the near future causing an adverse impacts on the enterprise;
- (3) The market interest rate or rate of return of other investment has stood high in the current period that 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;
- (5) The asset has already been or will be left idle, retired or disposed before it is planned;
- (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 indicating the 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 or jointly controlled entities is included in the carrying amount of the long-term equity investment.

### 19. Long-term prepayments

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

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 20. Employee's emoluments

Employee's emoluments are recognized as liabilities during the accounting period when the employee renders services to the Group. Employee's emoluments are allocated to related cost of assets and expenses based on different beneficiaries. Compensation for termination of relationship with employees is recognised in the profit or loss for the period.

Employee's emoluments 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 employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy, the compensation liability for the termination of employment relationship with employee are charged to the profit or loss for the current period if the Group has a formal plan for termination of employment relationship in place 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.

### 21. Provisions

Provision is recognised for an obligation related to a 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 to 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.

Provision is measured at the best estimate of the consideration required to settle the present obligation 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 are reviewed at each balance sheet date. If there are any changes, the carrying amount of provisions will be 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 sales of industrial wastes recycling and utilisation; revenue from trading and others; and revenue from renewable energy utilisation)*

Sales of goods are recognised 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 the economic benefits will be flowed to the Company; and when the related costs has incurred or will be incurred can be reliably measured.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

#### 22. Recognition of revenue *(Continued)*

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

Revenue from rendering of 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 outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue is recognised 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 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 transferring asset use rights is recognised when the economic benefits in connection with the transaction 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.*

#### 23. Construction contracts

Contract revenue and cost are recognised using the percentage of completion method at the balance sheet date 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. 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; or volumn of work completed bear to total volumn of contract work; or 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 recognised 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 recognised as an expense for the period.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 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, it is measured at the amount received. 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.

Assets-related government grants are recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For income-related government grants that is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income. For income related government grants that is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period.

### 25. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and liabilities are recognised 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 carried forward in accordance with tax law requirements for deduction of taxable income in subsequent years, it is deemed as temporary differences and the related deferred income tax assets are recognised. 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 realised or liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference. At the balance sheet date, the carrying value of the recognised deferred income tax assets is reviewed. If it is very likely that no future taxable profits will be available to deduct the 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.

### 26. Lease

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, recognises the assets under finance lease at the lower of their fair value at the inception of the leases 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 unrecognised finance lease charge.

Operating leases are leases other than finance leases. The Group, as a lessee, recognises lease payment on a straight-line basis over the terms of the relevant lease and allocated to as a cost of an assets or an expense of the period. The Group, as a lessor, recognised lease payment as rental income on a straight-line basis over the terms of the relevant lease.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 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 dealt 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 recognised 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 reporting

The Group determines the operating segments on the basis of internal structure, management requirements and internal reporting system, and determines reporting segments based on the operating segments. An operating segment is a component of the Group that may earn revenue and incur expenses in daily business activities; whose operating results are regularly reviewed by the Group's management to allocate its resources and assess its performance; and for which discrete financial information on financial positions, operating results and cash flow is available.

Two or more operating segments can be aggregated into one operating segment if the segments have similar economic characteristics and the segments are similar in the nature of each product and service; the nature of production process; the type or class of customers for their products and services; the methods used to distribute their products or provide their services; and the influence brought by law, administrative regulations on production of products and provision of services.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the financial statements.

### 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. The 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 through 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 profits.



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 involving entities not under common control*

For a business combination involving entities not 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 recognised 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 and transactions are eliminated in the preparation of the consolidated financial statements. The portion of the shareholders' equity of the subsidiaries, which is not attributable to the parent company, is separately presented as minority interests in the shareholders' equity in the consolidated financial statements.

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

When preparing consolidated financial statements, adjustments are made on the financial statements of subsidiaries that are acquired through business combinations not involving entities under common control, based on the fair value of the net identifiable assets acquired on the acquisition date. For subsidiaries acquired from business combinations involving entities under common control, 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

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.

#### *(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) 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 operating rights under BOT projects*

The impairment losses for fixed assets, land use rights, patents and operating rights under 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)*

*(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 receivable and other receivable*

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

*(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.

*(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

There are no changes in accounting policies during the year.

### 2. Changes in accounting estimates and their effect

There are no changes in accounting estimates during the year.

### 3. Correction of errors of prior periods and their effect

There are no corrections of errors of prior periods made retrospectively.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### VI. TAX

#### 1. Enterprise Income Tax (“EIT”)

Pursuant to the regulations of State Tax Bureau, 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 2011	Actual implementation tax rate		Entitlement of preferential tax incentives
	2011	2010	2009	
The Company	25%	15%	15%	Enjoying preferential tax incentive of “High-New Technology Enterprises” where EIT tax rate was reduced to at 15%. Also, only 90% of the revenue from sale of recycling products was charged for EIT. It also adopts the rule that an extra of 50% of the R&D expenses are allowed to be deducted from the income charging for EIT.
Resource Recycling	25%	24%	22%	Eligible for EIT Transitional Preferential Policy
Dongjiang Heritage	25%	24%	11%	Eligible for EIT Transitional Preferential Policy
Longgang Dongjiang	25%	24%	22%	Enjoying EIT Transitional Preferential Policy
Huizhou Dongjiang	25%	25%	25%	Enjoying such preferential tax incentive that only 90% of the revenue from sale of recycling products was charged for EIT
Qiandeng Wastes Treatment	25%	15%	15%	Enjoying preferential tax incentive of “High-New Technology Enterprises” where EIT tax rate was reduced to at 15%. Also, only 90% of the revenue from sale of recycling products was charged for EIT. It also adopts the rule that an extra of 50% of the R&D expenses are allowed to be deducted from the income charging for EIT.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011  
(Unless otherwise stated, the financial statements are expressed in RMB)

### VI. TAX (Continued)

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

Name	Statutory tax rate for 2011	Actual implementation tax rate	2010	Entitlement of preferential tax incentives
	2011	2011		
Kunshan Kunpeng	25%	25%	25%	
Beijing Novel	25%	15%	15%	Enjoying EIT Preferential Policy for High-New Technological Enterprises of 50% tax reduction.
Huabao Technology	25%	24%	22%	Enjoying 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%	12%	11%	Enjoying EIT Transitional Preferential Policy and preferential tax incentive for production enterprises of full exemption of PRC EIT commencing from 2008 for two years and followed by a 50% tax reduction for the next three years from 2010 to 2012.
Shaoguan Dongjiang	25%	25%	25%	
Shaoguan Green	25%	25%	25%	
Dongjiang Lisai	25%	24%	22%	Enjoying EIT Transitional Preferential Policy
Dongjiang Property Service	25%	25%	25%	
Yunnan Dongjiang	25%	25%	25%	
Dongjiang HK	16.5%	16.5%	16.5%	
Lik shun Services	16.5%	16.5%	16.5%	
Products Trading	25%	25%		
Dongjiang Transport	25%	25%	25%	

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VI. TAX (Continued)

### 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%, 4%, 6%.

Tax incentives:

- (1) 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. Resource Recycling qualifies for these policies and enjoyed such tax preference.
- (2) According to Shen Ke Gong Mau Xin Den Zi Zi [2010] No. 146 (Notice of Accreditation of Recycling Utilisation Enterprises) 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 Resource Recycling was accredited Renewable Energy as a resources utilisation enterprises of Shenzhen and was entitled to the policy of “Resources Utilisation VAT Instant Pay and Instant Refund Policy”. The incentive is valid for the period 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 are projects within the construction investment guidance framework prepared by Shenzhen Urban Management Bureau, are exempted from business tax.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011  
(Unless otherwise stated, the financial statements are expressed in RMB)

## VI. TAX (Continued)

### 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 August 2009. Pursuant to the above requirement, the Company is exempted from the property tax for the period from August 2009 to July 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%
Local education sur-tax	Turnover tax payable	2%

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

### 1. Subsidiaries

Name of company	Place of registration and operation	Business nature	Registered capital	Business scope	Investment cost as at 31 December 2011	Proportion of share holding (%)	Proportion of voting rights (%)	RMB'000
								Whether consolidated
<b>Subsidiaries obtained through business combination involving entities not under common control</b>								
Beijing Novel	Beijing	Engineering	30,000.00	Environmental engineering and consultation	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 and copper wastes	117,800.00	60.00	60.00	yes
Lik Shun Services	Hong Kong	Services	HKD10,000.00	Collection of municipal domestic wastes	HKD10,000.00	100.00	100.00	yes
<b>Subsidiaries obtained through other methods</b>								
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 utilisation of industrial wastes	2,550.00	51.00	51.00	yes
Huizhou Dongjiang	Huizhou	Industrial	5,000.00	Collection, disposal and utilisation of industrial wastes	6,458.35	100.00	100.00	yes
Qiandeng Wastes Treatment	Kunshan	Industrial	10,000.00	Collection, disposal and utilisation of industrial wastes	3,916.80	51.00	56.00	yes
Kunshan Kunpeng	Kunshan	Industrial	6,600.00	Collection, disposal and utilisation of industrial wastes; and environmental technology consultation	3,438.97	51.00	51.00	yes
Qingyuan Dongjiang	Qingyuan	Industrial	18,800.00	Treatment of industrial wastes	1,880.00	100.00	100.00	yes



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 1. Subsidiaries (Continued)

Name of company	Place of registration and operation	Business nature	Registered capital	Business scope	Investment cost as at 31 December 2011	Proportion of share holding (%)	Proportion of voting rights (%)	RMB'000
								Whether consolidated
Qingdao Dongjiang	Qingdao	Industrial	15,000.00	Development of utilisation of landfill gas and investment and management of energy recycling projects	15,000.00	100.00	100.00	yes
Hunan Dongjiang	Hunan Province	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	Research, promotion and application of new technologies of environmental products; and production of negative electrode copper	5,000.00	100.00	100.00	yes
Dongjiang Lisai	Shenzhen	Industrial	10,000.00	Development of utilisation of landfill gas; and industrial investment	11,255.10	80.00	80.00	yes
Dongjiang HK	Hong Kong	Services	HKD 24,700.00	Environmental services and international trade	HKD24,700.00	100.00	100.00	yes
Dongjiang Property Service	Shenzhen	Services	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
Products Trading	Shenzhen	Trading	2,000.00	Chemical Products Trading	2,000.00	100.00	100.00	yes

Note:

- 1) The subsidiaries of the Company are companies with limited liabilities.
- 2) Other than Lik Shun Services and Dongjiang HK 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 FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 Co 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 2011, 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 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 Jia Ru, Yu Wei Guo and Chen Qiu Zhang 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 2011, the equity interests in Huabao Technology was wholly owned by the Company.

(3) *Shaoguan Green*

Full name: Shaoguan Green Recycling Resource Development Co 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 RMB13,800,000. 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 increased 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 increased to RMB80,000,000. The legal representative is Mr. Zhang Guo Yan.

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 has been included in the scope of consolidation since 2009.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 1. Subsidiaries *(Continued)*

#### *(3) Shaoguan Green (Continued)*

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 2011, the equity interests in Shaoguan Green of 60%, 30% and 10% were owned by the Company, Mr. Zhang Guo Yan and Mr. Tang Xiaoguan respectively.

#### *(4) Lik shun Services*

Full name: Hong Kong 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 2011, the equity interests in Lik shun Services was indirectly wholly owned by the Company.

#### *(5) Resource Recycling*

Full name: Shenzhen Dongjiang Environment Recycled Resources Co. 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 2011, the equity interests in Resource Recycling was wholly owned by the Company.

#### *(6) Dongjiang Heritage*

Full name: Shenzhen Dongjiang Heritage Technologies Co. 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 2011, the equity interests of Dongjiang Heritage of 62% and 38% were owned by the Company and Heritage Technologies Asia, LLC respectively.

#### *(7) 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)

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

#### 1. Subsidiaries *(Continued)*

(7) *Longgang Dongjiang (Continued)*

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. Liao Ruohan. As at 31 December 2011, the equity interests of Longgang Dongjiang of 51%, 30% and 19% were owned by the Company, Meidadi Environmental Engineering Company Limited and Shenzhen Longguan District Environmental Technologies Services Centre respectively.

(8) *Huizhou Dongjiang*

Full name: Huizhou Dongjiang Environment Technology Co. 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 2011, the equity interests in Huizhou Dongjiang was wholly owned by the Company.

(9) *Qiandeng Wastes Treatment*

Full name: Kunshan Qiandeng Three Wastes treatment Co. 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 2011, the equity interests of Qiandeng Wastes Treatment of 51%, 19%, 10%, 10% and 10% were owned by the Company, Resident Committee of Qingdeng Datang Village, Chen Deming, Gu Yingying and Ren Pei Yang respectively.

(10) *Kunshan Kunpeng*

Full name: Kunshan Kunpeng Environmental and Technology Co. 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 2011, 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 1. Subsidiaries *(Continued)*

#### *(11) Qingyuan Dongjiang*

Full name: Qingyuan Dongjiang Environmental Technologies 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 Commercial and Industrial Administrative Bureau with registration no. 441800000000590. Its registered capital was RMB2,000,000. The legal representative is Mr. Zhang Wei Yang. The equity interests of Qingyuan Dongjiang of 90% and 10% were owned by the Company and Qingyuan Fogang Yifeng Recycled Resources Co., Limited respectively.

In June 2010, the Company acquired 10% equity interests in Qingyuan Dongjiang from Qingyuan Fogang Yifeng Recycled Resources Co., Limited at a consideration of RMB200,000.

In November 2011, the Company increased the capital of Qingyuan Dongjiang by injecting cash of RMB 3,760,000 and the Land Use Rights of a parcel of land valued at RMB13,040,000. After the capital injection, the registered capital of Qingyuan Dongjiang was increased to RMB18,800,000. As at 31 December 2011, the equity interests in Qingyuan Dongjiang was wholly owned by the Company.

#### *(12) Qingdao Dongjiang*

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

Qingdao Dongjiang was established by the Company on 13 June 2008 with approval from Qingdao Commercial and Industrial Administrative Bureau with registration no. 370214020000235. Its registered capital was RMB15,000,000. The legal representative is Mr. Xie Henghua. As at 31 December 2011, the equity interests of Qingdao Dongjiang was wholly owned by the Company.

#### *(13) 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 2011, the equity interests in Hunan Dongjiang of 95% and 5% were owned by the Company and Yuan Yu respectively.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 1. Subsidiaries (Continued)

##### (14) Chengdu Treatment Centre

Full name: Chengdu Hazardous Waste Treatment Centre Co. 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 2011, the equity interests in Chengdu Treatment Centre was wholly owned by the Company.

##### (15) Renewable Energy

Full name: Shenzhen Dongjiang Renewable Energy 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 2011, the equity interests in Renewable Energy was wholly owned by the Company.

##### (16) 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 2011, the equity interests in Shaoguan Dongjiang of 90% and 10% were owned by the Company and Huizhou Dongjiang respectively.

##### (17) Dongjiang Lisai

Full name: Shenzhen Dongjiang Lisai Renewable Energy 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 1. Subsidiaries *(Continued)*

#### *(17) Dongjiang Lisai (Continued)*

Pursuant to the resolution passed at the shareholders' meeting on 21 January 2010, Shenzhen Lisai Industrial Development Limited would transfer its 49% shareholdings in Dongjiang Lisai to the Company, Mr. Chen Dezhong and Ms. Yang Huizhu at 29%, 10%, and 10% respectively. In March 2010, the Company acquired 29% equity interests in Dongjiang Lisa from Shenzhen Lisai Industrial Development Limited at a consideration of RMB4,700,000.

Pursuant to the resolution passed at the shareholders' meeting on 26 November 2010, the shareholders agreed to contribute additional funds to the registered capital of Dongjiang Lisai in proportion to their shareholdings. Consequently, the registered capital Donghjiang Lisai was increased to RMB10,000,000. The Company contributed RMB4,000,000. As at 31 December 2011, the equity interests in Dongjiang Lisai as of 80%, 10% and 10% were owned by the Company, Mr. Chen Dezhong and Ms. Yang Huizhu respectively.

As at 31 December 2011, the 80% equity interests in Dongjiang Lisai held by the Company was pledged to bank for bank loans granted. (Note VIII.24(2))

#### *(18) Dongjiang HK*

Full name: Dongjiang Environmental (HK) 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 2011, the equity interests in Dongjiang HK was wholly owned by the Company.

#### *(19) Dongjiang Property Service*

Full name: Shenzhen Dongjiang Environmental Properties Co 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 2011, the Company owned 100% equity interests in Dongjiang Property Service.

#### *(20) Yunnan Dongjiang*

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

Yunnan Dongjiang was 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 2011, the Company owned 100% equity interests in Yunnan Dongjiang.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 1. Subsidiaries (Continued)

#### (21) Dongjiang Transport

Full name: Huizhou Dongjiang Logistic Limited (惠州市東江運輸有限公司)

Dongjiang Transport was a limited company established jointly by Huizhou 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 2011, the Company indirectly owned 100% equity interests in Dongjiang Transport.

#### (22) Products Trading

Full name: Shenzhen Dongjiang Environmental Products Trade Limited (深圳市東江環保產品貿易有限公司)

Products Trading is a limited company established in Shenzhen on 7 September 2011. The registered capital is RMB2,000,000. The legal representative is Mr. Li Yongpeng.

As at 31 December 2011, the Company directly owned 100% equity interests in Products Trading.

### 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 2011	Net profit (loss) for the year
Products Trading	Newly established	100.00	2,356,982.98	356,982.98

### 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 = 0.8107:1). 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. HKD: RMB = 0.8279: 1).



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## VIII. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

### 1. Bank balances and cash

Item	2011			2010		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash						
RMB	309,788.45	1.0000	309,788.45	144,962.22	1.0000	144,962.22
HKD	55,000.00	0.8107	44,588.50	35,000.00	0.8509	29,781.50
Sub-total			354,376.95			174,743.72
Bank deposits						
RMB	241,217,732.16	1.0000	241,217,732.16	170,335,726.11	1.0000	170,335,726.11
HKD	7,582,543.04	0.8107	6,147,167.64	2,250,972.25	0.8509	1,915,364.80
USD				36.82	6.6227	243.85
EURO				89.17	8.8065	785.59
Sub-total			247,364,899.80			172,252,120.35
Other bank balances and cash						
RMB	4,283,825.01	1.0000	4,283,825.01	4,724,661.35	1.0000	4,724,661.35
HKD				1,766,640.00	0.8509	1,503,286.98
Sub-total			4,283,825.01			6,227,948.33
Total			252,003,101.76			178,654,812.40

The bank deposits and cash of the Group as at 31 December 2011 was increased by RMB73,348,289.36, 41.06% as compared with last year. It was mainly because of the increase in sales and the sales proceeds collected.

As at 31 December 2011, the restricted bank deposits of the Group were RMB 4,189,340.00 which were the guarantee deposits for borrowing and was included in "Other bank balances and cash".

### 2. Held for trading financial assets

Item	2011	2010
Listed shares in the PRC, at fair value	3,594,220.00	4,511,646.00
Total	3,594,220.00	4,511,646.00

As at 31 December 2011, the fair value of the listed shares was RMB3,594,220.00 (2010: RMB4,511,646.00).

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

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 3. Notes receivable

(1) *Categories of notes receivable*

Category	2011	2010
Bank acceptance notes	<b>22,877,520.22</b>	52,107,555.18
Commercial acceptance notes	<b>44,594.00</b>	300,000.00
<b>Total</b>	<b>22,922,114.22</b>	52,407,555.18

The notes receivable of the Group as at end of the year was decreased by RMB29,485,440.96, 56.26% as compared with last year. It was mainly because some of the notes receivable were matured during the year.

All notes receivable of the Group are aged within one year.

(2) *As at 31st December 2011, the top five notes receivable 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	Guangdong Guanghua Technology Co., Limited	2011-9-27	2012-1-4	3,655,800.00
Bank acceptance notes	Changsha Xingjia Bio-engineering Co. Limited	2011-10-12	2012-1-18	3,361,000.00
Bank acceptance notes	Jiangying Maoyuan Textile Co. Limited	2011-7-6	2012-1-5	500,000.00
Bank acceptance notes	Shangyu Yingtai Fine Chemistry Co. Limited	2011-10-18	2012-4-18	300,000.00
Bank acceptance notes	Zhejiang Longtai Door Industry Co. Limited	2011-12-13	2012-6-12	300,000.00
<b>Total</b>				<b>8,116,800.00</b>

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

#### 4. Accounts receivable

	2011	2010
Accounts receivable	<b>193,676,124.25</b>	171,965,694.20
Less: Provision for bad debts	<b>(13,419,456.62)</b>	(13,927,212.59)
	<b>180,256,667.63</b>	158,038,481.61

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 4. Accounts receivable (Continued)

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

Item	2011	2010
0-90 days	<b>130,348,121.04</b>	120,039,542.87
91-180 days	<b>22,736,319.97</b>	16,704,603.41
181-365 days	<b>11,177,337.96</b>	12,267,935.94
1-2 years	<b>14,967,920.70</b>	7,842,886.21
2-3 years	<b>1,026,941.96</b>	1,167,487.18
Over 3 years	<b>26.00</b>	16,026.00
<b>Total</b>	<b>180,256,667.63</b>	158,038,481.61

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

The accounts receivable of the Group as at 31 December 2011 were increased by RMB22,218,186.02, 14.06% as compared with last year. The increase was due to the increase in revenue.

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

Category	2011		Bad debt provision	
	Amount	Book balance Proportion(%)	Amount	Proportion(%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Accounts receivable that are provided for bad debts on portfolio basis				
Aged group	<b>129,609,784.48</b>	<b>66.92</b>	<b>7,939,553.67</b>	<b>6.13</b>
Related party group	<b>59,726,436.82</b>	<b>30.84</b>	<b>1,140,000.00</b>	<b>1.91</b>
Sub-total	<b>189,336,221.30</b>	<b>97.76</b>	<b>9,079,553.67</b>	<b>4.80</b>
Accounts receivable that are individually insignificant but are individually provided for bad debts	<b>4,339,902.95</b>	<b>2.24</b>	<b>4,339,902.95</b>	<b>100.00</b>
<b>Total</b>	<b>193,676,124.25</b>		<b>13,419,456.62</b>	

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 4. Accounts receivable (Continued)

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

Category	2011		2010	
	Book balance Amount	Proportion(%)	Amount	Bad debt provision Proportion(%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	–	–	–	–
Accounts receivable 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 receivable 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	

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

Item	2011			2010		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	88,086,286.61	1.50	1,364,850.32	103,211,745.92	1.50	1,542,540.55
91-180 days	8,147,900.28	3.00	251,572.39	17,499,557.34	3.00	525,119.03
181-365 days	11,637,762.06	5.00	581,888.10	12,946,421.47	5.00	651,455.53
1-2 years	18,754,582.43	20.00	3,753,105.73	9,763,825.26	20.00	1,952,765.05
2-3 years	1,997,223.72	50.00	1,002,107.76	2,334,974.38	50.00	1,167,487.20
Over 3 years	986,029.38	100.00	986,029.37	1,181,755.00	100.00	1,181,729.00
Total	129,609,784.48		7,939,553.67	146,938,279.37		7,021,096.36

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 4. Accounts receivable (Continued)

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

- 2) As at 31 December 2011, accounts receivable 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 Shatoubao Electronics Factory	735,708.53	735,708.53	100.00	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
Jinan Second Machine Factory	171,312.00	171,312.00	100.00	Irrecoverable
Zaozhuang Huaqing Environmental Equipment Co., Limited	159,390.00	159,390.00	100.00	Irrecoverable
Rongsheng Construction Engineering Co., Limited	150,000.00	150,000.00	100.00	Irrecoverable
Zaozhuang Huiying Environmental Engineering Co., Limited	150,000.00	150,000.00	100.00	Irrecoverable
Sanya Bureau for Environmental Health	135,500.00	135,500.00	100.00	Irrecoverable
Zaozhuang Drainage Management Office	120,000.00	120,000.00	100.00	Irrecoverable
Xingtai Iron and Steel Co., Limited	117,030.55	117,030.55	100.00	Irrecoverable
Kaifeng Xianglong Industry and Trade Co., Limited. Kaifeng dragons	100,000.00	100,000.00	100.00	Irrecoverable
Others (Items under RMB100,000)	892,432.27	892,432.27	100.00	Irrecoverable
<b>Total</b>	<b>4,339,902.95</b>	<b>4,339,902.95</b>		

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 4. Accounts receivable (Continued)

(3) Details of reversal of bad debts provision during the year ended 31 December 2011

Name	Book value of accounts receivable	Balance of bad debts provision before reversal or recovered	Amount reversed during the year	Original assumption for the bad debts provision	Reason for reversal of bad debts provision
Qingyuan Fogang County Yifeng Co.	59,060.50	59,060.50	59,060.50	Irrecoverable	Recovered during this year
Others (Items under RMB50,000)	21,200.00	21,200.00	21,200.00	Irrecoverable	Recovered during this year
<b>Total</b>	<b>80,260.50</b>	<b>80,260.50</b>	<b>80,260.50</b>		

(4) Details of accounts receivable written off during the year ended 31 December 2011

Name	Nature of accounts receivables	Amounts written-off	Reason for written-off	Whether arisen from related party transaction
Century Meifuda Electronic (Huizhou) Co., Limited	Construction costs	635,446.19	The debtors are bankrupted	No
Shenzhen Bao'an District Municipal Management Office Wastes Treatment Station	Construction costs	574,000.00	Deduct according to the settlement plan	No
Yuanda Mental Industrial (Shenzhen) Co., Limited	Handling charge	140,651.00	Irrecoverable	No
Huizhou Sirui'er Environmentally Chemical Engineering Co., Limited	Sales	92,500.00	Irrecoverable	No
Others (Items under RMB50,000)		791,748.53		
<b>Total</b>		<b>2,234,345.72</b>		

(5) There was no accounts receivable from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2011.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 4. Accounts receivable (Continued)

(6) The top five accounts receivables outstanding as at 31st December 2011 were as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total accounts receivable (%)
Dongjiang Micronutrients	Associate	58,098,517.88	Within 1 year	30.00
Shenzhen Finance Bureau	Independent third party	18,713,390.11	0-90 days	9.66
Daye Hua Sheng Mining Co., Ltd	Independent third party	8,865,987.24	0-90 days	4.58
Changsha Xingjia Biological Engineering Co., Limited	Independent third party	8,808,546.00	0-180 days	4.55
Food and Environmental Hygiene	Independent third party	4,787,716.05	0-90 days	2.47
<b>Total</b>		<b>99,274,157.28</b>		<b>51.26</b>

(7) As at 31 December 2011, the accounts receivable from related parties were RMB 59,726,436.82, representing 30.84% of total accounts receivable (2010: RMB 19,245,298.60, 11.19%). The details are set out in note IX.3.1.

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

Foreign currency	2011			2010		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
USD				3,705,747.06	6.6227	24,542,051.05
HKD	<b>6,953,161.19</b>	<b>0.8107</b>	<b>5,636,927.78</b>	3,332,047.60	0.8509	2,835,239.30
<b>Total</b>			<b>5,636,927.78</b>			27,377,290.35

#### 5. Prepayments

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

Item	2011		2010	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	<b>142,866,553.36</b>	<b>96.75</b>	59,152,098.52	88.45
1-2 years	<b>1,281,888.29</b>	<b>0.87</b>	5,684,680.33	8.50
2-3 years	<b>1,551,550.23</b>	<b>1.05</b>	1,719,483.70	2.57
Over 3 years	<b>1,963,852.32</b>	<b>1.33</b>	319,088.55	0.48
<b>Total</b>	<b>147,663,844.20</b>	<b>100.00</b>	66,875,351.10	100.00

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 5. Prepayments (Continued)

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

The prepayments of the Group as at 31 December 2011 were increased by RMB 80,788,493.10, 120.8%, as compared with last year. It was mainly because of the increase in prepayment for securing the supply of raw materials as the result of the increase in scales of sales and purchase; the payment of progress payments as contracted for factory plant construction works of Qingyaun Dongjiang; and the payment of environmental protection works of Beijing Novel.

(2) *As at 31 December 2011, provision for bad debts on prepayments were as follows:*

Name	Book value	Bad debts provision	Proportion (%)
Weijun Electronic Kunshan Company	602,480.43	484,229.43	80.37
<b>Total</b>	<b>602,480.43</b>	<b>484,229.43</b>	

Weijun Electronic Kunshan Company was a material supplier of Qiandeng Wastes Treatment, It was bankrupted. According to the civil judgement held by the People Court of Kunshan, Jiangsu Province all assets of Weijun Electronic Kunshan Company have been compulsory sold by auction. The proceeds from the auction was distributed to all creditors on pro-rata basis of 50.39%. Qiandeng Wastes Treatment has received the refund of RMB 498,764.00 from the court during the year ended 31 December 2011. The remaining balance has been written off after offsetting against the amount of payable that Qiandeng Wastes Treatment owed to Weijun Electronic Kunshan Company.

(3) *Details of the top five prepayments at 31 December 2011:*

Name	Relationship with the Company	Amount	Aged	Reason of outstanding
Huizhou Huiling Huacheng Co., Limited	Independent third party	13,016,800.00	0-90 days	Progress payments as contracted
Huizhou Construction Engineering Corporation	Independent third party	10,962,317.78	Within 2 year	Progress payments as contracted
Inner Mongolia Second Construction Company Tusiqi Sewage Plant Project Department	Independent third party	9,927,021.83	180-360 days	Progress payments as contracted
Hushi Electronic Co., Limited	Independent third party	9,394,339.70	0-90 days	Progress payments as contracted
Qingdao Solid Waste Disposal Co., Limited	Independent third party	7,757,085.19	Within 1 year	Progress payments as contracted
<b>Total</b>		<b>51,057,564.50</b>		



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 5. Prepayments (Continued)

(4) There was no prepayments from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2011.

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

Foreign currency	2011			2010		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	11,311,495.65	0.8107	9,170,229.52	3,785,899.18	0.8509	3,221,421.61
<b>Total</b>			<b>9,170,229.52</b>			<b>3,221,421.61</b>

#### 6. Other receivable

	2011	2010
Other receivable	58,408,011.95	84,005,856.08
Less: Provision for bad debts	(16,674,618.64)	(14,889,194.15)
	<b>41,733,393.31</b>	<b>69,116,661.93</b>

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

Category	2011		Bad debts provision	
	Book balance Amount	Proportion (%)	Amount	Proportion (%)
Other receivable that are individually significant and are provided for bad debts on individual basis	5,000,000.00	8.29	5,000,000.00	100.00
Other receivable that are provided for bad debts on portfolio basis				
Aged group	19,371,490.94	35.27	6,827,560.64	32.10
Related party group	1,747,637.90	2.90	571,117.32	32.68
Collateral group	27,948,822.43	46.34	-	-
Sub-total	49,067,951.27	84.51	7,398,677.96	14.52
Other receivable that are individually insignificant but are individually provided for bad debts	4,340,060.68	7.20	4,275,940.68	98.52
Total	58,408,011.95		16,674,618.64	

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 6. Other receivable (Continued)

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

Category	2010		Bad debts provision	
	Book balance Amount	Proportion(%)	Amount	Proportion(%)
Other receivable that are individually significant and are provided for provision for bad debts on individual basis	5,000,000.00	5.95	5,000,000.00	100.00
Other receivable that are provided for provision 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	74,691,324.00	88.91	5,638,782.07	7.55
Other receivable that are individually insignificant but are individually provided for bad debts	4,314,532.08	5.14	4,250,412.08	98.51
Total	84,005,856.08		14,889,194.15	

1) As at 31 December 2011, details of other receivable that are individually significant and are provided for bad debts on individual basis are as follows:

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

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 6. Other receivable (Continued)

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

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

Item	Amount	2011		Amount	2010	
		Proportion (%)	Provision for bad debts		Proportion (%)	Provision for bad debts
0-90 days	8,416,128.21	1.50	159,429.06	3,851,071.02	1.50	59,623.70
91-180 days	1,975,743.98	3.00	59,476.94	797,649.23	3.00	23,395.68
181-365 days	1,349,161.76	5.00	66,009.84	1,334,370.73	5.00	74,716.04
1-2 years	974,723.92	20.00	211,280.55	988,682.68	20.00	216,756.53
2-3 years	584,703.61	50.00	301,859.16	4,477,650.71	50.00	2,241,225.35
Over 3 years	6,071,029.46	100.00	6,029,505.09	2,454,747.45	100.00	2,451,947.45
<b>Total</b>	<b>19,371,490.94</b>		<b>6,827,560.64</b>	13,904,171.82		5,067,664.75

3) As at 31 December 2011, other receivable that are individually insignificant but are individually provided for bad debts:

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
CB(Holding)LTD	1,657,929.62	1,657,929.62	100.00%	Irrecoverable
Huizhou Shengtianhan Industrial Co., 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 Co., Limited	300,000.00	300,000.00	100.00%	Irrecoverable
Others (Items under RMB300,000)	1,582,131.06	1,518,011.06	96.05%	Irrecoverable
<b>Total</b>	<b>4,340,060.68</b>	<b>4,275,940.68</b>		

(2) Details of other receivables from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2011 are as follows:

Name	2011		2010	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Li Yongpeng	-	-	157,549.92	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>157,549.92</b>	<b>-</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 6. Other receivable (Continued)

(3) The top five other receivable outstanding as at 31 December 2011 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total other receivable (%)	Nature
Tripod Technology Corporation	Independent third party	6,000,000.00	180-360 days	10.27	Deposit
Shantou Jian'an (Group) Co., Limited Huizhou Branch	Independent third party	5,000,000.00	Above 3 years	8.56	Project loan
Shaoguan Smelter Shenzhen Zhongjin Lingnan Co., Limited	Independent third party	3,000,000.00	Above 3 years	5.14	Deposit for performance of contracts
Xinqiang Electronic (Qingyuan) Co., Limited	Independent third party	2,000,000.00	1-2 years	3.42	Collateral
Jingpeng Electronic (Changshu) Co., Limited	Independent third party	2,000,000.00	90-180 days	3.42	Deposits
<b>Total</b>		<b>18,000,000.00</b>		<b>30.81</b>	

(4) Other receivables from related parties as at 31 December 2011 were RMB 1,747,637.90, representing 2.99% of the total other receivables (2010: RMB 31,287,273.23, 37.24%). The details are set out in note IX.3.2.

(5) Other receivable comprised the following balances in foreign currencies:

Foreign currency	2011			2010		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	<b>1,754,335.38</b>	<b>0.8107</b>	<b>1,422,239.69</b>	1,727,934.56	0.8509	1,470,299.52
EURO	<b>153,379.83</b>	<b>8.7498</b>	<b>1,342,044.52</b>	153,379.83	8.8065	1,350,739.47
<b>Total</b>			<b>2,764,284.21</b>			2,821,038.99

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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	2011	
		Provision for inventories	Carrying Book value
Raw material	161,089,412.36	46,922.67	161,042,489.69
Work-in-progress	34,399,556.28	–	34,399,556.28
Finished goods	22,890,900.81	458,564.36	22,432,336.45
Consumables	7,278,649.19	–	7,278,649.19
<b>Total</b>	<b>225,658,518.64</b>	<b>505,487.03</b>	<b>225,153,031.61</b>

Item	Cost	2010	
		Provision for inventories	Carrying Book value
Raw materials	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
<b>Total</b>	<b>282,987,363.73</b>	<b>505,487.03</b>	<b>282,481,876.70</b>

(2) Provision for inventories

Item	As at 1 January 2011	Provision for the year	Decrease		As at 31 December 2011
			Reversal	Other transfer	
Raw material	46,922.67	–	–	–	46,922.67
Finished goods	458,564.36	–	–	–	458,564.36
<b>Total</b>	<b>505,487.03</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>505,487.03</b>

(3) Cost of inventories recognized for the year was RMB978,389,432.53 (2010:RMB750,036,591.81).

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 is as follows:

	2011	2010
Unlisted long-term equity investments	<b>91,016,769.82</b>	118,491,720.88
Total	<b>91,016,769.82</b>	118,491,720.88

Item	2011	2010
Investments in jointly controlled entities and associates – accounted for using equity method	<b>89,646,418.82</b>	117,121,369.88
Less: Provision for impairment loss	<b>(529,649.00)</b>	(529,649.00)
Carrying value of investments in jointly controlled entities and associates	<b>89,116,769.82</b>	116,591,720.88
Other long-term equity investments – accounted for using cost method	<b>1,900,000.00</b>	1,900,000.00
<b>Total</b>	<b>91,016,769.82</b>	118,491,720.88

As at 31 December 2011, the long-term investments of the Group decreased by RMB 27,474,951.06, 23.19% as compared with last year. It was mainly because:

- 1) During this year, the Company disposed all its equity interests in a jointly controlled entity, Shuangxin Cement. Details of the disposal are set out in XV.7.
- 2) During this year, the Company disposed part of its equity interests in an associate, Shenzhen Resource. Details are set out in XV.7.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

### 8. Long-term equity investments

(2) Investments in jointly controlled entities and associates as at 31 December 2011

Name	Proportion of Shareholding (%)	Proportion of voting rights (%)	Cost of Investment	As at 1 January 2011	Movements share of profit/(Loss)	Disposal	As at 31 December 2011
<b>Jointly controlled entity</b>							
Shuangxin Cement(Note1)	-	-	43,900,000.00	34,066,215.50	(1,582,909.56)	(32,483,305.94)	-
Dongjiang Veolia	51.00	50.00	22,440,000.00	30,908,487.32	6,517,814.25	-	37,426,301.57
<b>Associate</b>							
Dongjiang Songzao	51.00	40.00	16,734,000.00	16,579,386.48	(765,646.29)	-	15,813,740.19
Shenzhen Micronutrients	38.00	40.00	760,000.00	1,203,931.20	100,017.79	-	1,303,948.99
Shenzhen Resource	49.00	42.86	21,312,060.00	27,621,454.89	1,529,264.77	(552,429.10)	28,598,290.56
Zhuhai Qingxin	35.00	50.00	6,615,000.00	6,615,000.00	(237,756.98)	-	6,377,243.02
Lisheng Membrane	45.00	33.33	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	-	-	-	-
<b>Total</b>			<b>115,361,060.00</b>	<b>117,121,369.88</b>	<b>5,560,783.98</b>	<b>(33,035,735.04)</b>	<b>89,646,418.82</b>

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.

Note 1: Shuangxin Cement was disposed during this year. Details are set out in XV.7.

(3) Particulars of the jointly controlled entities and associates at 31 December 2011

Name	Proportion of Shareholding (%)	Proportion of voting rights (%)	Place of registration	Business nature	Legal representative	Registered capital (RMB'000)	Organisation code
<b>Jointly controlled entity</b>							
Dongjiang Veolia	51.00	50.00	Huizhou	Industrial	Zhang Wei Yang	60,000	77402216-6
<b>Associate</b>							
Dongjiang Songzao	51.00	40.00	Chongqing	Industrial	Xie Henghua	32,812	69659686-8
Shenzhen Resource	49.00	42.86	Shenzhen	Industrial	Chen Shu Sheng	35,000	72303063-3
Shenzhen Micronutrients	38.00	40.00	Shenzhen	Trading and services	Frederick A.Steward	2,000	75567274-5
Zhuhai Qingxin	35.00	50.00	Zhuhai	Industrial	Diao Weihua	9,000	73217958-7
Beijing							
Lisheng Membrane	45.00	33.33	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 companies.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 at 31 December 2011 (Continued)

1) Dongjiang Veolia

Full name: Huizhou Dongjiang Veolia Environmental services 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 veto power 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.

2) Dongjiang Songzao

Full name: Chongqing Dongjiang Songzao Renewable Energy Development Co., 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, Asian Climate Strategy Co., Limited, Chongqing Songzao Coal Co., Limited. Its registered capital was RMB32,812,000. The shareholdings were 51%, 44% and 5% respectively. Renewable Energy invested RMB16,734,000 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 Asian Climate Strategy Co., Limited and 1 by Chongqing Songzao Coal Co., Limited. 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 nominated by each shareholder must be present in the meeting. Accordingly, Renewable Energy did not have unilateral control over the board of directors. Accordingly, Dongjiang Songzao is excluded from the consolidation scope and accounted for under equity method of accounting.

During this year, Dongjiang Songzao, has not commenced business.

3) Shenzhen Micronutrients

Full name: Heritage Dongjiang Micronutrients Additives (Shenzhen) Co., 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 FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 at 31 December 2011 (Continued)

4) 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.

Pursuant to the framework agreement of Shenzhen Resources of 19 August 2010, 1% of the 50% equity interests in Shenzhen Resource held by the Company would be transferred to the other shareholder of Shenzhen Resources, Shenzhen Hazardous Wastes treatment Station Company Limited and would adjusted the composition of the Board of Directors of Shenzhen Resources whereby the Company has rights to nominate 3 out of 7 directors and the other shareholder has rights to nominate 4 out of 7 directors. On 1 September 2010, the composition of the Board of Directors of Shenzhen Resource was adjusted. The Company has lost control over Shenzhen Resource since then. Shenzhen Resource was then excluded from the consolidation scope and accounted for using equity method of accounting. The relevant procedures for share transfer and change of business registration were completed in January 2011. As at 31 December 2011, the Company owned 49% equity interests and 42.86% voting rights.

5) Zhuhai Qingxin

Full name: Zhuhai Qingxin Industrial Environmental Protection Co., 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 interests 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.

6) Beijing Lisheng Membrane

Full name: Beijing Novel Lisheng Membrane Technology Company (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 filtration products and equipment.

Beijing Lisheng Membrane had ceased business during this year.

7) Zhejiang Shuangyi

Full name: Zhejiang Novel Shuangyi Environmental Protection Co., 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 fully impaired. It had ceased business.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 at 31 December 2011 (Continued)

8) Beijing Shuangyi

Full name: Beijing Novel Shuangyi Environmental Protection Co., 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 fully impaired. It had ceased business.

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

Name	As at 31 December 2011		Total net assets	For the year ended 31 December 2011	
	Total assets	Total liabilities		Total operating revenue	Net profit
<b>Jointly controlled entity</b>					
Dongjiang Veolia	225,222,869.96	151,421,079.46	73,801,790.50	95,640,364.25	12,780,027.95
<b>Associate</b>					
Dongjiang Songzao	57,152,445.65	26,144,590.07	31,007,855.58	-	(1,501,267.24)
Shenzhen Resource	70,245,142.34	12,021,622.30	58,223,520.04	115,017,422.66	3,120,948.52
Shenzhen Micronutrients	57,787,097.45	55,327,452.71	2,459,644.74	99,572,056.03	263,204.72
Zhuhai Qingxin	7,682,419.50	231,852.62	7,450,566.88	2,031,503.47	(679,305.67)
Lisheng Membrane	631,936.31	355,078.85	276,857.46	-	(5,130.30)
<b>Total</b>	<b>418,721,911.21</b>	<b>245,501,676.01</b>	<b>173,220,235.20</b>	<b>312,261,346.41</b>	<b>13,978,477.98</b>

(5) Provision for impairment loss for investments in jointly controlled entities and associate

Name	As at 1	Increase	Decrease	As at 31	Reason for provision
	January 2010			December 2010	
Shenzhen Micronutrients	529,649.00	-	-	529,649.00	Persistent loss making
<b>Total</b>	<b>529,649.00</b>	<b>-</b>	<b>-</b>	<b>529,649.00</b>	

Provision for impairment loss for investments in jointly controlled entities and associates once been recognized would not be reversed in subsequent years.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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

Name	Proportion of shareholding (%)	Proportion of voting rights (%)	Cost of Investment	As at 1 January 2011	Increase	Decrease	As at 31 December 2011
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
<b>Total</b>			<b>1,900,000.00</b>	<b>1,900,000.00</b>	<b>-</b>	<b>-</b>	<b>1,900,000.00</b>

i) Wuhan Yunfeng

Full name: Wuhan Yunfeng Recycled Resources Co., 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 is collection of torn and waste material, process and sales of metals.

ii) Dongjiang Green Resources

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

The registered capital of Dongjiang Green Resources was RMB 1,000,000. The Company invested RMB 100,000 and owned 10% equity interests therein. The business scope is development of waste gas treatment technology, environment-friendly 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 with limited liabilities. They are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value is so significant that that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

(7) There is no restriction on the ability of the investees to transfer capital to the Group.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 9. Investment properties

(1) *Investment properties measured by fair value model*

Item	Fair value as at 1 January 2011	Additions	Change in fair value	Decrease	Fair value As at 31 December 2011
<b>Cost</b>					
Buildings	48,414,356.82	–	–	–	48,414,356.82
<b>Changes in fair value</b>					
Buildings	5,537,732.18	–	(404,089.00)	–	5,133,643.18
<b>Net carrying value</b>					
Buildings	53,952,089.00	–	(404,089.00)	–	53,548,000.00

On 31 December 2011, the investment properties were revalued by Shenzhen Tianjian Guozhonglian Assets Appraisal and Valuation Co., 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 RMB7,800,382.75 (2010:RMB5,462,502.42).*

(4) *At the end of the year, there were no investment properties without proper legal property rights certificate.*

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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:

Items	As at 1 January 2011	Increase	Decrease	As at 31 December 2011
<b>Cost</b>				
Buildings	234,490,864.93	76,227,638.68	97,716.44	310,620,787.17
Plant and Machinery	197,693,354.64	91,872,715.76	63,692,336.39	225,873,734.01
Motor vehicles	64,850,763.17	18,085,864.65	4,500,345.67	78,436,282.15
Office equipment	14,668,899.96	4,419,048.45	1,598,894.07	17,489,054.34
Others	26,425,558.96	6,145,787.46	370,109.76	32,201,236.66
	538,129,441.66	196,751,055.00	70,259,402.33	664,621,094.33
<b>Accumulated depreciation</b>				
Buildings	25,470,512.25	11,209,396.21	97,716.44	36,582,192.02
Plant and Machinery	60,913,126.17	25,127,230.80	18,323,222.41	67,717,134.56
Motor vehicles	28,142,869.05	10,706,432.36	2,678,623.39	36,170,678.02
Office equipment	7,792,301.04	2,121,589.91	423,899.93	9,489,991.02
Others	12,518,327.04	4,158,332.45	90,957.36	16,585,702.13
	134,837,135.55	53,322,981.73	21,614,419.53	166,545,697.75
<b>Net carrying amount</b>				
Buildings	209,020,352.68	65,017,802.67	–	274,038,595.15
Plant and Machinery	136,780,228.47	66,745,484.96	45,369,113.98	158,156,599.45
Motor vehicles	36,707,894.12	7,379,432.29	1,821,722.28	42,265,604.13
Office equipment	6,876,598.92	2,297,458.54	1,174,994.14	7,999,063.32
Others	13,907,231.92	1,987,455.01	279,152.40	15,615,534.53
	403,292,306.11	143,427,633.47	48,644,982.80	498,075,396.58
<b>Provision for impairment losses</b>				
Buildings	12,232,059.91	–	–	12,232,059.91
Plant and Machinery	10,566,709.58	–	217,403.56	10,349,306.02
Motor vehicles	1,273,302.18	–	–	1,273,302.18
Office equipment	8,804.67	–	–	8,804.67
Others	1,110,156.93	–	–	1,110,156.93
	25,191,033.27	–	217,403.56	24,973,629.71
<b>Net carrying value</b>				
Buildings	196,788,292.77			261,806,535.24
Plant and Machinery	126,213,518.89			147,807,293.43
Motor vehicles	35,434,591.94			40,992,301.95
Office equipment	6,867,794.25			7,990,258.65
Others	12,797,074.99			14,505,377.60
	378,101,272.84			473,101,766.87

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)

As at 31 December 2011, the fixed assets of the Group was increased by RMB95,000,494.03, 25.13% as compared with last year. It was mainly because of the transfer of factory premises of Qingyaun Dongjiang from construction in progress after completion.

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

(2) The amount of fixed assets transferred from construction in progress during the year ended 31 December 2011 was RMB101,855,576.25. Included in the increase in accumulated depreciation for the year, RMB53,322,981.73 was depreciation charge for the year.

(3) Depreciation on fixed assets recognised in income statement for the year was RMB53,322,981.73(2010: RMB 38,065,622.63). Loss on disposal of fixed assets for the year was RMB134,266.02 (2010: RMB13,126.31).

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

	2011	2010
Situation at the PRC under:		
Short lease (less than 10 years)	<b>1,493,388.88</b>	1,886,989.65
Medium-term lease (more than 10 years but less than 50 years)	<b>260,313,146.36</b>	194,901,303.12
<b>Total</b>	<b>261,806,535.24</b>	196,788,292.77

(5) Pledge of fixed assets

In June 2011, Renewable Energy and Shenzhen Branch of Shenzhen Ping An Bank Limited entered into a "Loan Contract".(Contract No.: Ping Yin(Shenzhen)DaiZi(2011)No.C1001102071100001). Pursuant to which, Renewable Energy obtained a long term loan of RMB60,000,000 for the terms of 60 months. The bank loan was secured by the machine equipment owned by Renewable Energy with an aggregate original cost of RMB 16,497,500 and net carrying value of RMB7,100,000. As at 31 December 2011, the outstanding balance of the loan was RMB54,000,000 comprising of long-term loan of RMB42,000,000 and amount repayable within 1 year of RMB12,000,000. (Note VIII.24(2)).

(6) As at 31 December 2011, there were no idle fixed assets.

(7) Details of fixed assets held under finance leases as at 31 December 2011 were as follows:

Item	2011	2010
<b>Cost</b>		
Plant and Machinery	<b>51,243,627.40</b>	544,549.26
Motor vehicles	<b>22,716,430.94</b>	10,763,605.05
	<b>73,960,058.34</b>	11,308,154.31
<b>Accumulated depreciation</b>		
Plant and Machinery	<b>6,555,872.98</b>	210,587.15
Motor vehicles	<b>5,549,605.46</b>	3,460,956.66
	<b>12,105,478.44</b>	3,671,543.81
<b>Net carrying value</b>		
Plant and Machinery	<b>44,687,754.42</b>	333,962.11
Motor vehicles	<b>17,166,825.48</b>	7,302,648.39
<b>Total</b>	<b>61,854,579.90</b>	7,636,610.50

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

### 10. Fixed assets (Continued)

(7) *Details of fixed assets held under finance leases as at 31 December 2011 were as follows: (Continued)*

Plant and machinery held under finance lease was electricity generators of Renewable Energy which were sold to CMB Financial Leasing Co., Limited and then leased back from CMB Financial Leasing Co., Limited under finance lease arrangement (Sale and lease back transaction. The details are set out in Note XV.4.

*Motor vehicles held under finance lease were motor vehicles of Lik Shun Service acquired under finance lease.*

(8) *Details of fixed assets leased out under operating leases as at 31 December 2011 are set out in Note XV.3(3e).*

(9) *Fixed assets without property rights certificates*

- 1) The property rights certificate has not been obtained for the factory building located at Chengdu owned by Chengdu Dangerous Wastes, with original cost of RMB12,421,800 and net carrying value as at 31 December 2011 of RMB1,404,500. The application for the related land use rights certificate has not processed because Chengdu Dangerous Wastes is being in suspension of business and the land use rights may be retrieved by the government.
- 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 2011 of RMB26,917,300. The relevant procedures are in process. In addition, the property rights certificate has not been obtained for certain yards with original cost of RMB5,191,000 and net carrying value as at 31 December 2011 of RMB3,258,100 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 RMB16,352,900 and net carrying value as at 31 December 2011 of RMB15,438,200. The relevant procedures are in 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 2005. 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. Buildings built on the land by Renewable Energy do not require property rights certificate. The original cost of the building was RMB4,827,000 and net carrying value as at 31 December 2011 was RMB3,747,300.
- 5) Qingdao Dongjiang and Qingdao Solid Waste Treatment Co., Limited entered into agreement of "Qingdao Xiaojianxi Integrated Solid Waste Disposal Landfill Gas Collection and Utilisation 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 do not require property rights certificate. The original cost of the building was RMB1,716,800 and net carrying value as at 31 December 2011 was RMB1,598,800.
- 6) Dongjiang Lisai and Shenzhen Bao'an Bureau for Urban Administration entered into an agreement of "Shenzhen Bao'an Laohukeng Integrated Solid Waste Disposal Landfill Gas Collection and Utilisation CDM Project Operating Agreement" on 8th November 2007, Pursuant to agreement Dongjiang Lisai 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 Dongjiang Lisai do not require property rights certificate. The original cost of the building was RMB13,847,100 and net carrying value as at 31 December 2011 was RMB13,232,400.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 11. Construction in progress

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

Item	2011		Carrying value	2010		
	Carrying amount	Provision for impairment		Carrying amount	Provision for impairment	Carrying value
Hazardous waste disposal centre in Northern Guangdong	118,303,542.51	-	118,303,542.51	107,780,306.06	-	107,780,306.06
Industrial hazardous wastes treatment base in Shenzhen Longgang	102,402,172.04	-	102,402,172.04	28,005,038.00	-	28,005,038.00
Zinc oxide project (Shaoguan Green)	27,712,746.27	-	27,712,746.27	22,422,742.16	-	22,422,742.16
Hazardous waste landfill (Shaoguan Green)	15,619,697.49	-	15,619,697.49	15,284,697.49	-	15,284,697.49
Construction waste recycling treatment demonstration project in Kunming	11,704,281.49	-	11,704,281.49	-	-	-
Preparation workshop	6,873,954.09	-	6,873,954.09	-	-	-
Sludge Project	3,367,137.08	-	3,367,137.08	-	-	-
Canteen project	3,010,041.00	-	3,010,041.00	3,010,041.00	-	3,010,041.00
Slag project (Shaoguan Greens)	2,818,817.23	-	2,818,817.23	2,055,984.23	-	2,055,984.23
Kingdee ERP System	2,724,970.09	-	2,724,970.09	-	-	-
Decoration and fire-prevention engineering project of Shayi Laboratory	1,967,470.50	-	1,967,470.50	-	-	-
Abandoned circuit board recycling treatment project	1,004,615.39	-	1,004,615.39	-	-	-
Wastewater treatment project (Shaoguan Greens)	841,961.16	-	841,961.16	841,961.16	-	841,961.16
Equipment for Macao project	806,705.14	-	806,705.14	-	-	-
Ion exchange column project	661,709.40	-	661,709.40	-	-	-
Research and development building construction	234,970.00	-	234,970.00	2,996,400.69	-	2,996,400.69
Factory construction (Qingyuan Dongjiang)	201,200.12	-	201,200.12	44,714,244.99	-	44,714,244.99
Nickel technology research project	170,141.65	-	170,141.65	-	-	-
CDM development project (Dongjiang Lisai)	120,127.26	-	120,127.26	5,397,660.87	-	5,397,660.87
Forklift maintenance	57,541.81	-	57,541.81	-	-	-
Copper workshop – Ammonia project	5,948.72	-	5,948.72	3,818,768.16	-	3,818,768.16
Shaoyang Municipal Wastes Landfill	-	-	-	62,716,671.90	-	62,716,671.90
Corrosion engineering	-	-	-	247,206.84	-	247,206.84
Production line renovation	-	-	-	143,005.59	-	143,005.59
Power Generation Project	-	-	-	22,474,679.45	-	22,474,679.45
Others	188,600.00	-	188,600.00	473,227.19	44,374.47	428,852.72
<b>Total</b>	<b>300,798,350.44</b>	<b>-</b>	<b>300,798,350.44</b>	<b>322,382,635.78</b>	<b>44,374.47</b>	<b>322,338,261.31</b>



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011  
(Unless otherwise stated, the 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 31st December 2011 were as follows:

Name of project	As at 1		Decrease		As at 31		Investment to		Accumulated		Including:	
	January		Transfer to fixed assets	Other deductions	December		Budget amount	budge to proportion of	Progress (%)	capitalised interest	Interest capitalised for the year	Source of funds
	2011	Increase			2011	2011						
Shenzhen Longgang Industrial												
hazardous wastes treatment base	28,005,038.00	74,397,134.04	-	-	102,402,172.04	135,506,700.00		76	76	-	-	Owned fund
Kunming Capitalisation of Constructive												
Disposal Demonstration Project	240,000.00	11,464,281.49	-	-	11,704,281.49	39,082,100.00		30	30	-	-	Owned fund
Huizhou Dongjiang Pre-treatment Plant	56,160.86	6,817,793.23	-	-	6,873,954.09	8,169,000.00		84	85	-	-	Owned fund
Hazardous waste disposal												
centre in Northern Guangdong	107,780,306.06	10,646,498.65	8,352.00	114,910.20	118,303,542.51	160,000,000.00		74	75	21,085,939.36	10,434,662.31	Owned fund
Zinc oxide project (Shaoguan Greens)	22,422,742.16	5,290,004.11	-	-	27,712,746.27	26,000,000.00		107	98	-	-	Owned fund
Hazardous waste landfill (Shaoguan Greens)	15,284,697.49	335,000.00	-	-	15,619,697.49	30,000,000.00		52	55	-	-	Owned fund
Factory construction (Qingyuan Dongjiang)	44,714,244.99	2,327,855.13	46,840,900.00	-	201,200.12	163,000,300.00		29	30	-	-	Owned fund
Shaoyang Municipal Wastes Landfill	62,716,671.90	45,237,922.48	-	107,954,594.38	-	108,000,000.00		100	100	-	-	Owned fund
Power Generation Project	27,872,340.32	8,770,649.69	36,522,862.75	-	120,127.26	46,000,000.00		80	80	-	-	Owned fund
Kingdee ERP System	-	2,724,970.09	-	-	2,724,970.09	20,000,000.00		14	15	-	-	Owned fund
<b>Total</b>	<b>309,152,201.78</b>	<b>168,012,108.91</b>	<b>83,372,114.75</b>	<b>108,069,504.58</b>	<b>285,662,691.36</b>	<b>735,758,100.00</b>				<b>21,085,939.36</b>	<b>10,434,662.31</b>	

Note:

1) Included in other deductions for the year, RMB107,954,594.38 was related to BOT projects-Shaoyang Municipal Wastes Landfill. The construction of which was completed and transferred to intangible assets.

(3) Provision for impairment loss on construction in progress

Item	2011	2010	Reason for provision
TBCC project	-	44,374.47	Technical renovation
<b>Total</b>	<b>-</b>	<b>44,374.47</b>	

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

The provision for impairment loss for TBCC project is written back on written off of the project.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 12. Intangible assets

(1) Breakdown for intangible assets were as follows:

Item	As at 1		Decrease	As at 31
	January 2011	Increase		December 2011
<b>Cost</b>				
Land use rights	56,310,652.68	12,046,978.60	–	68,357,631.28
Patents	653,855.00	16,905.00	–	670,760.00
Software	189,244.53	411,965.81	–	601,210.34
Operating rights under BOT projects	25,044,462.69	110,007,594.38	–	135,052,057.07
	<b>82,198,214.90</b>	<b>122,483,443.79</b>	–	<b>204,681,658.69</b>
<b>Amortisation</b>				
Land use rights	4,627,771.43	1,107,150.55		5,734,921.98
Patents	306,209.82	59,079.95	–	365,289.77
Software	55,379.41	35,775.06	–	91,154.47
Operating rights under BOT projects	17,240,847.22	11,565,442.28	–	28,806,289.50
	<b>22,230,207.88</b>	<b>12,767,447.84</b>	–	<b>34,997,655.72</b>
<b>Carrying value</b>				
Land use rights	51,682,881.25			62,622,709.30
Patents	347,645.18			305,470.23
Software	133,865.12			510,055.87
Operating rights under BOT projects	7,803,615.47			106,245,767.57
<b>Total</b>	<b>59,968,007.02</b>			<b>169,684,002.97</b>

Intangible asset as at 31 December 2011 was increased by RMB 109,715,995.95, 182.96%. It was mainly because the construction of BOT project of Shaoyang Municipal Wastes Landfill was completed and transferred from construction in progress into intangible asset.

(2) Amortisation on intangible assets recognised in income statement for the year was RMB12,767,447.84 (2010: RMB10,518,784.85)

(3) The land was situated in the PRC and held under medium-term lease (more than 10 years but less than 50 years)

(4) As at 31 December 2011, there was no pledge of intangible assets

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

### 13. Goodwill

Item	2011	2010
Goodwill	<b>40,675,599.74</b>	40,675,599.74
Less: Provision impairment losses	<b>37,623,580.60</b>	13,791,922.16
	<b>3,052,019.14</b>	26,883,677.58

(1) The breakdown of goodwill was as follows:

Investee company	Carrying amount		Provision for impairment	
	2011	2010	2011	2010
Shaoguan Green	<b>30,831,658.44</b>	30,831,658.44	<b>30,831,658.44</b>	7,000,000.00
Beijing Novel	<b>4,746,912.09</b>	4,746,912.09	<b>4,746,912.09</b>	4,746,912.09
Chengdu Treatment Centre	<b>2,045,010.07</b>	2,045,010.07	<b>2,045,010.07</b>	2,045,010.07
Lik Shun Services	<b>3,052,019.14</b>	3,052,019.14	–	–
Total	<b>40,675,599.74</b>	40,675,599.74	<b>37,623,580.60</b>	13,791,922.16

(2) The formation of goodwill is as follows:

	Chengdu			
	Shaoguan Green	Beijing Novel	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	–
<b>Total</b>	<b>30,831,658.44</b>	<b>4,746,912.09</b>	<b>2,045,010.07</b>	<b>3,052,019.14</b>

(3) Impairment loss test

Impairment loss on goodwill was provided for as the difference between the recoverable amount of the group of assets to which the goodwill belonged and the carrying amount of that assets group. Impairment loss on goodwill once recognized will not be reversed in subsequent years.

#### Shaoguan Green

The Company performed the impairment test on the project at the balance sheet date. As the preliminary works such as environmental assessment and the land use rights application formalities for the Yuebei dangerous wastes processing centre project of Shaoguan Green took more time than as expected and was conducted behind the original schedule, the Management revised the financial budget of Shaoguan Green and determined to provide further impairment loss on the goodwill of RMB23,831,658.44. As at 31 December 2011, the goodwill for Shaoguan Green has been fully impaired.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 13. Goodwill (Continued)

(3) Impairment loss test (Continued)

Lik shun Services

For the purposes of impairment testing, the calculation of discounted cash flows used the cash flow projections which was based on financial budgets approved by management covering a 10-year period, and discount rate of 13.5%. The cash flows beyond the 3-year period are extrapolated with no growth rate. Other key assumptions for the calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation was based on the past performance and Management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount to exceed the recoverable amount.

#### 14. Long-term prepayments

Item	As at 1	Increase	Amortisation	As at 31
	January 2011			December 2011
Sludge Technical Services fee	180,000.00	–	180,000.00	–
ISL Management fee	1,500.00	–	1,500.00	–
<b>Total</b>	<b>181,500.00</b>	<b>–</b>	<b>181,500.00</b>	<b>–</b>

#### 15. Deferred income tax assets and deferred income tax liabilities

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

Item	2011	2010
<b>Deferred income tax assets</b>		
Provision for assets impairment	<b>4,172,556.79</b>	4,724,173.49
Deferred income	<b>3,036,569.77</b>	2,855,502.23
Difference of fixed assets depreciation	<b>1,218,811.25</b>	988,703.45
Changes in fair value of financial assets held for trading	<b>664,176.60</b>	777,931.50
Equity adjustments to long-term equity investments	–	514,366.67
Unrealised gain on intra-group sales	<b>55,796.02</b>	213,857.93
<b>Total</b>	<b>9,147,910.43</b>	10,074,535.27
<b>Deferred income liabilities</b>		
Difference of fixed assets depreciation	<b>1,626,246.65</b>	573,186.87
Equity adjustments to long-term equity investments	<b>194,078.04</b>	–
Changes in fair value of investment properties	<b>770,046.48</b>	830,659.83
<b>Total</b>	<b>2,590,371.17</b>	1,403,846.70

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)

(2) Details of unrecognised deferred income tax assets

Item	2011	2010
Deductible temporary difference	<b>27,865,724.20</b>	25,724,162.15
Deductible tax losses	<b>81,673,358.57</b>	67,316,962.23
<b>Total</b>	<b>109,539,082.77</b>	93,041,124.38

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

Item	2011	2010
2011	–	4,322,833.14
2012	<b>1,877,308.60</b>	1,877,308.60
2013	<b>18,440,522.84</b>	20,276,861.12
2014	<b>14,639,623.31</b>	15,954,143.31
2015	<b>24,885,816.06</b>	24,885,816.06
2016	<b>21,830,087.73</b>	–
<b>Total</b>	<b>81,673,358.54</b>	67,316,962.23

(4) Details of taxable temporary difference and deductible temporary difference as at 31 December 2011 were as follows:

Item	2011	2010
<b>Taxable temporary difference</b>		
Difference of fixed assets depreciation	<b>5,133,643.18</b>	5,537,732.18
Changes in fair value of investment properties	<b>10,841,644.33</b>	3,473,859.82
Equity adjustments to long-term equity investments	<b>1,293,853.61</b>	–
<b>Total</b>	<b>17,269,141.12</b>	9,011,592.00
<b>Deductible temporary difference</b>		
Provision for bad debts	<b>13,734,392.04</b>	15,745,659.99
Provision for inventories	<b>5,088,042.55</b>	1,051,269.44
Provision for impairment loss on construction in progress	–	44,374.47
Provision for impairment loss on fixed assets	<b>9,047,561.31</b>	13,415,502.26
Difference of fixed assets depreciation	<b>4,875,245.04</b>	4,426,900.30
Provision for impairment loss on long-term equity investments	<b>529,649.00</b>	529,649.00
Equity adjustments to long-term equity investments	–	3,429,111.13
Changes in fair value of held for trading financial assets	<b>4,427,844.00</b>	5,186,210.00
Deferred income	<b>20,243,798.44</b>	19,036,681.52
Unrealised gain on intra-group sales	<b>371,973.50</b>	1,425,719.53
<b>Total</b>	<b>58,318,505.88</b>	64,291,077.64

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 16. Other non-current assets

Item	31 December 2011	31 December 2010
Trust Loan	10,040,880.00	–
<b>Total</b>	<b>10,040,880.00</b>	<b>–</b>

The entrust loan is the amount that the Company placed at Ping'an Bank Co. Limited Shenzhen Branch and entrust the bank to grant a bank loan to its associate Chongqing Songzao. The loan was commenced on 30 January 2011 for the terms of 132 months. The loan was charged at interest rate of 5.26% per annum.

#### 17. Breakdown of assets impairment losses

Item	As at 1		Decrease	Other	As at 31
	January 2011	Increase	Reversal	transfer	December 2011
Provision for bad debts (note 1)	29,799,400.17	3,116,880.78	579,024.50	1,758,951.76	30,578,304.69
Provision for inventories	505,487.03	–	–	–	505,487.03
Provision for long-term equity investments	529,649.00	–	–	–	529,649.00
Provision for impairment losses					
on fixed assets (note 2)	25,191,033.27	–	–	217,403.56	24,973,629.71
Provision for impairment losses					
on construction in progress (note 2)	44,374.47	–	–	44,374.47	–
Provision for impairment loss on goodwill	13,791,922.16	23,831,658.44	–	–	37,623,580.60
<b>Total</b>	<b>69,861,866.10</b>	<b>26,948,539.22</b>	<b>579,024.50</b>	<b>2,020,729.79</b>	<b>94,210,651.03</b>

Note 1: Other transfer of provision for bad debts mainly represents the written off of provision for bad debts of accounts receivable.

Note 2: Other transfer of provision for impairment losses of fixed assets and construction in progress represent the written back of disposal or retirement of the assets.

#### 18. Short-term borrowings

(1) *Category of short-term borrowings*

Category	2011	2010
Bank loans (Note VIII.26)	128,107,000.00	288,000,000.00
<b>Total</b>	<b>128,107,000.00</b>	<b>288,000,000.00</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 18. Short-term borrowings (Continued)

(2) Category of short-term bank loans

Category	2011	2010
Not secured or guaranteed	60,000,000.00	–
Secured	–	8,000,000.00
Guaranteed	68,107,000.00	280,000,000.00
<b>Total</b>	<b>128,107,000.00</b>	<b>288,000,000.00</b>

The short-term borrowings as at 31 December 2011 were decreased by 159,893,000.00, 55.52% as compared with last year. It was mainly because more long-term bank loans were obtained after the short-term bank loans were due and repaid.

Assets pledged as collateral to secure for the short-term bank loans at the end of the year was stated in Note VIII.8 (3).

There was no loan overdue as at 31 December 2011 (2010: NIL)

#### 19. Accounts payable

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

	2011	2010
Within 90 days	135,006,990.81	100,156,306.82
91-180 days	6,089,706.30	23,748,123.98
181-365 days	4,697,227.77	16,743,699.35
Over 1 year	8,361,910.39	5,056,418.02
<b>Total</b>	<b>154,155,835.27</b>	<b>145,704,548.17</b>

The balances with significant amounts and aged over 1 year as at 31 December 2011 mainly represent the retention money for construction work or the pledge of equipments. After the balance sheet date, no amount was settled.

(2) There were no accounts payable due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 December 2011.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 19. Accounts payable (Continued)

(3) Accounts payable comprised the following balances in foreign currencies:

Foreign currency	Amount in foreign currency	2011		2010		
		Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	<b>1,074,400.39</b>	<b>0.8107</b>	<b>871,016.40</b>	771,805.16	0.8509	666,446.04
<b>Total</b>			<b>871,016.40</b>			666,446.04

#### 20. Receipts in advance

Item	2011	2010
Within 1 year	<b>55,404,227.53</b>	51,522,716.99
Over 1 year	<b>31,155,592.58</b>	3,823,335.99
<b>Total</b>	<b>86,559,820.11</b>	55,346,052.98

Receipts in advance of the Group as at 31 December 2011 was increased by RMB31,213,767.13, 56.4% as compared with last year. It was mainly because Beijing Novel received advancement of RMB13,680,000 for new environmental projects.; Shajing Treatment Base increased the receipts in advance of treatment fee of RMB 3,200,000 from Dongjiang Veolia, Dongjiang Transport increased the receipts in advance of transportation fee of RMB 1,830,000 from Dongjiang Veolia

(1) The balances with significant amount and 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 2011.



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 21. Employee emolument payables

Item	As at 1			As at 31 December 2011
	January 2011	Increase	Decrease	
Salaries (including bonus, allowance and subsidies)	16,432,260.06	112,915,870.89	105,712,110.36	23,636,020.59
Staff welfare	1,602.00	8,311,700.23	7,072,301.23	1,241,001.00
Social security				
Medical insurance	–	1,043,389.92	1,043,389.92	
Basic pension	(3,317.61)	5,886,013.46	5,886,013.46	(3,317.61)
Unemployment insurance	–	246,441.37	246,441.37	–
Injury insurance	–	234,681.46	234,681.46	–
Maternity insurance	–	88,100.13	88,100.13	–
Sub-total	(3,317.61)	7,498,626.34	7,498,626.34	(3,317.61)
Housing provident fund	2,584.42	3,713,023.99	3,713,023.99	2,584.42
Union operation cost and staff education cost	6,210.27	204,055.14	208,842.13	1,423.28
<b>Total</b>	<b>16,439,339.14</b>	<b>132,643,276.59</b>	<b>124,204,904.05</b>	<b>24,877,711.68</b>

Employee emolument payables of the Group as at 31 December 2011 was increased by RMB8,438,372.54, 51.33% as compared with last year. It was mainly because of the increase in staff year-end bonus for 2011 which was accrued according to performance of the Group.

The negative balances as at 31 December 2011 represent the prepayment of expenses for the following year.

The balance of staff emolument payables as at 31 December 2011 included accrued expenditure of salaries, bonus and subsidies of RMB23,636,020.59. Part of this balance of RMB5,460,000 was paid in January 2012. The remaining balance is expected to be paid in March 2012. There were no unpaid salaries.

#### 22. Tax payable

Item	2011	2010
VAT	(20,024,350.64)	(25,507,679.39)
EIT	7,048,439.39	19,189,194.36
Business tax	739,001.31	2,023,479.90
Individual income tax	425,767.03	244,908.66
Urban maintenance and construction tax	301,915.41	177,164.06
Education surcharge	339,720.05	125,665.22
Land use tax	107,244.78	2,250.00
Property tax	35,351.21	33,314.47
Stamp duty	5,549.40	5,649.10
Embayment fee	393.09	611.85
<b>Total</b>	<b>(11,020,968.97)</b>	<b>(3,705,441.77)</b>

Tax payable of the Group as at 31 December 2011 was decreased by RMB7,315,527.20, 197.43% as compared with last year. It was mainly caused by the increase in payment of EIT made during the year.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 23. Other payable

Item	2011	2010
Within 1 year	<b>44,432,796.86</b>	14,121,151.28
Over 1 year	<b>16,107,380.53</b>	20,747,247.75
<b>Total</b>	<b>60,540,177.39</b>	34,868,399.03

The balances of other payable with significant amount and aged over 1 year were mainly the retention money payable for the construction works and outstanding other account payable. After the balance sheet date, no amounts were settled.

(1) There was no other payable due to shareholders holding over 5% (or 5%) shares of the Company entitling voting rights as at 31 December 2011.

(2) As at 31 December 2011, other payable with significant amount were as follows:

Item	Amount	Aged	Nature
Mr. Zhang Guoyan	12,000,000.00	180-360 days	Investment
Longyuan Cement Factory	6,000,000.00	180-360 days	Deposit
Sichuan Xingli Tyres Co., Limited	4,400,000.00	Over 3 years	Loan
Shenzhen Bao'an Wastes Treatment Station	2,500,000.00	1-2 years	Technical services fee
Shenzhen Shekou Construction and installation Co., Ltd	2,103,943.64	1-2 years	Project Payment
<b>Total</b>	<b>27,003,943.64</b>		

(3) Other payables comprised the following balances in foreign currencies

Foreign currency	2011			2010		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	<b>28,225,199.11</b>	<b>0.8107</b>	<b>22,882,168.92</b>	1,375,999.56	0.8509	1,170,838.03
<b>Total</b>			<b>22,882,168.92</b>			1,170,838.03

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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	2011	2010
Long-term borrowings – repayable within 1 year (Note VIII.26)	42,000,000.00	110,000,000.00
Obligations under finance leases – repayable within 1 year (Note VIII.27)	13,065,824.12	2,450,022.02
<b>Total</b>	<b>55,065,824.12</b>	<b>112,450,022.02</b>

#### 25. Other current Liabilities

Deferred Income of asset-related government grants realisable within one year.

Item	2011	2010
Environmental special fund	2,086,883.08	1,786,883.08
Subsidies of energy-saving and emission-reduction projects	720,000.00	720,000.00
Funds for resources conservation and environment protection projects	850,000.00	–
<b>Total</b>	<b>3,656,883.08</b>	<b>2,506,883.08</b>

#### 26. Long-term borrowings

Item	2011	2010
Long-term bank loans	383,964,445.00	375,587,320.00
Short-term bank loans (Note VIII.18)	128,107,000.00	288,000,000.00
Total bank loans	512,071,445.00	663,587,320.00
Less: Short-term borrowings	(128,107,000.00)	(288,000,000.00)
Non-current liabilities – repayable within 1 year (Note VIII.24)	(42,000,000.00)	(110,000,000.00)
<b>Long-term borrowings repayable after 1 year</b>	<b>341,964,445.00</b>	<b>265,587,320.00</b>

(1) The maturities of the bank loans are as follows:

Item	2011	2010
Within 1 year	158,107,000.00	398,000,000.00
In more than 1 year but less than 2 years	27,000,000.00	30,000,000.00
In more than 2 years but less than 5 years	276,400,000.00	235,587,320.00
After 5 years	50,564,445.00	–
<b>Total</b>	<b>512,071,445.00</b>	<b>663,587,320.00</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 26. Long-term borrowings (Continued)

(2) Category of long-term bank loans

Category	2011	2010
Secured (Note 1)	<b>29,400,000.00</b>	140,587,320.00
Mortgage (Note 2)	<b>54,000,000.00</b>	–
Guaranteed	<b>195,000,000.00</b>	235,000,000.00
Unsecured, not mortgaged or guaranteed	<b>105,564,445.00</b>	–
<b>Total</b>	<b>383,964,445.00</b>	375,587,320.00

Note 1: The secured bank loan was secured by the 80% equity interests in Dongjiang Lisai held by the Company and the rights of receiving electricity charge from CDM projects of electricity generation from landfill gas.

Note 2: The mortgage bank loan was secured by certain machinery and equipments of Renewable Energy with original cost of RMB16,497,500 and net carrying amount of RMB12,481,100. (Note VIII.10(5)).

(3) As at December 31, 2011, the top five long-term bank loans were as follows:

Lender	Commencement date	Due date	Interest rate (%)	2011
Bank of China, Shenzhen Branch	2009-6-1	2015-6-1	Floating rate	<b>165,000,000.00</b>
Ping'an Bank, Shenzhen Wuzhou Branch	2011-6-1	2016-5-31	Floating rate	<b>54,000,000.00</b>
Shenzhen Development Bank, Head Office	2010-2-9	2012-2-9	Floating rate	<b>30,000,000.00</b>
Ping'an Bank, Shenzhen Wuzhou Branch	2010-3-24	2015-3-24	Floating rate	<b>29,400,000.00</b>
Citic Bank, Xixiang Branch	2011-2-28	2014-2-28	Floating rate	<b>28,000,000.00</b>

#### 27. Long-term payables

Item	2011	2010
Obligations under finance leases	<b>49,260,914.69</b>	5,193,768.46
Less: Amount repayable within 1 year (Note VIII.24)	<b>13,065,824.12</b>	2,450,022.02
Amount repayable after 1 year	<b>36,195,090.57</b>	2,743,746.44

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 27. Long-term payables (Continued)

As at 31 December 2011, the obligations under finance leases of the Group was increased by RMB33,451,344.13, 1219.18%, as compared with last year. It was mainly because of the sale-and-leaseback transactions where Renewable Energy sold part of the machinery and equipment to a finance company and leased the assets back from the finance company under finance leases. The details are set out in Note XV.4.

(1) Details of the obligations under finance leases are as follows:

Name	2011		2010	
	Foreign currency (HKD)	Amount in RMB	Foreign currency (HKD)	Amount in RMB
China Merchants Bank Financial Leasing Co., Limited		<b>34,774,694.87</b>	–	–
China Construction Bank (Asia) Co., Limited	<b>6,897,364.57</b>	<b>5,591,693.46</b>	814,743.44	693,265.19
Bank of East Asia Limited	<b>6,691,980.24</b>	<b>5,425,188.38</b>	1,288,217.52	1,096,144.29
Wing Hang Finance Company Limited	<b>1,816,569.82</b>	<b>1,472,693.15</b>	1,865,467.02	1,587,325.89
Wing Hang Bank Company Limited	<b>2,462,865.22</b>	<b>1,996,644.83</b>	849,664.23	722,979.29
China Construction Bank		–	847,921.55	721,496.45
GM Money		–	437,839.17	372,557.35
<b>Total</b>	<b>17,868,779.85</b>	<b>49,260,914.69</b>	6,103,852.93	5,193,768.46

(2) The minimum payment period and unrecognised financial lease charge of finance lease are set out in note XV.3(2).

#### 28. Other non-current liabilities

Item	2011	2010
Deferred income of asset-related government grants	<b>50,955,241.92</b>	24,409,410.79
Less: Amount realisable within 1 year (Note VIII.25)	<b>3,656,883.08</b>	2,506,883.08
Amount realisable after one year	<b>47,298,358.84</b>	21,902,527.71
Unrealized gain on sale and lease-back transaction under financial lease	<b>4,042,317.51</b>	–
<b>Total</b>	<b>51,340,676.35</b>	21,902,527.71

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 28. Other non-current liabilities (Continued)

(1) Movements of deferred income during the year ended 31 December 2011 were as follows:

Category	As at 1 January 2011	Government grants received during the year (Note VIII.42)	Credited to non-operating income (Note VIII.42)	Exchange difference	As at 31 December 2011
Special funds for environmental protection for the Company	8,635,014.84	–	356,083.08	–	8,278,931.76
Environmental emergency response equipment and supplies allowances	1,440,000.00	–	1,100,000.00	–	340,000.00
Subsidies for energy conservation of the Company)	3,000,000.01	–	720,000.00	–	2,280,000.01
Copper sludge projects(the Company)	1,666,666.67	–	400,000.00	–	1,266,666.67
Subsidies for purchasing environmentally-friendly vehicles from Hong Kong government	872,729.27	–	175,810.64	(65,808.48)	631,110.15
Resources-saving and environmental protection projects funds for Renewable Resource	4,500,000.00	4,000,000.00	516,666.67	–	7,983,333.33
Wastewater treatment re-construction projects	4,295,000.00	3,800,000.00	1,030,800.00	–	7,064,200.00
Dongjiang Lisai special fund for national environmental protection	–	3,000,000.00	275,000.00	–	2,725,000.00
Special subsidies for Northern Guangdong sewage treatment	–	5,000,000.00	–	–	5,000,000.00
Northern Guangdong project	–	4,636,000.00	–	–	4,636,000.00
Research of key technology of recycling of waste printed circuit board and integrated demonstration projects	–	750,000.00	–	–	750,000.00
Resource-saving and environmental protection funds for Qingyuan Dongjiang	–	10,000,000.00	–	–	10,000,000.00
<b>Total</b>	<b>24,409,410.79</b>	<b>31,186,000.00</b>	<b>4,574,360.39</b>	<b>(65,808.48)</b>	<b>50,955,241.92</b>

There was no return of government grants during the year (2010: NIL).

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

### 29. Share capital

	As at 1 January 2011		Movements		As at 31 December 2011	
	Amount	Proportion (%)	Transfer of reserve to capital	Transfer of undistributed profits to capital	Amount	Proportion (%)
<b>Restricted shares</b>						
Domestic legal person shares	33,772,714.40	26.92	–	–	33,772,714.40	26.92
Domestic natural person shares	56,123,660.00	44.73	–	–	56,123,660.00	44.73
	89,896,374.40	71.64	–	–	89,896,374.40	71.64
<b>Non-restricted shares</b>						
Overseas listed foreign shares	35,580,000.00	28.36	–	–	35,580,000.00	28.36
<b>Total share capital</b>	<b>125,476,374.40</b>	<b>100.00</b>	<b>–</b>	<b>–</b>	<b>125,476,374.40</b>	<b>100.00</b>

With approval from the Stock Exchange of Hong Kong Limited, the share capital of the Company was consolidated at the rate of every 10 ordinary share of RMB0.1 each into 1 ordinary share of RMB1 each on 20 January 2011. On completion of the share consolidation, the share capital of the Company remained unchanged at RMB125,476,374 and the number of shares was changed from 1,254,763,740 to 125,476,374.

### 30. Capital reserve

As at 31 December 2010 and 2011, there were no capital reserve.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 31. Surplus reserve

Item	As at			As at 31 December 2011
	1 January 2011	Increase	Decrease	
Statutory surplus reserves	70,754,552.84	–	–	70,754,552.84
<b>Total</b>	<b>70,754,552.84</b>	<b>–</b>	<b>–</b>	<b>70,754,552.84</b>

#### 32. Undistributed profits

Item	Amount
<b>Balance as at 1 January 2011</b>	546,976,075.36
Net profit for the year attributable to shareholders of the Company	203,725,280.45
<b>Balance at 31 December 2011</b>	<b>750,701,355.81</b>

#### 33. Minority interests

Name	Proportion of equity held by minority shareholders as at 31 December 2011 (%)	Net profit (loss)			As at 31 December 2011
		As at 1 January 2011	for the year attributable to minority interests	Payment of dividends to minority interests	
Dongjiang Heritage	38.00	16,409,707.06	2,229,784.37	–	18,639,491.43
Longgang Dongjiang	49.00	17,413,919.68	5,396,808.65	–	22,810,728.33
Kunshan Kunpeng	49.00	7,002,785.64	993,741.51	735,000.00	7,261,527.15
Qingdeng Three Wastes	49.00	19,917,359.66	12,116,978.61	6,615,000.00	25,419,338.27
Shaoguan Green	40.00	41,419,527.12	(5,453,794.24)	–	35,965,732.88
Dongjiang Lisai	20.00	1,379,243.84	(406,291.44)	–	972,952.40
Hunan Dongjiang	5.00	134,696.54	157,542.90	–	292,239.44
Beijing Novel	45.00	(8,455,873.05)	431,376.88	–	(8,024,496.17)
<b>Total</b>		<b>95,221,366.49</b>	<b>15,466,147.24</b>	<b>7,350,000.00</b>	<b>103,337,513.73</b>

(1) Details of the profit or loss of non-controlling interests offsetting against the equity of minority interests

Name	2011	2010
Beijing Novel	<b>21,524,496.17</b>	21,955,873.04
Hunan Dongjiang	<b>207,760.56</b>	365,303.46
Shaoguan Green	<b>20,034,267.12</b>	14,580,472.88
Dongjiang Lisai	<b>1,027,047.60</b>	620,756.16
<b>Total</b>	<b>42,793,571.45</b>	37,522,405.54



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 33. Minority interests (Continued)

(2) The excess of losses in subsidiaries over the Group's investment cost borne by the Group

Name	2011	2010
Beijing Novel	9,807,717.52	10,334,955.92
<b>Total</b>	<b>9,807,717.52</b>	<b>10,334,955.92</b>

#### 34. Net current assets

	2011	2010
Current assets	873,326,372.73	812,086,384.92
Less: Current liabilities	501,942,282.68	651,609,802.65
Net current assets	371,384,090.05	160,476,582.27

#### 35. Total assets less current liabilities

	2011	2010
Total assets	1,983,716,072.40	1,782,077,448.82
Less: Current liabilities	501,942,282.68	651,609,802.65
Total assets less current liabilities	1,481,773,789.72	1,130,467,646.17

#### 36. Operating revenue and operating costs

Items	2011	2010
Operating revenue	1,501,074,352.89	1,152,358,350.49
Other operating revenue	-	-
<b>Total</b>	<b>1,501,074,352.89</b>	<b>1,152,358,350.49</b>
Operating costs	978,389,432.53	750,036,591.81
Other operating costs	-	-
<b>Total</b>	<b>978,389,432.53</b>	<b>750,036,591.81</b>

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.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 36. Operating revenue and operating costs (Continued)

(1) Operating revenue and operating costs – by principal operations

	2011		2010	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Industrial waste recycling	1,036,310,110.70	691,316,759.53	678,413,051.43	446,201,112.27
Industrial waste treatment and disposal	148,698,306.22	41,129,459.82	131,273,151.52	35,653,935.65
Municipal waste treatment and disposal	115,896,598.13	97,588,791.53	120,653,782.62	94,048,503.72
Renewable energy utilisation	47,145,227.15	29,486,100.39	30,760,458.28	20,141,945.84
Environmental engineering and services	108,056,429.04	82,481,781.08	106,828,773.61	77,726,789.36
Trading and others	44,967,681.65	36,386,540.18	84,429,133.03	76,264,304.97
<b>Total</b>	<b>1,501,074,352.89</b>	<b>978,389,432.53</b>	1,152,358,350.49	750,036,591.81

(2) Operating revenue and operating costs – by geographical locations

Locations	2011		2010	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Shenzhen	357,565,472.93	261,358,483.16	393,726,588.77	243,175,445.09
Other regions of Pearl River Delta	120,728,588.01	67,537,584.60	71,476,899.47	44,946,314.05
Other regions of Guangdong Province	141,826,404.36	97,150,960.42	111,399,351.02	71,080,321.93
Other Provinces	807,599,233.89	487,605,900.32	482,293,412.50	324,123,739.45
Overseas regions	73,354,652.70	64,736,504.03	93,462,098.73	66,710,771.29
<b>Total</b>	<b>1,501,074,352.89</b>	<b>978,389,432.53</b>	1,152,358,350.49	750,036,591.81

(3) The top five customers of revenue for the year ended 31 December 2011 were as follows:

Name of customer	Revenue	Proportion to total revenues (%)
Jiangxin Xinjinye Industrial Co., Limited	215,692,310.58	14.37
Heritage Technologies, LLC	130,954,896.42	8.72
Shenzhen Resource	55,508,205.09	3.70
XINGJIA Bio-engineering Co. Ltd.	50,321,506.09	3.35
Shenzhen Power Supply Bureau	46,798,747.84	3.12
<b>Total</b>	<b>499,275,666.02</b>	<b>33.26</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 37. Gross profit

	2011	2010
Operating revenue	<b>1,501,074,352.89</b>	1,152,358,350.49
Less: Operating costs	<b>978,389,432.53</b>	750,036,591.81
Gross profit	<b>522,684,920.36</b>	402,321,758.68

#### 38. Business taxes and additional taxes

Items	2011	2010
Business tax	<b>4,557,731.23</b>	5,018,175.70
Urban maintenance and construction tax	<b>6,850,458.78</b>	1,149,125.55
Education surcharge	<b>4,836,675.32</b>	1,835,748.16
Others	<b>3,528.20</b>	3,960.00
<b>Total</b>	<b>16,248,393.53</b>	8,007,009.41

#### 39. Selling expenses

Items	2011	2010
<b>Total</b>	<b>56,397,849.69</b>	35,531,956.09
Including:		
Transportation	<b>18,530,784.29</b>	13,892,031.29
Salaries	<b>14,801,802.04</b>	10,054,857.74
Technical consultation fee	<b>2,265,124.67</b>	2,172,795.17
Travelling	<b>2,692,637.89</b>	2,710,523.27
Rental	<b>2,040,147.64</b>	1,375,255.33
Repairs and maintenance	<b>748,833.66</b>	778,299.51
Office expenses	<b>973,122.19</b>	954,142.07
Entertainment	<b>1,496,332.85</b>	925,345.35
Labour insurance	<b>1,597,848.42</b>	1,101,633.78

The selling expenses of the Group for the year ended 31 December 2011 was increased by RMB 20,865,893.60, 58.72%, as compared with the same period last year. It was mainly because of the increase in sale and purchase that leading to the increase in transportation cost and of the increase in level of minimum wages in some regions that leading to the increase in staff costs.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 40. Administrative expenses

Item	2011	2010
<b>Total</b>	<b>179,152,888.47</b>	154,541,420.51
Including:		
Salaries	<b>55,266,867.13</b>	40,719,217.20
Depreciation	<b>15,648,964.93</b>	13,788,655.71
Research and development expenses	<b>27,015,278.70</b>	18,209,276.27
Entertainment	<b>11,303,529.70</b>	6,701,689.24
Office expenses	<b>6,630,031.40</b>	7,165,779.10
Rental	<b>4,825,331.33</b>	4,026,022.33
Travelling	<b>11,089,380.43</b>	3,503,512.59
Labour insurance	<b>5,023,108.33</b>	3,630,897.18
Staff welfare	<b>7,407,267.84</b>	4,420,372.35
Professional fee	<b>1,614,307.87</b>	7,941,124.26
Loss on Inventories	<b>855.60</b>	18,590,856.61

#### 41. Finance costs

(1) Details of finance costs are as follows:

Item	2011	2010
Interest expenses	<b>24,514,483.06</b>	25,062,268.55
Less: Interest income	<b>(7,131,134.44)</b>	(3,909,568.24)
Add: Exchange difference	<b>1,688,044.86</b>	675,879.27
Add: Other expenses	<b>569,894.65</b>	340,233.29
<b>Total</b>	<b>19,641,288.13</b>	22,168,812.87

(2) Interest expenses comprising the following:

Item	2011	2010
Interest on bank loans		
– Wholly repayable within 5 years	<b>32,938,308.30</b>	33,212,914.70
– Not wholly repayable within 5 years	<b>–</b>	–
	<b>32,938,308.30</b>	33,212,914.70
Finance lease charge	<b>2,010,837.07</b>	806,472.45
Less: amount capitalised	<b>(10,434,662.31)</b>	(8,957,118.60)
<b>Total</b>	<b>24,514,483.06</b>	25,062,268.55

Borrowing cost capitalised during the year was calculated by applying the capitalisation rate of 6.3% (2010: 5.4%) per annum to expenditure on qualifying assets.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 42. Assets impairment losses

Item	2011	2010
Provision (reversal) for bad debts	1,963,856.28	(2,441,443.39)
Impairment loss on inventories	–	45,350.03
Impairment loss on fixed assets	–	2,235,309.11
Impairment loss on goodwill	23,831,658.44	–
<b>Total</b>	<b>25,795,514.72</b>	<b>(160,784.25)</b>

#### 43. (Loss) Gain on changes in fair value

Items	2011	2010
Derivative financial instruments	–	–
Other financial assets held for trading	(79,530.00)	(95,563.96)
Sub-total for financial assets	(79,530.00)	(95,563.96)
Investment properties measured at fair value	(404,089.00)	2,484,030.00
<b>Total</b>	<b>(483,619.00)</b>	<b>2,388,466.04</b>

#### 44. Investment income (loss)

(1) The investment income(loss) were arising from:

Items	2011	2010
Share of profit (loss) of jointly controlled entities and associates	5,560,783.98	(4,285,458.62)
Other investment income (loss)		
Gain on disposal of long-term equity investments	4,600,596.63	–
Income received from financial assets held for trading during the period of ownership	103,359.27	75,181.76
Loss on disposal of financial assets held for trading	(209,785.34)	(421,632.71)
Interest income from entrusted loan	476,802.35	–
Sub-total	4,970,972.91	(346,450.95)
<b>Total</b>	<b>10,531,756.89</b>	<b>(4,631,909.57)</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 44. Investment income (loss) (Continued)

(1) *The investment income(loss) were arising from: (Continued)*

Investment income of the Group for the year ended 31 December 2011 was increased by RMB15,163,666.46, 327.37% as compared with the same period last year. It was mainly arisen from the share of profit of jointly controlled entities and associates, the gain on disposal of a jointly controlled entity.

Investment loss arising from listed equity investments for the year was RMB106,429.09 (2010: RMB346,450.95).

(2) *Details of share of profit (loss) of jointly controlled entities and associates were as follows:*

Item	2011	2010	Reason for changes
Shuangxin Cement	<b>(1,582,909.56)</b>	(8,484,252.50)	Disposed during the year
Dongjiang Veolia	<b>6,517,814.25</b>	3,613,865.92	Increase in profitability
Shenzhen Micronutrients	<b>100,017.79</b>	674,282.20	Decrease in profitability
Shenzhen Resource	<b>1,529,264.77</b>	(61,635.21)	Become an associate during the year
Zuhai Qingxin	<b>(237,756.98)</b>	–	Operating loss
Dongjiang Songzao	<b>(765,646.29)</b>	(154,613.52)	Not yet commenced business
Lisheng Membrane	–	126,894.49	Decrease in profitability
<b>Total</b>	<b>5,560,783.98</b>	(4,285,458.62)	

(3) *There are no significant restrictions on remittance of investment gains back to the Company.*

#### 45. Non-operating income

(1) *Breakdown of non-operating income*

Item	2011	2010	Recorded as non-recurring profit or loss
Gain on disposal of fixed assets	<b>540,716.78</b>	125,097.39	540,716.78
Gain on disposal of intangible assets	<b>4,720.00</b>	2,323,000.29	4,720.00
Gain on disposal of non-current assets	<b>545,436.78</b>	2,448,097.68	545,436.78
Government grants (note 2)	<b>23,085,960.57</b>	16,323,967.14	9,980,666.26
Others	<b>498,456.79</b>	485,023.92	498,456.79
<b>Total</b>	<b>24,129,854.14</b>	19,257,088.74	11,024,559.83

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 45. Non-operating income (Continued)

(2) Details of government grants

2011

Item	Amount received during the year	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Refund of VAT for Recycled Resource	9,855,139.94	–	9,855,139.94	Ministry of Finance, State Tax Administration Bureau (Cai Shui [2008] No. 157)
Special funds for bank-and-enterprise-projects	4,080,000.00	–	4,080,000.00	Shaoguan Bureau of Finance (Shao Cai Gong [2011] No.168)-Notice of the special funds of government-bank-enterprise projects for the first batch of enterprises of strategic and new industries
Pay and instant refund of VAT for Recycled Resource	3,250,154.37	–	3,250,154.37	Ministry of Finance, State Administration Taxation Bureau (Cai Shui [2008] No. 156)
Nanshan region economic development special fund—Rewards for famous brands in Chinese and Guangdong Province	800,000.00	–	800,000.00	Shen Nan Gong Ji [2011] No.7
Shaoguan Special subsidies for ecological civilisation	200,000.00	–	200,000.00	Shaoguan Finance Bureau (Shao Cai Gong [2011] No.154-Notice about the arrangement of the balance of Special fund for ECCI

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 45. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011 (Continued)

Item	Amount received during the year	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Reward for High-New Technologies”	100,000.00	–	100,000.00	Kunshan Science Technology Bureau, Kunshan Finance Bureau (Kunkezi [2011] No.16, Kuncaizi [2011] No.64)
Reward for Kunshan Ecological Construction	70,000.00	–	70,000.00	Kunshan Finance Bureau, Environmental Protection Bureau (Kuncaizi [2010] No.187, Kunhuan [2010] No.65)-Notice of rewards and special funds for Kunshan ecological city construction
Reward for tax declaration	50,000.00	–	50,000.00	Kunshan City Qiandeng Town (Qianzhengfa [2011] No.5)
Special funds for energy-saving projects from Finance Bureau of Zhongkai District	30,000.00	–	30,000.00	Huizhou Zhongkai Economy Development Bureau of Innovative and High Technology Industry Development Region, Huizhou Zhongkai Finance Bureau of Innovative and High Technology Industry Development Region (Huizhongjingfa [2011] No.125)-Notice of special fund for Zhongkai Region energy-saving project plan



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 45. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011 (Continued)

Item	Amount received during the year	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Subsidies for patent from Shenzhen Market Supervision Bureau	27,400.00	–	27,400.00	Shenzhen Intellectual Property office (Shen Cai Qi [2005] No.37)
Reward for top sales enterprises	20,000.00	–	20,000.00	Kunshan City Qiandeng Town (Qianzhengfa [2011] No.5)
Pengchang reward for pollution reduction 2009	20,000.00	–	20,000.00	Kunshan City Qiandeng Town (Qianzhengfa [2011] No.5)
Subsidies for labour placement	6,405.87	–	6,405.87	Labor and Employment Service Center(Shen Lao Jiu [2006] No.13)-Notice of improvement of the payment method of social insurance subsidies for enterprises hiring of people who have difficulties in finding jobs
Rewards for patent application and authorization 2011	2,500.00	–	2,500.00	Kunshan Intellectual Property Officey, Kunshan Finance Bureau patent application expenses (Kunzhifa [2010] No.17, Kuncaizi [2010] No. 258)
Wastewater treatment re-construction projects	3,800,000.00	3,800,000.00	–	Shen Fu [2006] No. 196 of Shenzhen Environmental Protection Bureau

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 45. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011 (Continued)

Item	Amount received during the year	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Dongjiang Lisai Special fund for national environmental protection	3,000,000.00	3,000,000.00	–	Shenzhen Environmental Protection Fund Management Regulation.
Resources-saving and environmental protection projects funds for Renewable Resource	4,000,000.00	4,000,000.00	–	National Development and Reform Commission (Fa Gai Tou Zi [2010] No.451), Shenzhen Development and Reform Commission (Shen Fa Gai [2010] No.582)
Resource-saving and environmental protection funds for Qingyuan Dongjiang	10,000,000.00	10,000,000.00	–	Fa Gai Ban Huan Zi [2011] No.1191 of National Development and Reform Bureau
Subsidies for wastewater treatment in Northern Guangdong	5,000,000.00	5,000,000.00	–	Weng Cai Qi [2010] No.38 WengYuan Financial Bureau
Funds for projects in Northern Guangdong	4,636,000.00	4,636,000.00	–	Wengyuan Government, Shaoguan, Guangdong
Research of key technology of recycling of waste printed circuit board and integrated demonstration projects	750,000.00	750,000.00	–	Yue Ke Gui Hua Zi [2010] No.126
Sub-total	49,697,600.18	31,186,000.00	18,511,600.18	

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 45. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011 (Continued)

Item	Amount received during the year	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
Amortisation of asset-related government grants transferred from other non-current liabilities (Note VIII.28)	–	–	4,574,360.39	
Total	49,697,600.18	31,186,000.00	23,085,960.57	

2010

Item	Amount received during the year	Transfer to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
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 recycled resources	3,966,846.95	–	3,966,846.95	Ministry of Finance, State Administration Taxation Bureau (Cai Shui [2008] No. 156)
Demonstration projects for integrated utilisation of recycling resources products	1,300,000.00	–	1,300,000.00	Fa Gai Ban Huan Zi [2008] No. 889 of Shenzhen Development and Reform Bureau

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 45. Non-operating income (Continued)

(2) Details of government grants (Continued)

2010 (Continued)

Item	Amount received during the year	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
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
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	–	Fa Gai Ban Huan Zi [2010] No. 26 of Office of National Development and Reform Commission

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 45. Non-operating income (Continued)

(2) Details of government grants (Continued)

2010 (Continued)

Item	Amount received during the year	Transfer of asset-related government grants to deferred income (Note VIII.28)	Credited to non-operating income	Source and basis
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 transferred from other non-current liabilities (Note VIII.28)	–	–	2,333,591.79	
Total	19,985,683.21	5,995,307.86	16,323,967.14	

#### 46. Non-operating expenses

Item	2011	2010	Recorded as non-recurring profit or loss for 2011
Loss on disposal of fixed assets	<b>674,982.80</b>	138,361.70	674,982.80
Donations	<b>828,000.00</b>	1,906,500.00	828,000.00
Others	<b>1,464,113.16</b>	330,954.42	1,464,113.16
Total	<b>2,967,095.96</b>	2,375,816.12	2,967,095.96

#### 47. Auditors' remuneration

The auditors' remuneration for the year was RMB 800,000.00 (2010: RMB 600,000.00).

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 48. Emoluments of Directors, Supervisors and Employees

(1) *Emoluments of Directors and Supervisors*

	2011	2010
Fee of directors and supervisors		
Executive directors	-	-
Non-executive directors and Independent non-executive directors	<b>396,000.00</b>	396,000.00
Supervisors	-	-
	<b>396,000.00</b>	396,000.00
Other emoluments of executive directors		
Basic salaries and allowances	<b>3,541,102.50</b>	3,504,489.79
Retirement benefits scheme contributions	<b>76,761.36</b>	63,767.53
	<b>3,617,863.86</b>	3,568,257.32
Supervisors		
Basic salaries and allowances	<b>169,344.34</b>	140,854.00
Retirement benefits scheme contributions	<b>20,109.00</b>	15,768.00
	<b>189,453.34</b>	156,622.00
<b>Total</b>	<b>4,203,317.20</b>	4,120,879.32

No directors or supervisors waived any emoluments in the year.

No emoluments were paid to directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office during the year.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

### 48. Emoluments of Directors, Supervisors and Employees (Continued)

(1) *Emoluments of Directors and Supervisors (Continued)*

The details of emoluments of directors and supervisors were as follows:

**2011**

Name	Fee of directors and supervisors	Other emoluments		Total
		Basic salaries and allowances	Retirement benefits scheme contributions	
Executive directors				
Zhang Wei Yang	-	1,598,770.75	25,587.12	1,624,357.87
Chen Shu Sheng	-	952,547.00	25,587.12	978,134.12
Li Yong Peng	-	989,784.75	25,587.12	1,015,371.87
Sub-total	-	3,541,102.50	76,761.36	3,617,863.86
Non-executive directors				
Feng Tao	-	-	-	-
Feng Bo	-	-	-	-
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	66,000.00	-	-	66,000.00
Wang Ji De	66,000.00	-	-	66,000.00
Sub-total	396,000.00	-	-	396,000.00
Supervisors				
Yuan Wei	-	-	-	-
Cai Wen Sheng	-	-	-	-
Liu An	-	169,344.34	20,109.00	189,453.34
Sub-total	-	169,344.34	20,109.00	189,453.34
Total	396,000.00	3,710,446.84	96,870.36	4,203,317.20

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 48. Emoluments of Directors, Supervisors and Employees (Continued)

(1) *Emoluments of Directors and Supervisors (Continued)*

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	–	–	–	–
Cai Wen Sheng	–	–	–	–
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 FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 48. Emoluments of Directors, Supervisors and Employees (Continued)

(2) Five individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company. The emoluments of the remaining two (2010: two) individuals were as follows:

Item	2011	2010
Basic salaries and allowances	<b>1,243,689.00</b>	1,724,222.82
Retirement benefits scheme contributions	<b>51,174.24</b>	64,070.28
<b>Total</b>	<b>1,294,863.24</b>	1,788,293.10

No emoluments were 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.

Their emoluments were within the following bands:

Item	2011 (Number)	2010 (Number)
0 – RMB1,000,000	<b>3</b>	3
RMB1,000,001 – RMB1,500,000	<b>1</b>	1
RMB1,500,001 – RMB2,000,000	<b>1</b>	1
<b>Total</b>	<b>5</b>	5

#### 49. Income tax expenses

(1) Income tax expenses comprise:

Item	2011	2010
Current income tax	<b>35,355,304.89</b>	33,068,906.50
Deferred income tax	<b>2,113,149.31</b>	(383,012.90)
<b>Total</b>	<b>37,468,454.20</b>	32,685,893.60

Details of the Group's entitlement to the waiver of EIT and preferential tax incentives were set out in Note VI.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 49. Income tax expenses (Continued)

(2) Current income tax

Item	2011	2010
Current income tax		
– PRC	<b>35,355,304.89</b>	37,122,778.65
– Hong Kong	–	210,143.37
	<b>35,355,304.89</b>	37,332,922.02
Over-provision in prior years		
– PRC	–	(4,264,015.52)
<b>Total</b>	<b>35,355,304.89</b>	33,068,906.50

(3) Reconciliation of consolidated total profit to current income tax for the year was as follows:

Item	2011	2010
Consolidated total profit	<b>256,659,881.89</b>	196,871,173.14
Add: Increase in amount by tax adjustments	<b>33,996,567.27</b>	21,849,387.10
Less: Decrease in amount by tax adjustments	<b>93,467,609.38</b>	46,728,402.38
Less: offset by tax losses of prior periods	<b>4,525,850.14</b>	2,913,054.79
Add: Loss for the year of subsidiaries	–	47,220,405.60
Taxable income for the year	<b>192,662,989.64</b>	216,299,508.67
Statutory income tax rate (25%)		
Income tax payable for the year	<b>54,839,301.83</b>	54,074,877.17
Less: Amount relieved	<b>17,686,669.51</b>	17,357,343.10
Tax payable for the year	<b>37,152,632.32</b>	36,717,534.07
Add: Other adjustments	<b>(1,797,327.43)</b>	(3,648,627.57)
<b>Current income tax</b>	<b>35,355,304.89</b>	33,068,906.50

#### 50. Other comprehensive loss

Item	2011	2010
Loss on translation of financial statements denominated in foreign currency	<b>(988,426.38)</b>	(141,430.99)
<b>Total</b>	<b>(988,426.38)</b>	(141,430.99)

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 51. Calculation of basic and diluted earning per shares

Item	No.	2011	2010
Net profit attributable to shareholders of the Company	1	<b>203,725,280.45</b>	155,855,982.56
Non-recurring profit or loss attributable to the shareholders of the Company	2	<b>9,015,688.16</b>	12,343,193.44
Net profit attributable to shareholders of the Company, excluding non-recurring profit or loss	3=1-2	<b>194,709,592.29</b>	143,512,789.12
Number of shares at beginning of year	4	<b>1,254,763,744.00</b>	627,381,872.00
Addition of shares by bonus issue (I)	5	-	627,381,872.00
Number of shares reduced	6	<b>1,129,287,369.60</b>	1,129,287,369.60
Weighted-average of ordinary shares issued	7=4+5-6	<b>125,476,374.40</b>	125,476,374.40
<b>Basic earning per shares (I)</b>	8=1÷7	<b>1.62</b>	1.24
<b>Basic earning per shares (Excluding non-recurring profit (loss) (II))</b>	9=3÷7	<b>1.56</b>	1.14

During the year ended 31 December 2011, there was share consolidation. The details were set out in Note VIII.29. The number of share for the year of 2011 for the purpose of earnings per share calculation has been restated to take into account of the share consolidation.

Diluted earnings per share was same as basic earnings per share for the two years ended 31 December 2011 as there were no diluting events during both years.

#### 52. Dividends

Item	2011	2010
Dividends recognised and distributed during the year		
Payment of final dividends of 2009, RMB0.5 per share	-	31,369,093.60
<b>Total</b>	<b>-</b>	<b>31,369,093.60</b>

The Board does not recommend the payment of any dividends for the year (2010: NIL).

#### 53. Supplementary information of consolidated cash flow statement

(1) Other cash receipts relating to operating activities

Item	2011	2010
Government grants	<b>40,544,514.90</b>	8,584,922.38
Interest income	<b>7,131,134.44</b>	3,909,568.24
Current accounts with other companies and individuals	<b>49,069,430.59</b>	56,443,182.81
<b>Total</b>	<b>96,745,079.93</b>	68,937,673.43

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 53. Supplementary information of consolidated cash flow statement (Continued)

(2) Other cash payments relating to operating activities

Item	2011	2010
Current accounts with other companies and individuals	<b>39,709,028.31</b>	14,440,987.38
Transportation	<b>24,416,558.21</b>	13,777,921.22
Office expenses	<b>7,603,153.59</b>	7,164,294.04
Entertainment	<b>12,799,862.55</b>	6,141,961.40
Travelling	<b>6,240,328.01</b>	4,952,391.95
Rent	<b>8,577,142.36</b>	5,298,968.90
Consultation fee	<b>2,158,982.93</b>	2,566,175.54
Technical services fee	<b>2,265,124.67</b>	2,028,166.51
Water and electricity	<b>2,387,512.97</b>	1,989,949.28
Repairs and maintenance	<b>2,628,492.31</b>	729,021.41
Communication	<b>1,482,405.61</b>	984,223.68
Securities	<b>2,274,555.82</b>	496,410.38
Professional fee	<b>2,744,940.57</b>	5,673,331.00
Other expenses	<b>5,955,864.86</b>	3,695,781.31
Preliminary expenses	<b>622,869.50</b>	1,328,879.41
Research and development expenses	<b>22,582,574.09</b>	8,379,706.54
<b>Total</b>	<b>144,449,396.36</b>	79,648,169.95

(3) Other cash receipts relating to investing activities

Item	2011	2010
Recovery of land acquisition cost advanced	–	20,000,000.00
Recovery of intention money for acquisition of associates	–	2,380,000.00
<b>Total</b>	<b>–</b>	<b>22,380,000.00</b>

(4) Other cash payments relating to investing activities

Item	2011	2010
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
<b>Total</b>	<b>–</b>	<b>27,647,632.11</b>

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

### 53. Supplementary information of consolidated cash flow statement (Continued)

(5) Other cash receipts relating to financing activities

Item	2011	2010
Guarantee deposit for loans	2,700,000.00	–
<b>Total</b>	<b>2,700,000.00</b>	<b>–</b>

(6) Other cash payments relating to financing activities

Item	2011	2010
Repayment of loans from Mr. Zhang Wei Yang	–	3,209,788.40
Payments of guarantee deposit for loans	–	2,700,000.00
Finance lease related payments	5,066,148.97	–
<b>Total</b>	<b>5,066,148.97</b>	<b>5,909,788.40</b>

(7) Reconciliation of consolidated net profits to cash flows from operating activities

Item	2011	2010
Net profits	219,191,427.69	164,185,279.54
Add: Provision for assets impairment	25,795,514.72	(160,784.25)
Depreciation of fixed assets	53,322,981.73	38,065,622.63
Amortisation of intangible assets	12,767,447.84	10,518,784.85
Amortisation of long-term prepayments	181,500.00	180,000.00
(Gain) loss on disposal of fixed assets, intangible assets and other long-term assets	129,546.02	(2,329,030.06)
(Gain) loss on written off of disposal fixed assets	(196,494.95)	19,294.08
(Gain) loss on changes in fair value on	483,619.00	(2,388,466.04)
Finance costs	26,202,527.92	25,738,147.82
(Gain) loss on investment	(10,531,756.89)	4,631,909.57
(Increase) decrease in deferred income tax assets	926,624.84	(739,777.50)
Increase in deferred income tax liabilities	1,186,524.47	352,665.22
Increase in inventories	57,328,845.09	(143,363,222.91)
Decrease (increase) in operating accounts receivables	(69,953,828.56)	8,763,416.65
Increase in operating accounts payables	83,897,826.57	80,123,487.20
Net cash flow from operating activities	400,732,305.49	183,597,326.80

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

#### 53. Supplementary information of consolidated cash flow statement (Continued)

(8) Significant non-cash investing and financing transactions

Item	2011	2010
Acquisition of fixed assets under finance leases	<b>11,941,611.00</b>	1,766,598.00

(9) Changes in cash and cash equivalents

Item	2011	2010
Cash and cash equivalents at end of year	<b>247,813,761.76</b>	174,236,578.41
Less: Cash and cash equivalents at beginning of year	<b>174,236,578.41</b>	197,611,550.70
Changes in cash and cash equivalents	<b>73,577,183.35</b>	(23,374,972.29)

(10) Information of acquisition of or disposal of subsidiary

Item	2011	2010
Information on disposal of subsidiaries		
1. Consideration of disposal of subsidiaries or other operating undertakings	-	-
2. Cash and cash equivalents received from disposal of subsidiaries or other operating units	-	4,136,575.00
Less: Cash and cash equivalent balance of the disposing subsidiaries or other operating units	-	-
3. Net cash received from disposal of subsidiaries or other operating units	-	4,136,575.00
4. Net assets of the disposing subsidiaries	-	-

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011  
(Unless otherwise stated, the financial statements are expressed in RMB)

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

#### 53. Supplementary information of consolidated cash flow statement (Continued)

##### (11) Cash and cash equivalents

Item	2011	2010
Cash on hand	<b>354,376.95</b>	174,743.72
Bank deposits readily available for payments	<b>247,364,899.80</b>	172,252,120.35
	<b>247,719,276.75</b>	172,426,864.07
Other bank deposit and cash	<b>4,283,825.01</b>	6,227,948.33
Less: other bank deposit and cash restricted for use	<b>(4,189,340.00)</b>	(4,418,233.99)
Other bank deposit and cash readily available for payment	<b>94,485.01</b>	1,809,714.34
Cash and cash equivalents at end of reporting period	<b>247,813,761.76</b>	174,236,578.41

Note: Cash and cash equivalents restricted for use represent guarantee deposits included in other bank deposit and cash.

### IX. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS

#### 1. Relationships of related parties

##### (1) Controlling shareholder and Ultimate controlling shareholder

The controlling shareholder and ultimate controlling shareholder of the Company was Mr. Zhang Wei Yang.

The controlling shareholdings or equity interests of ultimate controlling shareholder and the movement during the year are as follows:

Name of controlling shareholder	Shareholdings		Proportion (%)	
	2011	2010	2011	2010
Mr. Zhang Wei Yang	<b>43,158,960.00</b>	43,158,960.00	<b>34.40%</b>	34.40%

##### (2) Subsidiaries

Details of subsidiaries of the Group are set out in Note VII.

##### (3) Jointly controlled entities and associates

Details of the Group's jointly controlled entities and associates are set out in Note VIII.8

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### IX. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

#### 1. Relationships of related parties (Continued)

(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	

#### 2. Related party transactions

(1) Purchasing goods or receiving services

Related party	Nature of transactions	Pricing policy	2011		2010	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
<b>Jointly controlled entities and associates</b>						
Dongjiang Veolia	Receiving waste treatment service	Contracted price	<b>10,084,659.65</b>	<b>24.52</b>	14,040,975.72	39.38
Shenzhen Micronutrients	Receiving technical services	Contracted price	<b>1,086,709.78</b>	<b>2.99</b>	965,255.00	1.27
Shenzhen Resources	Purchase	Contracted price	<b>20,699.14</b>	<b>0.06</b>	26,424.14	0.03
<b>Total</b>			<b>11,192,068.57</b>	<b>27.57</b>	15,032,654.86	40.68



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## IX. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

### 2. Related party transactions (Continued)

#### (2) Sales of goods/rendering of services

Related party	Nature of transactions	Pricing policy	2011		2010	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
<b>Jointly controlled entities and associates</b>						
Dongjiang Veolia	Provide services	Contracted price	3,764,825.39	2.53	3,169,302.20	2.41
Dongjiang Veolia	Sale of products	Contracted price	190,712.86	0.02	137,092.69	0.16
Dongjiang Veolia	Provide service	Contracted price	2,008,160.35	0.19	1,182,499.80	1.40
Shenzhen Resources	Sales of products	Contracted price	55,508,205.09	5.30	5,985,290.42	7.09
Shenzhen Micronutrients	Sales of products	Contracted price	88,396,893.38	8.44	34,445,344.10	5.08
<b>Total</b>			<b>149,868,797.07</b>	<b>16.48</b>	44,919,529.21	16.14

#### (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	76,051.80

#### (4) Guarantee with related parties

- 1) Financial guarantee provided for jointly controlled entities

The Group provided financial guarantee to bank for securing banking facilities granted to a jointly controlled entity, Dongjiang Veolia. The balances of these financial guarantee yet to expire as at 31 December 2011 was RMB40,000,000 (2010: RMB31,400,000). The maximum balance of these financial guarantee was RMB60,000,000 (2010: RMB33,900,000). The breakdown of these financial guarantee are as follows:

Amount of guarantee	Date of commencement	Date of termination	Completed
5,000,000.00	2007-12-24	2011-12-31	Yes
5,000,000.00	2008-1-25	2011-12-31	Yes
5,000,000.00	2008-3-13	2011-12-31	Yes
5,000,000.00	2008-5-13	2011-12-31	Yes
6,400,000.00	2009-12-22	2011-12-22	Yes
5,000,000.00	2010-7-8	2011-7-8	Yes
21,600,000.00	2011-12-30	2013-12-30	No
18,400,000.00	2011-11-30	2013-11-23	No

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### IX. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

#### 2. Related party transactions (Continued)

##### (4) Guarantee with related parties (Continued)

##### 2) Financial guarantee given by controlling shareholder

The controlling shareholder of the Group, Mr. Zhang Wei Yang provided financial guarantee to bank for securing banking facilities granted to the Group. The balances of these financial guarantee yet to expire as at 31 December 2011 was RMB278,500,000 (2010: RMB585,000,000). The maximum balance of these financial guarantee was RMB675,000,000 (2010: RMB645,000,000). The breakdown of these financial guarantee are as follows:

Amount of guarantee	Date of commencement	Date of termination	Completed
30,000,000.00	2010-3-8	2011-1-8	Yes
30,000,000.00	2010-3-16	2011-3-16	Yes
20,000,000.00	2010-3-25	2011-3-16	Yes
20,000,000.00	2010-5-18	2011-5-18	Yes
10,000,000.00	2010-6-24	2011-6-24	Yes
10,000,000.00	2010-1-19	2011-1-19	Yes
30,000,000.00	2010-3-4	2011-3-4	Yes
10,000,000.00	2010-9-21	2011-9-21	Yes
30,000,000.00	2010-6-7	2011-6-7	Yes
30,000,000.00	2010-2-9	2012-2-9	No
33,500,000.00	2009-10-25	2013-10-25	No
6,500,000.00	2009-10-25	2011-6-21	Yes
20,000,000.00	2010-11-23	2011-11-23	Yes
30,000,000.00	2010-11-26	2011-11-26	Yes
30,000,000.00	2011-2-24	2011-6-29	Yes
40,000,000.00	2011-6-1	2011-6-30	Yes
20,000,000.00	2011-6-1	2012-2-1	No
30,000,000.00	2011-2-28	2014-2-28	No
30,000,000.00	2010-9-13	2011-9-13	Yes
10,000,000.00	2011-5-27	2011-11-27	Yes
120,000,000.00	2010-3-31	2015-6-1	No
45,000,000.00	2011-6-27	2012-6-27	No
40,000,000.00	2007-12-24	2011-12-31	Yes

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011  
(Unless otherwise stated, the financial statements are expressed in RMB)

## IX. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

### 2. Related party transactions (Continued)

(5) Loans with related parties

Name	Original loan amount	Commencement date	Due date	Balance at 31 December 2011
<b>Jointly controlled entities</b>				
Shuangxin Cement	1,575,000.00	2009-11-23	2011-11-22	–
Shuangxin Cement	1,337,100.00	2009-01-24	2011-01-23	–
Shuangxin Cement	331,000.00	2009-01-27	2011-01-26	–
Shuangxin Cement	4,000,000.00	2009-12-07	2011-12-06	–
Shuangxin Cement	9,000,000.00	2009-12-21	2011-12-20	–
Shuangxin Cement	5,000,000.00	2010-02-23	2011-02-22	–
Shuangxin Cement	5,000,000.00	2010-03-25	2011-03-24	–
<b>Associate</b>				
Dongjiang Songzao (Note)	10,040,880.00	2011-01-31	2023-01-30	10,040,880.00

Note: The loan with Dongjiang Songzao was the entrusted loan made by Shenzhen Branch of Ping An Bank. The details are set out in Note VIII.16.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### IX. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

#### 3. Current accounts balances with related parties

(1) *Accounts receivable due from related parties*

Related party	2011			2010		
	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts
<b>Jointly controlled entities</b>						
Dongjiang Veolia	6,858.00	0.00	-	2,228,562.00	1.30	-
Shenzhen Resources	481,060.94	0.25	-	4,433,701.60	2.58	-
Shenzhen Micronutrients	58,098,517.88	30.00	-	11,443,035.00	6.65	-
Beijing Shuangyi	1,140,000.00	0.59	1,140,000.00	1,140,000.00	0.66	1,140,000.00
<b>Total</b>	<b>59,726,436.82</b>	<b>30.84</b>	<b>1,140,000.00</b>	<b>19,245,298.60</b>	<b>11.19</b>	<b>1,140,000.00</b>

(2) *Other receivables due from related parties*

Related party	2011			2010		
	Carrying amount	Proportion to total other receivables (%)	Provision for bad debts	Carrying amount	Proportion to total other receivables (%)	Provision for bad debts
<b>Jointly controlled entities and associates</b>						
Shuangxin Cement	-	-	-	29,524,126.48	35.15	-
Dongjiang Veolia	1,026,964.56	1.67	-	1,034,479.50	1.23	-
Beijing Shuangyi	361,117.33	0.59	361,117.33	361,117.33	0.43	361,117.33
Beijing Lisheng Membrane	120,000.00	0.20	120,000.00	120,000.00	0.14	120,000.00
Zhejiang Shuangyi	90,000.00	0.15	90,000.00	90,000.00	0.11	90,000.00
Zhuhai Qingxin	149,556.01	0.24	-	-	-	-
Sub-total	1,747,637.90	2.84	571,117.33	31,129,723.31	37.06	571,117.33
<b>Other related parties</b>						
Li Yong Peng	-	-	-	157,549.92	0.19	-
<b>Total</b>	<b>1,747,637.90</b>	<b>2.84</b>	<b>571,117.33</b>	<b>31,287,273.23</b>	<b>37.25</b>	<b>571,117.33</b>

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. The amount is unsecured, non-interest bearing and has no fixed terms of repayment. The maximum balance outstanding during the year ended 31 December 2011 was RMB157,549.92 (2010: RMB157,549.92).

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## IX. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

### 3. Current accounts balances with related parties (Continued)

(3) *Accounts payable due to related parties*

Related party	2011	2010
<b>Jointly controlled entities and associates</b>		
Dongjiang Veolia	1,986,910.10	8,116,106.32
Shenzhen Resources	22,000.00	4,870.00
<b>Total</b>	<b>2,008,910.10</b>	<b>8,120,976.32</b>

(4) *Other payable due to related parties*

Related party	2011	2010
<b>Jointly controlled entities and associates</b>		
Shenzhen Micronutrients	14,675.30	425,000.00
Shenzhen Resources		16,717.68
Dongjiang Veolia	4,840,000.00	–
<b>Total</b>	<b>4,854,675.30</b>	<b>441,717.68</b>

(5) *Receipts in advance from related parties*

Related party	2011	2010
<b>Jointly controlled entities and associates</b>		
Dongjiang Veolia	5,041,201.16	–
<b>Total</b>	<b>5,041,201.16</b>	<b>–</b>

## X. SHARE-BASED PAYMENTS

There was no share based payment.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XI. CONTINGENT LIABILITIES

- Contingent liabilities relating to provision of financial guarantees

Contingent liabilities relating to financial guarantees provided to related parties are set out in IX.2(4)

- Due to the existing method of collection and processing of industrial waste 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 2011.

### XII. COMMITMENTS

#### 1. Capital commitment

	2011	2010
Construction in progress	<b>21,723,299.66</b>	28,335,880.38
Intangible assets – BOT projects	<b>21,189,110.00</b>	88,809,004.20
Intangible assets – Land use right	<b>31,146,659.00</b>	–
Sub-total	<b>74,059,068.66</b>	117,144,884.58
Acquisition of equipment	<b>17,354,389.66</b>	26,617,102.60
<b>Total</b>	<b>91,413,458.32</b>	143,761,987.18

(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 2011 were as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2011	Estimated investment period
Wastes Landfill project	110,000,000.00	96,289,667.52	13,710,332.48	–	2012
Hunan wastes landfill leachate treatment project	20,970,000.00	8,450,300.00	–	12,519,700.00	2012
Hunan balance tank capping project	1,370,000.00	1,096,000.00	–	274,000.00	2012
Hazardous waste disposal center project in Northern Guangdong	132,527,468.60	120,337,511.96	–	12,189,956.64	2012
Shenzhen Longgang industrial hazardous wastes treatment base project	99,468,198.00	91,072,788.00	–	8,395,410.00	2012
Research and development building for Head Office	23,689,409.00	18,791,608.14	4,897,800.86	–	2012
Factory construction (Dongjiang Lisai)	2,364,953.88	356,800.00	–	2,008,153.88	2012

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XII. COMMITMENTS (Continued)

#### 1. Capital commitment (Continued)

(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 2011 were as follows: (Continued)

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2011	Estimated investment period
Improvement of waste water treatment civil engineering project	7,520,000.00	7,144,000.00	-	376,000.00	2012
Yunnan Eastern River project of earthwork, detailed geological investigation, design and EIA	15,142,953.07	9,842,443.93	-	5,300,509.14	2012
Huizhou Dongjiang transformation project	5,600,000.00	5,096,000.00	-	504,000.00	2012
Macau project of movable devices	890,000.00	845,500.00	-	44,500.00	2012
Shayi Laboratory decoration and fire-prevention project	2,185,000.00	1,932,250.00	252,750.00	-	2012
Kingdee ERP System	4,202,000.00	3,079,500.00	-	1,122,500.00	2012
Fuyong sludge treatment project (first stage)	4,000,000.00	3,200,000.00	800,000.00	-	2012
Abandoned circuit board recycling project	1,060,000.00	954,000.00	-	106,000.00	2012
Ion exchange column installation works	774,200.00	702,520.00	-	71,680.00	2012
<b>Total</b>	<b>431,764,182.55</b>	<b>369,190,889.55</b>	<b>19,660,883.34</b>	<b>42,912,409.66</b>	

(2) Details of acquisition of equipments contracted for or readily for execution as at 31 December 2011 were as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2011	Estimated investment period
Equipment for hazardous waste disposal center in Northern Guangdong	13,764,504.00	12,382,649.20	-	1,381,854.80	2012
Acquisition of production line for squeezing and disintegrating	10,924,663.50	7,751,423.50	-	3,173,240.00	2012
Equipment for Huizhou Dongjiang	904,890.00	836,066.00	-	68,824.00	2012
Equipment for Shaoguan Dongjiang	1,878,558.00	1,785,375.50	-	93,182.50	2012
Environmental-friendly vehicles for Lik Shun Services	10,317,241.73	389,277.37	-	9,927,964.36	2012
Equipment for Longgang Dongjiang	5,387,480.00	2,874,156.00	-	2,513,324.00	2012
Gas chromatograph-mass spectrometer/Purge-and-Trap/Head Space Chromatography	735,000.00	539,000.00	-	196,000.00	2012
<b>Total</b>	<b>43,912,337.23</b>	<b>26,557,947.57</b>	<b>-</b>	<b>17,354,389.66</b>	

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XII. COMMITMENTS (Continued)

#### 2. Lease agreement contracted for or readily for executive and their financial effect

As at 31 December 2011, the Group had contracted with landlord for the minimum lease payment under non-cancellable operating leases and finance leases in respect of office building and motor vehicles:

Period	Operating leases	Finance leases
Within 1 year	3,369,402.00	13,683,375.13
In 1-2 years	3,021,189.45	12,966,589.86
In 2-3 years	2,261,025.17	12,237,607.61
After 3 years	2,524,209.00	16,117,010.07
<b>Total</b>	<b>11,175,825.62</b>	<b>55,004,582.67</b>

3. Other than the details as disclosed above, the Group had no significant commitments at 31 December 2011.

### XIII. POST-BALANCE SHEET EVENTS

#### 1. Proposal of issuing A shares

The Company resolved at the Extra-ordinary General Meeting held on 9 December 2010 that the Company would issue not more than 25,000,000 A shares with par value of RMB 1 each in the China Shenzhen Stock Exchange to the natural persons, entities and other institutional investors who were endorsed by the CSRC. The issue will be offer to the investors through internet subscription at bidding price or internet subscription at fixed subscription price or in any other forms as approved by the CSRC. The amounts raised from the issue would be applied in the investment projects as reported. The total estimated investment cost of the projects was approximately RMB440, 835,000.

On 5 January 2011, the material of the Company's IPO of A shares application were screened by the CRSC and was issued with Administrative Approval for Application Acceptance Notice (No.: 102323).

On 21 December 2011, the application for the Company's IPO of A shares application was approved at the 282th Meeting of 2011 of the IPO Examination Committee of the CSRC. At the date of this report, the progress of the IPO of A shares is going as scheduled.

2. Other than as disclosed above, the Group had other no significant post balance sheet events.

### XIV. SEGMENT INFORMATION

#### Segment information

The reportable segments are determined based on the structure of its internal organization, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The Group has the following reportable segments:



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## XIV. SEGMENT INFORMATION (Continued)

### Segment information (Continued)

#### Reportable segment

Industrial waste recycling  
Industrial waste treatment and disposal  
Municipal waste treatment and disposal  
Renewable energy utilization  
Environmental engineering and services

#### Major activities

Processing and sale of recycled products  
Collection, treatment and disposal of industrial services waste  
Collection, treatment and disposal of municipal waste  
Operation of methane-to-energy power plants  
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  
Sales of chemical products and leasing activities

Trading and others

The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

Segment reporting information is disclosed in accordance to the accounting policies and measurement standards adopted for reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing financial statements.

Transfer price between each reportable segment is measured as the price selling to third parties, and indirect expenses are allocated to each segment based on revenue.

### Segment results, assets and liabilities

Segment assets include all tangible, intangible, other non-current and current assets, such as accounts receivable, with the exception of deferred tax assets and other unallocated corporate assets. Segment liabilities include payables, prepayments and bank borrowings attributable to the individual segments.

Results of operations is revenue after deducting expenses, depreciation, amortization and impairment losses attributable to the individual segments, and interest income and expense from cash balances and borrowings managed directly by the segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Non-operating income and expenses and tax expenses are not allocated to individual segments.

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XIV. SEGMENT INFORMATION (Continued)

#### Segment results, assets and liabilities (Continued)

The segment information for 2011:

	Industrial waste recycling	Industrial waste treatment and disposal	Municipal waste treatment and disposal	Renewable energy utilization	Environmental engineering and services	Trading and others	Unallocated amounts	Elimination	Total
Revenue from external transactions	1,036,310,110.70	148,698,306.22	115,896,598.13	47,145,227.15	108,056,429.04	44,967,681.65	-	-	1,501,074,352.89
Revenue from intra-segment transactions	17,298,871.89	1,143,114.00	-	17,136.75	1,382,762.00	39,020,840.79	-	(58,862,725.43)	-
Segment revenue	1,053,608,982.59	149,841,420.22	115,896,598.13	47,162,363.90	109,439,191.04	83,988,522.44	-	(58,862,725.43)	1,501,074,352.89
Expenses	(854,127,170.89)	(62,993,449.25)	(102,112,517.11)	(40,419,147.60)	(104,319,125.64)	(75,643,706.57)	(71,616,530.50)	35,606,280.49	(1,275,625,367.07)
Gain on changes in fair value	-	-	-	-	-	-	(483,619.00)	-	(483,619.00)
Investment income	8,990.11	-	(61,352.45)	(704,290.82)	-	-	18,938,410.05	(7,650,000.00)	10,531,756.89
Segment operating profit	199,490,801.81	86,847,970.97	13,722,728.57	6,038,925.48	5,120,065.40	8,344,815.87	(53,161,739.45)	(30,906,444.94)	235,497,123.71
Non-operating income	-	-	-	-	-	-	24,129,854.14	-	24,129,854.14
Non-operating expenses	-	-	-	-	-	-	(2,967,095.96)	-	(2,967,095.96)
Total profit	199,490,801.81	86,847,970.97	13,722,728.57	6,038,925.48	5,120,065.40	8,344,815.87	(31,998,981.27)	(30,906,444.94)	256,659,881.89
Total assets	1,601,843,450.73	201,402,131.25	229,793,057.72	219,565,151.11	145,076,138.04	37,754,532.25	1,065,623,604.09	(1,517,341,992.79)	1,983,716,072.40
Total liabilities	547,025,761.51	125,284,062.19	182,880,125.10	176,118,714.37	135,539,990.76	6,580,419.57	979,787,041.87	(1,219,183,249.60)	934,032,865.77
Supplementary information									
Depreciation and amortization	24,298,123.58	8,258,227.98	14,552,722.84	14,624,946.29	918,187.61	236,920.95	2,220,336.95	-	65,109,466.20
Capital expenditure	57,970,658.04	105,199,471.75	163,126,556.09	23,063,730.47	1,382,032.61	337,557.49	30,489,738.43	-	381,569,744.88
Assets impairment losses	1,831,116.25	35,144.76	145,719.87	(849,793.10)	876,331.40	(74,662.90)	-	23,831,658.44	25,795,514.72

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## XIV. SEGMENT INFORMATION (Continued)

### Segment results, assets and liabilities (Continued)

#### The segment information for 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 amounts	Elimination	Total
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
Revenue from 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)	-
Segment 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
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 on 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)
Segment operating profit	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
Non-operating income	-	-	-	-	-	-	19,257,088.74	-	19,257,088.74
Non-operating expenses-	-	-	-	-	-	-	(2,375,816.12)	-	(2,375,816.12)
Total profit	124,570,468.34	73,357,823.29	22,512,214.33	10,544,234.40	13,742,033.61	7,303,307.93	(44,568,137.41)	(10,590,771.34)	196,871,173.14
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)

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XV. OTHER SIGNIFICANT EVENTS

1. There were no non-monetary transactions during the year (2010: NIL).
2. There were no debts restructuring during the year (2010: NIL).
3. Leasing

(1) Details of fixed assets held under finance leases as at 31 December 2011 referred to note VII 10(7):

(2) As at 31 December 2011, minimum lease payments made under finance leases

Unexpired lease terms	Minimum lease payments
Within 1 year	13,683,375.13
In 1-2 years	12,966,589.86
In 2-3 years	12,237,607.61
After 3 years	16,117,010.07
<b>Total</b>	<b>55,004,582.67</b>

As at 31 December 2011, the unrecognised finance lease charge was RMB4,210,335.83.

(3) Assets leased out under operating leases

Category	2011	2010
Plant and equipment	–	169,589.63
Motor vehicles	<b>798,004.02</b>	235,922.98
Investment properties	<b>53,548,000.00</b>	53,952,089.00
<b>Total</b>	<b>54,346,004.02</b>	54,357,601.61

#### 4. Sale and lease back transaction

On 4 January 2011, Renewable Energy and CMB Financial Leasing Co. Limited entered a “Financial Lease Contract” that Renewable Energy sold 6 methane generator sets and other related equipment to CMB Financial Leasing Co. Limited at a consideration of RMB 49,261,949.30 and that the assets were then leased back from CMB Financial Leasing Co. Limited to Renewable Energy under finance lease arrangement. The terms of the lease was 5 years. The effective interest rate of the lease was 1.3005%.

The original cost of the assets was RMB61,388,779.68 and the net carrying amount at the date of disposal was RMB44,524,858.48. The gain on the disposal of the assets was RMB4,737,090.82. It was recorded as deferred income of unrealised gain from sale and lease back transaction under other non-current liabilities. It will be realised to the profit or loss for the period on a straight-line method over the terms of the lease. As at 31 December 2011, the unamortised unrealised gain was RMB 4,042,317.51 (VIII.28).

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011  
(Unless otherwise stated, the financial statements are expressed in RMB)

### XV. OTHER SIGNIFICANT EVENTS (Continued)

#### 5. Assets and liabilities measured at fair value

Item	As at 1 January 2011	Increase	Changes in fair value	As at 31 December 2011
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	4,511,646.00	(837,896.00)	(79,530.00)	3,594,220.00
<b>Other assets</b>				
Investment properties	53,952,089.00	–	(404,089.00)	53,548,000.00
<b>Total</b>	<b>58,463,735.00</b>	<b>(837,896.00)</b>	<b>(483,619.00)</b>	<b>57,142,220.00</b>

#### 6. Financial assets and financial liabilities denominated in foreign currency

Item	2011	2010	Balance of 2011 was arrived at after charging:		
			Gain on fair value changes for the year	Accumulated fair value changes included in equity	Provision for impairment losses
<b>Financial assets</b>					
Loan and receivables					
Bank deposit and cash	<b>6,191,756.14</b>	3,449,462.72	–	–	–
Accounts receivables	<b>5,636,927.78</b>	27,377,290.35	–	–	85,071.62
Prepayments	<b>9,170,229.52</b>	3,221,421.61	–	–	–
Other receivables	<b>2,764,284.21</b>	2,821,038.99	–	–	2,735,092.34
	<b>23,763,197.65</b>	36,869,213.67	–	–	2,820,163.96
<b>Financial liabilities</b>					
Accounts payables	<b>871,016.40</b>	666,446.04	–	–	–
Other payables	<b>22,882,168.92</b>	1,170,838.03	–	–	–
Obligations under finance leases	<b>14,486,219.82</b>	5,193,768.46	–	–	–
	<b>38,239,405.14</b>	7,031,052.53	–	–	–

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XV. OTHER SIGNIFICANT EVENTS (Continued)

#### 7. Disposal of jointly controlled entities and associates

(1) *Disposal of equity interests in jointly controlled entity, Shuangxin Cement*

Pursuant to the resolution approved at the 13th Meeting of the 3rd Session of Board of Directors Meeting, Huizhou Luo Fu Shan Cement Group Co, Limited and the Company entered into “The agreement of transfer of 50% equity interests in Shuangxin Cement from Dongjiang Environmental Company Limited to Huizhou Shi Luo Fu Shan Cement Group Co, Limited” on 20 March 2011. The Company transferred all its equity interests of 50% in Shuangxin Cement, which was the jointly controlled entity of the Company, at a consideration of RMB33,000,000. On 7 May 2011, Huizhou Luo Fu Shan Cement Group Co, Limited and the Company entered into a supplementary agreement that the Company was allowed to dispose all the inventories and accounts receivable that were on the Shuangxin Cement’s books at the date of disposal and the sales proceeds would be belonged to the Company.

The net carrying amount of investment in Shuangxin Cement as at the date of disposal was RMB32,483,305.94. The gain on the disposal was RMB516,694.06. The proceeds of RMB4,089,437.67 from the disposal of the inventories and accounts receivable of Shuangxin Cement was received resulting in the total gain of, RMB4,606,131.73 from disposal of Shunagxin Cement.

As at 31 December 2011, all the consideration was received and the procedures for the transfer have been completed.

(2) *Disposal of partial interests in an associate, Shenzhen Resource*

Pursuant to the framework agreement of Shenzhen Resources of 19 August 2010, 1% of the 50% equity interests in Shenzhen Resource held by the Company would be transferred to the other shareholder and would adjusted the composition of the Board of Directors of Shenzhen Resources whereby the Company has rights to nominate 3 out of 7 directors and the other shareholder has rights to nominate 4 out of 7 directors. On 1 September 2010, the change in composition of the Board of Directors of Shenzhen Resource was taken place. The Company has lost control over Shenzhen Resource since then. Shenzhen Resource was then excluded from the consolidation scope and accounted for using equity method of accounting.

In January 2011, the procedures for the share transfer and change of business registration were completed. The net carrying amount of Shenzhen Resource as at the date of transfer was RMB27,621,454.89 and the consideration was RMB546,894. The resulting loss on the transfer was RMB5,535.10. After the transfer, the Company owned 49% equity interests and 42.86% voting rights in Shenzhen Resource.

### XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Major financial instruments of the Group include cash and bank balances, financial assets held-for-trading, notes receivables, accounts receivable, other receivable, borrowings, financial liabilities held-for-trading, accounts payable, accrued staff emoluments, other payable, 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(Continued)*

### 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 minimised, in order to maximise 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 analyse 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 2011, except for assets and liabilities in HKD and odd monies in USD and EUR (2010: assets and liabilities in HKD and USD, and odd monies in EUR), 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 foreign currencies balances may affect the operating results of the Group. As at 31 December 2011, the details of financial assets and financial liabilities denominated in foreign currency are set out in Note XV.6.

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.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 FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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 2011, 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 recognised 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 utilisation of bank borrowings and makes sure the related borrowing agreements are complied with. The primary source of funding for the Group is bank borrowings.

At 31 December 2011, the Group had unutilised bank facilities of RMB342,000,000. (2010: RMB 339,000,000)

Maturity analysis of financial assets and financial liabilities of the Group as at 31 December 2011 at undiscounted remaining contractual obligations are set out as follows:



# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)

Item	Within 1 month	1-3 months	3-12 months	1-5 years
Financial assets				
Bank balances and cash	252,000,101.76	–	–	–
Held for trading financial assets	3,594,220.00	–	–	–
Bills receivables	9,801,244.00	12,394,473.52	726,396.70	–
Accounts receivables	–	127,352,312.92	36,577,212.76	16,327,141.95
Other receivables	16,805,863.14	7,719,205.81	17,208,324.36	–
<b>Total financial assets</b>	<b>282,201,428.90</b>	<b>147,465,992.25</b>	<b>54,511,933.82</b>	<b>16,327,141.95</b>
Financial liabilities				
Accounts payables	–	135,006,990.81	10,786,934.07	8,361,910.39
Other payables	–	18,469,545.75	25,699,251.11	16,107,380.53
Employee benefit payables	–	24,877,711.68	–	–
Borrowings	2,537,012.15	34,843,164.85	146,563,380.11	391,972,780.76
<b>Total financial liabilities</b>	<b>2,537,012.15</b>	<b>213,197,413.09</b>	<b>183,049,565.29</b>	<b>416,442,071.68</b>

### 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.

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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)

- 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).

As at 31 December 2011	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets held for trading	3,594,220.00	–	–	3,594,220.00
<b>As at 31 December 2010</b>				
<b>Financial assets:</b>				
Financial assets held for trading	4,511,646.00	–	–	4,511,646.00

(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 analyse 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:

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## XVI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### 3. Sensitivity analysis (Continued)

(1) Sensitivity analysis of Foreign exchange risk (Continued)

Foreign currency	Changes in exchange rate	2011	2010		
		Increase (decrease) in net profit	Increase (decrease) in shareholders' equity	Increase (decrease) in net profit	Increase (decrease) in shareholders' equity
USD	Increase 5%	N/A	N/A	1,239,476.76	1,239,476.76
USD	Decrease 5%	N/A	N/A	(1,239,476.76)	(1,239,476.76)
HKD	Increase 5%	(90,458.95)	(90,458.95)	495,538.22	767,299.71
HKD	Decrease 5%	90,458.95	90,458.95	(495,538.22)	(767,299.71)

(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:

Foreign currency	Changes in exchange rate	2011	2010		
		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%	(4,096,503.23)	(4,096,503.23)	(4,954,873.20)	(4,954,873.20)
Floating rates borrowings	Decrease 1%	4,096,503.23	4,096,503.23	4,954,873.20	4,954,873.20

(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:

Foreign currency	Changes in in price	2011	2010		
		Increase (decrease) in net profit	Increase (decrease) in shareholders' equity	Increase (decrease) in net profit	Increase (decrease) in shareholders' equity
Quoted shares	Increase 5%	179,711.00	179,711.00	225,582.00	225,582.00
Quoted shares	Decrease 5%	(179,711.00)	(179,711.00)	(225,582.00)	(225,582.00)

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

#### 1. Correction of errors of prior periods and their effect

It was found that there were clerical mistakes in the Company's balance sheet as at 31 December 2010 that the accounts payable was understated by RMB2,000,000 and the undistributed profits was overstated by RMB2,000,000. The mistakes were corrected and the Company's balance sheet as at 31 December 2010 was restated by increasing the accounts payable by RMB2,000,000 from RMB41,096,320.96 to RMB43,096,320.96 and by decreasing the undistributed profits by RMB2,000,000 from RMB570,376,996.99 to 568,376,996.99. The correction of the errors does not have effect on the profit for the year ended 31 December 2011.

#### 2. Accounts receivable

	2011	2010
Accounts receivable	<b>128,789,154.48</b>	117,868,966.24
Less: Provision for bad debts	<b>(5,338,316.85)</b>	(7,133,908.35)
	<b>123,450,837.63</b>	110,735,057.89

(1) Disclosure of accounts receivable by categories is as follows:

Category	2011			
	Book balance		Bad debt provision	
	Amount	Proportion(%)	Amount	Proportion(%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Accounts receivable that are provided for bad debts on portfolio basis aged group	<b>87,151,775.42</b>	<b>67.67</b>	<b>4,401,989.05</b>	<b>5.05</b>
Related party group	<b>40,701,051.26</b>	<b>31.60</b>	-	-
<b>Sub-total</b>	<b>127,852,826.68</b>	<b>99.27</b>	<b>4,401,989.05</b>	<b>3.44</b>
Accounts receivable that are individually insignificant but are individually provided for bad debts	<b>936,327.80</b>	<b>0.73</b>	<b>936,327.80</b>	<b>100.00</b>
<b>Total</b>	<b>128,789,154.48</b>		<b>5,338,316.85</b>	

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

### 2. Accounts receivable (Continued)

(1) Disclosure of accounts receivable by categories is as follows: (Continued)

Category	2010		Bad debt provision	
	Book balance Amount	Proportion(%)	Amount	Proportion(%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Accounts receivable 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 receivable 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	

The accounts receivable of the Company as at 31 December 2011 was increased by RMB12,715,779.74, 11.48% as compared with last year. The increase was due to the increase in sales revenue.

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

Item	2011			2010		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	65,724,297.95	1.50	1,030,751.92	52,625,314.37	1.50	789,127.71
91-180days	6,325,412.83	3.00	189,765.40	16,129,712.99	3.00	483,891.39
181-365days	3,655,624.30	5.00	182,781.21	10,183,852.87	5.00	509,192.65
1-2 years	9,397,708.24	20.00	1,881,730.89	4,778,479.24	20.00	955,695.84
2-3 years	1,870,536.72	50.00	938,764.26	1,542,294.38	50.00	771,147.20
Over 3 years	178,195.38	100.00	178,195.37	1,163,320.00	100.00	1,163,320.00
<b>Total</b>	<b>87,151,775.42</b>		<b>4,401,989.05</b>	86,422,973.85		4,672,374.79

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

#### 2. Accounts receivable (Continued)

(1) Disclosure of accounts receivable by categories is as follows: (Continued)

As at 31 December 2011, accounts receivable 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
Aggregate of small amount items	200,619.27	200,619.27	100.00	Irrecoverable
<b>Total</b>	<b>936,327.80</b>	<b>936,327.80</b>	<b>100.00</b>	

(2) Details of reversal of bad debts provision

Name	Nature of receivable	Amount reversed in 2011	Reason of reversal	Whether due to related transaction
Century Meifuda Electronic (Huizhou) Co., Limited	Construction fund	635,446.19	The company had been liquidated	No
Shenzhen Bao'an District Municipal Management Office Wastes Treatment Station	Construction fund	574,000.00	Deduct according to the regulation	No
Yuanda Mental Industrial (Shenzhen) Co., Limited	Treatment fund	140,651.00	Irrecoverable	No
Others (less than RMB50,000.00)		663,171.01		
<b>Total</b>		<b>2,013,268.20</b>		

(3) There was no amounts receivable from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2011.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

#### 2. Accounts receivable (Continued)

(4) The top five accounts receivable outstanding as at 31 December 2011 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total account receivables (%)
Shenzhen Finance Bureau	Independent third party	18,713,390.11	0-90 days	14.53
Resource Recycling	Subsidiary	18,049,488.41	0-180 days	14.01
Daye Hua Sheng Mining Co., Ltd	Independent third party	8,865,987.24	0-90 days	6.88
Changsha Xingjia Biological Engineering Co., Limited	Independent third party	8,808,546.00	0-180 days	6.84
Dongjiang Micronutrients	Joint controlled entity	8,793,630.00	0-90 days	6.83
<b>Total</b>		<b>63,231,041.76</b>		<b>49.09</b>

(5) Accounts receivable due from related parties as at 31 December 2011 were as follows:

Name	Relationships with the Company	Amount	Proportion to total accounts receivables (%)
Dongjiang Heritage	Subsidiary	6,949,973.16	5.40
Huizhou Dongjiang	Subsidiary	6,426,898.75	4.99
Resource Recycling	Subsidiary	18,049,488.41	14.01
Dongjiang Micronutrients	Joint controlled entity	8,793,630.00	6.83
Shenzhen Resource	Joint controlled entity	481,060.94	0.37
<b>Total</b>		<b>40,701,051.26</b>	<b>31.60</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

#### 3. Other receivable

	2011	2010
Other receivable	<b>472,336,559.33</b>	377,130,312.61
Less: Provision for bad debts	<b>(7,505,296.85)</b>	(7,533,153.86)
	<b>464,832,262.48</b>	369,597,158.75

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

Category	2011			
	Book balance Amount	Proportion(%)	Bad debt provision Amount	Proportion(%)
Other receivable that are individually significant and are provided for bad debts on individual basis	<b>5,000,000.00</b>	<b>1.33</b>	<b>5,000,000.00</b>	<b>100.00</b>
Other receivable that are provided for bad debts on portfolio basis				
Aged group	<b>8,196,180.93</b>	<b>1.74</b>	<b>1,216,804.27</b>	<b>12.05</b>
Related party group	<b>445,614,919.95</b>	<b>94.34</b>	-	-
Collateral group	<b>12,172,845.87</b>	<b>2.58</b>	-	-
Sub-total	<b>465,983,946.75</b>	<b>98.66</b>	<b>1,216,804.27</b>	<b>0.26</b>
Other receivable that are individually insignificant but are individually provided for bad debts	<b>1,352,612.58</b>	<b>0.36</b>	<b>1,288,492.58</b>	<b>95.26</b>
<b>Total</b>	<b>472,336,559.33</b>		<b>7,505,296.85</b>	



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 3. Other receivable (Continued)

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

Category	2010			
	Book balance		Bad debt provision	
	Amount	Proportion(%)	Amount	Proportion(%)
Other receivable 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 receivable 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 receivable 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	

1) As at 31 December 2011, details of other receivable that are individually significant and are provided for bad debts on individual basis are as follows:

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

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 3. Other receivable (Continued)

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

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

Item	Amount	2011		Amount	2010	
		Proportion (%)	Provision for bad debts		Proportion (%)	Provision for bad debts
0-90 days	4,794,636.16	1.50	105,352.26	555,246.21	1.50	10,618.27
91-180 days	1,390,401.54	3.00	41,916.67	547,478.97	3.00	15,890.57
181-365 days	566,815.83	5.00	28,692.54	543,803.40	5.00	27,310.17
1-2 years	250,096.29	20.00	58,141.23	161,555.34	20.00	32,311.07
2-3 years	346,035.00	50.00	175,279.83	175,680.00	50.00	87,840.00
Over 3 years	848,196.11	100.00	807,421.74	1,070,691.20	100.00	1,070,691.20
<b>Total</b>	<b>8,196,180.93</b>		<b>1,216,804.27</b>	3,054,455.12		1,244,661.28

3) As at 31 December 2011, other receivable that are individually insignificant but are individually provided for bad debts.

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
Huizhou Shengtianhan Industrial Co., 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 Co., 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
<b>Total</b>	<b>1,352,612.58</b>	<b>1,288,492.58</b>	<b>95.26</b>	

(2) There were no other receivable from shareholders holding over 5% (or 5%) shares of the Company (or the Group) entitling voting rights as at 31 December 2011.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 3. Other receivable (Continued)

(3) The top five of other receivable outstanding as at 31 December 2011 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total other receivable (%)	Nature
Hunan Dongjiang	subsidiary	94,350,479.00	Within 3 years	19.90	Payment on behalf
Shaoguan Green	subsidiary	60,629,613.28	Within 1 years	12.78	Loans and current accounts
Qingyuan Dongjiang	subsidiary	55,809,329.13	Within 3 years	11.77	Payment on behalf
Huizhou Dongjiang	subsidiary	37,756,844.68	Within 2 years	7.96	Loans and current accounts
Qingdao Dongjiang	subsidiary	32,633,398.30	Within 3 years	6.88	Payment on behalf
<b>Total</b>		<b>281,179,664.39</b>		<b>59.29</b>	

(4) Other receivable due from related parties as at 31 December 2011 were as follows:

Name	Amount	Proportion to total other receivable (%)
<b>Due from Subsidiaries</b>		
Hunan Dongjiang	94,350,479.00	19.90
Shaoguan Green	60,629,613.28	12.78
Qingyuan Dongjiang	55,809,329.13	11.77
Huizhou Dongjiang	37,756,844.68	7.96
Qingdao Dongjiang	32,633,398.30	6.88
Longgang Dongjiang	32,145,800.00	6.78
Resource Recycling	30,088,464.00	6.34
Beijing Novel	22,319,972.81	4.71
Shaoguan Dongjiang	16,188,927.86	3.41
Dongjiang HK	15,317,722.82	3.23
Renewable Energy	14,159,793.00	2.99
Yunnan Dongjiang	11,548,059.50	2.44
Dongjiang Lisai	9,477,050.00	2.00
Chengdu Treatment Centre	8,703,300.00	1.84
Dongjiang Trading	3,007,016.67	0.63
Dongjiang Transport	321,545.10	0.07
Dongjiang Heritage	130,639.24	0.03
Sub-total of amount due from subsidiaries	444,587,955.39	93.76
<b>Due from jointly controlled entities</b>		
Dongjiang Veolia	1,026,964.56	0.22
Sub-total of amount due from jointly controlled entities	1,026,964.56	0.22
<b>Total</b>	<b>445,614,919.95</b>	<b>93.98</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 3. Other receivable (Continued)

(5) Other receivable comprised the following balances in foreign currencies:

Foreign currency	2011			2010		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	18,894,440.38	0.8107	15,317,722.82	18,768,395.73	0.8509	15,970,027.93
<b>Total</b>			<b>15,317,722.82</b>			<b>15,970,027.93</b>

#### 4. Long-term equity investments

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

Item	2011	2010
Accounted for using cost methods		
Investments in subsidiaries	263,394,422.58	244,594,422.58
Other long-term equity investments	1,900,000.00	1,900,000.00
	<b>265,294,422.58</b>	<b>246,494,422.58</b>
Accounted for using equity method of accounting		
Investments in jointly controlled entities and associates	73,705,784.14	100,415,088.91
Less: Impairment losses	529,649.00	529,649.00
	<b>73,176,135.14</b>	<b>99,885,439.91</b>
<b>Total carrying value of long-term equity investments</b>	<b>338,470,557.72</b>	<b>346,379,862.49</b>

(2) For the purpose of reporting under Hong Kong Companies Ordinance, the details of investments on subsidiaries are as follows:

Item	2011	2010
Investment cost	263,394,422.58	244,594,422.58
Receivable from subsidiaries	448,454,839.08	354,381,390.16
Payable to subsidiaries	(128,979,083.81)	(141,014,429.70)
<b>Total</b>	<b>582,870,177.85</b>	<b>457,961,383.04</b>

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

## XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

### 4. Long-term equity investments (Continued)

(3) Movements of investments in subsidiaries during the year ended 31 December 2011

Name	Proportion of shareholding (%)	Proportion of voting rights (%)	Investment cost	As at 1			Cash dividends received	
				January 2011	Increase	Decrease	As at 31 December 2011	during the year
Huizhou Dongjiang	100.00	100.00	6,458,352.90	6,458,352.90	-	-	6,458,352.90	-
Chengdu Treatment Centre	100.00	100.00	6,400,000.00	6,105,461.13	-	-	6,105,461.13	-
Longgang Dongjiang	51.00	51.00	2,550,000.00	2,550,000.00	-	-	2,550,000.00	-
Resource Recycling	100.00	100.00	2,093,966.50	2,093,966.50	-	-	2,093,966.50	-
Kunshan Kungpeng	51.00	51.00	3,438,970.01	3,438,970.01	-	-	3,438,970.01	765,000.00
Dongjiang Heritage	62.00	60.00	15,500,000.00	15,500,000.00	-	-	15,500,000.00	-
Qiandeng Wastes Treatment	51.00	56.00	3,916,800.00	3,916,800.00	-	-	3,916,800.00	6,885,000.00
Shaoguan Dongjiang	100.00	100.00	4,500,000.00	4,500,000.00	-	-	4,500,000.00	-
Dongjiang HK	100.00	100.00	22,755,770.00	22,755,770.00	-	-	22,755,770.00	-
Renewable Energy	100.00	100.00	10,000,000.00	10,000,000.00	-	-	10,000,000.00	-
Qingyuan Dongjiang	100.00	100.00	18,800,000.00	2,000,000.00	16,800,000.00	-	18,800,000.00	-
Beijing Novel	55.00	55.00	220,000.00	220,000.00	-	-	220,000.00	-
Hunan Dongjiang	95.00	95.00	9,500,000.00	9,500,000.00	-	-	9,500,000.00	-
Shaoguan Green	60.00	60.00	117,800,000.00	117,800,000.00	-	-	117,800,000.00	-
Dongjiang Lisai	80.00	80.00	11,255,102.04	11,255,102.04	-	-	11,255,102.04	-
Huabao Technology	100.00	100.00	500,000.00	500,000.00	-	-	500,000.00	-
Qingdao Dongjiang	100.00	100.00	15,000,000.00	15,000,000.00	-	-	15,000,000.00	-
Yunnan Dongjiang	100.00	100.00	10,000,000.00	10,000,000.00	-	-	10,000,000.00	-
Dongjiang Property Service	100.00	100.00	1,000,000.00	1,000,000.00	-	-	1,000,000.00	-
Product Trading	100.00	100.00	2,000,000.00	-	2,000,000.00	-	2,000,000.00	-
<b>Total</b>			<b>263,688,961.45</b>	<b>244,594,422.58</b>	<b>18,800,000.00</b>	<b>-</b>	<b>263,394,422.58</b>	<b>7,650,000.00</b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 4. Long-term equity investments (Continued)

(4) Movements of available for sales financial assets during the year ended 31 December 2011

Name	Proportion of shareholding (%)	Proportion of voting rights (%)	Investment cost	As at 1			Cash dividends	
				January 2011	Increase	Decrease	As at 31 December 2011	received during the year
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	-
<b>Total</b>	-	-	<b>1,900,000.00</b>	<b>1,900,000.00</b>	-	-	<b>1,900,000.00</b>	-

(5) Movements of investments in jointly controlled entities and associates during the year ended 31 December 2011

Name	Proportion of shareholding (%)	Proportion of voting rights (%)	Investment cost	As at 1			Cash dividends	
				January 2011	Increase	Decrease	As at 31 December 2011	received during the year
<b>Jointly controlled entities</b>								
Shuangxin Cement	50.00	50.00	43,900,000.00	34,066,215.50	-	34,066,215.50	-	-
Dongjiang Veolia	51.00	50.00	22,440,000.00	30,908,487.32	6,517,814.25	-	37,426,301.57	-
<b>Associates</b>								
Shenzhen Micronutrients	38.00	40.00	760,000.00	1,203,931.20	100,017.79	-	1,303,948.99	-
Shenzhen Resource	49.00	42.86	20,894,176.47	27,621,454.89	1,529,264.77	552,429.10	28,598,290.56	-
Zhuhai Qingxin	35.00	50.00	6,615,000.00	6,615,000.00	-	237,756.98	6,377,243.02	-
<b>Total</b>	-	-	<b>94,609,176.47</b>	<b>100,415,088.91</b>	<b>8,147,096.81</b>	<b>34,856,401.58</b>	<b>73,705,784.14</b>	-

(6) Provision for impairment for long-term equity investments

Name	As at 1			As at 31	
	January 2011	Increase	Decrease	December 2011	
Shenzhen Micronutrients	529,649.00	-	-	529,649.00	
<b>Total</b>	<b>529,649.00</b>	-	-	<b>529,649.00</b>	

#### 5. Net current assets

	2011	2010
Current assets	<b>790,986,304.22</b>	703,856,426.27
Less: Current liabilities	<b>364,290,675.18</b>	469,385,673.56
Net current assets	<b>426,695,629.04</b>	234,470,752.71

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 6. Total assets less current liabilities

	2011	2010
Total assets	<b>1,387,694,868.17</b>	1,311,415,767.87
Less: Current liabilities	<b>364,290,675.18</b>	469,385,673.56
Total assets less current liabilities	<b>1,023,404,192.99</b>	842,030,094.31

#### 7. Operating revenue and operating costs – by principal operations

Item	2011	2010
Operating revenue	<b>923,298,597.09</b>	691,486,461.04
Other operating revenue	–	–
<b>Total</b>	<b>923,298,597.09</b>	691,486,461.04
Operating costs	<b>618,268,754.27</b>	450,257,571.15
Other operating costs	–	–
<b>Total</b>	<b>618,268,754.27</b>	450,257,571.15

(1) *Operating revenue and operating costs – by principal operations*

	2011		2010	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Industrial waste recycling	<b>557,135,704.81</b>	<b>454,796,895.13</b>	371,197,310.90	243,137,816.27
Industrial waste treatment and disposal	<b>190,303,398.17</b>	<b>29,217,235.78</b>	99,395,358.11	24,474,912.84
Municipal waste treatment and disposal	<b>77,228,416.57</b>	<b>56,061,453.25</b>	58,393,421.24	43,070,368.20
Environment engineering and services	<b>41,473,325.71</b>	<b>35,515,777.51</b>	52,973,915.36	39,500,753.29
Trading and others	<b>57,157,751.83</b>	<b>42,677,392.60</b>	109,526,455.43	100,073,720.55
<b>Total</b>	<b>923,298,597.09</b>	<b>618,268,754.27</b>	691,486,461.04	450,257,571.15

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 7. Operating revenue and operating costs – by principal operations (Continued)

(2) The top five customers of revenue from principal operations for the year ended 31 December 2011 were RMB294,318,509.00, representing 31.88% to total operating revenue, details were as follows:

Name of customers	Operating revenue	Proportion to total operating revenue (%)
Jiangxin Xinjinye Industrial Co., Limited	131,271,963.51	14.22
Shenzhen Resources Environmental Technologies Co., Limited	55,508,205.09	6.01
Financial Bureau	40,614,349.81	4.40
Xiaping Fill land	35,704,910.50	3.87
Changsha Xingjia Bio-Engineering CO. Ltd	31,219,080.09	3.38
<b>Total</b>	<b>294,318,509.00</b>	<b>31.88</b>

#### 8. Gross profit

	2011	2010
Operating revenue	<b>923,298,597.09</b>	691,486,461.04
Less: Operating costs	<b>618,268,754.27</b>	450,257,571.15
Gross profit	<b>305,029,842.82</b>	241,228,889.89

#### 9. Investment income (loss)

(1) The investment income was arising from:

Item	2011	2010
Share of profit (loss) of jointly controlled entities and associates	<b>6,326,430.27</b>	(2,102,755.08)
<b>Other investment income</b>		
Dividends from subsidiaries	<b>7,650,000.00</b>	7,730,000.00
Gain on disposal of long-term equity investments	<b>4,600,596.63</b>	–
Income received from financial assets held-for-trading during the period of ownership	<b>94,366.14</b>	75,181.76
Loss on disposal of financial assets held-for-trading	<b>(209,785.34)</b>	(909,818.54)
Income received from entrusted loans during the period	<b>476,802.35</b>	–
Sub-total	<b>12,611,979.78</b>	6,895,363.22
<b>Total</b>	<b>18,938,410.05</b>	4,792,608.14



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 9. Investment income (loss) (Continued)

(1) *The investment income was arising from: (Continued)*

Investment income for the year was increased by RMB14,145,801.91, 295.19% as compared with the same period last year. It was mainly because of the inclusion of the share of profit of associates, Dongjiang Veolia of RMB6,520,000 and Shenzhen Resource of RMB 1,520,000 and the gain of RMB4,600,000 on disposal of the equity of Shuangxin Cement

There are no significant restrictions on remittance of investment gains back to the Company.

(2) *Breakdown of share of profit (loss) of jointly controlled entities and associates*

Item	2011	2010	Reason for changes
Shuangxin Cement	<b>(1,582,909.56)</b>	(8,484,252.50)	Disposed during the year
Shenzhen Micronutrients	<b>100,017.79</b>	674,282.20	Decrease in profitability
Dongjiang Veolia	<b>6,517,814.25</b>	3,613,865.92	Increase in profitability
Shenzhen Resource	<b>1,529,264.77</b>	2,093,349.30	Decrease of shareholdings during the year
Zhuhai Qingxin	<b>(237,756.98)</b>	–	Operating loss
<b>Total</b>	<b>6,326,430.27</b>	(2,102,755.08)	

(3) *Breakdown of dividends received from subsidiaries are as follows:*

Item	2011	2010	Reason for changes
Dongjiang Heritage	–	6,200,000.00	No distribution for the year
Qingdeng Three Wastes	<b>6,885,000.00</b>	1,275,000.00	Dividends received
Kunshan Kunpeng	<b>765,000.00</b>	255,000.00	Dividends received
<b>Total</b>	<b>7,650,000.00</b>	7,730,000.00	

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### 10. Supplementary information of cash flow statement of the Company

1) *Reconciliation of net profits as cash flows from operating activities*

Items	2011	2010
Net profits	<b>195,297,517.07</b>	141,150,813.62
Provision for assets impairment	<b>(384,180.31)</b>	(4,050,463.33)
Depreciation of fixed assets	<b>17,241,124.28</b>	13,645,554.54
Amortisation of intangible assets	<b>568,605.71</b>	572,603.28
Gain on disposal of fixed assets, intangible assets and other long-term assets	<b>(1,289,064.36)</b>	(8,542.76)
Loss on written off of disposal fixed assets	<b>4,254.14</b>	71,401.58
(Gain) loss on changes in fair value on investment properties	<b>483,619.00</b>	(2,388,466.04)
Finance costs	<b>13,521,240.66</b>	18,406,589.16
Gain on investment	<b>(18,938,410.05)</b>	(4,792,608.14)
(Increase) decrease in deferred income tax assets	<b>819,494.96</b>	(494,598.93)
Increase in deferred income tax liabilities	<b>133,464.69</b>	372,604.50
Increase in inventories	<b>46,556,778.42</b>	(60,665,725.54)
Increase in operating accounts receivables	<b>(70,867,632.96)</b>	(25,262,400.88)
Increase in operating accounts payables	<b>39,343,824.69</b>	82,963,981.03
Net cash flow from operating activities	<b>222,490,635.94</b>	159,520,742.09

2) *Changes in cash and cash equivalents*

	2011	2010
Cash at end of year	<b>125,568,274.93</b>	84,954,056.48
Less: Cash equivalent at end of year	<b>84,954,056.48</b>	95,321,223.74
Changes in cash and cash equivalents	<b>40,614,218.45</b>	(10,367,167.26)

# NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

(Unless otherwise stated, the 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	2011	2010
Gain on disposal of non-current assets	<b>(129,546.02)</b>	2,309,735.98
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	<b>664,972.65</b>	3,140,451.78
Government grants credited to profit for the year	<b>9,980,666.26</b>	4,923,206.31
Cost of funds received from non-financial entities credited to profit for the year	<b>1,614,766.10</b>	1,861,171.58
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	<b>(185,959.09)</b>	(469,208.95)
Reversal of provision for bad debts for accounts receivables which was individually tested for impairment	<b>579,024.50</b>	4,489,844.12
Income received from held for trust loans during the period	<b>476,802.35</b>	–
Changes in fair value of investment properties measured at fair value	<b>(404,089.00)</b>	2,484,030.00
Other non-operating income and expense	<b>(1,793,656.37)</b>	(1,752,430.50)
<b>Sub-total</b>	<b>10,802,981.38</b>	16,986,800.32
Effect on income tax	<b>(855,394.26)</b>	(2,575,170.76)
Effect on minority interest(after tax)	<b>(1,681,709.60)</b>	(1,069,084.84)
<b>Total</b>	<b>8,265,877.52</b>	13,342,544.72

### 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:

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

### XVIII. SUPPLEMENTARY INFORMATION *(Continued)*

#### 2. Returns on net assets and earning per share *(Continued)*

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	24.11	1.62	1.62
Net profit attributable to shareholders of the Company (excluding non-recurring profit and loss)	23.13	1.56	1.56

### XIX. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 7 February 2012.

**Dongjiang Environmental Company Limited**  
7 February 2012