



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 2012



* For identification purposes only

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

ZHANG Wei Yang (*Chairman*)
CHEN Shu Sheng (*Chief executive*)
LI Yong Peng (*Vice president*)

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 (*resigned on 17 December 2012*)
WANG Tian (*appointed on 17 December 2012*)

AUDIT COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

YE Ru Tang (*Chairman*)
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

AUTHORISED REPRESENTATIVES

ZHANG Wei Yang
LO Wah Wai (*resigned on 17 December 2012*)
WANG Tian (*appointed on 17 December 2012*)

STOCK CODE

A share: 002672
H share: 00895

AUTHORISED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESSES AND NOTICES

Loong & Yeung

AUDITORS

ShineWing Certified Public Accountants

LEGAL ADVISERS

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 H SHARE REGISTRAR

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 2001-2005, 20th Floor
Jardine House, 1 Connaught Place
Central, Hong Kong

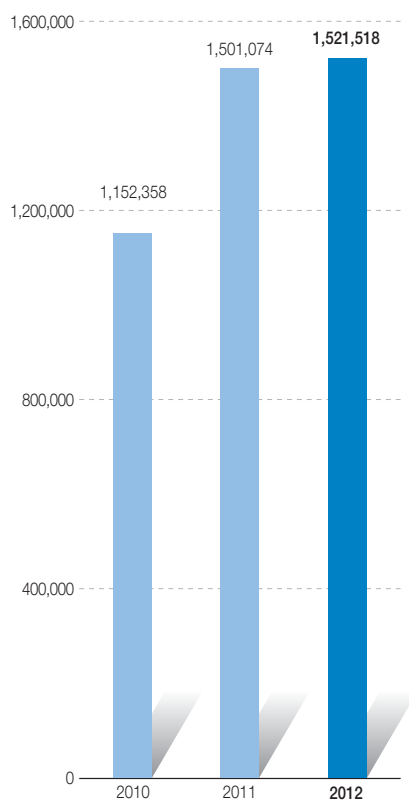
FINANCIAL SUMMARY

	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	(Restated) RMB'000	(Restated) RMB'000
Result					
Total operating revenue	1,521,518	1,501,074	1,152,358	834,989	731,440
Gross profit	561,703	522,685	402,322	290,059	321,809
Gross profit ratio	36.92%	34.82%	34.91%	34.74%	44.00%
Net profit attributable to shareholders of the Company	266,706	203,725	155,856	108,315	114,442

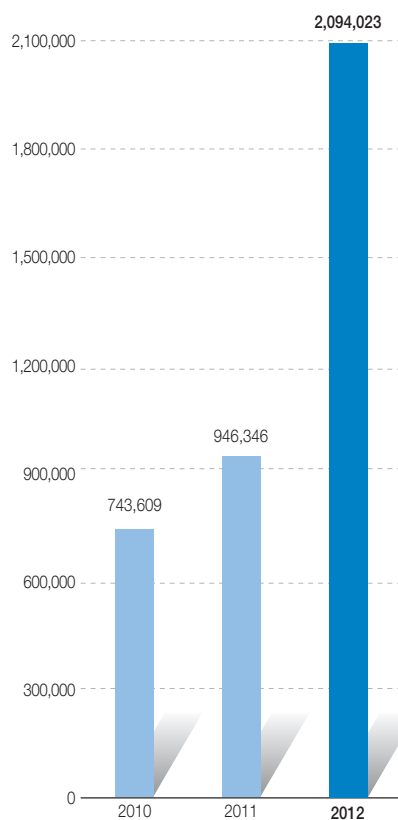
Financial position as at end of year

Total assets	3,109,606	1,983,716	1,782,077	1,537,059	1,016,631
Total liabilities	836,660	934,033	943,247	776,223	371,680
Minority interests	178,923	103,338	95,221	133,419	125,842
Equity attributable to shareholders of the Company	2,094,023	946,346	743,609	627,416	519,109

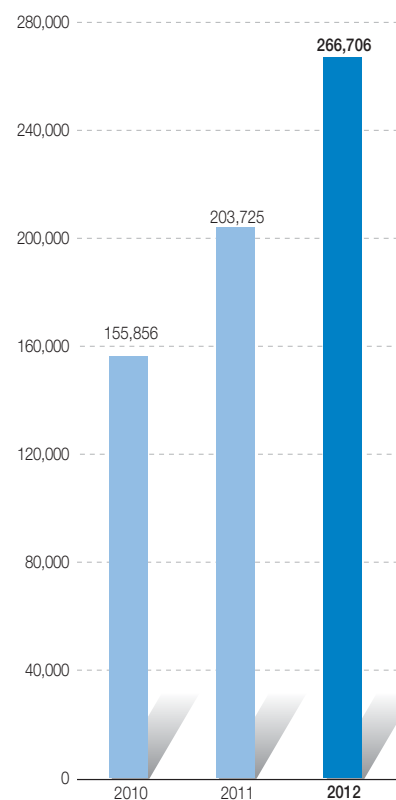
Total operating revenue
RMB'000



Equity attributable to shareholders of the Company
RMB'000



Net profit attributable to shareholders of the Company
RMB'000



(As at 31 December)

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Dongjiang Environmental Company Limited* (the "Company"), I am pleased to report the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012.

REVIEW

2012 was a year full of challenges and opportunities. In 2012, our country intensively introduced a series of specific plans and supporting policies for environmental industry, including the *Twelfth Five-Year Dangerous Waste Pollution Control Plan*, *Twelfth Five-Year Energy Conservation and Environmental Protection Industry Development Plan* and other policies, providing good policy opportunities for the development of the Group. At the same time, affected by the European debt crisis and insufficient domestic demand in 2012, the PRC economy suffered from increasing pressure of a downward trend. In light of thus, the Group has been actively expanding business market, implementing product structure adjustment strategy, promoting cost control and internal control system construction and other measures and was therefore able to keep its favourable development trend, achieve a steady improvement in business performance and management level.

For the year ended 31 December 2012, the Group's total operating revenue increased by approximately 1.36% to RMB1,521,517,728.17 as compared to the corresponding period in 2011, and the net profit attributable to shareholders of the Company increased by approximately 30.91% to RMB266,705,803.99 as compared to the corresponding period in 2011.

In April 2012, the Group successfully achieve the issue of A shares and listing on the Shenzhen Stock Exchange SME Board, thereby providing powerful financial support and guarantee for enterprise business as well as promoting brand effect. As an enterprise with dual listing in both domestic and foreign stock exchange, the Company pays more attention to the investment returns of shareholders, and made sustained and stable profit distribution schemes and shareholders' return plans. In order to feed back the shareholders, the Company paid an interim dividend of RMB0.5 per share (with total amount of dividend paid be RMB75,238,187) in 2012. The Board further recommended a final dividend of RMB0.4 (inclusive of tax) per share and 5 shares for each 10 shares held by shareholders of the Company by way of conversion of capital reserve, subject to the approval by the shareholders at the forthcoming annual general meeting and the class meetings.

In 2012, the Group took the business of disposal of industrial waste treatment as development center, fully implemented tapping potentials and improving efficiency, increasing income and reducing expenditure and improving the intensity of market development, continually optimized the whole cooperative ability in the aspects of qualifications, handling ability, business management, etc. through standardizing mature businesses, further expressing the perfect business chain advantage of waste "reduction, harmlessness and recycling", and stabilized the leading role in industrial waste treatment business. Based on mature operation system and effective resource integration, the existing waste treatment base of the Group was in good operation. In terms of market development, the group promoted service network layout and expanding business field in the aspect of industrial waste treatment based on mature market competition strategy. In 2012, the Group entered into the market in Zhuhai, Maoming, Jiangmen and other regions, as well as improved the service network and capacity in Yangtze River Delta and radiated to Jiaxing City, Zhejiang Province, which laid solid foundation for the joint development of various businesses in Yangtze River Delta. At the same time, the Group obtained gratifying accomplishments in many newly intervened business fields, such as spent catalyst, waste circuit board, household waste incineration, etc., and the business structure was optimized increasingly.

The Group has been emphasizing sustainable development of business and making scientific and practical project layout plans. In 2012, the Group successively obtained the project of Dongjiang Environmental Protection (Jiangmen) Industrial Waste Treatment Construction EIA Approval which was another major project in the field of dangerous waste treatment. The project is located in Jiangmen City, Guangdong Province. After it is constructed and put into operation, the project can dispose 198,500 tons of industrial dangerous waste, such as used mineral oil, wasted emulsion, etc per year, which will enhance the market advantage in Pearl River Delta and strengthen the environmental business chain.

In 2012, the municipal solid waste treatment business of the Group was stable and diverse. Based on abundant municipal solid waste landfill and municipal sludge operation experience, the Group continued to operate the Phase-2 landfill project in Xiaping Town, Shenzhen City, undertake river sludge Phase-2 project in Fuyong Treatment Plant-sludge solidification landfill project BOT construction and operation. At the same time, the Group took the opportunity of introducing policy of kitchen waste in Shenzhen, and won the bid of kitchen waste recycling in Luohu District in December 2012. The project is operated with franchise rights for 10 years (excluding construction period) with no less than 300 tonnes of treatment capacity per day. The project mainly carries out harmless treatment and recycling utilization on food residual, food processing waste, expired foods and waste edible oil produced from kitchen waste. The successful bidding and implementation of this project serve as the entry point of the Group entering Shenzhen and even the whole country, facilitating the deepening and the development in the aspect of kitchen waste technical research, which lays a solid foundation for the development and success of the Group in kitchen waste field. In the aspect of renewable energy, three landfill generating projects maintain normal operation, achieving operating revenue of approximately RMB57,006,500 in 2012.

Generally speaking, the Group has been adhering to the business direction of "Expanding municipal waste treatment business, supporting the development of environmental engineering and service and trade, as well as other value-added businesses based on industrial waste treatment business" and has established perfect business chain of waste "Reduction, Harmlessness and Recycling" treatment aiming at enterprises and cities; at the same time, based on all-around waste treatment service platform and comprehensive and rapid one-stop service, the Group can meet the customer needs, conform to the development trend of "Overall solution" service model and ensure the stable development of business.

PROSPECT

The year of 2013 is in the middle of Twelfth Five-Year Plan. Taking into account the great importance place on environmental protection in the strategy of "New Urbanization" and "Beautiful China" put forward in Eighteenth National People's Congress, investment in the environmental protection industry expected to accelerate. The rapid increase in environmental protection investment is bound to promote the development of environmental protection industry.

Taking this opportunity, the Group will promote business development and internal management firstly, strengthen its own technology research, improve business cooperativity, and flexibly use capital operation methods of horizontal mergers and acquisitions, etc. to realize the business scope of inter-district operation, expand scale and enter into new field of market, keep steady rise of the group management to promote the diversified development of the Group and produce best returns for shareholders.

ACKNOWLEDGEMENTS

Finally, on behalf of the Board, I would like to express my gratitude to our shareholders, customers, suppliers, partners, and staff who make unremitting effort to the Group's development.

Dongjiang Environmental Company Limited*

Zhang Weiyang

Chairman

Shenzhen • Guangdong • PRC

27 March 2013

* *for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2012, as impacted jointly by the European sovereign debt crisis and weak domestic demand, the pressure of China's economic downturn rose. Under such macro-economic environment, the Group maintained favorable growth momentum and steadily improved operating results and management level by taking measures such as proactive development of markets, the strategy of restructuring the product mix, promotion of cost control and internal control system development.

During the reporting period (consolidated statements), the Group achieved operating revenue of approximately RMB1,521,517,700, representing an increase of approximately 1.36% as compared to 2011; total profit of approximately RMB332,728,200, representing an increase of approximately 29.64% as compared to 2011; its net profit attributable to shareholders of the Company achieved approximately RMB266,705,800, representing an increase of approximately 30.91% as compared to 2011. As at 31 December 2012, the Group's total assets recorded approximately RMB3,109,606,000, representing an increase of approximately 56.76% as compared to the last year; equity attributable to shareholders of the Company recorded approximately RMB2,094,023,000, representing an increase of approximately 121.27% as compared to the last year; net assets per share recorded RMB13.92.

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 biological means, to convert substances with re-use value from wastes into recycled products. In 2012, in face of rigorous and complicated macro-economy and financial situation as well as increasingly fierce market competition environment, the Group fully undertook measures including maximizing potentials and benefits, increasing revenue and reducing expenses, and enhancement of market expansion and ensured the leading position of industrial waste treatment business by boosting the maturing of business standardization and capitalizing on qualification, disposal capacity and operation management, and further putting the waste processing business chain strength of "reduction, bio-safety and recycling" into play. During the reporting period, the Group's industrial waste treatment business achieved operating revenue of approximately RMB1,138,994,400, representing a decrease of approximately 3.88% as compared to 2011. Among which, recycled products recorded sales revenue of approximately RMB938,595,800, representing a decrease of approximately 9.43% as compared to 2011. Revenue from industrial waste treatment and disposal service recorded approximately RMB200,398,500, representing an increase of approximately 34.77% as compared to 2011.

During the reporting period, the Group's existing waste treatment base operation was sound. Leveraging on the mature operation system and effective resource integration, the Shajing treatment base, Huizhou treatment base and Kunshan treatment base have gradually shaped the complete business chain featuring the development of waste treatment business and value-added service. Kunshan treatment base was granted the "Urban Mine" pilot enterprise in Jiangsu, and became one of the first 11 pilot enterprises in Jiangsu.

To coordinate with the Group's future strategic landscape planning and profit growth demands, the Group had put more effort in bolstering the service network layout and broadening business fields of industrial waste treatment. With mature and effective customer management and service systems, the Group succeeded in entering into the markets in Zhuhai, Maoming and Jiangmen, and secure contracts with over 1000 contract customers, representing an increase of approximately 28% as compared to the same period of 2011, and its renewal rate rose by approximately 12% as compared to the same period of 2011. Also, the service network with the Kunshan treatment base as the center has expanded to Jiaying, Zhejiang, and laid a solid foundation for the Group's development of various businesses.

During the reporting period, the Group's new projects progressed smoothly. The Zinc Oxide Project of the North Guangdong Hazardous Waste Treatment and Disposal Center Phase I and Shenzhen Longgang Hazardous Industrial Waste Treatment Base Project have entered into the trial run phase, and are expected to formally commence production and operation in the first half of 2013. In addition, to perfect the business landscape in the areas of western Guangdong and address the expanding demand for production capacity, the Group has invested and constructed the Dongjiang Environmental (Jiangmen) Industrial Waste Treatment Project, and the environmental assessment of such project has been approved and its main construction is expected to complete at the end of 2013. The project is expected to have capacity for treatment of industrial hazardous wastes including waste mineral oil and waste emulsion of 198,500 tonnes year. After commencement of production, the project will potently underpin the Group's market strength in the Pearl River Delta and consolidate the Group's environmental protection business chain. To achieve the Group's strategic layout and bring about new profit focuses, the Group is to gain access to the Zhejiang hazardous waste market by acquisition of equity interests in Jiaying Deda, the Group will immediately begin to carry out technology renovation projects, extension and recycling of resources. Upon completion, the treatment capacity of the project will be increased to 60,000 tonnes/year from 9,000 tonnes year originally.

Municipal Waste Treatment

Municipal waste treatment is another pillar business of the Group, with its 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. During the reporting period, municipal waste treatment business achieved operating revenue of approximately RMB183,419,600, representing an increase of approximately 12.50% as compared to the same period of 2011. Among which municipal solid waste disposal business achieved operating revenue of approximately RMB126,413,100, representing an increase of approximately 9.07% as compared to 2011; renewable energy business achieved operating revenue of approximately RMB57,006,500, representing an increase of approximately 20.92% as compared to 2011.

As to municipal solid waste disposal business, the Group succeeded in winning the bid for Shenzhen Xiaping Landfill Phase II Landfilling Operation Project and Shenzhen Luohu District Food Waste Recycling Project, further strengthening its lead position in Shenzhen municipal solid waste business during the reporting period; Hunan Shaoyang Domestic Waste Landfill Project successfully passed the environmental inspection and was rated as a Hunan pilot unit within the same industry. Furthermore, Yunnan construction waste project smoothly passed the environmental inspection and commenced formal production and operation, and mainly produced recycled aggregate, standard bricks, building blocks and pavior brick, and managed to register the "Yuanshuo" trademark, and laid a foundation for improving product popularity and market competitiveness.

As to renewable energy, the Group has realised controllable power generation and traceable production process, and achieved the stable operation of the landfill gas power generation by implementing standardization work of landfill gas power generation and fine management of landfill gas power generation. Two additional power generating units have passed environmental inspection and 8 power generating units have been put into operation in Shenzhen Xiapingchang Landfill Gas Power Generation Project. In 2012, the Group's three landfill gas power generation projects achieved power of approximately 114,500,000 Kw/h, representing an increase of approximately 18.80% as compared to 2011, and achieved operating revenue of approximately RMB57,006,500.

Environmental Engineering and Services

Environmental engineering and services of the Group mainly include technical consultation, design, construction, operation and management of environmental protection facilities engineering, as well as environmental impact assessment, environmental monitoring and etc. Owing to the desirable policy and industrial structure support, the Group had put more effort in expanding environmental engineering services and focused on technical and operation model innovation on the principle of "Innovating Operation Model and Shaping Premium Brand". During the reporting period, environmental protection engineering and services business achieved operating revenue of approximately RMB165,746,000, representing an significant growth of approximately 53.39% as compared to 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group vigorously expand its new environmental protection engineering service business, and innovate its business model. In face of the current status and the developing trend of the industrial shift and upgrade of the circuit boards and electroplating industry, the Group actively develops its online recovery of etching liquid of circuit boards in Kunshan and Guangdong, and progressively develops its environmental engineering business in inland regions including Jiangsu, Jiangxi, Anhui, Hubei and Chongqing, and develops its industrial effluents operation business to Kunshan, and achieved better results.

In 2012, the Group's inspection service business was carried out under the measures of "Integrating resource for unified management", and further enhance and strengthen its inspection capability by focusing on inspection quality and brands establishment. During the reporting period, the Group passed the national CMA and CNAS inspection project extension certification, and completed 65,125 inspections in total, representing an increase of approximately 30% as compared to 2011.

Research and Development ("R&D")

In 2012, with increasingly comprehensive incentives for technology staff and management of technological results, the Group's technical R&D department achieved dramatic breakthrough in the laboratory research, and completed projects including worn-out electronic components recycling, non-metallic material recycling and polyurethane foam volume reduction and recycling and made breakthrough of laboratories, and 2 patents were licensed. Meanwhile, the pilot-scale study on modified conditioning and deep dehydration of municipal sludge and pilot-scale study on project of anaerobic digestion gasification of kitchen waste also made admirable achievements, providing technical guarantee for the diversified development of the Group's municipal business. Moreover, the Group constantly shored up the cooperation between production, study and research. The Group spearheaded the cooperation with universities including Tianjin University, and the "anaerobic digestion gasification technology research and integrated demonstration in Southern region" was initiated under the 863 Plan; the Project Earmarked for Environmental protection of Shenzhen Human Settlement Environment Commission was approved based on "Phase 2 Sludge Disposal Project of Shenzhen Fuyong Watercourse Sludge Treatment Plant" was approved, and "Technical research on Preparation of high-end copper salt products by copper-containing waste recovery in PCB manufacturers" was initiated under the environmental research project for Shenzhen Human Settlement Environment Commission.

The Group's technical R&D team is always committed to its key technical research of principal operations. During the reporting period, the Group obtained 22 licensed patents and 7 invention patents. Certain invention patents were fully implemented, and played a pivotal role in optimizing product quality, and achieving product refinement; obtained 15 licensed patents utility model, which played a key role in stabilising production process, achieving energy saving and emission reduction objectives.

Corporate Development

During the reporting period, the Group successfully entered into the domestic capital market and developed financing channels. In April 2012, the Group conducted the initial public offering of 25,000,000 A shares and was listed successfully on the SME Board of the Shenzhen Stock Exchange. Proceeds raised from the said issue of shares amounted to RMB1,012,225,800, bringing strong financial support and financing safeguard to the Group and promoting the brand effect. Also, it laid a solid foundation for the Group's extended expansion and access to new domains and new regional markets.

ANALYSIS ON CORE COMPETITIVENESS

Environmental protection industry features high access barriers. As a leader in the domestic industrial waste treatment and disposal field, the Group has accumulated industrial experience and brand qualification strength in the hazardous waste field over years' growth. They are the most principal embodiment of the Group's core competitiveness. With 10 years' experience in project operation, the Group has developed into a larger comprehensive domestic environmental service provider of waste treatment with all-round qualifications and extensive business scopes domestically. During the reporting period, the Group has possessed over 60 qualification certificates including operation of hazardous waste, pollution control, environmental engineering, environmental monitoring and worn-out electronic product treatment, and obtained 19 new qualification certificates in 2012.

Integration of industrial resources and perfection of the industry chain is another characteristic of the Group's core competitiveness. The Group's business covers the industrial and municipal areas. The Group has built a perfect business chain for tailor-made "reduction, bio-safety, recycling" treatment for an small enterprise up to a large city. Leveraging on the all-round waste treatment service platform and comprehensive and fast one-stop service, the Group satisfied customer's requirements as much as possible in compliance with the development trend of the industrial "Entire Solution" service model. In 2012, with powerful guarantee of qualifications and resources, the Group further developed their businesses in adjacent regions of Shenzhen and Kunshan with 1000 new customers. Meanwhile, the Group expanded its scale of business, maximized its market share and thus strengthened its industrial strategic position by acquisition of equities in enterprises such as Shaoguan Green, Qingyuan Xinlv, Bao'an Dongjiang, Jiaxing Deda and Zhuhai Qingxin.

Technical innovation is the major driving force for the future development of the Group, and the Group places much importance on technical innovation, and has its technology research department and an independent research and development center, which consists of many laboratories such as heavy metal recycling laboratory, industrial waste treatment and recycling laboratory, and laboratories are facilitated with a series of experimental system and testing instruments. Besides a major means of promoting independents innovation capability is to communicate and collaborate with domestic and international enterprise and universities. The R&D Center has conducted over 100 research projects and obtained approximately 40 patents.

FINANCIAL REVIEW

Total Operating Revenue

For the year ended 31 December 2012, the Group's total operating revenue increased by approximately 1.36% to RMB1,521,517,728 (2011: RMB1,501,074,353) as compared to the corresponding period in 2011. The increase was mainly due to the proactive expansion of the market share by the Company while the domestic metal prices dropped. Except for an approximately 9.43% decrease in the sales of industrial waste recycle products and an approximately 25.82% decrease in the category of trade and others in the year, each of the businesses of the Group recorded growth as compared to the corresponding period in 2011. In particular, the business of industrial waste disposal and treatment recorded an operating revenue of RMB200,398,517, representing an increase of approximately 34.77% as compared to that in the previous year (2011: RMB148,698,306), the business of environmental engineering and services achieved an operating revenue of RMB165,745,982, representing an increase of approximately 53.39% as compared to that in the previous year (2011: RMB108,056,429).

MANAGEMENT DISCUSSION AND ANALYSIS

Profit

For the year ended 31 December 2012, the Group's gross profit increased by approximately 7.46% to RMB561,703,255 (2011: RMB522,684,920). Among which, gross profit from the environmental engineering and services recorded an increase of approximately 102.82% to RMB51,870,121 (2011: RMB25,574,648), gross profit from the business of municipal waste treatment and disposal recorded an increase of approximately 68.09% to RMB30,773,595 as compared to the previous year (2011: RMB18,307,807), gross profit from business of industrial waste treatment and disposal recorded an increase of approximately 29.56% to RMB139,369,720 as compared to the corresponding period in the previous year (2011: RMB107,568,846), and gross profit from business of renewable energy utilization and CDM trading recorded an increase of approximately 23.94% to RMB21,886,883 (2011: RMB17,659,127), while the gross profit from business of industrial waste recycle products recorded a decrease of approximately 12.14% to RMB303,127,240 as compared to the corresponding period in the previous year (2011: RMB344,993,351).

For the year ended 31 December 2012, the Group's gross profit margin was approximately 36.92% (2010: approximately 34.82%), representing an increase of approximately 2.10% as compared to 2011.

For the year ended 31 December 2012, net profit attributable to shareholders of the Company increased by approximately 30.91% to RMB266,705,804 as compared to the corresponding period in 2011 (2011: RMB203,725,280). The increase is mainly attributable to the Company's effective reduction in production costs by improving internal management and optimising the process, and successful control in finance expenses by enhancing asset management, accelerating capital turnover and full funding within the year on the premises of proactively exploiting markets.

Sales Expenses

For the year ended 31 December 2012, the Group's sales expenses was RMB34,011,656 (2011: RMB56,397,850), representing approximately 2.24% (2011: approximately 3.76%) of its total operating revenue. The decrease in sales expenses is mainly due to the Group's strengthened control over its expenses, especially the management of vehicles for transportation, and orchestrated vehicles to effectively reduce unit transportation expenses in the general circumstance of the entire domestic economy worse than expected. Secondly, the Group further perfected its internal control system, further clarified departmental responsibilities, and consolidated the industrial solid waste business development into the marketing management department, and re-planned chemical product trading business, streamlined relevant departments, and reduced labor costs and chemical product transportation expenses according to its own development and market changes.

Administrative Expenses

For the year ended 31 December 2012, the Group's administrative expenses was RMB207,692,583 (2011: RMB179,152,888), representing approximately 13.65% (2011: approximately 11.93%) of the Group's total operating revenue. Increase in administrative expenses is mainly due to the fact that the Group continued to expand its investment in R&D and the listing of the Company's A shares increased roadshow publicity fees and for further perfecting its internal control system consolidating the industrial solid waste business development into the marketing management department for reinforcing marketing management, and the increasing number of subsidiaries during the period.

Finance Costs

For the year ended 31 December 2012, the Group's finance costs was RMB3,192,383 (2011: RMB19,641,288), representing approximately 0.21% (2011: approximately 1.31%) of the Group's total operating revenue. Decrease in finance costs is mainly attributable to the receipt of proceeds from the issue of A shares leading to a decrease in bank loans.

Income Tax Expenses

For the year ended 31 December 2012, the Group's income tax expenses was RMB38,711,279 (2011: RMB37,468,454), representing approximately 11.63% of the Group's total profit before tax (2011: approximately 14.60%). 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 2012, the Group had net current assets of RMB1,143,202,211 (2011: RMB371,384,090), including cash and cash equivalent of RMB1,016,889,376 (2011: RMB247,813,761).

As at 31 December 2012, the Group's total liabilities was RMB836,659,992 (2011: RMB934,032,866). The Group's gearing ratio was approximately 26.91% (2011: approximately 47.09%) which is calculated based on the Group's total liabilities and total assets. The current liabilities of the Group was RMB623,416,644 (2011: RMB501,942,283). As at 31 December 2012, the Group had outstanding bank loans of RMB295,505,249 (2011: RMB512,071,445).

The Board believes that the Group has a 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 AND ASSOCIATES

In January 2012, the Company entered into a subscription agreement to acquire 20% equity interest in Qingyuan Xinlv Environmental Technology Co., Ltd. (清遠市新綠環境技術有限公司) ("Qingyuan Xinlv") at a consideration of RMB22,000,000.

In February 2012, the Company invested RMB10,000,000 to establish a 100%-owned subsidiary of the Company, namely Hubei Dongjiang Environmental Co., Ltd. (湖北東江環保有限公司).

In March 2012, the Company make a capital contribution to RMB18,000,000 to a 60%-owned subsidiary of the Company, 60% equity interest namely Shaoguan Green Recycling Resource Development Co., Ltd. (韶關綠然再生資源發展有限公司) ("Shaoguan Green").

In May 2012, the Company invested RMB153,669,500 to the registered capital of Qingyuan Dongjiang Environmental Technology Co., Ltd. (清遠市東江環保技術有限公司), a 100%-owned subsidiary of the Company, with surplus proceeds from the issue of A shares.

In May 2012, the Company invested RMB80,324,500 to the registered capital of Shenzhen Dongjiang Renewable Energy Limited (深圳市東江環保再生能源有限公司), a 100%-owned subsidiary of the Company, with surplus proceeds from the issue of A shares.

In June 2012, the Company entered into a subscription agreement and an acquisition agreement, pursuant to which the Company agreed to make a capital contribution to the registered capital of Qingyuan Xinlv of RMB33,000,000 and subsequent upon the completion of such subscription, to acquire 12.5% of the equity interest in Qingyuan Xinlv at a consideration of RMB13,750,000. Upon completion of the transactions, Qingyuan Xinlv was owned as to 62.5% by the Company. These transactions, in aggregate with the subscription of 20% equity interest in Qingyuan Xinlv by the Company in January 2012, constitute a discloseable transaction of the Company. Please also refer to the announcement of the Company dated 8 June 2012 for details.

In June 2012, the Company entered into an equity transfer agreement to acquire the 40% equity interest in Zhuhai Qingxin Industrial Environmental Protection Co., Limited (珠海市清新工業環保有限公司) ("Zhuhai Qingxin"), which is a subsidiary owned as to 35% equity interest by the Company prior to the acquisition, at a consideration of RMB12,000,000. Upon completion of the transaction, Zhuhai Qingxin was owned as to 75% by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

In June 2012, the Company entered into an equity transfer agreement to acquire the remaining 20% equity interest in Shenzhen Baoan Dongjiang Renewable Energy Limited (深圳寶安東江環保再生能源有限公司) (“Bao’an Dongjiang”), a 80%-owned subsidiary of the Company prior to the acquisition, at a consideration of RMB5,975,000.

In July 2012, the Company invested RMB5,000,000 to the registered capital of Huabao Technology Limited (深圳市華保科技有限公司), a wholly-owned subsidiary of the Company.

In August 2012, the Company entered into a subscription agreement to acquire 51% equity interest of Jiaying Deda Resources Recycling Company Limited (嘉興德達資源循環利用有限公司) at a consideration of RMB30,183,600.

In October 2012, the Company invested RMB43,800,000 to the registered capital of Shenzhen Longgang Dongjiang Industrial Waste Disposal Treatment Co., Ltd., (深圳市龍崗區東江工業廢物處置有限公司) (“Longgang Dongjiang”), then a 51%-owned subsidiary of the Company, with surplus proceeds from the issue of A shares, after which Longgang Dongjiang became owned as to 54% by the Company.

In November 2012, the Company invested RMB50,000,000 to establish a 100%-owned subsidiary, namely, Jiangmen Dongjiang Environmental Technology Co., Ltd. (江門市東江環保技術有限公司), with surplus proceeds from the issue of A shares.

In November 2012, the Company entered into an equity transfer agreement to acquire the 40% equity interest in Shaoguan Green, which was then a 60%-owned subsidiary of the Company, at a consideration of RMB95,000,000. It became a wholly-owned subsidiary of the Company upon completion of the acquisition. Please also refer to the paragraph headed “Acquisition of Remaining Interest of Shaoguan Green” in the Directors’ Report in this report for details.

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

INTEREST RATE AND EXCHANGE RISK

Interest Rate Risk

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

PLEDGE OF ASSETS

As at 31 December 2012, certain assets of the Group were pledged to secure bank borrowings, guarantees and letters of credit facilities granted to the Group, details of which were as follows:

	2012	2011
Fixed assets	6,100,812	7,100,006
Cash and bank balances	10,925,180	4,189,340
Total	17,025,992	11,289,346

In addition, 80% equity interest in Bao'an Dongjiang, a wholly-owned subsidiary of the Company, and the rights of Bao'an Dongjiang to receive electricity charges from the CDM project of electricity generation from landfill gas were pledged to a bank as security for the bank loans.

INFORMATION ON EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the number of full-time employees stood at 2,530 (2011: 2,209) with a total staff cost for the year ended 31 December 2012 of RMB161,191,364 (2011: RMB132,700,064). The Group offers continual training, remuneration package of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

The Group determines its remuneration policies for the staff on the basis of the current economic benefits and sustainable development, starting from its economic benefits, it determines the annual remuneration distribution for the staff after overall performance appraisal according to the annual business plan and operational tasks. Besides, the Group lays down and implements the remuneration system appraisal mechanism to make the remuneration system be periodically evaluated and ensure it to be rational and effectively implemented. The Group properly adjusts its staff's remuneration and welfare based on its economic benefits and regional living standard and changes of price index. Apportionment of staff remuneration is based on individual contribution, ability and responsibility taken, and following the principles of distribution according to work, giving priority to efficiency with due consideration to fairness and sustainable development so as to enable our staff to share gains from the Company's development with the Group and effectively combine the short-term, medium-term and long-term gains.

CONTINGENT LIABILITIES

The Group provided financial guarantee to a bank for securing banking facilities granted to a jointly controlled entity, Huizhou Dongjiang Veolia Environmental Services Company Limited. The balance of these financial guarantee are yet to expire as at 31 December 2012 of RMB40,000,000 (2011: RMB40,000,000). The maximum amount of these financial guarantee during the year ended 31 December 2012 was RMB40,000,000 (2011: RMB60,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

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 its 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 will require the Group to undertake 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 for the year ended 31 December 2011 and 2012.

CAPITAL COMMITMENT

As at 31 December 2012, the capital commitments of the Group are as follow:

Item	2012	2011
Capital expenditures contracted for but not provided for in the financial statements		
– Construction in progress	21,408,671.43	42,912,409.66
– Acquisition of land use rights	–	31,146,659.00
– Acquisition of equipments	14,879,563.00	17,354,389.66
Total	36,288,234.43	91,413,458.32

FUTURE PROSPECTS

(I) INDUSTRY COMPETITION LANDSCAPE AND DEVELOPMENT TREND

In 2012, environmental protection industry policies were continuously unveiled despite large scale investments have not yet been initiated. According to the Central Economic Work Meeting (中央經濟工作會議), positive financial policies and prudent monetary policies will continually be maintained in 2013, therefore the environmental protection industry as a public investment will be well-positioned to benefit from positive financial policies. Meanwhile, taking into account that the year 2013 is in the middle of the Twelfth Five-Year Plan, the industrial investment is expected to accelerate and environmental protection growth is bound to be promoted due to the high concern for environmental protection under the “New Urbanization” and “Beautiful China” Strategy of the Eighteenth National Congress of China.

1. In terms of development trends, China started relatively late in environmental protection, core technology and core environmental equipment and products are mainly under the control of foreign enterprises. At this stage, strengthening efforts in technical R&D, breaking through in generic technology, focusing on high-end refined environmental protection products especially environmental products with high added-value will be beneficial to the elevation of its competitive position. Besides, environmental protection industry embarks on a period of fast growth. Industrial sectors are sub-divided, and each segment sees different development prospects. As the nascent solid waste industry, it features high access barriers, long and complex process of waste treatment, substantial investment in the earlier stages of the project and long cycle of recovery of the investment, and enterprises boasting rich management experience, solid capital strength and ranking top of the peers are well-placed to ramp up scales by leveraging positive policies.
2. In terms of the industry competition landscape, the solid waste industry is nascent. Degree of industrialization and market consolidation degree is low, corporate scale is small, and industry competition landscape is uncertain with chaotic market competition and limited strong competitors. In the field of industrial solid waste treatment, in addition to the Group, state-owned enterprises including Shenzhen Hazardous Wastes Treatment Station Company Limited, Guangzhou Waste Safety Disposal Center and private listed enterprises including Sound Environmental Resources Co., Ltd. and Shenzhen GEM High-tech Co., Ltd. occupy a significant part of market shares; as to municipal engineering, Shanghai Environmental Group Co. Ltd. and China Everbright International Limited are the Group's strong competitors.

(II) MAJOR RISK FACTORS AND CORRESPONDING MEASURES

1. Policy risk: as a traditional environmental protection industry or a strategic emerging industry deriving from environmental protection industry, the solid waste treatment industry is nascent and vulnerable to policies. The national policy in turn is one of the significant growth drivers of its development. During the reporting period, despite intensive implementation of environmental protection policies, industrial investment was lower than expected, and was not implemented as impacted by the macro-economy. Thus, capturing market opportunities for the purpose of sharpening the Group's competitive edges through transiting from policy resources in the current stage of project investment, engineering construction and operation to environmental equipment is an important approach.
2. Macro-economy downturn risks: the European sovereign debt crisis made a heavy impact on global economy in the past few years, and it is unlikely for the economy to recover rapidly in the short term. The Group's business may be faced with risks of low waste collection volume resulting from the low rate of operation of upstream enterprises. Furthermore, the Groups will enhance new market expansion and new business expansion while beefing up customer relationship management and stabilizing existing customers. Internally, the Group regulates its internal management, especially enhancing its financial management, so as to slash operating costs.
3. Risks of price fluctuation of non-ferrous metals and fierce competition of negotiable waste market: during the reporting period, the non-ferrous metal trend was restricted by the turbulent European debt crisis, excess production capacity and sluggish consumption. Meanwhile, enterprises from various industries are optimistic about the national environmental industry policy opportunities and successively invested in the waste solid waste treatment and disposal industry, and the government's promotion on industry transformation and clean production. Intensive treatment of wastes is changing to the model of online treatment/onsite treatment, resulted in increasingly fierce market competition. Under the situation, the Company, market-oriented and timely optimizes its product mix to establish a centralized purchase platform of raw materials to cut purchase costs, and improved the waste recycling rate to circumvent risks from the drop in non-ferrous metal prices. At the same time, the Company created new business models, maximized its market share in the environmental engineering service business and made every endeavor to expand online recovery/onsite recovery business.
4. Risks of shortage in management, technology and talents arising from rapid development: the Group has developed over 30 branches and subsidiaries, with market presence in regions such as Guangdong Province, Kunshan in Jiangsu, Jiaxing in Zhejiang, Qingdao in Shandong, Kunming in Yunnan, Zhaoyang in Hunan, Wuhan in Hubei, Beijing and Hong Kong, the management level and skills and talent pool has not been enough to meet its rapid expansion of business. In light of the current situation of the rapid corporate development, the Group implemented the development of internal control systems to regulate internal management and also improve corporate efficiency. The Group established an internal talent market and to provide sufficient human resource reserve of the Group sustainable development. While innovating technical level and improving the co-movement of technology, production and market, the Group proactively executed combined research on production, study and research, and shored up the corporate technology advance by leveraging on the technical strength of universities and scientific research institutions.

(III) GROUP DEVELOPMENT STRATEGY AND ANNUAL OPERATING PLAN

In 2013, the Group will continue its priority in boosting business expansion and internal management, while exerting synergy of corporate business based on its own of technology and research. It will realise cross-regions operation of business scopes by flexible means of capital operation such as transverse mergers and acquisitions, to scale up new market presence and maintain stable growth.

1. For project construction and new project development, the Group will focus on strategic objectives, vigorously promoting projects under in progress, and obtain more operating qualifications as soon as possible to satisfy the needs of the expanding business scale.
2. In business expansion, the Group will capture favorable policies and make good use of opportunities to improve the market share of environmental engineering service and municipal engineering business and create business models. In environmental engineering service, the Group will promote waste water online recovery/on-site recovery; in municipal solid waste treatment, the Group will expand the industry chain while expanding the service scope. The service scope will be expanded to sludge treatment and kitchen waste treatment from landfill gas power generation, and sophisticated industry chain from transportation to treatment and disposal will be gradually built on the model of kitchen projects; the Group will solidify diversification of the business model in Kunshan, promoting its leading position in the Kunshan base, so as to lay a solid foundation for the business growth in the Yangtze River Delta centered on Kushan base.
3. In technological R&D, the Group will enhance technology innovation level and the driving impact of technology on market. In 2013, the Group will establish the linkage between the mechanism of technology, market and production as the top issue of the Group's ten priorities. The Group will take this opportunity to improve the close interrelation between technology, production and market. Meanwhile, the Group will refine research and development of refined products and improve the technological added-value of products, thus maximising the capacity for appreciation for the Group's business.
4. In internal management, the Group will promote the establishment of internal control systems and corporate culture systems and improve the strategic management status while improving the guiding and integrating function of corporate culture. In the meantime, the Group will put more effort in the management of human resource and comprehensive budget management to achieve the objectives of standardising internal management, promoting management efficacy and reducing management cost.

MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Zhang Wei Yang (張維仰), aged 48, is the chairman of the Board, 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. Zhang is the chairman of the strategic development committee of the Company, and a member of the nomination committee of the Company. He is also the authorised representative of the Company.

Mr. Chen Shu Sheng (陳曙生), aged 47, is an executive Director and the chief executive of the Company (appointed on 25 October 2012). 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. Mr. Chen was appointed as an executive Director on 2 June 2005. In October 2012, Mr Chen was appointed as the chief executive of the Company, and is responsible for overseeing the general operation of the Group.

Mr. Li Yong Peng (李永鵬), aged 38, is an executive Director and the vice president of the Company (appointed on 25 October 2012). 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 was appointed as the vice president of the Company in October 2012, and is responsible for the management of market operation of the Group. Mr. Li is a nephew of Mr. Zhang Wei Yang, the chairman of the Board, 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 46, 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 Mr. Feng Bo, a non-executive Director. Mr. Feng Tao was appointed as a non-executive Director on 28 November 2001. Mr. Feng is a member of the strategic development committee of the Company.

Mr. Feng Bo (馮波), aged 44, is a non-executive Director. Mr. Feng Bo 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.

MANAGEMENT PROFILE

Ms. Sun Ji Ping (孫集平), aged 57, 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 73, 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. Ye is the chairman of the remuneration and appraisal committee of the Company, and a member of each of the audit committee, the nomination committee and the strategic development committee of the Company.

Mr. Hao Ji Ming (郝吉明), aged 67, 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. Hao is the chairman of the nomination committee of the Company, and a member of each of the audit committee and the remuneration and appraisal committee of the Company.

Mr. Wang Ji De (王繼德), aged 63, 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. Mr. Wang is the chairman of the audit committee of the Company, and a member of the remuneration and appraisal committee of the Company.

SUPERVISORS

Ms. Yuan Wei (袁桅), aged 43, 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 (無錫江南仁和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.

Mr. Cai Wen Sheng (蔡文生), aged 47, 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 41, 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 49, was the company secretary of the Company (resigned on 17 December 2012). 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. On 17 December 2012, Mr. Lo had tendered his resignation as the company secretary of the Company and cease to act as the authorised representative of the Company.

Ms. Wang Tian (王恬), aged 37, is the secretary of the Board and has been the company secretary and authorised representative of the Company since 17 December 2012. 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 10 years of experience in the field of investment and management. On 17 December 2012, Ms. Wang was appointed as the company secretary and authorised representative of the Company.

SENIOR MANAGEMENT

Mr. Cao Ting Wu (曹庭武), aged 47, is the vice president and the chief financial officer of the Group, in charge of financial management. 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 joined the Group in March 2007. Mr. Cao has over 20 years of experience in financial management.

Mr. Lan Yong Hui (蘭永輝), aged 54, 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 37, is the secretary of the Board and the company secretary and authorised representative of the Company. Please refer to the section headed "Company secretary" above for the biographical details of Ms. Wang.

DIRECTORS' REPORT

The Directors present this report and the audited financial statements of the Group for the year ended 31 December 2012.

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 V.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 2012.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 44 of this report.

DIVIDENDS

The Company has distributed and paid an interim dividend of RMB0.5 for each share of the Company in 2012, thereby distributing dividend of a total of RMB75,238,187 in cash.

The Board recommends the payment of a final dividend of RMB0.4 per share of the Company (inclusive of tax) (2011: NIL) to all shareholders of the Company based on the total number of shares of 150,476,374 shares of the Company as at 31 December 2012, with the total amount of dividend to be paid be RMB60,190,549.60, subject to approval by the shareholders of the Company at the forthcoming annual general meeting and class meetings for holders of A shares and for H shares, respectively, to be convened and held. In addition, the Board proposes to offer to all shareholders of the Company 5 ordinary shares for each 10 ordinary shares held by shareholders of the Company by way of conversion of capital reserve, thereby issuing 75,238,187 shares (including 17,790,000 H shares and 57,448,187 A shares) based on the total number of 150,476,374 shares of the Company as at 31 December 2012. Following the aforesaid conversion of capital reserve, the Company shall have a total of 225,714,561 shares (including 53,370,000 H shares and 172,344,561 A shares). The aforesaid conversion of capital reserve is subject to, among other things, having obtained the approval by shareholders of the Company at the annual general meeting, the class meeting for holders of H shares and the class meeting for holders of A shares to be convened and held, and the Stock Exchange granting approval for the listing of the 17,790,000 H shares to be issued on the Main Board of the Stock Exchange. The Company will make further announcement in accordance with The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") upon the record date to ascertain holders of H shares and holders of A shares entitled to the final dividends and the conversion of capital reserve is determined.

A circular containing, among other things, the distribution of final dividend and the capital increase by way of conversion of capital reserve, together with the notice of the annual general meeting, class meeting for holders of H shares and class meeting for holders of A shares, is despatched to the shareholders of the Company together with this report.

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 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.

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 approval 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.

On 16 December 2011, the Company had submitted a draft of the prospectus in respect of the issue of A shares 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 were reviewed and passed.

On 5 April 2012, the Company received the formal written approval from the CSRC for the issue of A Shares. The issue of A shares comprised the allotment and issue of not more than 25,000,000 A Shares to natural persons, legal persons or other institutional investors recognised by the CSRC, who maintain A share accounts with the Shenzhen Stock Exchange (except those prohibited by PRC laws and regulations, and other regulatory requirements to which the Company is subject to) and preliminary price consultation with qualified institutions that are recognised under PRC laws had conducted from 9 April 2012 to 12 April 2012 in the PRC.

On 26 April 2012, pursuant to the issue of A shares, the Company issued 25,000,000 A shares at the final offer price of RMB43 per share. The A shares were first listed and commenced trading on the Shenzhen Stock Exchange on the same date. Some key information in respect of the listing of A shares is as follows:

Place of listing	: Shenzhen Stock Exchange
Date of listing	: 26 April 2012
Stock name	: DJE
Stock code	: 002672
Total number of issued shares of the Company following the issue of A shares	: 150,476,374 (comprising 35,580,000 H shares and 114,896,374 A shares)

DIRECTORS' REPORT

On 21 May 2012, pursuant to the completion of the issue of A shares, the Board completed business registration with the Market Supervision Administration of Shenzhen Municipality following the completion of the issue of A shares and the filing of relevant amendments to the Company's Articles of Association consequential to the completion of the issue of A shares.

DISTRIBUTION PLAN FOR INTERIM DIVIDEND AND PROPOSED AMENDMENTS OF ARTICLES OF ASSOCIATION AND ADOPTION OF SHAREHOLDERS' RETURN PLAN

At the first extraordinary general meeting in 2012 ("EGM") of the Company held on 24 September 2012, it was resolved the profit distribution of cash dividend (inclusive of tax) of RMB5.00 for every 10 existing shares, based on the total number of 150,476,374 shares of the Company as at 30 June 2012, of a total of RMB75,238,187 for the six months ended 30 June 2012 to all the shareholders.

In light of the requirements of the China Securities Regulatory Commission on listed companies in the PRC in relation to profit distribution, certain amendments to the Articles of Association of the Company and to adopt the shareholders' return plan (2012-2014) were passed at the EGM.

CHANGE OF CHIEF EXECUTIVE AND APPOINTMENT OF VICE PRESIDENT

In light of the need for the future development of the Company and to realize the segregation of the roles of chairman and chief executive to perfect the Company's corporate governance, Mr. Chen Shu Sheng (陳曙生), an executive Director, has been appointed as the new chief executive of the Company in place of Mr. Zhang Wei Yang (張維仰) with effect from 25 October 2012. Mr. Zhang Wei Yang remained as the chairman of the Board and an executive Director.

Mr. Li Yong Peng (李永鵬), an executive Director, has been appointed as the vice president of the Company with effect from 25 October 2012.

CHANGE OF COMPANY SECRETARY AND AUTHORISED REPRESENTATIVE AND CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

On 17 December 2012, Mr. Lo Wah Wai resigned as the company secretary of the Company and ceased to act as an authorised representative of the Company under the Listing Rules, Ms. Wang Tian (王恬) has been appointed as the company secretary and an authorised representative of the Company under the Listing Rules, following the resignation of Mr. Lo Wah Wai, with effect from 17 December 2012.

The principal place of business in Hong Kong of the Company has been changed to Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong with effect from 31 January 2013.

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 of this report. 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 VI.13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note VI.32 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2012 are set out in the consolidated statement of changes in shareholders' equity on pages 50 to 51 of this report.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to approximately RMB919,750,287.90. 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 2012, sales to the Group's five largest customers accounted for approximately 25.61% of the total sales for the year and sales to the largest customer included therein amounted to approximately 8.39%. Purchases from the Group's five largest suppliers accounted for approximately 19.46% of the total purchases for the year and purchase from the Group's largest supplier accounted for approximately 4.53% for the year ended 31 December 2012.

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 2012 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 and Ms. Sun Ji Ping as the non-executive Directors; Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Wang Ji De as the independent non-executive Directors.

The supervisors of the Company ("Supervisors") during the year ended 31 December 2012 and up to the date of this report were: Ms. Yuan Wei, Mr. Cai Wen Sheng and Mr. Liu An.

DIRECTORS' REPORT

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including independent non-executive Directors) and 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 2012.

Save as disclosed in this report, no contract of significance has been entered into during the year ended 31 December 2012 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 VII.2.(6) 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 authorised 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 2012, 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 (the "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 A shares	28.68%/37.56%
Li Yong Peng	Beneficial owner	6,385,155 A shares	4.24%/5.56%
Chen Shu Sheng	Beneficial owner	3,256,299 A shares	2.16%/2.83%

Save as disclosed above, as at 31 December 2012, 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 2012, 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. <i>(Note 1)</i>	Beneficial owner	12,313,311 A shares	8.18%/10.72%
Cai Hong	Beneficial owner	5,646,437 A shares	3.75%/4.91%
CITIC Securities International Investment Management (HK) Limited	Investment manager	3,898,400 H shares	2.59%/10.96%
China Alpha Fund Management Limited	Investment manager	3,201,700 H shares	2.13%/9.00%
Wang Jun Yan	Beneficial owner	3,201,700 H shares	2.13%/9.00%
Edmond de Rothschild Asset Management Hong Kong Limited	Investment manager	2,843,400 H shares	1.89%/7.99%
Edmond de Rothschild Asset Management	Investment manager	2,843,400 H shares	1.89%/7.99%

Notes:

- Shanghai New Margin Venture Capital Co., Ltd. is owned as to 24.5% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, as to 24.5% by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 51% equally by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowth Investments Limited.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2012, 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

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 2012, none of the Directors, Supervisors and chief executive of the Company had any rights to acquire H shares of the Company.

DISCLOSURE OF INFORMATION ON DIRECTORS

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

Mr. Zhang Wei Yang, the Chairman of the Board, an executive Director and the founder of the Group, resigned as the chief executive officer of the Company on 25 October 2012.

Mr. Chen Shu Sheng, an executive Director and the chief executive of the Company. Mr. Chen was appointed as the chief executive of the Company on 25 October 2012, and is responsible for overseeing the general operations of the Group.

Mr. Li Yong Peng, an executive Director and the vice president of the Company. Mr. Li was appointed as the vice president of the Company on 25 October 2012, and is responsible for the management of market operation of the Group.

SHARE OPTION SCHEME

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

CONNECTED TRANSACTIONS

Continuing Connected Transactions

Details of continuing connected transactions of the Group during the year ended 31 December 2012 are set out as follows:

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

Since the Sales Agreement 1 expired on 30 November 2012 and the Company entered into a sales agreement (the "Sales Agreement 2") with Heritage Dongjiang Micronutrients Additive (Shenzhen) Company Limited ("Shenzhen Micronutrients") (a company owned as to 62% by Heritage and as to 38% by the Company), pursuant to which Heritage Group agreed to purchase chemical products from the Group and associated companies of the Company from time to time, with a maximum amount of RMB47 million for the period from 1 December 2012 to 31 March 2013.

Heritage owns 38% equity interest in, and is therefore a substantial shareholder of, 深圳東江華瑞科技有限公司 (Shenzhen Dongjiang Heritage Technologies Company) ("DJ Heritage"), which is a 62% owned subsidiary of the Company. Heritage and Shenzhen Micronutrients are therefore connected persons of the Company. The Sales Agreement 1 and the Sales Agreement 2 constitute continuing connected transactions for the Company.

The Sales Agreement 1 and related annual caps were approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 7 December 2009. Details of the Sales Agreement 1 are set out in the Company's announcement dated 29 September 2009 and the Company's circular dated 20 October 2009.

As the value of each of total assets, profits and revenue of DJ Heritage represent less than 10% of the relevant percentage ratios for each of the latest three financial years, the transactions contemplated under the Sales Agreement 2 are exempted from reporting, annual review, announcement and independent shareholders' approval pursuant to Rule 14A.33(4) of the Listing Rules.

For the year ended 31 December 2012, the aggregate fees paid by Heritage Group to the Group under the Sales Agreement 1 and the Sales Agreement 2 amounted to RMB127,586,497.

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 2012 under relevant agreement did not exceed the annual cap amounts as disclosed in the relevant announcements disclosing the relevant transactions.

Connected Transactions

Acquisition of Remaining Interest of Shaoguan Green

The Company entered into an equity transfer agreement on 21 November 2012 (the "Equity Transfer Agreement") with Mr. Zhang Guoyan ("Mr. Zhang"), pursuant to which the Company agreed to acquire and Mr. Zhang agreed to sell the remaining 40% equity interest in 韶關綠然再生資源發展有限公司 (Shaoguan Green Renewable Resources Development Co., Ltd.) ("Shaoguan Green") at a consideration of RMB95,000,000.

Shaoguan Green was owned as to 60% by the Company prior to the Acquisition and it became a wholly-owned subsidiary of the Company upon completion of the aforesaid acquisition. Mr. Zhang is a director of and a holder of 40% equity interest in Shaoguan Green, which in turn is a subsidiary of the Company. Therefore Mr. Zhang was a connected person of the Company, and the Equity Transfer Agreement constitutes a connected transaction for the Company. As the applicable percentage ratios regarding the Equity Transfer Agreement were less than 5%, the aforesaid acquisition and the transactions contemplated under the Equity Transfer Agreement were subject to the reporting and announcement requirements, but were exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

Please also refer to the Company's announcement dated 21 November 2012 for further details of the Equity Transfer Agreement.

Save as disclosed above, all the related party transactions of the Group for the year ended 31 December 2012 disclosed in note VII.2 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public for the year ended 31 December 2012 and up to 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

SHINEWING (HK) CPA Limited was the auditors of the Company until the year ended 31 December 2009. At the first extraordinary general meeting of the Company held on 1 March 2011, SHINEWING (HK) CPA Limited was dismissed as the international auditors of the Company whilst ShineWing Certified Public Accountants became the only auditors auditing the financial statements of the Group for the year ended 31 December 2010.

The current auditor of the Company is ShineWing Certified Public Accountants. A resolution to re-elect ShineWing Certified Public Accountants as the Company's auditor will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Dongjiang Environmental Company Limited*

ZHANG Wei Yang

Chairman

Shenzhen, Guangdong Province, the PRC

27 March 2013

** 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 27 March 2013, the Supervisory Committee convened a meeting, at which the 2012 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 conditions 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 of Association of the Company, carefully implemented all resolutions of the general meetings and the Board had never breached any laws, regulations and the Articles of Association of the Company.

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 of Association of the Company and the applicable rules governing listing of shares, and commit to perform supervisory duties honestly and diligently, with the aim of protecting the interests of the Company and its shareholders as a whole.

By Order of the Supervisory Committee
Dongjiang Environmental Company Limited*

YUAN Wei

Chairman of the Supervisory Committee
Shenzhen, the PRC
27 March 2013

* For identification purpose only

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to achieving and maintaining high overall standards of corporate governance and has always recognised the importance of accountability and communication with Shareholders through continuous effort in improving its corporate governance practices and processes. Through the establishment of a quality and effective Board, a comprehensive internal control system and a stable corporate structure, the Company strives to achieve completeness and transparency in its information disclosure, enhance stable operation and consolidate and increase shareholders' value and profit.

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) (the "Code") and the Corporate Governance Code (effective from 1 April 2012) (the "Revised Code"), set out in Appendix 14 of the Listing Rules throughout the year under review, except for the deviation of code provision A.2.1 in respect of the segregation of the roles of the chairman and the chief executive, as Mr. Zhang Wei Yang was performing the roles of both the chairman and chief executive officer of the Company as mentioned in the paragraphs headed "Chairman and Chief Executive" below. Following the change of chief executive in October 2012, the Company had complied with code provision A.2.1.

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 enquiries of all the Directors, 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 2012 (the "Year").

THE BOARD

The Board is responsible to the shareholders of the Company. 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 17 to 19 of this report.

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

The day-to-day management, administration and operation of the Company are delegated to the chief executive and the senior management, included the preparation of annual and interim accounts for the Board's approval before public reporting; implementation of strategies approved by the Board; the implementation of internal control procedures; and the ensuring of compliance with relevant statutory requirements and other regulations and rules.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and senior management, and the coverage of this insurance is being reviewed each year.

The Board meets regularly at approximately quarterly intervals. Notice of a regular board 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 the agenda. The Board documentation are circulated not less than 3 days before regular meetings.

The Board held 26 meetings during the Year. The following table shows the attendance record of individual Directors:

Name of Directors	Attendance/Number of meetings held
Executive Directors	
Mr. Zhang Wei Yang (<i>Chairman</i>)	26/26
Mr. Chen Shu Sheng (<i>Chief Executive</i>)	26/26
Mr. Li Yong Peng (<i>Vice President</i>)	26/26
Non-executive Directors	
Mr. Feng Tao (<i>Vice Chairman</i>)	26/26
Mr. Feng Bo	26/26
Ms. Sun Ji Ping	26/26
Independent Non-executive Directors	
Mr. Ye Ru Tang	26/26
Mr. Hao Ji Ming	26/26
Mr. Wang Ji De	26/26
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).

CHAIRMAN AND CHIEF EXECUTIVE

The division of responsibilities of the chairman and chief executive 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. 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, before 25 October 2012, the roles of chairman and chief executive officer of the Company had been performed by Mr. Zhang Wei Yang, which the Board considered at the relevant time would lead to more effective implementation of the overall strategy and ensure smooth operation of the Group.

In light of the need for the future development of the Company and to realise the segregation of the roles of chairman and chief executive to perfect the Company's corporate governance, Mr. Chen Shu Sheng, an executive Director, was appointed as the new chief executive of the Company in place of Mr. Zhang Wei Yang with effect from 25 October 2012. Mr. Zhang Wei Yang remained as the chairman of the Board.

Mr. Li Yong Peng, an executive Director, was also appointed as the vice president of the Company with effect from 25 October 2012.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

Since the listing of the Company, two-third of the Board comprised non-executive Directors among which one-third are independent non-executive Directors. Non-executive Directors have appropriate professional qualification, and therefore, independent judgments can be effectively exercised, 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.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Directors have participated in continuous professional development to develop and refresh their knowledge and skills in respect of the corporate governance requirements and relevant rules and regulations relating to the listing of the Company. Set out below are the details of each Director's attendance:

Name of Directors	Attending training/briefing session	Reading materials
Executive Directors		
Mr. Zhang Wei Yang (<i>Chairman</i>)	√	√
Mr. Chen Shu Sheng (<i>Chief executive</i>)	√	√
Mr. Li Yong Peng (<i>Vice President</i>)	√	√
Non-executive Directors		
Mr. Feng Tao (<i>Vice Chairman</i>)	√	√
Mr. Feng Bo	√	√
Ms. Sun Ji Ping	√	√
Independent Non-executive Directors		
Mr. Ye Ru Tang	√	√
Mr. Hao Ji Ming	√	√
Mr. Wang Ji De	√	√

Each Director has provided a record of relevant training they received for the year ended 31 December 2012 to the Company.

NOMINATION, ELECTION AND RE-ELECTION OF DIRECTORS

Subject to the election by shareholders of the Company 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 agencies) the qualified candidates: 2) examining the qualifications of the prospective candidates, and determining the final Director candidates at Board meeting: 3) proposing the final candidate to the general meeting of shareholders of the Company for election through ordinary resolution.

The nomination committee of the Company searches for the Director candidates, compiles written reports, convenes the meeting of the nomination committee and conducts examination of the qualification of the initial candidates and makes recommendations to the Board regarding candidates for filling in vacancies on the Board.

The criteria for prospective candidates for nomination is: 1) the skills, knowledge and working experiences to carry out the duties of a Director; 2) compliance of the qualifications set out in the Articles, the Company Law of the PRC and the Listing Rules for acting as a Director and, where applicable, qualifications to act as an independent non-executive Director. The new Director will be provided with the information prepared by an external lawyer and instruction on the Company's background and business from 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.

GENERAL MEETINGS WITH SHAREHOLDERS

The Company held 2 general meetings during the year ended 31 December 2012. Set out below is the record of attendance of the Directors at these general meetings:

Name of Directors	Attendance Rate
Executive Directors	
Mr. Zhang Wei Yang (<i>Chairman</i>)	1/2
Mr. Chen Shu Sheng (<i>Chief Executive</i>)	2/2
Mr. Li Yong Peng (<i>Vice President</i>)	2/2
Non-executive Directors	
Mr. Feng Tao (<i>Vice Chairman</i>)	1/2
Mr. Feng Bo	1/2
Ms. Sun Ji Ping	1/2
Independent Non-executive Directors	
Mr. Ye Ru Tang	1/2
Mr. Hao Ji Ming	1/2
Mr. Wang Ji De	1/2
Average Attendance Rate	61.11%

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 2012 and this report.

CORPORATE GOVERNANCE REPORT

The principal responsibilities of the Audit Committee include:

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

The Audit Committee met six times in the year ended 31 December 2012 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:

Name of Audit Committee members	Attendance/Number of meetings held
Mr. Ye Ru Tang	6/6
Mr. Hao Ji Ming	6/6
Mr. Wang Ji De	6/6
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. Immediately prior to 29 March 2012, the Remuneration and Appraisal Committee comprised 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 was the chairman of the Remuneration and Appraisal Committee.

In order to conform with the amendments to the Listing Rules concerning corporate governance effective on 1 April 2012, it was resolved that the composition of the Remuneration and Appraisal Committee be changed, after which Mr. Ye Ru Tang, independent non-executive Director, was appointed as the chairman of the Remuneration and Appraisal Committee and with Mr. Hao Ji Ming and Mr. Wang Ji De, both independent non-executive Directors, remain as members 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 model of making recommendations to the Board on remuneration packages of individual executive Directors and the members of senior management is adopted.

The Remuneration and Appraisal Committee met once for the year ended 31 December 2012 to discuss the remuneration of the Directors and senior management and the relevant assessment policy. The following table shows the attendance records of individual members of the Remuneration and Appraisal Committee:

Name of Remuneration and Appraisal Committee members	Attendance/Number of meetings held
Mr. Zhang Wei Yang (resigned on 29 June 2012)	1/1
Mr. Ye Ru Tang	1/1
Mr. Hao Ji Ming	1/1
Mr. Wang Ji De	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 twice for the year ended 31 December 2012 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 for filling vacancies on the Board. The following table shows the attendance records of individual members of the Nomination Committee:

Name of Nomination Committee members	Attendance/Number of meetings held
Mr. Zhang Wei Yang	2/2
Mr. Hao Ji Ming	2/2
Mr. Ye Ru Tang	2/2
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.

CORPORATE GOVERNANCE REPORT

The Strategic Development Committee met once for the year ended 31 December 2012 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:

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

AUDITORS' REMUNERATION

The remuneration for the Company's auditor, SHINEWING, for the year ended 31 December 2012 was in total RMB800,000.

COMPANY SECRETARY

The company secretary of the Company for the period from 1 January 2012 to 17 December 2012, Mr. Lo Wah Wai, have taken no less than 15 hours of relevant professional training during the year ended 31 December 2012. The company secretary of the Company for the period from 17 December 2012 to 31 December 2012, Ms. Wang Tian, have taken no less than 15 hours of relevant professional training during the year ended 31 December 2012.

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. The Board makes efforts to attend general meetings so they may answer any questions by the Shareholders.

Shareholders may at any time send their enquiries and concerns to the Board in writing through delivered in-person, fax, email, courier, registered air mail, etc, whose contact details are as follows:

Addressee: Ms. Wang Na
Address: 11th Floor, Dongjiang Environmental Building, No. 9 Langshan Road, Nanshan District, Shenzhen, China
Email: ir@dongjiang.com.cn
Tel No.: 86 (755) 86676092
Fax No.: 86 (755) 86676002

or by leaving message at the Company's website at <http://www.dongjiang.com.cn> under the section headed "Investor".

PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

According to the Articles, where the Company holds a general meeting, the shareholders holding at least three percent (3%) of the shares with voting rights of the Company shall be entitled to bring forward a new proposal in writing and the Company shall list the matters in the proposal within the duties of the general meeting into the proceedings of this general meeting.

CHANGES IN THE COMPANY'S CONSTITUTIONAL DOCUMENTS

Following the completion of the issue of A shares of the Company, and the listing of the A shares of the Company on the Shenzhen Stock Exchange on 26 April 2012, relevant amendments to the Articles in relation to the issue of A shares as required by the applicable PRC laws and regulations, and the relevant rules of the Shenzhen Stock Exchange, became effective. Filing of the relevant amendments to the Articles consequential to the completion of the issue of A shares were also completed in May 2012. Please refer to the circular of the Company dated 13 October 2010 and the announcement of the Company dated 21 May 2012 for details of the amendments made to the Articles pursuant to the completion of the issue of A shares.

In August 2012, in light of the requirements of the China Securities Regulatory Commission on listed companies in the PRC in relation to profit distribution, the Company proposed to make certain amendments to the Articles. Such amendments to the Articles were approved by the Shareholders at the first extraordinary general meeting of the Company in 2012 held on 24 September 2012. Please refer to the circular of the Company dated 9 August 2012 for details of such amendments.

Save as disclosed above, there has been no material changes in the Company's constitutional documents for the year ended 31 December 2012.

SENIOR MANAGEMENT'S REMUNERATION

Senior management's remuneration payment of the Group in the year ended 31 December 2012 are set out in the note VII.2(6) to the financial statements in this report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions set out in code provision D3.1 of the Revised Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the Revised Code disclosures requirements.

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.

CORPORATE GOVERNANCE REPORT

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 2012 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 gives a true and fair view. In preparing financial statements which gives 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 page 39 of this report.

REPORT OF THE AUDITORS

XYZH/2012SZA1027

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 Company”), which comprise the consolidated and Company balance sheets as at 31 December 2012, the consolidated and Company income statements, the consolidated and Company cash flow statements and the consolidated and Company statements of changes in shareholders’ equity for the year then ended and notes to these financial statements.

1. MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Dongjiang Environmental Company is responsible for the preparation and the fair presentation of the 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. CERTIFIED PUBLIC ACCOUNTANT’S 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 certified public accountant’s 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, certified public accountant considers the internal controls relevant to the entity’s preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

3. AUDITING 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 Company as at 31 December 2012 and of their financial performance and their cash flows for the year then ended.

ShineWing Certified Public Accountants

Guo Jinlong

Chinese Certified Public Accountant

Qiu Lequn

Chinese Certified Public Accountant

Beijing, China

27 March 2013

CONSOLIDATED BALANCE SHEET

31 December 2012

Unit: RMB

Item	Note	31/12/2012	31/12/2011
Current Assets:			
Bank balances and cash	VI.1	1,027,814,556.38	252,003,101.76
Financial assets held-for-trading	VI.2	3,748,980.00	3,594,220.00
Notes receivable	VI.3	31,778,542.16	22,922,114.22
Accounts receivable	VI.4	207,393,388.94	180,256,667.63
Prepayments	VI.5	164,693,996.63	147,663,844.20
Interest receivable			
Dividend receivable			
Other receivables	VI.6	43,961,746.66	41,733,393.31
Inventories	VI.7	258,488,536.56	225,153,031.61
Non-current asset due within 1 year	VI.8	28,680,000.00	–
Other current assets	VI.9	59,108.33	–
Total current assets		1,766,618,855.66	873,326,372.73
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term accounts receivable	VI.10	44,815,000.00	–
Long-term equity investments	VI.11	81,255,271.82	91,016,769.82
Investment properties	VI.12	53,630,900.00	53,548,000.00
Fixed assets	VI.13	572,193,605.20	473,101,766.87
Construction in progress	VI.14	239,146,012.43	300,798,350.44
Construction material			
Fixed assets pending for disposal			
Intangible assets	VI.15	298,560,475.42	169,684,002.97
Development expenditure			
Goodwill	VI.16	42,789,715.19	3,052,019.14
Long-term prepayments	VI.17	1,152,733.51	
Deferred income tax assets	VI.18	9,443,444.07	9,147,910.43
Other non-current assets	VI.19	–	10,040,880.00
Total non-current assets		1,342,987,157.64	1,110,389,699.67
Total assets		3,109,606,013.30	1,983,716,072.40
Current liabilities:			
Short-term borrowings	VI.21	38,109,000.00	128,107,000.00
Financial liabilities held-for-trading			
Notes payable			
Accounts payable	VI.22	209,740,096.74	154,155,835.27
Receipts in advance	VI.23	58,671,791.40	86,559,820.11
Employee emolument payables	VI.24	24,454,789.68	24,877,711.68
Tax payables	VI.25	13,538,793.58	(11,020,968.97)

CONSOLIDATED BALANCE SHEET

31 December 2012

Unit: RMB

Item	Note	31/12/2012	31/12/2011
Interest payables			
Dividend payables			
Other payables	VI.26	114,873,450.85	60,540,177.39
Non-current liabilities repayable within one year	VI.27	160,371,838.90	55,065,824.12
Other current liabilities	VI.28	3,656,883.08	3,656,883.08
Total current liabilities		623,416,644.23	501,942,282.68
Non-current liabilities:			
Long-term borrowings	VI.29	110,996,248.67	341,964,445.00
Bonds payable			
Long-term payables	VI.30	30,947,203.20	36,195,090.57
Payables for specific project			
Provisions			
Deferred income tax liabilities	VI.18	1,870,895.79	2,590,371.17
Other non-current liabilities	VI.31	69,428,999.87	51,340,676.35
Total non-current liabilities		213,243,347.53	432,090,583.09
Total liabilities		836,659,991.76	934,032,865.77
Shareholders' equity :			
Capital	VI.32	150,476,374.40	125,476,374.40
Capital reserves	VI.33	930,603,520.07	–
Less: Treasury share			
Special reserves			
Surplus reserves	VI.34	93,173,237.74	70,754,552.84
General risk reserves			
Undistributed profits	VI.35	919,750,287.90	750,701,355.81
Exchange difference on translation of financial statements denominated in foreign currency		19,556.79	(586,590.15)
Equity attributable to shareholders of the Company		2,094,022,976.90	946,345,692.90
Minority interests	VI.36	178,923,044.64	103,337,513.73
Total shareholders' equity		2,272,946,021.54	1,049,683,206.63
Total liabilities and shareholders' equity		3,109,606,013.30	1,983,716,072.40
Net current assets		1,143,202,211.43	371,384,090.65
Total assets less current liabilities		2,486,189,369.07	1,481,773,789.72

Zhang Wei Yang
Director

Chen Shu Sheng
Director

Zhang Wei Yang
Legal representative

Cao Ting Wu
Chief Financial Officer

Wong Min Yan
Head of Financial Section

BALANCE SHEET OF THE COMPANY

31 December 2012

Unit: RMB

Item	Note	31/12/2012	31/12/2011
Current Assets:			
Bank balances and cash	XV.1	676,513,377.95	126,607,614.93
Financial assets held-for-trading	XV.2	3,748,980.00	3,594,220.00
Notes receivable	XV.3	18,342,900.60	11,828,526.34
Accounts receivable	XV.4	105,183,188.07	123,450,837.63
Prepayments	XV.5	30,194,171.97	37,395,176.17
Interest receivable			
Dividend receivables			
Other receivables	XV.6	333,526,402.95	464,831,262.48
Inventories	XV.7	21,528,222.81	23,278,666.67
Non-current asset due within 1 year	XV.8	28,680,000.00	–
Other current assets			
Total current assets		1,217,717,244.35	790,986,304.22
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term accounts receivable	XV.9	44,815,000.00	–
Long-term equity investments	XV.10	933,829,998.04	338,470,557.72
Investment properties	XV.11	53,630,900.00	53,548,000.00
Fixed assets	XV.12	167,147,809.08	164,791,468.83
Construction in progress	XV.13	29,186,984.71	9,870,898.20
Construction material			
Fixed assets pending for disposal			
Intangible assets	XV.14	12,512,091.17	12,906,468.53
Development expenditure			
Goodwill			
Long-term prepayments			
Deferred income tax assets	XV.15	7,066,721.32	7,080,290.67
Other non-current assets	XV.16	9,036,792.00	10,040,880.00
Total non-current assets		1,257,226,296.32	596,708,563.95
Total assets		2,474,943,540.67	1,387,694,868.17

BALANCE SHEET OF THE COMPANY

31 December 2012

Unit: RMB

Item	Note	31/12/2012	31/12/2011
Current liabilities :			
Short-term borrowings	XV.17	–	80,000,000.00
Financial liabilities held-for-trading			
Notes payable			
Accounts payable	XV.18	121,152,254.22	91,459,014.66
Receipts in advance	XV.19	11,358,905.81	21,514,852.98
Employee emolument payables	XV.20	16,181,026.05	16,653,657.58
Tax payables	XV.21	24,690,660.01	6,392,915.91
Interest payables			
Dividend payables			
Other payables	XV.22	150,423,632.80	115,763,350.97
Non-current liabilities repayable within one year	XV.23	14,000,000.00	30,000,000.00
Other current liabilities	XV.24	2,506,883.08	2,506,883.08
Total current liabilities		340,313,361.97	364,290,675.18
Non-current liabilities:			
Long-term borrowings	XV.25	–	55,000,000.00
Bonds payable			
Long-term payables			
Payables for specific project			
Provisions			
Deferred income tax liabilities	XV.14	782,481.48	964,124.52
Other non-current liabilities	XV.26	22,706,032.28	17,472,915.36
Total non-current liabilities		23,488,513.76	73,437,039.88
Total liabilities		363,801,875.73	437,727,715.06
Shareholders' equity :			
Capital		150,476,374.40	125,476,374.40
Capital reserves		991,333,316.79	4,107,466.93
Less: Treasury share			
Special reserves			
Surplus reserves		79,127,482.62	56,708,797.72
General risk reserves			
Undistributed profits		890,204,491.13	763,674,514.06
Total shareholders' equity		2,111,141,664.94	949,967,153.11
Total liabilities and shareholders' equity		2,474,943,540.67	1,387,694,868.17

Zhang Wei Yang
Director

Chen Shu Sheng
Director

Zhang Wei Yang
Legal representative

Cao Ting Wu
Chief Financial Officer

Wong Min Yan
Head of Financial Section

CONSOLIDATED INCOME STATEMENT

For year 2012

Unit: RMB

Item	Note	2012	2011
I. Total operating revenue		1,521,517,728.17	1,501,074,352.89
Including: operating revenue	VI.40	1,521,517,728.17	1,501,074,352.89
II. Total operating cost		1,217,647,208.58	1,275,625,367.07
Including: Cost of operation	VI.40	959,814,473.64	978,389,432.53
Sales tax and levies	VI.42	14,873,057.13	16,248,393.53
Selling expenses	VI.43	34,011,655.63	56,397,849.69
Administrative expenses	VI.44	207,692,583.06	179,152,888.47
Finance costs	VI.45	3,192,383.07	19,641,288.13
Impairment loss for assets	VI.46	(1,936,943.95)	25,795,514.72
Add: Gain (Loss) on fair value changes	VI.47	237,660.00	(483,619.00)
Investment income	VI.48	11,671,538.33	10,531,756.89
Including: Share of profit (loss) of associates and jointly controlled entity		11,562,993.33	5,560,783.98
Exchange gain (loss)			
III. Operating profit		315,779,717.92	235,497,123.71
Add: Non-operating income	VI.49	19,255,546.88	24,129,854.14
Less: Non-operating expenses	VI.50	2,307,017.56	2,967,095.96
Including: Loss on disposal of non-current assets		1,099,770.97	674,982.80
IV. Total profit		332,728,247.24	256,659,881.89
Less: Income tax expenses	VI.52	38,711,278.72	37,468,454.20
V. Net profit		294,016,968.52	219,191,427.69
Attributable to shareholders of the Company		266,705,803.99	203,725,280.45
Minority interests		27,311,164.53	15,466,147.24
VI. Earnings per share			
1) Basic earnings per share	VI.54	1.88	1.62
2) Diluted earnings per share	VI.54	1.88	1.62
VII. Other comprehensive income	VI.53	606,146.94	(988,426.38)
VIII. Total comprehensive income		294,623,115.46	218,203,001.31
Attributable to shareholders of the Company		267,311,950.93	202,736,854.07
Minority interests		27,311,164.53	15,466,147.24

Zhang Wei Yang

Director

Chen Shu Sheng

Director

Zhang Wei Yang
Legal representative

Cao Ting Wu
Chief Financial Officer

Wong Min Yan
Head of Financial Section

INCOME STATEMENT OF THE COMPANY

For year 2012

Unit: RMB

Item	Note	2012	2011
I. Operating revenue	XV.30	842,244,292.45	923,298,597.09
Less: Operating cost	XV.30	512,122,127.19	618,268,754.27
Sales tax and levies	XV.32	7,589,647.65	3,590,558.24
Selling expenses	XV.33	3,957,424.27	11,333,482.69
Administrative expenses	XV.34	106,117,043.57	89,802,291.28
Finance costs	XV.35	(12,757,693.89)	6,441,966.54
Impairment loss for assets	XV.36	(4,257,061.50)	(384,180.31)
Add: Gain (Loss) on fair value changes	XV.37	237,660.00	(483,619.00)
Investment income	XV.38	21,545,385.32	18,938,410.05
Including: Share of profit (loss) of associates and jointly controlled entity		12,256,840.32	6,326,430.27
II. Operating profit		251,255,850.48	212,700,515.43
Add: Non-operating income	XV.39	4,468,207.77	6,059,027.44
Less: Non-operating expenses	XV.40	1,598,698.80	1,404,139.11
Including: Loss on disposal of non-current assets		575,141.04	30,899.26
III. Total profit		254,125,359.45	217,355,403.76
Less: Income tax expenses	XV.41	29,938,510.48	22,057,886.69
IV. Net profit		224,186,848.97	195,297,517.07
V. Earnings per share			
1) Basic earnings per share			
2) Diluted earnings per share			
VI. Other comprehensive income			
VII. Total comprehensive income		224,186,848.97	195,297,517.07

Zhang Wei Yang
Director

Chen Shu Sheng
Director

Zhang Wei Yang
Legal representative

Cao Ting Wu
Chief Financial Officer

Wong Min Yan
Head of Financial Section

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

RMB

Item	Note	2012	2011
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		1,573,402,425.13	1,719,790,809.50
Refund of taxes and levies		7,444,054.08	13,105,294.31
Other cash receipts relating to operating activities	VI.56	55,911,124.27	96,745,079.93
Sub-total of cash inflows from operating activities		1,636,757,603.48	1,829,641,183.74
Cash paid for goods and services		877,799,252.97	998,169,349.70
Cash paid to and on behalf of employees		166,909,333.85	125,286,990.10
Payments of taxes and levies		132,326,428.87	161,003,142.09
Other cash payments relating to operating activities	VI.56	147,936,737.58	144,449,396.36
Sub-total of cash outflows from operating activities		1,324,971,753.27	1,428,908,878.25
Net cash flows from operating activities		311,785,850.21	400,732,305.49
II. Cash flows from investing activities			
Cash received from investments		100,000.00	628,110.66
Cash received from returns on investments		248,522.82	580,161.62
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		504,676.36	821,798.54
Net cash received from disposal of subsidiaries and other operating units		-	37,065,401.18
Other cash receipts relating to investing activities			
Sub-total of cash inflows from investing activities		853,199.18	39,095,472.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		190,564,485.69	212,907,024.57
Cash paid on investments			10,040,880.00
Net cash paid on acquisition of subsidiaries and other operating units		66,168,591.79	-
Other cash payments relating to investing activities			
Sub-total of cash outflows from investing activities		256,733,077.48	222,947,904.57
Net cash flows used in investing activities		(255,879,878.30)	(183,852,432.57)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

RMB

Item	Note	2012	2011
III. Cash flows from financing activities			
Cash received from absorption of investments		1,061,200,000.00	12,000,000.00
Including: Cash received from investment from minority shareholders		36,200,000.00	12,000,000.00
Cash received from borrowings		196,877,132.20	407,084,125.00
Cash received from issuing bonds			
Other cash receipts relating to financing activities	VI.56	824,340.00	2,700,000.00
Sub-total of cash inflows from financing activities		1,258,901,472.20	421,784,125.00
Cash payments for settlement of borrowings		408,617,011.33	525,479,711.30
Cash payments for interest expenses, distribution of dividend or profits		104,623,957.14	31,864,483.06
Including: cash payments for distribution of dividends to minority shareholders		8,820,000.00	7,350,000.00
Other cash payments relating to financing activities	VI.56	33,097,007.86	5,066,148.97
Sub-total of cash outflows from financing activities		546,337,976.33	562,410,343.33
Net cash flows from financing activities		712,563,495.87	(140,626,218.33)
IV. Effect of foreign exchange rate changes		606,146.94	(2,676,471.24)
V. Decrease in cash and cash equivalents		769,075,614.72	73,577,183.35
Add: Cash and cash equivalents at beginning of year		247,813,761.76	174,236,578.41
VI. Cash and cash equivalents at end of year		1,016,889,376.48	247,813,761.76

Zhang Wei Yang
Director

Chen Shu Sheng
Director

Zhang Wei Yang
Legal representative

Cao Ting Wu
Chief Financial Officer

Wong Min Yan
Head of Financial Section

CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2012

RMB

Item	Note	2012	2011
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		859,065,506.96	1,006,706,150.04
Refund of taxes and levies			
Other cash receipts relating to operating activities		148,865,820.20	51,704,484.42
Sub-total of cash inflows from operating activities		1,007,931,327.16	1,058,410,634.46
Cash paid for goods and services		479,996,004.92	580,000,146.72
Cash paid to and on behalf of employees		83,754,612.52	53,487,264.33
Payments of taxes and levies		57,228,626.21	54,241,810.98
Other cash payments relating to operating activities		101,221,911.22	148,190,776.50
Sub-total of cash outflows from operating activities		722,201,154.87	835,919,998.52
Net cash flows from operating activities		285,730,172.29	222,490,635.94
II. Cash flows from investing activities			
Cash received from investments		1,104,088.00	628,110.66
Cash received from returns on investments		9,686,124.78	8,230,161.62
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		410,000.00	115,578.92
Net cash received from disposal of subsidiaries and other operating units		-	37,065,401.18
Other cash receipts relating to investing activities			
Sub-total of cash inflows from investing activities		11,200,212.78	46,039,252.38
Cash paid to acquire fixed assets, intangible assets and other long-term assets		49,416,518.93	37,531,935.32
Cash paid on investments			33,800,880.00
Net cash paid on acquisition of subsidiaries and other operating units		482,582,600.00	-
Other cash payments relating to investing activities			
Sub-total of cash outflows from investing activities		531,999,118.93	71,332,815.32
Net cash flows used in investing activities		(520,798,906.15)	(25,293,562.94)

CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2012

RMB

Item	Note	2012	2011
III. Cash flows from financing activities			
Cash received from absorption of investments		1,025,000,000.00	–
Cash received from borrowings		40,000,000.00	210,000,000.00
Cash received from issuing bonds			
Other cash receipts relating to financing activities		824,340.00	2,700,000.00
Sub-total of cash inflows from financing activities		1,065,824,340.00	212,700,000.00
Cash payments for settlement of borrowings		191,000,000.00	355,000,000.00
Cash payments for interest expenses, distribution of dividend or profits		80,165,607.33	13,514,724.84
Other cash payments relating to financing activities		17,613,900.00	
Sub-total of cash outflows from financing activities		288,779,507.33	368,514,724.84
Net cash flows from financing activities		777,044,832.67	(155,814,724.84)
IV. Effect of foreign exchange rate changes		193,824.31	(768,129.70)
V. Decrease in cash and cash equivalents		542,169,923.12	40,614,218.45
Add: Cash and cash equivalents at beginning of year		125,568,274.93	84,954,056.48
VI. Cash and cash equivalents at end of year		667,738,198.05	125,568,274.93

Zhang Wei Yang

Director

Chen Shu Sheng

Director

Zhang Wei Yang

Legal representative

Cao Ting Wu

Chief Financial Officer

Wong Min Yan

Head of Financial Section

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year 2012

RMB

Item	2012									
	Attributable to shareholders of the Company									
	Share capital	Capital reserves	Treasury share	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Minority interests	Total shareholders' equity
I. Balance at the end of last year	125,476,374.40	-	-	-	70,754,552.84	-	750,701,355.81	(586,590.15)	103,337,513.73	1,049,683,206.63
Add: changes in accounting policy										
correction of errors of previous years										
others										
II. Balance at beginning of year	125,476,374.40	-	-	-	70,754,552.84	-	750,701,355.81	(586,590.15)	103,337,513.73	1,049,683,206.63
III. Movement of the year	25,000.00	930,603,520.07	-	-	22,418,684.90	-	169,048,932.09	606,146.94	75,585,530.91	1,223,282,814.91
(1) Net profit	-	-	-	-	-	-	266,705,803.99	-	27,311,164.53	294,016,968.52
(2) Other comprehensive income	-	-	-	-	-	-	-	606,146.94	-	606,146.94
Sub-total of (1) and (2)	-	-	-	-	-	-	266,705,803.99	606,146.94	27,311,164.53	294,623,115.46
(3) Contribution from shareholders and reduction of capital	25,000.00	930,603,520.07	-	-	-	-	-	-	57,094,366.38	1,012,697,886.45
1) Injection from shareholders	25,000.00	987,225,849.86	-	-	-	-	-	-	48,800.00	1,061,025,849.86
2) Share-based payment included in stockholders' equity										
3) Others	-	(56,622,329.79)	-	-	-	-	-	-	8,294,366.38	(48,327,963.41)
(4) Profits appropriation	-	-	-	-	22,418,684.90	-	(97,656,871.90)	-	(8,820.00)	(84,058,187.00)
1) Appropriate to surplus reserves	-	-	-	-	22,418,684.90	-	(22,418,684.90)	-	-	-
2) Appropriate to general risk reserve	-	-	-	-	-	-	-	-	-	-
3) Dividends paid to shareholders	-	-	-	-	-	-	(75,238,187.00)	-	(8,820.00)	(84,058,187.00)
4) Others	-	-	-	-	-	-	-	-	-	-
(5) Equity transfer										
1) Transfer of capital reserves to share capital										
2) Transfer of surplus reserves to share capital										
3) Making good of losses by surplus reserves										
4) Others										
(6) Special reserves										
1) Provision for the year										
2) Utilisation for the year										
(7) others										
IV. Balance at end of year	150,476,374.40	930,603,520.07	-	-	93,173,237.74	-	919,750,287.90	19,556.79	178,923,044.64	2,272,946,021.54

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year 2012

Item	RMB									
	2011									
	Attributable to shareholders of the Company									
	Share capital	Capital reserves	Less: Treasury share	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Minority interests	Total shareholders' equity
I. Balance at the end of last year	125,476,374.40	-	-	-	70,754,552.84	-	546,976,075.36	401,836.23	95,221,366.49	838,830,205.32
Add: changes in accounting policy										
correction of errors of previous years										
others										
II. Balance at beginning of year	125,476,374.40	-	-	-	70,754,552.84	-	546,976,075.36	401,836.23	95,221,366.49	838,830,205.32
III. Movement of the year	-	-	-	-	-	-	203,725,280.45	(988,426.38)	8,116,147.24	210,853,001.31
(1) Net profit	-	-	-	-	-	-	203,725,280.45	-	15,466,147.24	219,191,427.69
(2) Other comprehensive income	-	-	-	-	-	-	-	(988,426.38)	-	(988,426.38)
Sub-total of (1) and (2)	-	-	-	-	-	-	203,725,280.45	(988,426.38)	15,466,147.24	218,203,001.31
(3) Contribution from shareholders and reduction of capital										
1) Injection from shareholders										
2) Share-based payment included in stockholders' equity										
3) Others										
(4) Profits appropriation	-	-	-	-	-	-	-	-	(7,350.00)	(7,350.00)
1) Appropriate to surplus reserve										
2) Appropriate to general risk reserve										
3) Dividends paid to shareholders	-	-	-	-	-	-	-	-	(7,350.00)	(7,350.00)
4) Others										
(5) Equity transfer										
1) Transfer of capital reserves to share capital										
2) Transfer of surplus reserves to share capital										
3) Making good of losses by surplus reserves										
4) Others										
(6) Special reserves										
1) Provision for the year										
2) Utilisation for the year										
(7) others										
IV. Balance at end of year	125,476,374.40	-	-	-	70,754,552.84	-	750,701,355.81	(586,590.15)	103,337,513.73	1,049,683,206.63

Zhang Wei Yang
Director

Chen Shu Sheng
Director

Zhang Wei Yang
Legal representative

Cao Ting Wu
Chief Financial Officer

Wong Min Yan
Head of Financial Section

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the year 2012

RMB

Item	2012								Total shareholders' equity
	Share capital	Capital reserves	Less: Treasury share	Special reserves	Surplus reserves	General risk reserves	Undistributed profits		
I. Balance at the end of last year	125,476,374.40	4,107,466.93	-	-	56,708,797.72	-	763,674,514.06	949,967,153.11	
Add: changes in accounting policy									
correction of errors of previous years									
others									
II. Balance at beginning of year	125,476,374.40	4,107,466.93	-	-	56,708,797.72	-	763,674,514.06	949,967,153.11	
III. Movement of the year	25,000.00	987,225,849.86	-	-	22,418,684.90	-	126,529,977.07	1,161,174,511.83	
(1) Net profit	-	-	-	-	-	-	224,186,848.97	224,186,848.97	
(2) Other comprehensive income									
Sub-total of (1) and (2)	-	-	-	-	-	-	224,186,848.97	224,186,848.97	
(3) Contribution from shareholders and reduction of capital	25,000.00	987,225,849.86	-	-	-	-	-	-1,012,225,849.86	
1) Injection from shareholders	25,000.00	987,225,849.86	-	-	-	-	-	-1,012,225,849.86	
2) Share-based payment included in stockholders' equity									
3) Others									
(4) Profits appropriation	-	-	-	-	22,418,684.90	-	(97,656,871.90)	(75,238,187.00)	
1) Appropriate to surplus reserve	-	-	-	-	22,418,684.90	-	(22,418,684.90)	-	
2) Appropriate to general risk reserve									
3) Dividends paid to shareholders	-	-	-	-	-	-	(75,238,187.00)	(75,238,187.00)	
4) Others									
(5) Equity transfer									
1) Transfer of capital reserves to share capital									
2) Transfer of surplus reserves to share capital									
3) Making good of losses by surplus reserves									
4) Others									
(6) Special reserves									
1) Provision for the year									
2) Utilisation for the year									
7) Others									
IV. Balance at end of year	150,476,374.40	991,333,316.79	-	-	79,127,482.62	-	890,204,491.13	2,111,141,664.94	

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the year 2012

Item	2011								RMB
	Share capital	Capital reserves	Less: Treasury share	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Total shareholders' equity	
I. Balance at the end of last year	125,476,374.40	4,107,466.93	-	-	56,708,797.72	-	568,376,996.99	754,669,636.04	
Add: changes in accounting policy									
correction of errors of previous years									
others									
II. Balance at beginning of year	125,476,374.40	4,107,466.93	-	-	56,708,797.72	-	568,376,996.99	754,669,636.04	
III. Movement of the year	-	-	-	-	-	-	195,297,517.07	195,297,517.07	
(1) Net profit	-	-	-	-	-	-	195,297,517.07	195,297,517.07	
(2) Other comprehensive income									
Sub-total of (1) and (2)	-	-	-	-	-	-	195,297,517.07	195,297,517.07	
(3) Contribution from shareholders and reduction of capital									
1) Injection from shareholders									
2) Share-based payment included in stockholders' equity									
3) others									
(4) Profits appropriation									
1) Appropriate to surplus reserve									
2) Appropriate to general risk reserve									
3) Dividends paid to shareholders									
4) Others									
(5) Equity transfer									
1) Transfer of capital reserves to share capital									
2) Transfer of surplus reserves to share capital									
3) Making good of losses by surplus reserves									
4) Others									
(6) Special reserves									
1) Provision for the year									
2) Utilisation for the year									
(7) Others									
Balance at end of year	125,476,374.40	4,107,466.93	-	-	56,708,797.72	-	763,674,514.06	949,967,153.11	

Zhang Wei Yang

Director

Chen Shu Sheng

Director

Zhang Wei Yang

Legal representative

Cao Ting Wu

Chief Financial Officer

Wong Min Yan

Head of Financial Section

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

(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 440301103492937. 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 of Ministry of Finance Caiqi [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, Shenzhen Wen Ying Trading Limited, Shenzhen Fang Yuan Petrochemical Industries Co., Limited, China Venture Capital Inc., Shenzhen High and New Technology Industry Investment Service Company and He Jianjun acting as promoters. The net assets value of the original Shenzhen Dongjiang Environmental Technology Company Limited as at 31 March 2002 was RMB46,565,460.00 and was converted into 46,565,460 shares of the Company of RMB1 each on 1 to 1 basis. The Company obtained business registration licence on 18 July 2002. The registered share capital was RMB46,565,460.00.

On 28 January 2003, the Company offered its H shares 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 RMB0.10 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 industrial and commercial registration on 2 June 2003. The share capital of the Company after the issue was RMB62,738,187.20.

Pursuant to the resolution passed in the general meeting held on 31 May 2010 in respect of the proposal of profit appropriation for 2009 and capitalisation issue, the Company issued 1 bonus shares for every 1 share held by the shareholders. The share capital of the Company was increased by RMB62,738,187.20 by issuing 627,381,872 shares of RMB0.1 each by transferring RMB31,369,093.60 from the balance of capital reserves and RMB31,369,093.60 from undistributed profits as at 31 December 2007. After the capitalisation issue, the share capital of the Company became RMB125,476,374.40, comprising 898,963,744 domestic shares and 355,800,000 H shares.

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

Pursuant to the Notice (Record) of Shenzhen Market Administration [2010] No. 3185143, the name of the Company was approved to change 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.

On 26 March 2012, after approval by China Securities Regulatory Commission “CSRC[2014] No. 413”, the Company made a public offer of 25,000,000 Renminbi ordinary shares. These shares were listed on the Small and Medium-size Enterprises Board of Shenzhen Stock Exchange on 26 April 2012. The stock code was 002672. After the public offer, the Company’s registered capital was RMB150,476,374.40. The capital increment was verified by ShineWing Certified Public Accountants on 20 April 2012 with the capital verification report numbered XYZH/2009SZA1057-11 issued. The changes in industrial and commercial registration were completed on 16 May 2012.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

I. GENERAL INFORMATION (Continued)

As at 31 December 2012, the share capital and capital structure of the Company were as follows:

Name of shareholder	Amount	Proportion of shareholding (%)
Zhang Wei Yang	43,158,964.40	28.68
Shanghai New Margin Venture Capital Co., Limited	12,313,311.00	8.18
Li Yong Peng	6,385,155.00	4.24
Cai Hong	5,646,437.00	3.75
He Jianjun	4,246,770.00	2.82
China Venture Capital Inc	3,725,236.00	2.48
Jinshi Investment Co., Limited	3,571,429.00	2.37
Chen Shu Sheng	3,256,299.00	2.17
Shenzhen Longdi Investment Development Co., Limited	2,000,000.00	1.33
Jiangyin Xinyuan Investment Co., Limited	2,000,000.00	1.33
Other domestic shares (89 individuals)	3,592,773.00	2.39
Overseas listed foreign shares (H shares)	35,580,000.00	23.65
Domestic listed ordinary shares (A shares)	25,000,000.00	16.61
Total	150,476,374.40	100.00

As at 31 December 2012, the Company had 150,476,374.40 shares, of which 60,580,000 were tradable shares, representing 40.26% of total capital and 89,900,000 were non-tradable shares, representing 59.74% of total capital.

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; design, construction and operation of environmental facilities; trading of chemicals; production and trading of environmental material, recycled products, environmental equipment; development, promotion and application of new environmental products and technologies; investment in industrial enterprises; import and export of goods and technologies.

The major products of the Group includes dozens series of inorganic salts, organic solvents, basic industrial oil which are widely applicable in animal feeds, agricultural pesticides, wood preservatives, and dyes, pharmaceutical industries; 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 functional departments such as Environmental Protection Services Department, Industrial Hazardous Waste Department (Southern China), Industrial Hazardous Waste Department (Eastern China), Municipal Solid Waste Department, Chief Executive Office, 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 set out in note V.1)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for preparation of financial statements

The financial statements have been prepared based on a going concern basis according to the transactions and events incurred and in accordance with the requirements of “Accounting Standards for Business Enterprises – Basic Standard” and 38 Specific Standards issued by the Ministry of Finance (MOF) of the PRC on 15 February 2006, and Application Guidance for Accounting Standards for Business Enterprises, Interpretations to Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (collectively referred to as “Accounting Standards for Business Enterprises” or “CAS”).

These financial statements also comply with the applicable disclosure requirements of “Regulation of the Preparation of Information Disclosure by Companies Offering Securities to the Public No.15-General Requirements for Financial Reporting (2010 revised)” issued by China Securities Regulatory Commission, Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong.

2. Statement of compliance of Accounting Standards for Business Enterprises

These financial statements are in compliance with the Accounting Standards for Business Enterprises and present truly and completely the financial position of the Group and the Company as at 31 December 2011, and the results of their operation and their cash flows for the year then ended.

3. Accounting period

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

4. Reporting currency

The functional currency of the Company is Renminbi (“RMB”). The functional currency for the overseas subsidiaries is the currency of the country in which they operate.

The financial statements of the Group are expressed in RMB.

5. 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 which are measured at fair value, the financial statements are prepared under the historical cost convention. In the event that impairment of assets occurs, a provision for impairment is made accordingly in accordance with the relevant requirements.

6. 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

6. Business combination *(Continued)*

(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 combined. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to undistributed profits.

(2) Business combination not involving entities under common control

For a business combination not involving entities under common control, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the Group in exchange for control of the acquiree. Where the cost of combination exceeds the Group'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 Group'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.

7. Preparation of consolidated financial statements

(1) Determination of consolidation scope

The scope of consolidated financial statements includes those subsidiaries and special purposes entities over which the Group has effective control.

(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 transactions and balances are eliminated.

In preparing the consolidated financial statements, where there is any inconsistency on the accounting policies or financial period of the Company and the subsidiaries are inconsistent, the financial statements of subsidiaries are adjusted according to the accounting policies or financial period of the Company.

For subsidiaries acquired from a business combination involving enterprise not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date. For subsidiaries acquired from a business combination involving enterprise under common control, they are deemed as if they have already existed at the beginning year of combination. Their assets, liabilities, operating results and cash flows are included in the consolidated financial statements based on their original carrying amounts as from the beginning of the year of combination.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

7. Preparation of consolidated financial statements *(Continued)*

(2) Accounting method for consolidated financial statements (Continued)

The portion of the subsidiary's equity and net profits or losses for the period not attributable to the Company are presented separately as minority interests in the consolidated financial statements under equity and net profit respectively.

Where the amount of losses for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess amount is allocated against minority interests.

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received is adjusted to the capital reserve (the share premium) in the consolidated balance sheet. If the credit balance of capital reserve (the share premium) is insufficient, any excess is adjusted to retained earnings.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group derecognises assets, liabilities, minority interests and other related items in shareholders' equity in relation to that subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any gains or losses therefore incurred are recognised as investment income for the current period when control is lost.

8. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand and short-term (3 months or less) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

9. 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.

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

9. Foreign currency transactions and translation of financial statements denominated in foreign currencies *(Continued)*

(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 rate at the date on which they arose. Income and expense items in the income statements are translated at spot exchange rate at the date of transaction. 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 effect arising from the foreign currency translation on the cash and cash equivalents is presented separately in the cash flow statement.

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

10. 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: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets.

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".

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Management has positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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 categories upon initial recognition.

2) Recognition and measurement of financial assets

Financial assets are recognized at fair value on the balance sheet when the Group becomes a party to the contract of the financial instruments. 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 financial assets are included in their initially recognized amounts.

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

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10. Financial assets and financial liabilities *(Continued)*

(1) *Financial assets (Continued)*

2) Recognition and measurement of financial assets *(Continued)*

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the profit or loss of the current period. Interests or cash dividends received during the period in which such financial assets are held, are recognized as investment income. On disposal, the difference between the fair value of disposal and the initially recognised amounts are recognised as gain or loss on investment and adjust the gain or loss from changes in fair value at the same time.

Except for impairment losses and foreign exchange gains and losses from monetary financial assets, changes in fair value of available-for-sale financial assets are recognized directly in shareholders' equity. When the investment is derecognised, the cumulative gain or loss is reclassified from equity to profit or loss. Interests of debts instruments classified as available-for-sale are calculated using effective interest method during the period in which these debt instruments are held and are recognized to profit or loss of current period as investment income. Cash dividends from equity investments classified as available-for-sale is recognised in profit or loss as investment income when the dividends are declared.

3) Impairment of financial assets

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

When impairment loss on a financial assets carried at amortised cost has incurred, the amount of loss is provided for at the difference between the assets carrying value and the net present value of the future expected cash flows (excluding future credit loss that has not been incurred). If there is objective evidence indicating that the value of the financial asset recovered and the recovery is objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed and the reversed amount is recognized in profit or loss of current period.

When the fair value of available-for-sale financial assets is significantly or non-temporarily declined, the cumulative losses arising from the decline in fair value that had been recognized directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized directly in equity.

NOTES TO FINANCIAL STATEMENTS

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10. Financial assets and financial liabilities *(Continued)*

(1) Financial assets (Continued)

4) Transfer of financial assets

A financial asset is derecognised when any one of the following conditions is satisfied: (a) the rights to receive cash flows from the asset have expired; (b) the financial asset has been transferred and all risks and rewards relating to the ownership of the Group have been transferred to transferee; or (c) 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.

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognizes it as a related financial asset and recognizes the relevant liability accordingly. The extent of the continuous involvement is the extent to which the entity exposes to changes in the value of such financial assets.

Where the financial assets satisfy the derecognition conditions, the difference between its carrying value; and the sum of consideration received for the transfer and accumulated change of fair value previously recorded in other comprehensive income is recognised in profit or loss of current period.

If only part of the financial assets satisfy the derecognition conditions, the carrying amount of the financial asset is allocated between the part that continues to be recognized and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between carrying value of the portion to be derecognised; and the sum of consideration received and accumulated change of fair value previously recorded in other comprehensive income is recognised in profit or loss of current period.

(2) Financial liabilities

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

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 recognized in profit or loss of current period.

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

A financial liability is derecognized when the underlying present obligations are wholly or partly discharged. The difference between the carrying amount of the portion of financial liability or obligation being derecognised and the consideration paid is recognised in profit or loss of current period.

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10. Financial assets and financial liabilities *(Continued)*

(3) Method of determination of fair value of financial assets and financial liabilities

- 1) Where there is active trading market, the fair value of the financial instruments is determined by reference to the quoted price in the active trading market. In the active trading market, the fair value of financial assets already held by the Group or the financial liabilities that the group is proposed to assume is determined by the current bid price of the corresponding assets or liabilities. The fair value of financial assets that the Group is proposed to acquired or the liabilities already assumed by the Group is determined by the ask price of the corresponding assets and liabilities. Where the financial assets and financial liabilities do not have bid price or ask price, and there are no significant changes in operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by reference to the quoted prices of recent transactions. Where there are significant changes in operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by the quoted price of the most recent transactions as adjusted by reference to the current prices or interest rate. Where there is sufficient evidence to show that the market quoted price of the recent transactions is the fair value of such financial assets or financial liabilities is determined by the quoted price of the recent transaction after making appropriate adjustments.
- 2) Where there is no active trading market for the financial instruments, the fair value of such financial instruments is determined by valuation techniques. Valuation techniques include making reference to the price of recent market transactions by knowledgeable and willing parties; making reference to the current fair value of another financial assets that are the substantially identical to such financial assets; discounting method of cash flows, share option valuation model, etc.

(4) Offset of Financial Assets and Financial Liabilities

If the Group has legitimate rights of offsetting the recognized financial assets and financial liabilities, which are enforceable currently, and the Group plans to realize the financial assets or to clear off the financial liabilities by net amount method, the amount of the offsetting financial assets and financial liabilities shall be reported in the balance sheet. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

(5) Equity instruments

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

The price received during the issue of equity instrument shall be added to shareholder's equity after deducting the transaction fees.

The consideration paid for re-purchase of equity instrument of the Company and the related transaction cost shall be deducted from the shareholder's equity.

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10. Financial assets and financial liabilities *(Continued)*

(5) Equity instruments (Continued)

The distribution (excluding the dividends) to the equity instrument holders by the Group shall reduce the shareholder's equity. The Group shall not recognize the changes of the equity instruments' fair value.

11. 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
Method of provision for bad debts for individually significant receivables on individual basis	Provision for bad debts is made as the excess of the carrying amount over the present value of the estimated future cash flows.

(2) Receivables that are 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	Generally, no provision will be made
Collateral group	Generally, no provision will be made

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11. Provision for bad debts on receivables *(Continued)*

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

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

Aged	Proportion to accounts receivable (%)	Proportion to other receivables (%)
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 receivables 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.

3) Receivables that are individually insignificant but provided for bad debts individually

Reason for bad debts Receivables with individually insignificant amount and provision for bad debts
provision made individually 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.

12. 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.

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

12. Inventories *(Continued)*

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 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.

13. 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.

Subsidiaries are the investees over which the Company is able to exercise control. Joint ventures are the investees over which the Group is able to exercise joint control together with other venturers. Associates are the investees that the Group has significant influence on their financial and operating policies.

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 decisions, but not able to control or joint 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.

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.

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

13. Long-term equity investments *(Continued)*

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 joint ventures and associates are accounted for using equity method. Long-term investments in equities over which the Group do not have control, joint control or significant influence and do not have quoted market price in active markets and their fair value cannot be reliably measured are accounted for using cost method. Long-term investments in equities 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 as 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 of current period 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 associates and joint ventures is offset according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis. However, the unrealized gain or loss from internal transactions entered into between the Group and its investee is not offset if it constitutes as impairment loss of the assets transferred. For changes in other shareholder's equity in investee other than net profit or loss, the carrying amount of the correspondingly adjusted long-term equity investment is recognized as other comprehensive income and included in capital reserve.

Where the Group has no longer joint control or significant influence in the investee as a result of reduction of investment and there are no quoted prices for the investment in active market and its fair value cannot be measured reliably, such long-term equity investment will be changed to be accounted for using cost method. Where the Group obtain control over the investee as a result of additional investment, such 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 as a result of additional investment or where Group has no longer control but remain joint control or significant influence over the investee as a result of partially disposal of the investment, such 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 of current period. For long-term investments accounted for using equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal.

14. 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.

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

14. Investment properties *(Continued)*

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 on an open market basis by reference to properties of same location and similar usage.

Where the usage of an investment property is changed to owner-occupied, it will be reclassified as fixed assets at the date of change. Where the usage of an owner-occupied property is transferred out for earning rental income or capital appreciation, it will be reclassified as fixed assets into investment property as from the date of transfer. On transfer, the carrying amount immediate before the transfer is taken as the cost of the assets.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss of current period.

15. 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 include buildings, plant and machinery, motor vehicles, office equipment and others. The cost of 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 measures at the lower of their fair value and the present value of the minimum lease payment at the inception of the leases.

Subsequent expenditures relating to fixed assets, such as repairing expenditures, renovation and improvements, are recognised as the cost of the assets if 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.

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

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15. Fixed assets *(Continued)*

Classes	Depreciable period (years)	Estimated residual percentage (%)	Annual depreciation rate (%)
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, retirement or damage of the asset net of the carrying amount and related taxes is recognised in profit or loss for the current period.

16. Construction in progress

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

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

17. 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.

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

17. 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.

18. Build-Operating-Transfer (BOT) projects

The Group participates in BOT projects for public infrastructure construction. Where the Group does not provide actual construction services under the projects by itself but to subcontract the construction works to contractors, no revenue on construction services is recognised during the course of construction. Before the construction work is completed, such BOT projects are accounted for as construction in progress at the construction cost 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 BOT projects.

19. Intangible assets

Intangible assets include land use right, patents, technologies, operating rights under BOT projects.

Intangible assets 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. Patented technologies, non-patented 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. Where the beneficial period of an intangible asset can not be reasonably determined by the above methods, it is treated as intangible asset with indefinite useful life.

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

The estimated useful lives and 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.

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

19. Intangible assets *(Continued)*

Intangible assets with infinite useful lives are not amortised. 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.

20. 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.

21. 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 joint ventures is included in the carrying amount of the long-term equity investment.

22. 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 will then be transferred to profit or loss for the period.

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

23. 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, goodwill may be impaired. If there is any indication that an asset may be impaired, the asset will be tested for impairment. Goodwill arising in a business combination and intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. The recoverable amount of the asset is estimated individually. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the asset will be determined on group or portfolio basis.

If the result of the impairment test indicates that 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 recovered amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

The indicators for impairment are as follows:

- (1) The 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 is evidence from the internal reports that economic returns of asset, such as generation of net cash flows or realisation of operating profit (loss), has been or will be far lowered (higher) than expectation;
- (7) Other signs indicating the assets value have already been impaired.

24. Employee's emoluments

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 services rendered by employee.

Employee's emoluments payables are recognized as a liability 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 beneficiaries of the services. Compensation for termination of relationship with employee is recognised in the profit or loss for the period.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

24. Employee's emoluments *(Continued)*

When the Group terminates the employment relationship with employee before the expiry of the employment contracts or provides an offer of compensation 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.

25. Provisions

When related obligations of contingencies are the obligations currently assumed by the Group, and that such obligations is likely to result in outflow of economic benefits and the amount of such obligations could be reliably measured, contingent liabilities will be recognized.

As at the balance sheet date, after considering factors such as the risks related to contingencies, uncertainties and time value of currency, contingent liabilities are measured at the best estimate on the expenses necessary for the performance of the related existing obligations. If the impact of the time value of currency is material, best estimate is determined by discounting the anticipated future cash outflow.

If all or part of the cost necessary for the contingent liabilities is expected to be settled by third party, the amount of settlement, when it is basically certain to be received, is recognized as an asset separately, and the settlement amount recognized shall not be more than the carrying amount of contingent liabilities.

26. Recognition of revenue

The business revenue of the Group are generated mainly from sales of goods, rendering of services and transfer of assets use rights and construction contracts. The principles of revenue recognition are as follows:

- 1) *Revenue from sales of goods (Comprising: 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 goods is transferred to the customer; when the Group no longer exercises continuing management generally related to the ownership and no longer has actual control over the goods 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.

- 2) *Revenue from rendering of services (Comprising: 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 the total amount of revenue and cost could be measured reliably, the related economic benefits are likely to inflow to the enterprise, the progress of completion of transaction could be reliably determined.

NOTES TO FINANCIAL STATEMENTS

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

26. Recognition of revenue *(Continued)*

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

The Group recognizes related revenue from services in accordance with the percentage of completion as at the balance sheet date. The completion level of service transaction is recognized by the percentage of estimated total cost represented by service cost incurred. If the result of provision of service transaction cannot be reliably estimated, revenue from provision of service is recognized at the service cost incurred and estimated to receive as compensation, and service cost incurred will be regarded as the current cost. If service cost incurred is not anticipated to be compensated, no revenue will be recognized.

- 3) *Revenue from transfer of assets use rights*

Revenue from transfer of asset use rights is recognised according to the period and calculation method of the charge as specified in the contracts or agreements, and when the associated economic benefits 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 II.27.*

27. 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 benefits 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 volume of work completed bear to total volume 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.

28. Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for the capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of capital reserve are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognized when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

28. Government grants *(Continued)*

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value. If fair value is not reliably determinable, the item is measured at a nominal amount of RMB1.

A government grant related to an asset is recognized initially as deferred income and amortized to profit or loss on a straight-line basis over the useful life of the asset.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognized immediately in profit or loss for the current period.

When a government grant that has been recognized by the Group is to be returned, the repayment shall be off set against the carrying amount of the deferred income if there is any balance of deferred income in connection of the grant. Any excess shall be recognized in profit or loss for the current period. If there is no balance of deferred income in connection with the grant, the repayment shall be recognized immediately in profit or loss for the current period.

29. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and liabilities are calculated and recognised based on the differences arising between tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible tax losses or tax credit that can be carried forward to subsequent years for deduction of taxable profit in accordance with tax laws. No deferred tax liability is recognized for temporary difference arising from initial recognition of goodwill. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affect neither accounting profit nor taxable profit (deduction loss). At balance sheet date, deferred assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liabilities 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. On 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.

The Group recognizes deferred income tax liabilities arising from the temporary difference on tax payable related to investment in subsidiaries, associates and joint venture, unless the Group could control the timing of write back of the temporary difference, and such temporary difference is unlikely to be written back in foreseeable future. For the deductible temporary difference related to investment in subsidiaries, associates and joint venture, the Group will only recognize deferred income tax assets when temporary difference is likely to be written back in the foreseeable future and income tax payable could be utilized to deduct the deductible temporary difference.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

29. Deferred income tax assets and deferred income tax liabilities *(Continued)*

Deferred tax assets and liabilities are offset when:

- (1) The deferred taxes are related to the same tax payer within the Group and the same taxation authority; and
- (2) The tax payer within the Group has a legal enforcement rights to offset current tax assets against current tax liabilities.

30. 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. Operating leases are leases other than finance leases.

(1) Assets acquired under finance leases

When the Group acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair values and the present value of the minimum lease payments, each determined at the inception of the lease. The difference between the value of the leased assets and the minimum lease payments is treated as unrecognized finance charges and is amortised using effective interest method over the lease terms. At the balance sheet date, long-term payables arising from finance leases, net of the unrecognized finance charges, are presented as long-term payables or non-current liabilities due within one year, respectively, in the balance sheet.

If it is a reasonable certainty that the Group will obtain ownership of a leased asset at the end of the lease term, the leased asset is depreciated over its estimated useful life. Otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life.

(2) Assets leased under operating leases

Rental expense for leasing assets under operating leases is recognized in the relevant cost of the asset or profit or loss for the period using the straight-line method over the lease term. Initial direct cost is recognized in income statement as it is incurred. Contingent rent is charged to profit or loss for the period as it incurred.

(3) Assets leased out under operating leases

Income derived from leasing out of assets under operating leases is recognized in the income statement using the straight-line method over the lease term. Initial direct costs in respect of the assets leased out are charged to profit or loss immediately. If the initial direct costs are material, the costs are initially capitalized and subsequently amortized in profit or loss over the lease term on the same basis as the lease income. Contingent rent is charged to profit or loss for the period as it incurred.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

31. 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.

32. 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; operating results of which 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 with similar economic characteristics can be aggregated into one operating segment if they meet certain conditions.

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.

33. Key sources of estimation uncertainty and accounting judgements

In the preparation of financial statements, the management of the Group are required to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The following are the estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future periods.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

(1) Construction contracts

Revenue from individual contract is recognised using the percentage of completion method which requires management's estimation. 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 according to the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction business, management reviews and revises the estimates of both budgeted contract revenue and contract costs for each contract as the contracts progress. Where the actual contract revenue are less than the amount expected or actual contract costs are more than the amount expected, a material impairment loss may arise.

(2) Depreciation and amortisation of fixed assets and intangible assets

The Group reviews the estimated useful lives for its fixed assets and intangible assets annually. The estimated useful lives are determined by management by reference to the historical experience of similar assets, the estimation generally used by other companies in the same industry and anticipated renovation in technologies. When there are significant changes in previous estimates, the Group should adjust the depreciation and amortisation expense in future periods.

(3) Impairment of fixed assets, land use rights, patents and operating rights under BOT projects

The Group tests annually whether fixed assets, land use rights, patents and operating rights under BOT projects had suffered any impairment. The recoverable amount of asset groups and groups of assets is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates.

If management revises the gross margin that is used in the calculation of the future cash flows of assets groups and groups of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against fixed assets, land use rights, patents and operating rights under BOT projects.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against fixed assets, land use rights, patents and operating rights under BOT projects.

If the actual gross margin/pre-tax discount rate is higher/lower than management's estimates, the impairment loss of fixed assets, land use rights, patents and operating rights under BOT projects previously provided for is not allowed to be reversed by the Group.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

(4) Impairment of goodwill

The Group tests annually whether goodwill had suffered any impairment. The recoverable amount of asset groups and groups of assets is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates.

If management revises the gross margin that is used in the calculation of the future cash flows of assets groups and groups of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

If the actual gross margin/pre-tax discount rate is higher/lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

(5) Provision for bad debts of receivables

Receivables are measured at amortization cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognised. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is reversed.

(6) Provision for impairment of inventories

The management of the Group reviews the net realisable value of inventories regularly. Provision for impairment of inventories is recognized for the excess of inventories' carrying amounts over their net realizable value. The Group determines the estimated net realizable value of inventories based on the estimated selling price of similar inventories less estimated costs to completion and estimated costs necessary to make the sale and related taxes. When the realized selling price or costs or expenses are different with previous estimates, the Group should adjust the net realizable values of inventories. Therefore, the estimates based on current experience may be different with the actual situation, which could result in adjustment to the carrying amount of inventories on balance sheet. The net profit or loss may then be affected in the period when the provision for diminution in value of inventories is adjusted.

(7) Recognition of deferred tax assets

The estimates of deferred tax assets require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The realization of deferred tax assets depends on the realization of sufficient profitability (taxable profit) of the Group. The change in future income tax rates and timing of reversals of taxable temporary differences would affect income tax expenses or benefits and balance of deferred tax. Any changes in the above estimates could result in material adjustment to the carrying amount of deferred income tax.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

III. 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.

IV. 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 V.1)

Name	Statutory tax rate for 2012	Actual implementation tax rate		Entitlement of preferential tax incentives
		2012	2011	
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 was also allowed an extra of 50% of the R&D expenses to be deducted from the income charging for EIT.
Resource Recycling	25%	25%	24%	
Dongjiang Heritage	25%	15%	24%	Enjoying preferential tax incentive of “High-New Technology Enterprises” where EIT tax rate was reduced to at 15%.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

IV. TAX (Continued)

1. Enterprise Income Tax (“EIT”) (Continued)

Name	Statutory tax rate for 2012	Actual implementation tax rate		Entitlement of preferential tax incentives
		2012	2011	
Longgang Dongjiang	25%	–	24%	Enjoying preferential tax incentive for enterprises engaging in projects satisfying environmental protection and conservation of energy and water conditions of full exemption of EIT commencing from 2012 for two years and followed by a 50% tax reduction for the next three years from 2015 to 2017.
Huizhou Dongjiang	25%	25%	25%	Enjoying 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%; only 90% of the revenue from sale of recycling products was charged for EIT; and additional of 50% of research and development expenses was allowed for profit before taxation.
Kunshan Kunpeng	25%	25%	25%	
Beijing Novel	25%	15%	15%	Enjoying preferential tax incentive of “High-New Technology Enterprises” where EIT tax rate was reduced to at 15%.
Huabao Technology	25%	25%	24%	
Qingyuan Dongjiang	25%	25%	25%	
Qingdao Dongjiang	25%	25%	25%	
Hunan Dongjiang	25%	25%	25%	
Chengdu Treatment Centre	25%	25%	25%	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012
(Unless otherwise stated, the financial statements are expressed in RMB)

IV. TAX (Continued)

1. Enterprise Income Tax (“EIT”) (Continued)

Name	Statutory tax rate for 2012	Actual implementation tax rate		Entitlement of preferential tax incentives
		2012	2011	
Renewable Energy	25%	12.5%	12%	Enjoying EIT Transitional Preferential Policy and preferential tax incentive for production enterprises of full exemption of PRC EIT for two years commencing from 2008 and followed by a 50% tax reduction for the next three years until 2012.
Shaoguan Dongjiang	25%	25%	25%	
Shaoguan Green	25%	25%	25%	
Baoan Dongjiang	25%	25%	24%	
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%	25%	
Dongjiang Transport	25%	25%	25%	
Dongjiang Songsao	25%	25%	25%	
Zhuhai Qingxin	25%	25%	25%	
Hubei Dongjiang	25%	25%		
Qingyuan Xinlv	25%	25%	25%	
Jiaxing Deda	25%	25%	25%	
Jiangmen Dongjiang	25%	25%		

NOTES TO FINANCIAL STATEMENTS

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IV. 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%.

Huabao Technology qualified as a pilot enterprise for the change of business tax to VAT. As from November 2011, revenue of Huabao Technology from rendering of services is charged with VAT at 3%.

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.

4. Property Tax

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

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

Tax incentives:

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

5. Other principal taxes and tax rates

Type	Calculation basis	Tax rate
Urban maintenance and construction tax	Turnover tax payable	7%, 5%, 1%
Education surcharge	Turnover tax payable	3%
Local education surcharge	Turnover tax payable	2%

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiaries

Name of company	Place of registration/operation	Business nature	Registered capital/paid-up capital	Business scope	Investment cost as at 31 December 2012	Other amounts constitute as net investment in the subsidiaries	Organisation code	Proportion of share holding (%)	Proportion of voting rights (%)	Whether consolidated	Minority interests	RMB'000
												Amount in minority interests used to write down the losses of minority interests
Subsidiaries obtained through business combination involving entities not under common control												
Beijing Novel	Beijing	Engineering	30,000.00	Environmental engineering, consultation	220.00	-	700007035	55.00	55.00	yes	(7,440.90)	-
Huabao Technology	Shenzhen	Services	5,500.00	Consultation of environmental testing technology, laboratory testing	5,500.00	-	783926298	100.00	100.00	yes	-	-
Shaoguan Green	Shaoguan	Industrial	110,000.00	Sales and purchase of zinc wastes, lead wastes, and copper wastes	183,300.00	-	79299871X	100.00	100.00	yes	-	-
Lik Shun Services	Hong Kong	Services	HKD10 million	Collection and disposal of municipal domestic wastes	HKD10 million	-	N/A	100.00	100.00	yes	-	-
Dongjiang Songzao	Chongqin	Industrial	32,812.00	Construction, management, operation of VAM project	16,796.90	-	696596868	93.86	80.00	yes	974.30	-
Zhuhai Qingxin	Zhuhai	Industrial	9,000.00	Wholesale, retail, and treatment of hazardous wastes	18,104.60	-	732179587	75.00	75.00	yes	1,974.90	-
Qingyuan Xinlv	Qingyuan	Industrial	52,160.00	Collection and utilisation of waste, environmental engineering, treatment of wastewater, and trading of chemical products	54,310.00	-	768417348	62.50	62.50	yes	32,915.40	-
Jiaying Deda	Jiashan County	Industrial	18,367.30	Collection, storage and utilisation of hazardous waste such as PCB etching solution, electro-plating wastes, paints; production and sales of copper chloride, copper carbonate, tin hydroxide	20,003.60	-	254836027	51.00	51.00	yes	21,161.00	-
Climate Solution (Asia)	Hong Kong	Investment holding	HKD 9.4614million	Investment holding	USD 10,000.00	-	N/A	100.00	100.00	yes	-	-

NOTES TO FINANCIAL STATEMENTS

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Subsidiaries (Continued)

Name of company	Place of registration/operation	Business nature	Registered capital/paid-up capital	Business scope	Investment cost as at 31 December 2012	Other amounts constitute as net investment in the subsidiaries	Organisation code	Proportion of share holding (%)	Proportion of voting rights (%)	Whether consolidated	Minority interests	RMB'000
												Amount in minority interests used to write down the losses of minority interests
Subsidiaries obtained through establishment or investment												
Resource Recycling	Shenzhen	Industrial	1,000.00	Collection and sales of industrial waste water (liquid)	2,094.00	-	755694530	100.00	100.00	yes	-	-
Dongjiang Heritage	Shenzhen	Industrial	25,000.00	Production and sales of tribasic copper chloride, additive premixed feeds, etching solution and development of related products	15,500.00	-	755672809	62.00	60.00	yes	24,504.60	-
Longgang Dongjiang	Shenzhen	Industrial	100,000.00	Collection, disposal and utilisation of industrial wastes	46,350.00	-	750498397	54.00	54.00	yes	66,196.80	-
Huizhou Dongjiang	Huizhou	Industrial	5,000.00	Collection, disposal and utilisation of industrial wastes	6,458.35	-	738594407	100.00	100.00	yes	-	-
Qiandeng Wastes Treatment	Kunshan	Industrial	30,000.00	Collection, disposal and utilisation of industrial wastes	3,916.80	-	76287004	51.00	56.00	yes	30,102.40	-
Kunshan Kungpeng	Kunshan	Industrial	6,600.00	Disposal and utilisation of industrial wastes; and environmental technology consultation	3,439.00	-	725182702	51.00	51.00	yes	8,042.60	-
Qingyuan Dongjiang	Qingyuan	Industrial	172,469.50	Treatment of industrial wastes	172,469.50	-	664960362	100.00	100.00	yes	-	-
Qingdao Dongjiang	Qingdao	Industrial	15,000.00	Development of utilisation of landfill gas; investment and management of energy recycling projects	15,000.00	-	67528718	100.00	100.00	yes	-	-
Hunan Dongjiang	Zhaoyang	Industrial	10,000.00	Environmental industries and utilisation	9,500.00	-	688585045	95.00	95.00	yes	491.90	-
Chengdu Treatment Centre	Chengdu	Industrial	10,000.00	Treatment of wastes and technology consultation	6,105.50	-	728085895	100.00	100.00	yes	-	-
Renewable Energy	Shenzhen	Industrial	90,324.50	Power generation from landfill gas	90,324.50	-	786560404	100.00	100.00	yes	-	-
Shaoguan Dongjiang	Shaoguan	Industrial	5,000.00	Development, promotion and application of technology for new environmental products, production of cathode copper	5,000.00	-	782025746	100.00	100.00	yes	-	-

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Subsidiaries (Continued)

Name of company	Place of registration/operation	Business nature	Registered capital/paid-up capital	Business scope	Investment cost as at 31 December 2012	Other amounts constitute as net investment in the subsidiaries	Organisation code	Proportion of share holding (%)	Proportion of voting rights (%)	Whether consolidated	Minority interests	RMB'000
												Amount in minority interests used to write down the losses of minority interests
Baoan Dongjiang	Shenzhen	Industrial	10,000.00	Development of landfill gas utilization technology; industrial investment	17,230.10	-	67483974	100.00	100.00	yes	-	-
Dongjiang HK	Hong Kong	Services	HKD24.70 million	Provision of environmental protection services; international trading	HKD24.70 million	-	N/A	100.00	100.00	yes	-	-
Dongjiang Property Service	Shenzhen	Services	1,000.00	Property management	1,000.00	-	699086185	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	-	560058446	100.00	100.00	yes	-	-
Dongjiang Transport	Huizhou	Services	10,000.00	Transportation of hazardous goods	10,000.00	-	688636380	100.00	100.00	yes	-	-
Products Trading	Shenzhen	Trading	2,000.00	Chemical Products Trading	2,000.00	-	582711805	100.00	100.00	yes	-	-
Hubei Dongjiang	Hubei Xiaochang County	Industrial	10,000.00	Production and sales of recycled products; collection, disposal and utilisation of industrial wastes,	10,000.00	-	58824921-X	100.00	100.00	yes	-	-
Jiangmen Dongjiang	Jiangmen	Industrial	50,000.00	Research and promotion, environmental technology, treatment of wastewater	50,000.00	-	05683160-4	100.00	100.00	yes	-	-

Note:

- 1) The subsidiaries of the Company are companies with limited liabilities.
- 2) Other than Lik Shun Services, Climate Solution (Asia) and Dongjiang HK, whose shares are ordinary shares, the type of shares of other subsidiaries are registered capital.
- 3) None of the subsidiaries had issued any debt securities at 31 December 2012 and any time during the year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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V. 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 2012, 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 Mr. Huang Jingying. On 1 January 2008, the Company acquired equity interests of 40%, 30% and 30% equity interests in Huabao Technology from the original shareholders Liao Jiaru, Yu Weiguo and Chen Qiuzhang respectively at a total consideration of RMB500,000. After the acquisition has completed, the Company owned 100% equity interests in Huabao Technology. In July 2012, the Company further contributed RMB5,000,000 to capital of Huabao Technology. The register capital of Huabao Technology was increased from RMB500,000 to RMB5,500,000. The changes in industrial and commercial registration was completed on 9 July 2012. As at 31 December 2012, the Company owns 100% equity interests in Huabao Technology.

(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 Guoyan.

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

V. 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.

On 8 February 2012, Mr. Zhang Guoyan and Mr. Tang Xiaoguan entered into a share transfer agreement, whereby Mr. Tang Xiaoguan transferred his 10% equity interests in Shaoguan Green to Mr. Zhang Guoyan. After the transfer, the Company had 60% equity interests in Shaoguan Green and Mr. Zhang Guoyan owned 40%.

In April 2012, the registered capital of Shaoguan Green was increased by RMB30,000,000 of which RMB18,000,000 was contributed by the Company and RMB12,000,000 by Mr. Zhang Guoyan. The registered capital of Shaoguan Green was increased from RMB80,000,000 to RMB110,000,000. The change in industrial and commercial registration was completed on 27 April 2012.

In November 2012, the Company and Mr. Zhang Guoyan entered into a share transfer agreement, pursuant to which, the Company acquired 40% equity interests in Shaoguan Green from Mr. Zhang Guoyan at a consideration of RMB95,000,000. The changes of industrial and commercial registration for the change in ownership was completed on 13 December 2012. At the same time, Mr Chen Shu Sheng became the legal representative of Shaoguan Green. As at 31 December 2012, the Company owned 100% equity interests in Shaoguan Green.

(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) Dongjiang Songzao

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

Dongjiang Songzao was a Sino-foreign joint venture formed by Renewable Energy Co. Limited, Climate Solution (Asia) Ltd and Chongqin Songzao Coal and Electricity Co. Limited in Chongqin, with registration no. 500000400046128. Its original registered capital was RMB33,210,400. The equity interests in Dongjiang Songzao as to 50.39%, 43.47% and 6.14% were owned by Renewable Energy, Climate Solution (Asia) Ltd and Chongqin Songzao Coal and Electricity Co. Limited respectively. The legal representative was Mr. Huang Jingying. The main business scope includes VAM project construction, management, and operation.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

1. Subsidiaries *(Continued)*

(5) *Dongjiang Songzao (Continued)*

Dongjiang Songzao was originally an associate of the Company and accounted for using equity method of accounting.

In July 2012, the Company's wholly-owned subsidiary Dongjiang HK and the parent company of Climate Solution (Asia) Ltd, AES CC&T International Ltd entered into a share transfer agreement. Pursuant to which, Dongjiang HK acquired 100% equity interests in Climate Solution (Asia) Ltd at a consideration of USD10,000. The share transfer was completed in September 2012. From October 2012 onwards, Dongjiang Songzao was incorporated into the Group's consolidation scope. At 31 December 2012, the Company owned 93.86% equity interests in Dongjiang Songzao indirectly through the wholly owned subsidiaries Dongjiang HK and Renewable Energy.

The Board of Dongjiang Songzao consists of 5 directors, of them 2 were nominated by Renewable Energy, 2 were nominated by Climate Solution (Asia) and 1 was nominated by Chongqin Songzao Coal and electricity Co. Limited. Accordingly, the Group has 80% voting rights in Dongjiang Songzao.

(6) *Zhuhai Qingxin*

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

Zhuhai Qingxin was established on 8 October 2001 with registration no. 440400000119362. Its registered capital is RMB9,000,000. The legal representative is Mr. Diao Weihua. In October 2010, the Company acquired 35% equity interests in Zhuhai Qingxin at a consideration of RMB6,615,000.

Zhuhai Qingxin was originally an associate of the Company and accounted for using equity method of accounting.

On 12 June 2012, the Company and the other individual shareholder of Zhuhai Qingxin, Mr. Chen Huigen entered into a share transfer agreement. Pursuant to which, the Company acquired 40% equity interests in Zhuhai Qingxin from Mr. Chen Huigen at a consideration of RMB12,000,000. The change of industrial and commercial registration was completed on 3 July 2012. As at 31 December 2012, 75% equity interests in Zhuhai Qingxin was owned by the Company. It was incorporated into the Group's consolidation scope.

(7) *Qingyuan xinlv*

Full name: Qingyuan Xinlv Environmental Technology Limited (清遠市新綠環境技術有限公司)

Qingyuan Xinlv was established on 28 October 2004 with approval from Qingxin Commercial and Industrial Administrative Bureau with registration no. 441827000006424. The legal representative was Mr. Chen Shu Sheng.

In January 2012, the Company and the other shareholders of Qingyuan Xinlv entered into a capital increment agreement, pursuant to which the Company made additional contribution of RMB22,000,000 to Qingyuan Xinlv, of which, RMB6,520,000 was injected to the registered capital and the remaining balance was recorded in capital reserves. After the capital increment, the registered capital of Qingyuan xinlv was increased from RMB26,080,000 to RMB32,600,000 and the Company owned 20% of the equity interests in Qingyuan Xinlv.

NOTES TO FINANCIAL STATEMENTS

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

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

1. Subsidiaries *(Continued)*

(7) Qingyuan xinlv (Continued)

In June 2012, the Company and the shareholders of Qingyuan Xinlv entered into another capital increment agreement. Pursuant to which, the Company further made additional contribution of RMB33,000,000 to Qingyuan Xinlv, of which, RMB19,560,000 was injected to the register capital and the remaining balance was recorded in capital reserves. After the capital increment, the Company owned 50% equity interests in Qingyuan Xinlv. Also, the Company entered into a share transfer agreement with the individual shareholder of Qingyuan Xinlv, that the Company acquired all his equity interests of 12.5% in Qingyuan Xinlv at a consideration of RMB13,750,000.

After capital increase and share transfer, the changes in industrial and commercial registration were completed on 5 July 2012. Qingyuan Xinlv's equity interests as to 62.5% was owned by the Company, and it was incorporated into the Group's consolidation scope.

As at 31 December 2012, the registered capital of Qingyuan Xinlv was RMB52,160,000. The shareholding was the Company 62.5%, Guo Baixin 12.5%, Shang Sutang 12.5%, Shang Sutang 10% and Shang Sutang 2.5%.

(8) Jiaxing Deda

Full name: Jiaxing Deda Resource Recycling Limited (嘉興德達資源循環利用有限公司)

Jiaxing Deda was established on 31 March 1997 with approval from Zhejiang Jiashan Commercial and Industrial Administrative Bureau with registration no. 330421000042207. The legal representative was Mr. Zou Hongtu.

In August 2012, the Company and the individual shareholders of Jiaxing Deda entered into a capital increment agreement that the Company contributed RMB30,183,600 to Jiaxing Deda, of which, RMB9,367,300 was injected to the registered capital and the remaining balance was recorded as capital reserves. The change in industrial and commercial registration was completed on 20 August 2012. After the change, the registered capital of Jiaxing Deda was increased from RMB9,000,000 to RMB18,367,300. The Company owned 51% of the equity interests in Jiaxing Deda, and incorporated it into the Group's consolidation scope.

As at 31 December 2012, the registered capital of Jiaxing Deda was RMB18,367,300. The shareholding was the Company 51%, Jinzhengxin 4.9%, Tao Weisheng 4.9%, Shen Luting 9.8%, Ruan Yugen 14.7%, Zheng Feng 14.7%.

(9) Climate Solution (Asia)

Full name: Climate Solutions (Asia) LTD (亞洲氣候策略有限公司)

Climate Solution (Asia) was established in Hong Kong by its parent company AES CC&T International Ltd. for the sole purpose of investment holding of Dongjiang Songzao. In 2012, Dongjiang HK acquired 100% equity interests in Climate Solution (Asia) from AES CC&T International Ltd at a consideration of USD10,000. Accordingly, Climate Solution (Asia) was incorporated into the Group's consolidation scope.

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

1. Subsidiaries *(Continued)*

(10) *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 2012, the equity interests in Resource Recycling was wholly owned by the Company.

(11) *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 2012, the equity interests of Dongjiang Heritage of 62% and 38% were owned by the Company and Heritage Technologies Asia, LLC respectively.

The Board of Dongjiang Heritage consists of 5 directors. 3 of them were nominated by the Company and the other 2 were nominated by Heritage Technologies Asia, LLC. Accordingly, the Group has 60% voting rights in Dongjiang Heritage.

(12) *Longgang Dongjiang*

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

Longgang Dongjiang was established on 2 July 2003 with approval from Shenzhen Commercial and Industrial Administrative Bureau with registration no. 440307103656838. Its registered capital was RMB20,000,000. The legal representative was Mr. Liao Ruolan. The company owned 51% of equity interest in Longgang Dongjiang.

On December 2012, Longgang Dongjiang applied for capital increment of RMB80,000,000 register capital, of which the Company contributed RMB43,800,000, the other shareholders, Shenzhen Meidadi Environmental Engineering Company Limited contributed RMB7,500,000, Shenzhen Longgang District Environmental Technologies Services Centre contributed RMB9,200,000, Zhuang Zhihua contributed RMB12,500,000, and Lin Liming contributed RMB7,000,000. The changes in industrial and commercial registration were completed on 18 December 2012.

As at 31 December 2012, the registered capital of Longgang Dongjiang was RMB100,000,000. The equity interests as to 54%, 13.5%, 13%, 12.5%, and 7% were owned by the Company, Meidadi Environmental Engineering Company Limited, Shenzhen Longguan District Environmental Technologies Services Centre, Zhuang Zhihua, and Lin Liming respectively.

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

1. Subsidiaries *(Continued)*

(13) 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 2012, the equity interests in Huizhou Dongjiang was wholly owned by the Company.

(14) 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 RMB30,000,000. The legal representative is Mr. Chen Shu Sheng. As at 31 December 2012, the equity interests of Qiandeng Wastes Treatment as to 51%, 19%, 10 and 10% were owned by the Company, Qindeng Datang Economic Cooperative, ChenDeming and Gu Yingying respectively.

The Board of Qiandeng Wastes Treatment consists of 9 directors. 5 of them were nominated by the Company and the other 4 were nominated by other shareholders. Accordingly, the Company has 56% voting rights in Qiandeng Wastes Treatment.

(15) 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 was Mr. Chen Shu Sheng. As at 31 December 2012, 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.

(16) 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 Kunshan Commercial and Industrial Administrative Bureau with registration no. 441800000000590. Its registered capital was RMB2,000,000. The equity interests of Qingyuan Dongjiang of 90% and 10% were owned by the Company and Ye Zijun respectively. The legal representative was Mr. Chen Shu Sheng.

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

1. Subsidiaries *(Continued)*

(16) Qingyuan Dongjiang (Continued)

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 by investing cash of RMB3,760,000 and Land Use Rights valued at RMB13,040,000. After capital increment, the registered capital of Qingyuan Dongjiang was increased to RMB18,800,000. In May 2012, the Company further contributed cash of RMB153,669,500 to Qingyuan Dongjiang. After the capital increment, the register capital of Qingyuan Dongjiang became RMB172,469,500. As at 31 December 2012, the equity interests in Qingyuan Dongjiang was wholly owned by the Company.

(17) Qingdao Dongjiang

Full name: Qingdao Dongjiang Environmental Recycled Power 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 Qingdao Commercial and Industrial Administrative Bureau with registration no. 370214020000235. Its registered capital was RMB15,000,000. The legal representative was Mr. Huang Xiaowen. As at 31 December 2012, the equity interests of Qingdao Dongjiang was wholly owned by the Company.

(18) Hunan Dongjiang

Full name: Hunan Dongjiang Environmental Protection Investment Development 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 and registration no. 430000000016917. Its registered capital was RMB10,000,000. The legal representative was Mr. Zhang Wei Yang. As at 31 December 2012, the equity interests in Hunan Dongjiang as to 95% and 5% were owned by the Company and Yuan Yu respectively.

(19) 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 and registration no. 5101001809268. Its registered capital was RMB10,000,000. The legal representative was Mr. Li Yongpeng. In May 2007, the Company acquired 49% shareholding from the minority shareholder Sichuan Xingli Wheel Company. As at 31 December 2012, the equity interests in Chengdu Treatment Centre was wholly owned by the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

1. Subsidiaries *(Continued)*

(20) 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 and registration no. 440301102885046. Its registered capital was RMB10,000,000. The legal representative was Mr. Li Yongpeng.

In June 2012, the Company contributed cash of RMB80,324,500 to Renewable Energy. After the capital increment, the registered capital of Renewable Energy became RMB90,324,500. As at 31 December 2012, the equity interests in Renewable Energy was wholly owned by the Company.

(21) 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 and registration no. 440200000006382. Its registered capital was RMB5,000,000. The legal representative was Mr. Chen Shu Sheng. As at 31 December 2012, the equity interests in Shaoguan Dongjiang was wholly owned by the Company.

(22) Baoan Dongjiang

Full name: Shenzhen Baoan Dongjiang Environmental Renewable Energy Limited (深圳市保安東江環保再生能源有限公司), Formerly known as Shenzhen Dongjiang Lisai Renewable Energy Limited (深圳市東江利賽再生能源有限公司)

Baoan Dongjiang 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 and registration no. 440306103351553. Its registered capital was RMB10,000,000. The legal representative was Mr. Xie Henghua. The equity interests in Baoan Dongjiang was wholly owned by the Company.

As at 31 December 2012, the 80% equity interests in Baoan Dongjiang held by the Company was pledged to bank for bank loans granted. (Note VI.29 (2)).

(23) 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 2012, the Company owned 100% equity interests in Dongjiang HK.

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

1. Subsidiaries *(Continued)*

(24) Dongjiang Property Service

Full name: Shenzhen Dongjiang Environmental Properties Co Limited (深圳市東江環保物業公司)

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 was Mr. Lan Yonghui. As at 31 December 2012, the Company owns 100% equity interests in Dongjiang Property Service.

(25) 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 was Mr. Xie Henghua. As at 31 December 2012, the Company owned 100% equity interests in equity interests in Yunnan Dongjiang.

(26) Dongjiang Transport

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

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. The legal representative was Mr. Li Yongpeng. As at 31 December 2012, the Company owned 100% equity interests in Dongjiang Transport.

(27) Products Trading

Full name: Shenzhen Dongjiang Products Trading Limited (產品貿易公司)

Products Trading was a limited company established in Shenzhen on 7 September 2011. The registered capital was RMB2,000,000. The legal representative was Mr. Li Yongpeng. As at 31 December 2011, the Company owned 100% equity interests in Products Trading.

(28) Hubei Dongjiang

Full name: Hubei Dongjiang Environmental Limited (湖北東江環保有限公司)

Hubei Dongjiang was established on 1 March 2012 with approval from Xiaochang Commercial and Industrial Administrative Bureau with registration no. 420921000011999. Its registered capital was RMB10,000,000. The legal representative was Mr. Chen Shu Sheng. As at 31 December 2012, the equity interests in Hubei Dongjiang was wholly owned by the Company.

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For the year ended 31 December 2012

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V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Subsidiaries (Continued)

(29) Jiangmen Dongjiang

Full name: Jiangmen Dongjiang Environmental Technology Limited (江門東江環保技術有限公司)

Jiangmen Dongjiang was established on 19 November 2012 with approval from Heshan Commercial and Industrial Administrative Bureau with registration no. 440784000045816. Its registered capital was RMB50,000,000. The legal representative was Mr. Li Yongpeng. As at 31 December 2012, the equity interests in Hubei Dongjiang was wholly owned by the Company.

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 consolidation scope	Proportion of shareholding (%)	Net Assets as at 31 December 2012	Net profit for the year
Dongjiang Songzao	Business combination involving entities not under common control	93.86	15,868,800.00	(826,000.00)
Zhuhai Qingxin	Business combination involving entities not under common control	75.00	7,899,700.00	1,228,100.00
Qingyuan Xinlv	Business combination involving entities not under common control	62.50	87,774,500.00	5,836,600.00
Jiaxing Deda	Business combination involving entities not under common control	51.00	43,185,700.00	1,841,300.00
Climate Solution(Asia)	Business combination involving entities not under common control	100.00	USD10,000.00	–
Hubei Dongjiang	Newly established	100.00	9,433,400.00	(566,600.000)
Jiangmen Dongjiang	Newly established	100.00	50,014,600.00	14,600.00

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business combinations for the year

(1) Subsidiaries obtained through business combination involving entities not under common control

No.	Name of company	Place of registration	Registered capital	Investment amount	Proportion of shareholding (%)	Business scope
1	Dongjiang Songzao	Chongqing	32,812,000	16,796,900	93.86	See V.1
2	Zhuhai Qingxin	Zhuhai	9,000,000	18,104,600	75.00	See V.1
3	Qingyuan Xinlv	Qingyuan	52,160,000	54,310,000	62.50	See V.1
4	Jiaxing Deda	Jiashan County	18,367,300	20,003,600	51.00	See V.1
5	Climate Solution (Asia)	Hong Kong	HKD9,461,400	USD10,000	100.00	See V.1

1. Dongjiang Songzao

(1) Dongjiang Songzao was an associate of the Company and accounted for using equity method of accounting company before it was included in the consolidation scope. The details of acquisition are set out in Note V.1(5).

(2) Acquisition date: 30 September 2012, evidenced by:

- 1) The parties to the acquisition have completed the transfer of equity procedures;
- 2) Consideration was fully paid;
- 3) The Group has obtained effective control over the financial and operating policy, and taking the relevant returns and risks.

(3) The net identifiable assets and liabilities of Dongjiang Songzao at the date of acquisition

Item	30 September 2012 (Acquisition date)	
	Carrying amount	Fair value
Total assets	31,104,700	31,104,700
Total liabilities	14,409,800	14,409,800
Net assets	16,694,900	16,694,900

(4) Cost of acquisition consists of the carrying amount of associate as recorded in the books of Renewable Energy and the consideration for acquiring Climate Solution (Asia) paid by Dongjiang HK. The share of net identifiable assets and liabilities of Dongjiang Songzao was exceeded the cost of acquisition. Accordingly, a non-operating income of RMB486,508.23 was recognized.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012
(Unless otherwise stated, the financial statements are expressed in RMB)

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business combinations for the year (Continued)

(1) Subsidiaries obtained through business combination involving entities not under common control (Continued)

1. Dongjiang Songzao (Continued)

(5) The operating results of Dongjiang Songzao after the date of acquisition

Item	30 September 2012 (Acquisition date)
	-31 December 2012
Operating revenue	-
Net profit	(826,000)
Net cash flow from operating activities	(582,500)
Net cash flows	(1,701,600)

2. Zhuhai Qingxin

(1) Zhuhai Qingxin was an associate of the Company and accounted for using equity method of accounting company before it was included in the consolidation scope. The details of acquisition are set out in Note V.1(6).

(2) Acquisition date: 30 June 2012, evidenced by:

- 1) The parties to the acquisition have completed the transfer of equity procedures;
- 2) Consideration was fully paid;
- 3) The Company has obtained effective control over the financial and operating policy, and taking the relevant returns and risks.

(3) The net identifiable assets and liabilities of Zhuhai Qingxin at the date of acquisition

Item	30 June 2012 (Acquisition date)	
	Carrying amount	Fair value
Total assets	8,714,700	8,714,700
Total liabilities	2,043,200	2,043,200
Net assets	6,671,600	6,671,600

(4) Cost of acquisition consists of the carrying amount of associate and the consideration for the share transfer. The cost of acquisition was exceeded the share of net identifiable assets and liabilities of Zhuhai Qingxin. Accordingly, a goodwill of RMB13,100,912.02 was recognized.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business combinations for the year (Continued)

(1) Subsidiaries obtained through business combination involving entities not under common control (Continued)

2. Zhuhai Qingxin (Continued)

(5) The operating results of Zhuhai Qingxin after the date of acquisition

Item	30 June 2012 (Acquisition date)- 31 December 2012
	Operating revenue
Net profit	1,228,100
Net cash flow from operating activities	(1,444,000)
Net cash flows	(1,447,500)

3. Qinyuan Xinlv

(1) The details of acquisition of Qinyuan Xinlv are set out in Note V.1(7).

(2) Acquisition date: 30 June 2012, evidenced by:

- 1) The parties to the acquisition have completed the transfer of equity procedures;
- 2) 79% of consideration was paid and the Group has ability to pay the remaining balance;
- 3) The Company has obtained effective control over the financial and operating policy, and taking the relevant returns and risks.

(3) The net identifiable assets and liabilities of Qinyuan Xinlv at the date of acquisition

Item	30 June 2012 (Acquisition date)	
	Carrying amount	Fair value
Total assets	107,496,800	107,496,800
Total liabilities	25,558,900	25,558,900
Net assets	81,937,900	81,937,900

(4) Cost of acquisition consists of the amount of capital increment and the consideration for the share transfer. The cost of acquisition was exceeded the share of net identifiable assets and liabilities of Qinyuan Xinlv. Accordingly, a goodwill of RMB17,538,809.93 was recognized.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012
(Unless otherwise stated, the financial statements are expressed in RMB)

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business combinations for the year (Continued)

(1) Subsidiaries obtained through business combination involving entities not under common control (Continued)

3. Qinyuan Xinlv (Continued)

(5) The operating results of Qinyuan Xinlv after the date of acquisition

Item	30 June 2012
	(Acquisition date)- 31 December 2012
Operating revenue	100,723,700
Net profit	5,836,600
Net cash flow from operating activities	4,100
Net cash flows	(1,407,200)

4. Jiaxing Deda

(1) The details of acquisition of Jiaxing Deda are set out in Note V.1(8).

(2) Acquisition date: 31 August 2012, evidenced by:

- 1) The parties to the acquisition have completed the transfer of equity procedures;
- 2) 66.27% of consideration was paid and the Group has ability to pay the remaining balance;
- 3) The Company has obtained effective control over the financial and operating policy, and taking the relevant returns and risks.

(3) The net identifiable assets and liabilities of Jiaxing Deda at the date of acquisition

Item	31 August 2012 (Acquisition date)	
	Carrying amount	Fair value
Total assets	46,383,800	46,383,800
Total liabilities	5,039,400	5,039,400
Net assets	41,344,400	41,344,400

(4) Cost of acquisition was the amount of capital increment. The cost of acquisition was exceeded the share of net identifiable assets and liabilities of Jiaxing Deda. Accordingly, goodwill of RMB9,097,974.10 was recognized. Cost of consolidation was the amount of capital increment.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business combinations for the year (Continued)

(1) Subsidiaries obtained through business combination involving entities not under common control (Continued)

4. Jiaxing Deda (Continued)

(5) The operating results of Jiaxing Deda after the date of acquisition

Item	31 August 2012
	(Acquisition date)- 31 December 2012
Operating revenue	12,399,000
Net profit	1,841,300
Net cash flow from operating activities	7,760,000
Net cash flows	7,586,800

5. Climate Solution (Asia)

(1) The details of acquisition of Climate Solution (Asia) are set out in Note V.1(9).

(2) Acquisition date: 30 September 2012, evidenced by:

- 1) The parties to the acquisition have completed the transfer of equity procedures;
- 2) Consideration was fully paid;
- 3) The Group has obtained effective control over the financial and operating policy, and taking the relevant returns and risks.

(3) The net identifiable assets and liabilities of Climate Solution (Asia) at the date of acquisition

Item	30 September 2012 (Acquisition date)	
	Carrying amount	Fair value
Total assets	63,410.00	63,410.00
Total liabilities	-	-
Net assets	63,410.00	63,410.00

(4) Cost of acquisition was the amount paid for share transfer. The cost of acquisition equal the shares of net identifiable assets and liabilities of Climate Solution (Asia). Accordingly, no goodwill was recognised.

(5) Since the date of acquisition, Climate Solution (Asia) has not commenced substantial business.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Translation of financial statements denominated in foreign currency.

The consolidated financial statements incorporated the financial statements of Dongjiang HK, Lik Shun Services and Climate Solution (Asia) 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 = 1: 0.8109). 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 = 1: 0.8110).

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

1. Bank balances and cash

Item	2012			2011		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash in hand						
RMB	243,036.13	1.0000	243,036.13	309,788.45	1.0000	309,788.45
HKD	133,000.00	0.8109	107,849.70	55,000.00	0.8107	44,588.50
Sub-total			350,885.83			354,376.95
Bank deposits						
RMB	1,010,746,239.13	1.0000	1,010,746,239.13	241,217,732.16	1.0000	241,217,732.16
HKD	6,813,019.39	0.8109	5,524,677.42	7,582,543.04	0.8107	6,147,167.64
USD	10,220.04	6.2855	64,238.06	-	-	-
Sub-total			1,016,335,154.61			247,364,899.80
Other bank balances and cash						
RMB	11,128,515.94	1.0000	11,128,515.94	4,283,825.01	1.0000	4,283,825.01
Total			1,027,814,556.38			252,003,101.76

As at 31 December 2012, the restricted bank deposits of the Group were RMB10,925,179.90 (2011: RMB4,189,340.00) which were the guarantee deposits for borrowing and were included in "Other bank balances and cash".

2. Financial assets held for trading

Item	2012	2011
Equity investments held for trading, at fair value	3,748,980.00	3,594,220.00

The equity investments are shares listed on the Shanghai Stock Exchange in the PRC.

At 31 December 2012, the fair value of the listed shares was RMB3,748,980.00 (2011: RMB3,594,220.00).

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 2012

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

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

3. Notes receivable

(1) *Categories of notes receivable*

Category	2012	2011
Bank acceptance notes	31,778,542.16	22,877,520.22
Commercial acceptance notes	–	44,594.00
Total	31,778,542.16	22,922,114.22

All notes receivable held by the Group are aged within one year.

(2) *As at 31 December 2012, 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	Changsha Xingjia Bio-engineering Co. Limited	2012-10-30	2013-1-30	6,889,800.00
Bank acceptance notes	Changsha Xingjia Bio-engineering Co. Limited	2012-11-27	2013-2-27	4,340,320.00
Bank acceptance notes	Guangdong Guanghua Technology Co., Limited	2012-11-12	2013-2-12	3,200,000.00
Bank acceptance notes	Changsha Xingjia Bio-engineering Co. Limited	2012-10-30	2013-1-30	2,771,200.00
Bank acceptance notes	Guangdong Guanghua Technology Co., Limited	2012-11-12	2013-2-12	1,787,820.00
Total				18,989,140.00

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

(3) *There was no note receivable from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.*

4. Accounts receivable

	2012	2011
Accounts receivable	225,191,559.54	193,676,124.25
Less: Provision for bad debts	17,798,170.60	13,419,456.62
Total	207,393,388.94	180,256,667.63

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

4. Accounts receivable (Continued)

(1) Aging analysis of accounts receivable

Prior to the acceptance of new customers, the Group applies internal credit assessment policies to assess the credit quality of potential customers and formulates credit limit. Apart from requiring new customers to pay in advance, the Group formulates different credit policies according to different customers. The credit period is generally three months, and can be extended to six months for major customers. For the sales, the Group recognizes accounts receivable and operating revenue at the time point of outbound and acceptance of products, when calculation of the ages of the account begins. Aging analysis of accounts receivable, net of provision for bad debts, presented based on the recognition date is as follows:

Item	2012	2011
0-90 days	145,044,585.87	130,348,121.04
91-180 days	28,506,013.00	22,736,319.97
181-365 days	17,343,548.09	11,177,337.96
1-2 years	13,212,542.88	14,967,920.70
2-3 years	3,267,469.10	1,026,941.96
Over 3 years	19,230.00	26.00
Total	207,393,388.94	180,256,667.63

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

Category	2012		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	151,016,510.85	67.06	9,404,322.65	6.23
Related party group	66,921,200.74	29.72	1,140,000.00	1.70
Sub-total	217,937,711.59	96.78	10,544,322.65	4.84
Accounts receivable that are individually insignificant but are individually provided for bad debts	7,253,847.95	3.22	7,253,847.95	100.00
Total	225,191,559.54		17,798,170.60	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VI. 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		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	129,609,784.48	66.92	7,939,553.67	6.13
Related party group	59,726,436.82	30.84	1,140,000.00	1.91
Sub-total	189,336,221.30	97.76	9,079,553.67	4.80
Accounts receivable that are individually insignificant but are individually provided for bad debts	4,339,902.95	2.24	4,339,902.95	100.00
Total	193,676,124.25		13,419,456.62	

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

Item	2012			2011		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	106,872,122.94	1.50	1,582,387.81	88,086,286.61	1.50	1,364,850.32
91-180 days	15,712,467.01	3.00	471,374.00	8,147,900.28	3.00	251,572.39
181-365 days	4,843,524.31	5.00	242,176.22	11,637,762.06	5.00	581,888.10
1-2 years	16,515,678.59	20.00	3,303,135.72	18,754,582.43	20.00	3,753,105.73
2-3 years	6,534,938.20	50.00	3,267,469.10	1,997,223.72	50.00	1,002,107.76
Over 3 years	537,779.80	100.00	537,779.80	986,029.38	100.00	986,029.37
Total	151,016,510.85		9,404,322.65	129,609,784.48		7,939,553.67

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VI. 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 2012, accounts receivable that are individually insignificant but are individually provided for bad debts.

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
Shanxi Fenxi Mining(Group) Co.,Ltd,Xinliu Coal Mine	2,360,000.00	2,360,000.00	100.00	Irrecoverable
China Sinopec Group Tianjin Petrochemical Company	1,107,274.60	1,107,274.60	100.00	Irrecoverable
Baoan Shajing Shatou Baoxun Electronics Factory	735,708.53	735,708.53	100.00	Irrecoverable
Yunxian Construction Bureau	282,355.00	282,355.00	100.00	Irrecoverable
Foxconn Precise Electronics Taiyuan Co.,Ltd.	238,425.00	238,425.00	100.00	Irrecoverable
Jiaohu Urban Administration	220,000.00	220,000.00	100.00	Irrecoverable
Petrochina Urumqi Petrochemical Branch Co.	218,900.00	218,900.00	100.00	Irrecoverable
Jinan No.2 Machine Group Co.,Ltd.	171,312.00	171,312.00	100.00	Irrecoverable
Zaozhuang Huaqing Environmental Protection Equipment Co.,Ltd.	159,390.00	159,390.00	100.00	Irrecoverable
Rongsheng Construction Engineering Co.,Ltd.	150,000.00	150,000.00	100.00	Irrecoverable
Zaozhuang Huiying Environmental Protection Engineering Co.,Ltd.	150,000.00	150,000.00	100.00	Irrecoverable
Zaozhuang Drainage Administration Office	120,000.00	120,000.00	100.00	Irrecoverable
Xingtai Steel Co.,Ltd.	117,030.55	117,030.55	100.00	Irrecoverable
Miyun County Gaoling Zhen, the Municipal Government	115,000.00	115,000.00	100.00	Irrecoverable
Kaifeng Xianglong Industry and Trade Co.,Ltd.	100,000.00	100,000.00	100.00	Irrecoverable
Anhui Ruifuxiang Food Co.,Ltd.	100,000.00	100,000.00	100.00	Irrecoverable
Others (Items under RMB100,000.00)	908,452.27	908,452.27	100.00	Irrecoverable
Total	7,253,847.95	7,253,847.95		

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

4. Accounts receivable (Continued)

(3) Details of bad debts provision reversed (or recovered) during the year ended 31 December 2012

Name	Book value of accounts receivable	Proportion of provision made (%)	Balance of bad debts provision	Amount reversed in 2012	Reason of provision and reversal in the year
Others (Items under RMB100,000)	85,380.00	100.00	85,380.00	85,380.00	Recovered during the year

(4) There was no accounts receivable written off in 2012.

(5) Aging analysis of overdue but without impairment accounts receivable at balance sheet date:

Item	2012	2011
0-90 days	38,582,399.14	58,540,921.82
91-180 days	14,456,601.60	45,515.00
181-365 days	12,742,200.00	
Total	65,781,200.74	58,586,436.82

Overdue but without impairment accounts receivables are related to related parties, these accounts have good credit. According to the past experiences, the management believes that impairment is unnecessary, because the credit quality remains unchanged, and the balances will be recovered in the future.

(6) There was no accounts receivable from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

(7) Top five accounts receivable outstanding as at 31 December 2011 were as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total accounts receivable (%)
Shenzhen Micronutrients	Associate	60,403,505.66	Within 1 year	29.13
Shenzhen Finance Bureau Tu motezuoqi Chenglian	Independent third party	8,620,990.90	0-90days	3.83
Construction Co., Limited	Independent third party	7,752,229.00	1-2 years	3.44
Food and Environmental Hygiene Dongjiang Veolia	Independent third party	5,944,499.07	0-90 days	2.64
	Jointly controlled entity	5,356,238.45	Within 1 year	2.58
Total		88,077,463.08		41.62

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

4. Accounts receivable (Continued)

(8) As at 31 December 2012, the accounts receivable from related parties were RMB66,921,200.74, representing 29.72% of total accounts receivables (2011: RMB59,726,436.82, 30.84%). The details are set out in note VII.3 (1).

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

Foreign currency	2012			2011		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	8,594,328.00	0.8109	6,969,140.58	6,953,161.19	0.8107	5,636,927.78

5. Prepayments

	2012	2011
Prepayments	165,178,226.06	148,148,073.63
Less: provision for bad debts	484,229.43	484,229.43
Total	164,693,996.63	147,663,844.20

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

Item	2012		2011	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	137,903,299.17	83.73	142,866,553.36	96.75
1-2 years	25,883,163.67	15.72	1,281,888.29	0.87
2-3 years	404,697.11	0.24	1,551,550.23	1.05
Over 3 years	502,836.68	0.31	1,963,852.32	1.33
Total	164,693,996.63	100.00	147,663,844.20	100.00

(2) As at 31 December 2012, provision for bad debts on prepayments were as follows:

Name	Book value	Bad debts provision	Proportion (%)
Weijun Electronic Kunshan Compan	602,480.43	484,229.43	80.37

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 RMB498,764.00 from the court. The remaining balance has been written off after offsetting against the amount of payable that Qiandeng Wastes Treatment owed to Weijun Electronic Kunshan Company.

NOTES TO FINANCIAL STATEMENTS

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

5. Prepayments (Continued)

(3) Details of the top five prepayments at 31 December 2012:

Name	Relationship with the Company	Amount	Aged	Reason of outstanding
Shaoguan Smelter	Independent third party	18,000,000.00	Within 1 year	Progress payments as contracted
Tongling Xingpeng Environmental Protection Equipment Engineering Co.,Ltd.	Independent third party	10,580,000.00	Within 1 year	Progress payments +as contracted
Inner Mongolia Second Construction Company Tusiqi Sewage Plant Project Department	Independent third party	9,450,000.00	1-2years	Progress payments as contracted
Huizhou Tonghu Qiaochang Construction Engineering Company	Independent third party	8,900,000.00	Within 1 year	Progress payments as contracted
Jiangsu Tianmu Construction Group Co.,Ltd.	Independent third party	7,500,000.00	Within 1 year	Progress payments as contracted
Total		54,430,000.00		

(4) There was no prepayments from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

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

Foreign currency	2012			2011		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	9,890,732.43	0.8109	8,020,394.93	11,311,495.65	0.8107	9,170,229.52

6. Other receivables

Item	2012	2011
Other receivables	54,500,372.25	58,408,011.95
Less: Provision for bad debts	10,538,625.59	16,674,618.64
Total	43,961,746.66	41,733,393.31

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For the year ended 31 December 2012

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

6. Other receivables (Continued)

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

Category	2012			
	Book balance		Bad debts provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Other receivables that are provided for bad debts on portfolio basis				
Aged group	11,339,697.83	20.81	5,801,663.93	51.16
Related party group	640,511.09	1.17	571,117.32	89.17
Collateral group	38,302,548.99	70.28	-	-
Sub-total	50,282,757.91	92.26	6,372,781.25	12.67
Other receivables that are individually insignificant but are individually provided for bad debts	4,217,614.34	7.74	4,165,844.34	98.77
Total	54,500,372.25		10,538,625.59	

Category	2011			
	Book balance		Bad debts provision	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for provision for bad debts on individual basis	5,000,000.00	8.56	5,000,000.00	100.00
Other receivables that are provided for provision for bad debts on portfolio basis				
Aged group	19,371,490.94	33.17	6,827,560.64	35.25
Related party group	1,747,637.90	2.99	571,117.32	32.68
Collateral group	27,948,822.43	47.85	-	-
Sub-total	49,067,951.27	84.01	7,398,677.96	15.08
Other receivables that are individually insignificant but are individually provided for bad debts	4,340,060.68	7.43	4,275,940.68	98.52
Total	58,408,011.95		16,674,618.64	

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

6. Other receivables (Continued)

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

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

Item	Amount	2012		Amount	2011	
		Proportion (%)	Provision for bad debts		Proportion (%)	Provision for bad debts
0-90 days	4,255,784.40	1.50	63,844.05	8,416,128.21	1.50	159,429.06
91-180 days	73,093.84	3.00	2,192.82	1,975,743.98	3.00	59,476.94
181-365 days	18,859.50	5.00	942.98	1,349,161.76	5.00	66,009.84
1-2 years	1,535,727.51	20.00	307,145.50	974,723.92	20.00	211,280.55
2-3 years	57,388.00	50.00	28,694.00	584,703.61	50.00	301,859.16
Over 3 years	5,398,844.58	100.00	5,398,844.58	6,071,029.46	100.00	6,029,505.09
Total	11,339,697.83		5,801,663.93	19,371,490.94		6,827,560.64

2) As at 31 December 2012, other receivables that are not individually insignificant but are individually provided for bad debts:

Name	Book value	Bad debts provision	Proportion (%)	Reason for provision
CB (Holding) Co., Limited	1,616,660.82	1,616,660.82	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)	1,500,953.52	1,449,183.52	96.55	Irrecoverable
Total	4,217,614.34	4,165,844.34		

(2) Details of bad debts provision reversed during the year ended 31 December 2012

Name	Book value of other receivables	Proportion of provision made (%)	Balance of bad debts provision	Amount reversed in 2012	Reason of provision and reversal in the year
Shantou Jian'an (Group) Co., Limited Huzhou Branch	5,000,000.00	100%	5,000,000.00	5,000,000.00	There was dispute in the past year. The amount was recovered during the year.

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

6. Other receivables (Continued)

(3) Details of other receivables written off during the year ended 31 December 2012

Name	Nature of other receivables	Amounts written-off	Reason for written-off	Whether arisen from related party transaction
Others (Items under RMB50,000)	Deposits	279,592.32	Irrecoverable	No

(4) There was no other receivables from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

(5) The top five other receivables outstanding as at 31 December 2012 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total other receivables (%)	Nature
Jiandang (Wuxi) Electronics Co.,Ltd.	Independent third party	6,000,000.00	1-2 years	11.01	Deposit for performance
Heshan Land Transaction Service Center	Independent third party	3,480,000.00	0-90 days	6.39	Deposit for performance
Wuhan Bilan Environmenta Engineering Co.,Ltd.	Independent third party	3,000,000.00	Within 1 year	5.50	Deposit for performance
Lujing Electronics (Kunshan) Co.,Ltd.	Independent third party	2,180,000.00	0-90 days	4.00	Deposit for performance
Xinqiang Electronics (Qingyuan) Co.,Ltd.	Independent third party	2,000,000.00	Over 3 years	3.67	Deposit for performance
Total		16,660,000.00		30.57	

(6) Other receivables from related parties as at 31 December 2012 were RMB640,511.09, representing 1.17% of the total other receivables (2010: RMB1,747,637.90, 2.99%). The details are set out in note VII.3 (2).

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

Foreign currency	2012			2011		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	3,409,149.80	0.8109	2,764,479.57	1,754,335.38	0.8107	1,422,239.69
EURO	-	-	-	153,379.83	8.7498	1,342,044.52
Total			2,764,479.57			2,764,284.21

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For the year ended 31 December 2012

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

7. Inventories

(1) Categories of inventories are as follows:

Item	Carrying amount	2012	
		Provision for inventories	Carrying value
Raw material	176,868,977.55	46,922.67	176,823,627.52
Work-in-progress	46,607,092.07	–	46,607,092.07
Finished goods	25,612,434.95	–	25,610,862.31
Consumables	9,182,646.40	–	9,182,646.40
Goods in transit	264,308.26	–	264,308.26
Total	258,535,459.23	46,922.67	258,488,536.56

Item	Carrying amount	2011	
		Provision for inventories	Carrying value
Raw materials	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
Total	225,658,518.64	505,487.03	225,153,031.61

(2) Movements of provision for inventories during the year ended 31 December 2012 are as follows:

Item	As at 1 January 2012	Provision for the year	Decrease		As at 31 December 2012
			Reversal	Other transfer	
Raw materials	46,922.67	–	–	–	46,922.67
Finished goods	458,564.36	–	458,564.36	–	–
Total	505,487.03	–	458,564.36	–	46,922.67

The reversal of provision for inventory was due to the increase in price of finished goods.

(3) Cost of inventories recognized as expenses for the year was RMB959,814,473.64 (2011:RMB978,389,432.53).

8. Non-current assets due within 1 year

Item	2012	2011
Long-term accounts receivable due within 1 year (VI.10)	28,680,000.00	–

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For the year ended 31 December 2012
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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Other current assets

Item	2012	2011
Prepaid rent	59,108.33	–

10. Long-term accounts receivable

Item	2012	2011
Receivables for rendering of services to be recovered by installments	73,495,000.00	–
Less: Amount due within 1 year and showed as non-current assets due within one year (Note VI.8)	28,680,000.00	–
Amount to be recovered after one year	44,815,000.00	–

(1) The aged analysis of the long-term accounts receivable is as follows:

Item	2012	2011
0-90 days	73,495,000.00	–

(2) Name of the receivables: Jiangmen Sungde Circuits Technology Limited

(3) There was no long-term accounts receivable from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

11. Long-term equity investments

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

Item	2012	2011
Investments in jointly controlled entities and associates – accounted for using equity method	79,984,920.82	89,646,418.82
Less: Provision for impairment loss	529,649.00	529,649.00
Carrying value of investments in jointly controlled entities and associates	79,455,271.82	89,116,769.82
Other long-term equity investments – accounted for using cost method	1,800,000.00	1,900,000.00
Total	81,255,271.82	91,016,769.82
Item	2012	2011
Unlisted long-term equity investments	81,255,271.82	91,016,769.82

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For the year ended 31 December 2012

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

11. Long-term equity investments (Continued)

(2) Investments in jointly controlled entities and associates

Name	As at 31 December 2012			As at 1 January 2012	Movement		As at 31 December 2012
	Proportion of Shareholding (%)	Proportion of voting rights (%)	Cost of Investment		Share of profit (loss) for the year	Transfer out	
Jointly controlled entity							
Dongjiang Veolia	51.00	50.00	22,440,000.00	37,426,301.57	10,357,933.36	-	47,784,234.93
Associate							
Dongjiang Songzao*	-	-	-	15,813,740.19	(693,846.99)	(15,119,893.20)	-
Shenzhen Micronutrients	38.00	40.00	760,000.00	1,303,948.99	831,203.51	-	2,135,152.50
Shenzhen Resource	49.00	42.86	21,312,060.00	28,598,290.56	1,340,348.34	-	29,938,638.90
Zhuhai Qingxin*	-	-	-	6,377,243.02	(272,644.89)	(6,104,598.13)	-
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	-	-	-	-
Total			48,112,060.00	89,646,418.82	11,562,993.33	(21,224,491.33)	79,984,920.82

The full name of the jointly controlled entity and associates are set out in Note VI.11 (3).

* During the year, the Group increased the equity interests in Dongjinag Songzao and Zhuhai Qingxin. Consequently, they became the subsidiaries of the Group and included in the consolidation scope.

(3) Particulars of the jointly controlled entity and associates at 31 December 2012

Name	Proportion of Shareholding (%)	Proportion of voting rights (%)	Place of registration/ operation	Business nature	Legal representative	Registered capital (RMB'000)	Organisation code
Jointly controlled entity							
Dongjiang Veolia	51.00	50.00	Huizhou	Industrial	Zhang Wei Yang	60,000	77402216-6
Associate							
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
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	

The jointly controlled entity and associates of the Group are limited company.

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)

Dongjiang Veolia has registered capital of 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

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

11. Long-term equity investments (Continued)

(3) Particulars of the jointly controlled entity and associates at 31 December 2012 (Continued)

1) Dongjiang Veolia (Continued)

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) Shenzhen Resource

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

Shenzhen Resource has registered capital of 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 the composition of the Board of Directors of Shenzhen Resources would be adjusted 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. In January 2011, the procedures of share transfer and changes in industrial and commercial registration were completed. As at 31 December 2012, the Company owned 49% equity interests and 42.86% voting rights.

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)

Shenzhen Micronutrients has registered capital of 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.

4) Lisheng Membrane

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

Lisheng Membrane has registered capital of 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. Currently, Lisheng Membrane has suspended operation.

5) 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)

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

11. Long-term equity investments (Continued)

(3) Particulars of the jointly controlled entity and associates at 31 December 2012 (Continued)

5) Zhejiang Shuangyi (Continued)

Zhejiang Shuangyi has registered capital of 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. Currently, it had suspended operation.

6) Beijing Shuangyi

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

Beijing Shuangyi has registered capital of 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. Currently, it had suspended operation.

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

Name	As at 31 December 2012		Total net assets	For the year ended 31 December 2012	
	Total assets	Total liabilities		Total operating revenue	Net profit
Jointly controlled entity					
Dongjiang Veolia	205,566,726.71	111,455,262.95	94,111,463.76	112,342,971.16	20,309,673.26
Associate					
Shenzhen Resource	69,734,784.72	8,950,551.18	60,784,233.54	68,640,323.43	2,735,404.77
Shenzhen Micronutrients	66,029,904.61	61,483,963.27	4,545,941.34	158,989,968.26	2,187,377.66
Lisheng Membrane	631,936.31	355,078.85	276,857.46	-	-
Total	341,963,352.35	182,244,856.25	159,718,496.10	339,973,262.85	25,232,455.69

The major accounting policies adopted by the jointly controlled entity and associates are consistent with that of the Group.

(5) Provision for impairment loss for investments in jointly controlled entity and associates

Name	As at 1 January 2012		Increase	Decrease	As at 31 December 2012	Reason for provision
	January 2012	December 2012				
Shenzhen Micronutrients	529,649.00	-	-	-	529,649.00	Poor operating results

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

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

11. 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 2012	Increase	Decrease	As at 31 December 2012
Wuhan Yunfeng	11.00	11.00	1,800,000.00	1,800,000.00	-	-	1,800,000.00
Dongjiang Green Resources	10.00	10.00	100,000.00	100,000.00	-	100,000.00	-
Total			1,900,000.00	1,900,000.00	-	100,000.00	1,800,000.00

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

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.

1) 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 was collection of torn and waste material, process and sales of metals.

2) Dongjiang Green Resources

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

Dongjiang Green Resources has registered capital of RMB1,000,000. The Company invested RMB100,000.00 and owned 10% equity interests therein. The business scope was development of waste gas treatment technology, environment-friendly and energy-saving products and technology. On 30 May 2012, the Company and Mr. Wang Donghua entered into a share transfer agreement that all the equity interests in Dongjiang Green Resource held by the Company were transferred at a consideration of RMB100, 000.

(7) The investee companies, which are the long-term equity investments held by the Group as at 31 December 2012, have no restriction on the ability to transfer funds to the Group.

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

12. Investment properties

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

Item	Fair value	Increase			Fair value
	as at 1 January 2012	Additions	Changes in fair value	Decrease	as at 31 December 2012
Cost					
Buildings	48,414,356.82	–	–	–	48,414,356.82
Changes in fair value					
Buildings	5,133,643.18	–	82,900.00	–	5,216,543.18
Net carrying value					
Buildings	53,548,000.00	–	82,900.00	–	53,630,900.00

On 31 December 2012, the investment properties were revalued by Shenzhen Pengxin Assets Appraisal and Valuation Co., Limited on an open market basis.

(2) *As at 31 December 2012, all the investment properties have proper legal property rights certificate.*

(3) *The investment properties were located in the PRC and were held under medium-term leases (more than 10 years but less than 50 years).*

(4) *Rental income generated from investment properties for the year ended 31 December 2012 was RMB8,669,158.65 (2011: RMB7,800,382.75).*

(5) *The detailed information of the investment properties are as follows:*

No.	Address	Purpose
1	No.3, Jingtian, Futian District, Shenzhen	Office
2	Southern-side of Langshan Road, Nanshan District, Shenzhen	Office

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

13. Fixed assets

(1) Breakdown of fixed assets

Item	As at 1 January 2012	Increase	Decrease	As at 31 December 2012
Cost				
Buildings	310,620,787.17	45,876,078.26	519,448.22	355,977,417.21
Plant and Machinery	225,873,734.01	105,302,899.83	3,314,542.03	327,862,091.81
Motor vehicles	78,436,282.15	17,721,269.53	1,399,080.59	94,758,471.09
Office equipment	17,489,054.34	4,628,729.74	380,259.65	21,737,524.43
Others	32,201,236.67	23,073,513.74	2,767,135.55	52,507,614.86
Total cost	664,621,094.34	196,602,491.10	8,380,466.04	852,843,119.40
Accumulated depreciation				
Buildings	36,582,192.02	19,452,385.76	159,765.41	55,874,812.37
Plant and Machinery	67,717,134.57	38,081,530.05	2,502,942.21	103,295,722.41
Motor vehicles	36,170,678.02	12,976,186.87	1,505,868.67	47,640,996.22
Office equipment	9,489,991.02	3,706,713.26	1,385,069.60	11,811,634.68
Others	16,585,702.13	5,581,581.05	162,856.27	22,004,426.91
Total accumulated depreciation	166,545,697.76	79,798,396.99	5,716,502.16	240,627,592.59
Net carrying amount				
Buildings	274,038,595.15			300,102,604.84
Plant and Machinery	158,156,599.45			224,566,369.40
Motor vehicles	42,265,604.13			47,117,474.87
Office equipment	7,999,063.32			9,925,889.75
Others	15,615,534.53			30,503,187.95
Total net carrying amount	498,075,396.58			612,215,526.81
Provision for impairment losses				
Buildings	12,232,059.91	3,847,265.95	–	16,079,325.86
Plant and Machinery	10,349,306.02	11,589,747.51	164,980.86	21,774,072.67
Motor vehicles	1,273,302.18	–	–	1,273,302.18
Office equipment	8,804.67	–	–	8,804.67
Others	1,110,156.93	–	223,740.70	886,416.23
Total provision for impairment losses	24,973,629.71	15,437,013.46	388,721.56	40,021,921.61
Net carrying value				
Buildings	261,806,535.24			284,023,278.98
Plant and Machinery	147,807,293.43			202,792,296.73
Motor vehicles	40,992,301.95			45,844,172.69
Office equipment	7,990,258.65			9,917,085.08
Others	14,505,377.60			29,616,771.72
Total net carrying value	473,101,766.87			572,193,605.20

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

13. Fixed assets (Continued)

- (2) Impairment loss on fixed assets once recognized will not be reversed in subsequent years. The increase in provision for impairment was arising from business combination during the year. The decrease was caused by the disposal of relevant assets.
- (3) The amount of construction in progress transferred to fixed assets during the year ended 31 December 2012 was RMB67,302,363.64.
- (4) Depreciation of fixed assets recognised in income statement for the year was RMB63,782,505.49 (2011: RMB53,322,981.73).
- (5) Loss on disposal of fixed assets recognised in income statement for the year was RMB623,199.29 (2011: RMB134,266.02).
- (6) The buildings are situated in the PRC and were held under the following lease terms:

Item	2012	2011
Short-lease (less than 10 years)	1,338,944.60	1,493,388.88
Medium-term lease (more than 10 years but less than 50 years)	282,684,334.38	260,313,146.36
Total	284,023,278.98	261,806,535.24

- (7) 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.: PingYin (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. (As at 31 December 2012, the outstanding balance of the loan was RMB12,697,674.00 comprising of long-term loan of RMB12,697,674.00 (NoteVI.29(2)) The bank loan was secured by the machine equipment owned by Renewable Energy with an aggregate original cost of RMB16,497,500 and net carrying value of RMB6,100,800 as at 31 December 2012.

- (8) As at 31 December 2012, there were no idle fixed assets.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

13. Fixed assets (Continued)

(9) As at 31 December 2012, assets held under finance leases were as follows:

Item	2012	2011
Cost		
Plant and Machinery	50,619,022.15	51,243,627.40
Motor vehicles	24,283,065.84	22,716,430.94
Total cost	74,902,087.99	73,960,058.34
Accumulated depreciation		
Plant and Machinery	12,690,712.08	6,555,872.98
Motor vehicles	8,752,188.96	5,549,605.46
Total accumulated depreciation	21,442,901.04	12,105,478.44
Net carrying value		
Plant and Machinery	37,928,310.07	44,687,754.42
Motor vehicles	15,530,876.88	17,166,825.48
Total net carrying value	53,459,186.95	61,854,579.90

The plant and machinery held under finance lease was electricity generators of Renewable Energy. On 4 January 2011, Renewable Energy and CMB Financial Leasing Co. Limited entered a "Finance Lease Contract" that Renewable Energy sold 6 methane generator sets and other related equipment to CMB Financial Leasing Co. Limited at a consideration of RMB49,261,949.30 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 were 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 of RMB4,737,090.82 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 2012, the unamortised unrealized gain was RMB3,284,382.99.

The motor vehicles held under finance leases represent the motor vehicles held by Lik Sun Service under finance lease.

(10) No fixed assets leased out under operating leases as at 31 December 2012.

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

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

13. Fixed assets *(Continued)*

(11) *Fixed assets without property rights certificates as at 31 December 2012 were as follows:*

- 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 2012 of RMB1,258,400. The application for the related land use rights certificate has not processed because the business operation of Chengdu Dangerous Wastes was being suspended 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 Shajing Branch of the Company with original cost of RMB29,580,200 and net carrying value as at 31 December 2012 of RMB25,947,400. 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 2012 of RMB2,739,000 because it was built on the land leased by the Company and did not qualify for property rights certificate.
- 3) The property rights certificate has not been obtained for the factory building of Shaoguan Green, with original cost of RMB16,345,000 and net carrying value as at 31 December 2012 of RMB15,102,600. 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 2012 was RMB3,603,700.
- 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 the agreement Qingdao Dongjiang was granted with the land use rights for a piece of land for the project under the agreement. 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 2012 was RMB1,515,600.
- 6) Baoan Dongjiang 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 8 November 2007. Pursuant to the agreement Baoan Dongjiang was granted with the land use rights for a piece of land for the project under the agreement. Buildings built on the land by Baoan Dongjiang do not require property rights certificate. The original cost of the building was RMB13,847,100 and net carrying value as at 31 December 2012 was RMB12,560,800.

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For the year ended 31 December 2012

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

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

14. Construction in progress

(1) Breakdown of construction in progress:

Item	2012		2011			
	Carrying amount	Provision for impairment	Carrying value	Carrying amount	Provision for impairment	Carrying value
Hazardous waste disposal centre in Northern Guangdong	128,501,408.26	-	128,501,408.26	118,303,542.51	-	118,303,542.51
Factory in Jiangmen	24,897,809.38	-	24,897,809.38	-	-	-
Sludge Project	18,211,057.08	-	18,211,057.08	3,367,137.08	-	3,367,137.08
Shaoguan Green Hazardous waste landfill	15,619,697.49	-	15,619,697.49	15,619,697.49	-	15,619,697.49
Factory construction	14,928,443.91	-	14,928,443.91	201,200.12	-	201,200.12
Wastewater treatment project	2,117,717.85	-	2,117,717.85	841,961.16	-	841,961.16
Office building construction	4,195,056.78	-	4,195,056.78	234,970.00	-	234,970.00
Triple-effect evaporation system	3,614,234.76	-	3,614,234.76	-	-	-
Landfill (phase 2) anti-percolator project	3,171,080.00	-	3,171,080.00	-	-	-
Kitchen waste project	3,010,041.00	-	3,010,041.00	3,010,041.00	-	3,010,041.00
Hazardous wastes transport system	2,737,680.00	-	2,737,680.00	-	-	-
Kingdee ERP System	2,632,051.29	-	2,632,051.29	2,724,970.09	-	2,724,970.09
Laboratory project in Shayi	2,341,220.50	-	2,341,220.50	1,967,470.50	-	1,967,470.50
Slag project	2,055,984.23	-	2,055,984.23	2,818,817.23	-	2,818,817.23
Construction of landfill (phase 2)	1,797,500.00	-	1,797,500.00	-	-	-
Kingdee EAS Management softwares	1,491,199.36	-	1,491,199.36	-	-	-
Reconstruction of plant	1,444,047.58	-	1,444,047.58	422,232.18	-	422,232.18
Construction of demonstration centre for waste recycling treatment in Kunming	1,090,000.00	-	1,090,000.00	11,704,281.49	-	11,704,281.49
Abandoned circuit board recycling treatment project	890,139.32	-	890,139.32	1,004,615.39	-	1,004,615.39
Dismantling of waste household appliances project	712,500.00	-	712,500.00	-	-	-
Factory plant in Jinwan district	711,951.40	-	711,951.40	-	-	-
Construction of factory B	611,480.00	-	611,480.00	-	-	-
Kitchen waste vehicle	427,500.00	-	427,500.00	-	-	-
Overhaul project	421,276.13	-	421,276.13	-	-	-
New factory construction in Deda	314,247.00	-	314,247.00	-	-	-
Fudun Boiler combustion machine	223,854.79	-	223,854.79	-	-	-
Supervision of landfill construction (phase 2)	220,500.00	-	220,500.00	-	-	-
Supervision of Baisite leachate treatment project	220,000.00	-	220,000.00	-	-	-
Testing of kitchen waste project	181,363.64	-	181,363.64	-	-	-
Decoration of 12-13floor of Dongjiang Building	163,662.40	-	163,662.40	-	-	-
Moulds	111,111.12	-	111,111.12	-	-	-

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For the year ended 31 December 2012

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

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

14. Construction in progress (Continued)

(1) Breakdown of construction in progress: (Continued)

Item	2012			2011		
	Carrying amount	Provision for impairment	Carrying value	Carrying amount	Provision for impairment	Carrying value
New factory in Dashun	60,035.40	-	60,035.40	-	-	-
Reconstruction project	20,161.76	-	20,161.76	-	-	-
Industrial hazardous wastes treatment base in Shenzhen Longgang	-	-	-	102,402,172.04	-	102,402,172.04
Shaoguan Green Zinc oxide project	-	-	-	27,712,746.27	-	27,712,746.27
Preparatory workshop	-	-	-	6,873,954.09	-	6,873,954.09
Equipment for Macao project	-	-	-	806,705.14	-	806,705.14
Ion exchange column project	-	-	-	661,709.40	-	661,709.40
CDM development project (Dongjiang Lisai)	-	-	-	120,127.26	-	120,127.26
Total	239,146,012.43	-	239,146,012.43	300,798,350.44	-	300,798,350.44

(2) Movements of significant construction in progress projects during the year ended 31 December 2012:

Name of project	As at 1		Decrease		As at 31		Proportion of		Including:		
	January	Increase	Transfer to	Other	December	Budget	injected to	Progress	Accumulated	Interest	
	2012		fixed assets	deductions	2012	amount	budget (%)	(%)	capitalised interest	capitalised for the year	Source of funds
Hazardous waste disposal centre											
in Northern Guangdong	118,303,500	10,197,900	-	-	128,501,400	145,000,000	95	88.62	30,597,000	9,511,100	Borrowing
Factory in Jiangmen	-	24,897,800	-	-	24,897,800	24,897,800	99	99	-	-	Own funds
Sludge Project in Fuyong	3,367,100	14,843,900	-	-	18,211,000	70,000,000	26	40	-	-	Own funds
Shaoguan Green Hazardous waste landfill	15,619,700	-	-	-	15,619,700	30,000,000	52	52	-	-	Own funds
Factory construction in Qingyuan	201,200	17,166,100	2,132,400	306,400	14,928,400	32,610,400	98	98	-	-	Own funds
Wastewater treatment project	842,000	1,275,700	-	-	2,117,700	20,660,000	54.94	90	-	-	Own funds
Office building construction	235,000	3,960,100	-	-	4,195,100	6,000,000	70	100	-	-	Own funds
Triple-effect evaporation system engineering	-	3,614,200	-	-	3,614,200	3,800,000	95	95	-	-	Own funds
Landfill (phase 2) anti-percolator project	-	3,171,100	-	-	3,171,100	6,776,300	46.8	-	-	-	raise funds
Hazardous wastes transport system	-	2,737,700	-	-	2,737,700	9,125,600	30	3	-	-	Own funds
Kingdee ERP System	2,725,000	-	-	92,900	2,632,100	-	-	-	-	-	Own funds
Laboratory project in Shayi	1,967,500	373,800	-	-	2,341,200	50,000,000	5	35	-	-	Own funds
Slag project	2,818,800	-	-	762,800	2,056,000	2,300,000	95	89.39	-	-	Own funds
Construction of landfill (phase 2)	-	1,797,500	-	-	1,797,500	359.50	100	50	-	-	Own funds
Construction of demonstration centre for waste recycling treatment in Kunming	11,704,300	11,731,300	22,345,600	-	1,090,000	-	-	-	-	-	Own funds
Shenzhen Longgang Industrial hazardous wastes treatment base	102,402,200	25,170,500	-	127,572,700	-	-	-	-	-	-	Own funds
Shaoguan Green Zinc oxide project	27,712,700	2,220,300	29,933,600	-	-	-	-	-	-	-	Own funds
Total	287,899,000	123,157,900	54,411,000	128,734,800	227,910,900						

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

14. Construction in progress (Continued)

(2) *Movements of significant construction in progress projects during the year ended 31 December 2012: (Continued)*

- 1) The BOT projects transferred from construction in progress to “Operating rights under BOT projects” under intangible assets after the construction work were completed during the year were RMB127,819,542.50.

15. Intangible assets

(1) *Movement of intangible assets:*

Item	As at 1	Increase	Decrease	As at 31
	January 2012			December 2012
Cost				
Land use rights	68,357,631.28	16,359,563.06	4,375,971.80	80,341,222.54
Patents	670,760.00	40,905.10	–	711,665.10
Software	601,210.34	27,427.86	–	628,638.20
Operating rights under BOT projects	135,052,057.07	127,819,542.50	–	262,871,599.57
Total cost	204,681,658.69	144,247,438.52	4,375,971.80	344,553,125.41
Accumulated amortisation				
Land use rights	5,734,921.98	3,489,833.06	–	9,224,755.04
Patents	365,289.77	82,030.77	–	447,320.54
Software	91,154.47	103,278.79	–	194,433.26
Operating rights under BOT projects	28,806,289.50	7,319,851.65	–	36,126,141.15
Total accumulated amortisation	34,997,655.72	10,994,994.27	–	45,992,649.99
Carrying value				
Land use rights	62,622,709.30			71,116,467.50
Patents	305,470.23			264,344.56
Software	510,055.87			434,204.94
Operating rights under BOT projects	106,245,767.57			226,745,458.42
Total carrying value	169,684,002.97			298,560,475.42

(2) *Amortisation on intangible assets recognised in income statement for the year was RMB10,578,484.87 (2011: RMB12,767,447.84).*

(3) *The land use rights related to the land situated in the PRC and held under medium-term lease (more than 10 years but less than 50 years).*

(4) *As at 31 December 2012, there was no pledge of intangible assets.*

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

16. Goodwill

(1) The breakdown of goodwill

Item	As at 1		As at 31	
	January 2012	Increase	Decrease	December 2012
Goodwill				
Shaoguan Green	30,831,658.44	–	–	30,831,658.44
Beijing Novel	4,746,912.09	–	–	4,746,912.09
Chengdu Treatment Centre	2,045,010.07	–	–	2,045,010.07
Lik Shun Services	3,052,019.14	–	–	3,052,019.14
Zhuhai Qingxin	–	13,100,912.02	–	13,100,912.02
Qingyuan Xinlv	–	17,538,809.93	–	17,538,809.93
Jiangxing Deda	–	9,097,974.10	–	9,097,974.10
Total	40,675,599.74	39,737,696.05	–	80,413,295.79
Provision for impairment loss				
Shaoguan Green	30,831,658.44	–	–	30,831,658.44
Beijing Novel	4,746,912.09	–	–	4,746,912.09
Chengdu Treatment Centre	2,045,010.07	–	–	2,045,010.07
Lik Shun Services	–	–	–	–
Zhuhai Qingxin	–	–	–	–
Qingyuan Xinlv	–	–	–	–
Jiangxing Deda	–	–	–	–
Total	37,623,580.60	–	–	37,623,580.60
Net carrying value				
Shaoguan Green	–	–	–	–
Beijing Novel	–	–	–	–
Chengdu Treatment Centre	–	–	–	–
Lik Shun Services	3,052,019.14	–	–	3,052,019.14
Zhuhai Qingxin	–	–	–	13,100,912.02
Qinyuan Xinlv	–	–	–	17,538,809.93
Jiangxing Deda	–	–	–	9,097,974.10
Total	3,052,019.14	–	–	42,789,715.19

The goodwill was arising from the business combination not under common control.

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

NOTES TO FINANCIAL STATEMENTS

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

16. Goodwill (Continued)

(2) Impairment loss test

Lik Shun Services

For the purposes of impairment testing, goodwill has been allocated to the relevant group of asset – the subsidiary, Lik Shun Services (asset group). The calculation of discounted cash flows of the asset group used the cash flow projection 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 2-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. In the opinion of Management, no provision for impairment loss of goodwill of Lik Shun Services is required as at 31 December 2012.

Zhuhai Qingxin, Qingyuan Xinlv, Jiaxing Deda

For the purposes of impairment testing, goodwill has been allocated to the relevant group of asset – the respective subsidiary, Zhuhai Qingxin, Qingyuan Xinlv, Jiaxing Deda, (asset group). The calculation of discounted cash flows of each asset group used the cash flow projection which was based on financial budgets approved by management covering a 10-year period, and discount rate of 15.5%. The cash flows beyond the 6-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. In the opinion of Management, no provision for impairment loss of goodwill of Zhuhai Qingxin, Qingyuan Xinlv, Jiaxing Deda, is required as at 31 December 2012.

17. Long-term prepayments

Item	As at 1		As at 31	
	January 2012	Increase	Decrease	December 2012
Beijing Nuohuawei DOE certification fee	–	433,015.88	20,952.36	412,063.52
Production tools	–	585,953.21	337,313.20	248,640.01
Aidiying PDD editorial fees	–	225,688.38	10,928.52	214,759.86
Others	–	548,802.23	271,532.11	277,270.12
Total	–	1,793,459.70	640,726.19	1,152,733.51

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

18. Deferred income tax assets and deferred income tax liabilities

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

Item	2012	2011
Deferred income tax assets		
Provision for impairment loss of assets	3,736,660.79	4,172,556.79
Difference of fixed assets depreciation	880,972.72	1,218,811.25
Changes in fair value of financial assets held for trading	640,962.60	664,176.60
Deferred income	3,781,937.30	3,036,569.77
Unrealised gain on intra-group sales	402,910.66	55,796.02
Total	9,443,444.07	9,147,910.43
Deferred income tax liabilities		
Difference of fixed assets depreciation	1,088,414.31	1,626,246.65
Impairment loss of long-term equity investments	-	194,078.04
Changes in fair value of investment properties	782,481.48	770,046.48
Total	1,870,895.79	2,590,371.17

(2) *Details of deductible temporary differences and taxable temporary differences were as follows:*

Item	2012	2011
Deductible temporary differences		
Provision for impairment loss of assets	25,518,719.42	28,399,644.90
Difference of fixed assets depreciation	3,523,890.89	4,875,245.04
Changes in fair value of financial assets held for trading	4,273,084.00	4,427,844.00
Deferred income	25,212,915.36	20,243,798.44
Unrealised gain on intra-group sales	2,686,071.06	371,973.50
Total	61,214,680.73	58,318,505.88
Taxable temporary differences		
Difference of fixed assets depreciation	6,596,450.34	10,841,644.33
Impairment loss of long-term equity investments	-	1,293,853.61
Changes in fair value of investment properties	5,216,543.18	5,133,643.18
Total	11,812,993.52	17,269,141.12

NOTES TO FINANCIAL STATEMENTS

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

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

(3) Breakdown of deductible temporary differences that are not recognized as deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Details of unrecognized deferred tax assets at the end of the year are as follows:

Item	2012	2011
Deductible temporary differences	48,329,304.61	27,865,724.20
Deductible tax losses	89,703,661.33	81,673,358.57
Total	138,032,965.94	109,539,082.77

These deductible temporary differences and deductible tax losses are not recognized as deferred income tax assets because it is no longer probable that sufficient taxable profit in the future would be available to allow the benefit of deferred tax asset to be utilized.

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

Item	2012	2011
2012		1,877,308.60
2013	18,405,563.42	18,440,552.84
2014	15,035,312.12	14,639,623.31
2015	25,988,618.89	24,885,816.06
2016	28,224,140.37	21,830,087.73
2017	26,704,118.03	–
Total	114,357,752.83	81,673,388.54

19. Other non-current assets

Item	2012	2011
Trust Loan	–	10,040,880.00

The entrust loan was the amount that the Company placed at Ping'an Bank Co. Limited Shenzhen Branch and entrusted the bank to grant a bank loan to its associate Dongjiang Songzao in 2011. In 2012, Dongjiang Songzao was included in consolidation scope, the amount are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

20. Breakdown of impairment losses of assets

Item	As at 1	Increase	Decrease		As at 31
	January 2012		Reversal	Other transfer	December 2012
Provision for impairment loss of receivables (note 1)	30,578,304.69	3,607,000.41	5,085,380.00	278,899.47	28,821,025.63
Provision for impairment loss of inventories	505,487.03	-	458,564.36	-	46,922.67
Provision for impairment loss of long-term equity investments	529,649.00	-	-	-	529,649.00
Provision for impairment losses on fixed assets	24,973,629.71	15,437,013.46	-	388,721.56	40,021,921.61
Provision for impairment loss on goodwill	37,623,580.60	-	-	-	37,623,580.60
Total	94,210,651.03	19,044,013.87	5,543,944.36	667,621.03	107,043,099.51

Note 1: Other transfer of provision for impairment loss of receivables represents the written-off of the provision.

21. Short-term borrowings

(1) *Category of short-term borrowings*

Category	2012	2011
Bank loans	38,109,000.00	128,107,000.00

(2) *Category of short-term borrowings*

Category	2012	2011
Guaranteed	30,000,000.00	68,107,000.00
Not secured or guaranteed	8,109,000.00	60,000,000.00
Total	38,109,000.00	128,107,000.00

The interest rate of the short-term borrowings was 1.75%-6.60% (2011:1.75%-6.56%).

The Guarantee was provided by the shareholder of the Company, Mr.Zhang Wei Yang.

(3) *There was no short-term borrowings overdue as at 31 December 2012 (2011: NIL).*

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

22. Accounts payable

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

	2012	2011
Within 90 days	131,809,808.75	135,006,990.81
91-180 days	16,138,764.91	6,089,706.30
181-365 days	45,249,625.15	4,697,227.77
Over 1 year	16,541,897.93	8,361,910.39
Total	209,740,096.74	154,155,835.27

The balances with aged over 1 year as at 31 December 2012 mainly represent the retention money for construction work or the pledge of equipments. Up to the approval date of this financial statements, the amount totalling of RMB3,597,123.65 were settled.

- (2) There were no accounts payable due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.
- (3) As at 31 December 2012, the accounts payable due to related parties were RMB64,616,107.11, representing 30.81% of total accounts payable (2011: RMB2,008,910.10, 1.30%). The details are set out in note VII.3. (4).
- (4) Accounts payable comprised the following balances in foreign currencies:

Foreign currency	2012			2011		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	2,031,786.58	0.8109	1,647,575.74	1,074,400.39	0.8107	871,016.40

23. Receipts in advance

Item	2012	2011
Within 1 year	53,901,346.81	55,404,227.53
Over 1 year	4,770,444.59	31,155,592.58
Total	58,671,791.40	86,559,820.11

- (1) The balances with significant amount and aged over 1 year were mainly advance receipts of contracting fee for projects yet to complete. Up to the approval date of these financial statements, no amount was settled.
- (2) There were no receipts in advance due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

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

23. Receipts in advance (Continued)

- (3) As at 31 December 2012, no receipts in advance due to related parties (2011: RMB5,041,201.16, representing 5.82% of total representing 30.81% of total). The details are set out in note VII.3(5).

24. Employee emolument payables

Item	As at 1			As at 31 December 2012
	January 2012	Increase	Decrease	
Salaries, bonus, allowance and subsidies	23,636,020.59	134,171,392.11	133,491,707.73	24,315,704.97
Staff welfare	1,241,001.00	9,508,564.81	10,611,876.93	137,688.88
Social security	(3,317.61)	12,007,335.15	12,007,731.61	(3,714.07)
Including:				
Medical insurance	–	2,633,944.05	2,634,340.51	(396.46)
Basic pension	(3,317.61)	8,194,658.01	8,194,658.01	(3,317.61)
Unemployment insurance	–	482,505.32	482,505.32	–
Injury insurance	–	491,714.31	491,714.31	–
Maternity insurance	–	204,513.46	204,513.46	–
Housing provident fund	2,584.42	4,461,345.15	4,462,530.15	1,399.42
Union operation cost and staff education cost	1,423.28	759,203.59	756,916.39	3,710.48
Others	–	283,523.14	283,523.14	–
Total	24,877,711.68	161,191,363.95	161,614,285.95	24,454,789.68

The negative balances represent the prepayment of expenses for the following year.

- (1) The balance of staff emolument payables as at 31 December 2012 included accrued expenditure of salaries, bonus and subsidies of RMB24,320,000.00. There were no unpaid salaries at balance date.
- (2) There were no overdue salaries as at 31 December 2012.

25. Tax payable

Item	2012	2011
VAT	(14,040,306.62)	(20,024,350.64)
EIT	21,178,990.09	7,048,439.39
Business tax	4,389,933.78	739,001.31
Individual income tax	106,908.31	425,767.03
Urban maintenance and construction tax	855,207.23	301,915.41
Education surcharge	680,860.15	339,720.05
Land use tax	15,961.92	107,244.78
Property tax	279,043.58	35,351.21
Stamp duty	21,329.75	5,549.40
Others	50,865.39	393.09
Total	13,538,793.58	(11,020,968.97)

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For the year ended 31 December 2012

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

26. Other payables

Item	2012	2011
Within 1 year	92,965,401.13	44,432,796.86
Over 1 year	21,908,049.72	16,107,380.53
Total	114,873,450.85	60,540,177.39

The balances of other payables with aged over 1 year were mainly the retention money payable for the construction works and outstanding other payable. Up to the approval date of these financial statements, no amount was settled.

(1) As at 31 December 2012, other payables with significant amount were as follows:

Item	Amount	Aged	Nature
Beijing Guohuan Jiangbangn Environmental Technology Co. Limited	28,970,000.00	0-90 days	Construction fee in advance
Longyuan Cement Factory	6,000,000.00	1-2 years	Deposit
Sichuan Xingli Tyres Co., Limited	4,400,000.00	Over 3 years	Loan
Shenzhen Bao'an Wastes Treatment Station	2,500,000.00	2-3 years	Technical services fee
C&L Co., Limited	2,214,830.16	Within 1 year	Loan
Total	44,084,830.16		

(2) The other payables due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012:

Item	2012	2011
Mr. Zhang Wei Yang	1,621,800.00	–

(3) As at 31 December 2012, the other payables in advance due to related parties were RMB69,393.77, representing 0.06% of total other payable (2011: RMB4,854,675.30, 8.02%). The details are set out in note VII.3. (4).

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

Foreign currency	2012			2011		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	5,942,707.49	0.8109	4,818,941.50	28,225,199.11	0.8107	22,882,168.92

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

27. Non-current liabilities repayable within one year

Item	2012	2011
Long-term borrowings – repayable within 1 year (Note VI.29)	146,400,000.00	42,000,000.00
Obligations under finance leases – repayable within 1 year (Note VI.30)	13,971,838.90	13,065,824.12
Total	160,371,838.90	55,065,824.12

28. Other current liabilities

The deferred income represents asset-related government grants which will be realised within one year. The details are set out in Note VI.31.

Item	2012	2011
Environmental special fund	2,086,883.08	2,086,883.08
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	850,000.00
Total	3,656,883.08	3,656,883.08

29. Long-term borrowings

Item	2012	2011
Long-term bank loans	257,396,248.67	383,964,445.00
Less: Amount repayable within one year and showed under non-current liabilities due within one year (Note VI.27)	146,400,000.00	42,000,000.00
Long-term borrowings repayable after one year	110,996,248.67	341,964,445.00

(1) The maturities of the long-term borrowings are as follows:

Item	2012	2011
Within 1 year	146,400,000.00	30,000,000.00
In more than 1 year but less than 2 years	91,676,248.67	27,000,000.00
In more than 2 years but less than 5 years	19,320,000.00	276,400,000.00
After 5 years	–	50,564,445.00
Total	257,396,248.67	383,964,445.00

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

29. Long-term borrowings (Continued)

(2) Category of long-term bank loans

Category	2012	2011
Secured (note 1)	21,000,000.00	29,400,000.00
Mortgage (note 2)	12,697,674.00	54,000,000.00
Guaranteed (note 3)	199,000,000.00	195,000,000.00
Unsecured, not mortgage or guaranteed	24,698,574.67	105,564,445.00
Total	257,396,248.67	383,964,445.00

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 equipment of Renewable Energy with original cost of RMB16,497,500 and net carrying amount of RMB6,108,000. (Note VI.13(7)).

Note 3: The guarantee was given by the shareholder of the Company, Mr. Zhang Wei Yang.

(3) The top five long-term bank loans were as follows:

Lender	Commencement date	Due date	Interest rate (%)	2012	2011
Bank of China, Shenzhen Branch	2009/6/1	2014/12/31	Floating rate	90,000,000.00	165,000,000.00
China Merchants Bank Jingtian Branch	2012/3/30	2013/11/23	Floating rate	49,000,000.00	–
Ping'an Bank, Shenzheng Hongshuwan Branch	2012/6/29	2017/6/29	Floating rate	60,000,000.00	–
Ping'an Bank, Shenzhen Wuzhou Branch	2010/4/30	2015/4/28	Floating rate	21,000,000.00	29,400,000.00
Industrial Bank Shenzhen Gaoxingqu Branch	2009/11/11	2013/11/11	Floating rate	14,000,000.00	27,000,000.00
Total				234,000,000.00	221,400,000.00

(4) The interest rate for long-term bank loan: 5.76%-7.21%.

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For the year ended 31 December 2012

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

30. Long-term payables

Item	2012	2011
Obligations under finance leases	44,033,082.10	49,260,914.69
Less: Amount expired within 1 year (note VI.24)	13,971,838.90	13,065,824.12
Amount expired after 1 year	30,061,243.20	36,195,090.57
Others	885,960.00	–
Total	30,947,203.20	36,195,090.57

(1) Breakdown of the obligations under finance leases

The obligations under finance leases represent the amount of minimum lease payments for finance lease less the unrecognized finance lease charge.

Name	2012		2011	
	Foreign currency (HKD)	Amount in RMB	Foreign currency (HKD)	Amount in RMB
China Merchants Bank Financial Leasing Co., Limited	–	27,157,949.90	–	34,774,694.87
China Construction Bank (Asia) Co., Limited	7,094,292.59	5,752,761.86	6,897,364.57	5,591,693.46
Bank of East Asia Limited	7,436,033.18	6,029,879.31	6,691,980.24	5,425,188.38
Wing Hang Finance Company Limited	948,033.09	768,760.03	1,816,569.82	1,472,693.15
Wing Hang Bank Company Limited	4,364,801.94	3,539,417.89	2,462,865.22	1,996,644.83
Wing Lung Bank Co., Limited	967,213.11	784,313.11	–	–
Total		44,033,082.10		49,260,914.69

(2) The long-term payables are measured at amortized cost using effective interest rate.

(3) As at 31 December 2012, the minimum lease payments under finance leases were payable as follows:

	2012	2011
Within 1 year	14,658,271.72	13,683,375.13
1-2 years	13,964,908.43	12,966,589.86
2-3 years	13,735,282.63	12,237,607.61
After 3 years	5,748,275.21	16,117,010.07
Sub-total	48,106,737.99	55,004,582.67
Less: Unrecognised finance lease charge	4,073,655.89	4,210,335.83
Total	44,033,082.10	50,794,246.84

The unrecognized finance lease charge is amortised using effective interest rate over the period and accounted for according to the principles of borrowing costs.

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

31. Other non-current liabilities

Item	2012	2011
Deferred income of asset-related government grants	69,801,499.96	50,955,241.92
Less: Amount realisable within 1 year (Note VI.28)	(3,656,883.08)	(3,656,883.08)
Amount realisable after one year	66,144,616.88	47,298,358.84
Unrecognised gain on sale and lease-back transaction under finance lessee	3,284,382.99	4,042,317.51
Total	69,428,999.87	51,340,676.35

(1) Movements of deferred income during the year ended 31 December 2012 were as follows:

Category	As at 1 January 2012	Government grants received during the year (Note VI.49)	Amotisation for the year (Credited to non-operating income)	Exchange difference	As at 31 December 2012
The special construction funds from National Development and Reform Commission	–	9,000,000.00	525,000.00	–	8,475,000.00
Resource-saving and environmental protection funds for Qingyuan Dongjiang	10,000,000.00	–	2,000,000.04	–	7,999,999.96
Special funds for environmental protection projects for the Company	8,278,931.76	–	356,083.08	–	7,922,848.68
Resources-saving and environmental protection funds for Renewable Resource	7,983,333.33	–	1,387,499.91	–	6,595,833.42
Wastewater treatment re-construction projects	7,064,200.00	–	1,830,800.00	–	5,233,400.00
Subsidies for industrial zone development	–	5,053,019.00	–	–	5,053,019.00
Special subsidies for Northern Guangdong sewage treatment	5,000,000.00	–	–	–	5,000,000.00
Shenzhen Fuyong river sludge treatment plant (phase2)	–	5,000,000.00	–	–	5,000,000.00
Northern Guangdong project	4,636,000.00	–	–	–	4,636,000.00
Subsidies from Shenzhen CCHS	–	4,000,000.00	–	–	4,000,000.00
Southern cities Sludge anaerobic digestion and the safe operation of the technology and equipment	–	3,350,000.00	–	–	3,350,000.00
Special fund for national environmental protection for Baoan Dongjiang	2,725,000.00	–	300,000.00	–	2,425,000.00
Subsidies for energy conservation of the Company	2,280,000.01	–	720,000.00	–	1,560,000.01

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For the year ended 31 December 2012

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

31. Other non-current liabilities (Continued)

(1) Movements of deferred income during the year ended 31 December 2012 were as follows: (Continued)

Category	As at 1 January 2012	Government grants received during the year (Note VI.49)	Amotisation for the year (Credited to non-operating income)	Exchange difference	As at 31 December 2012
Research of key technology for recycling of waste printed circuit board and integrated demonstration projects	750,000.00	190,000.00	–	–	940,000.00
Copper sludge projects of the Company	1,266,666.67	–	400,000.00	–	866,666.67
Subsidies for purchasing environmental friendly vehicles from Hong Kong government	631,110.15	–	168,456.44	(58,921.49)	403,732.22
Environmental emergency response equipment and supplies allowances	340,000.00	–	–	–	340,000.00
Total	50,955,241.92	26,593,019.00	7,687,839.47	(58,921.49)	69,801,499.96

There was no return of government grants during the year (2011: NIL).

32. Share capital

	As at 1 January 2012		Movements New issue	As at 31 December 2012	
	Amount	Proportion (%)		Amount	Proportion (%)
Non-tradable shares					
Domestic legal person shares	33,772,714.40	26.92	–	33,772,714.40	22.44
Domestic natural person shares	56,123,660.00	44.72	–	56,123,660.00	37.30
Sub-total	89,896,374.40	71.64	–	89,896,374.40	59.74
Tradable shares					
Overseas listed foreign shares (H shares)	35,580,000.00	28.36	–	35,580,000.00	23.64
Domestic listed ordinary shares (A shares)	–	–	25,000,000.00	25,000,000.00	16.61
Total share capital	125,476,374.40	100.00	25,000,000.00	150,476,374.40	100.00

With the approval documents CSRC [2014] 413 issued by China Securities Regulatory Commission, the Company issued 25,000,000 RMB shares of RMB1 each to public on 26 March 2012.

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

32. Share capital (Continued)

	As at 1 January 2011		Movements New issue	As at 31 December 2011	
	Amount	Proportion (%)		Amount	Proportion (%)
Non-tradable shares					
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
Sub-total	89,896,374.40	71.64	–	89,896,374.40	71.64
Tradable shares					
Overseas listed foreign shares (H shares)	35,580,000.00	28.36	–	35,580,000.00	28.36
Total share capital	125,476,374.40	100.00	–	125,476,374.40	100.00

33. Capital reserves

Item	As at		Increase	Decrease	As at 31	
	1 January 2012				December 2012	
Share premium	–	987,225,849.86	56,622,329.79	–	930,603,520.07	–

The increase in capital reserves was the share premium from issue of A shares.

The decrease in capital reserve was the deduction of the excess of the investment cost of acquisition of equity interests held by the minority shareholders of subsidiaries over their share of net book value of net assets being acquired.

There was no balance of capital reserves as at 31 December 2011.

34. Surplus reserves

2012

Item	As at		Increase	Decrease	As at 31	
	1 January 2012				December 2012	
Statutory surplus reserves	70,754,552.84	22,418,684.90	–	–	93,173,237.74	–

2011

Item	As at		Increase	Decrease	As at 31	
	1 January 2011				December 2011	
Statutory surplus reserves	70,754,552.84	–	–	–	70,754,552.84	–

According to Chinese law and regulation, as well as the articles of the Company, each subsidiary of the Group have to record 10% of after tax income, until balance is 50% of the registered capital. Surplus reserves can be used to offset any future losses as well as increase shares outstanding. Any other uses must not result in surplus reserves lower than 25% of the registered capital.

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

35. Undistributed profits

Item	2012	2011
Amount at 1 January 2012	750,701,355.81	546,976,075.36
Add: net profit attributable to the parent company shareholders	266,705,803.99	203,725,280.45
Less: Transfer to statutory surplus reserves	22,418,684.90	–
Payment of interim dividend of 2012	75,238,187.00	–
Amount at 31 December 2012	919,750,287.90	750,701,355.81

With the approval from the First Provisional General Meeting on 24 September 2012, the Company paid cash interim dividend for the six months ended 30 June 2012 of RMB5 (Pre-tax) for every 10 shares totalling RMB75,238,187.00 to the shareholders based on the total number of shares of the Company as at 30 June 2012.

36. Minority interests

Minority interests attributable to the minority shareholders of subsidiaries

Name	2012	2011
Beijing Novel	(7,440,856.77)	(8,024,496.17)
Dongjiang Songzao	974,347.38	–
Zhuhai Qingxin	1,974,929.56	–
Qingyuan Xinlv	32,915,449.44	–
Jiaxin Deda	21,160,976.65	–
Dongjiang Heritage	24,504,568.08	18,639,491.43
Longgang Dongjiang	66,196,801.40	22,810,728.33
Qingdeng Wastes Treatment	30,102,361.94	25,419,338.27
Kunshan Kunpeng	8,042,580.93	7,261,527.15
Hunan Dongjiang	491,886.03	292,239.44
Shaoguan Green	–	35,965,732.88
BaoanDongjiang	–	972,952.40
Total	178,923,044.64	103,337,513.73

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

37. Net current assets

	2012	2011
Current assets	1,766,618,855.66	873,326,372.73
Less: Current liabilities	623,416,644.23	501,942,282.68
Net current liabilities	1,143,202,211.43	371,384,090.05

38. Total assets less current liabilities

	2012	2011
Total assets	3,109,606,013.30	1,983,716,072.40
Less: Current liabilities	623,416,644.23	501,942,282.68
Total assets less current liabilities	2,486,189,369.07	1,481,773,789.72

39. Borrowings

For the purposes of reporting under Hong Kong Companies Ordinance, the borrowings of the Group are summarized as follows:

Item	2012	2011
Short term bank loan	38,109,000.00	128,107,000.00
Long term loan	257,396,248.67	383,964,445.00
Obligations under finance lease	44,033,082.10	49,260,914.69
Total	339,538,330.77	561,332,359.69

Item	2012	2011
Bank Loans		
Wholly repayable within 5 years	295,505,248.67	461,507,000.00
Wholly repayable after 5 years	–	50,564,445.00
Sub-total	295,505,248.67	512,071,445.00
Obligations under finance lease	44,033,082.10	49,260,914.69
Total	339,538,330.77	561,332,359.69

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

40. Operating revenue and operating costs

Item	2012	2011
Operating revenue	1,521,517,728.17	1,501,074,352.89
Other operating revenue	–	–
Total	1,521,517,728.17	1,501,074,352.89
Operating costs	959,814,473.64	978,389,432.53
Other operating costs	–	–
Total	959,814,473.64	978,389,432.53

Operating revenue, which is also the Group's turnover, represents the net amounts received and receivables for processing and sale of goods and rendering of services by the Group to outside customers, less trade discounts during the year.

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

	2012		2011	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Industrial waste recycling	938,595,848.97	635,468,608.69	1,036,310,110.70	691,316,759.53
Industrial waste treatment and disposal	200,398,516.89	61,028,796.84	148,698,306.22	41,129,459.82
Municipal waste treatment and disposal	126,413,101.88	95,639,506.68	115,896,598.13	97,588,791.53
Renewable energy utilisation	57,006,523.65	35,119,640.26	47,145,227.15	29,486,100.39
Environmental engineering and services	165,745,981.99	113,875,861.44	108,056,429.04	82,481,781.08
Trading and others	33,357,754.79	18,682,059.73	44,967,681.65	36,386,540.18
Total	1,521,517,728.17	959,814,473.64	1,501,074,352.89	978,389,432.53

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

Location	2012		2011	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Shenzhen	374,669,495.69	252,085,079.21	357,565,472.93	261,358,483.16
Other regions of Pearl River Delta	174,627,638.81	87,583,933.58	120,728,588.01	67,537,584.60
Other regions of Guangdong Province	143,914,286.32	95,461,334.95	141,826,404.36	97,150,960.42
Other Provinces	790,038,927.12	489,509,162.10	807,599,233.89	487,605,900.32
Overseas regions	38,267,380.23	35,174,963.80	73,354,652.70	64,736,504.03
Total	1,521,517,728.17	959,814,473.64	1,501,074,352.89	978,389,432.53

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For the year ended 31 December 2012
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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Operating revenue and operating costs (Continued)

(3) The top five customers of revenue for the year ended 31 December 2012

Name of customer	Revenue	Proportion to total revenues (%)
Heritage Technologies, LLC	127,680,837.24	8.39
Jiangxin Xinjinye Industrial Co., Limited	96,285,353.21	6.33
Jiangmen Chonda Circuit Technology Co. Limited	73,495,000.00	4.83
Shenzhen Xiaping Solid Waste Landfill Site	47,789,233.57	3.14
Shenzhen Power Supply Bureau	44,419,454.57	2.92
Total	389,669,878.59	25.61

41. Gross profit

Item	2012	2011
Operating revenue	1,521,517,728.17	1,501,074,352.89
Less: Operation costs	959,814,473.64	978,389,432.53
Gross profit	561,703,254.53	522,684,920.36

42. Business taxes and levies

Item	2012	2011
Business tax	5,136,558.50	4,557,731.23
Urban maintenance and construction tax	5,510,822.04	6,850,458.78
Education surcharge	4,218,224.42	4,836,675.32
Others	7,452.17	3,528.20
Total	14,873,057.13	16,248,393.53

43. Selling expenses

Item	2012	2011
Total	34,011,655.63	56,397,849.69
Including:		
Salaries	9,479,328.66	14,801,802.04
Transportation	8,221,123.38	18,530,784.29
Rental	1,455,952.87	2,040,147.64
Labour insurance	1,186,745.72	1,597,848.42

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

44. Administrative expenses

Item	2012	2011
Total	207,692,583.06	179,152,888.47
Including:		
Salaries	56,710,162.16	55,266,867.13
Research and development expenses	29,527,209.99	27,015,278.70
Depreciation	19,412,895.94	15,648,964.93
Entertainment	10,159,103.16	11,303,529.70
Staff welfare	10,084,474.35	7,407,267.84
Office expenses	6,771,644.13	6,630,031.40
Labour insurance	6,311,755.91	5,023,108.33
Rental	3,777,953.10	4,825,331.33
Travelling	3,585,310.81	11,089,380.43
Professional fee	1,944,680.20	1,614,307.87

45. Finance costs

(1) Breakdown of finance costs

Item	2012	2011
Interest expenses	20,164,822.45	24,514,483.06
Less: Interest income	17,362,467.16	7,131,134.44
Add: Exchange difference	(192,810.31)	1,688,044.86
Add: Other expenses	582,838.09	569,894.65
Total	3,192,383.07	19,641,288.13

(2) Interest expenses comprising:

Item	2012	2011
Interest on bank loans		
– Wholly repayable within 5 years	26,576,665.32	32,938,308.30
Finance lease charge	3,099,244.67	2,010,837.07
Less: Amount capitalised	9,511,087.54	10,434,662.31
Total	20,164,822.45	24,514,483.06

Borrowing cost capitalised during the year is calculated by applying a capitalisation rate of 6.72% (2011: 6.3%) per annum to expenditure on qualifying assets.

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For the year ended 31 December 2012

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

46. Impairment losses of assets

Item	2012	2011
Provision (reversal) for bad debts	(1,478,379.59)	1,963,856.28
Impairment loss on inventories	(458,564.36)	–
Impairment loss on goodwill	–	23,831,658.44
Total	(1,936,943.95)	25,795,514.72

47. (Loss) Gain on changes in fair value

Item	2012	2011
Financial assets held for trading	154,760.00	(79,530.00)
Investment properties at fair value	82,900.00	(404,089.00)
Total	237,660.00	(483,619.00)

48. Investment income (loss)

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

Items	2012	2011
Share of profit of jointly controlled entities and associates	11,562,993.33	5,560,783.98
Gain on disposal of other long-term equity investments	–	4,600,596.63
Income received from financial assets held for trading during the period of ownership	108,545.00	103,359.27
Loss on disposal of financial assets held for trading	–	(209,785.34)
Investment income from entrusted loan	–	476,802.35
Total	11,671,538.33	10,531,756.89

Investment loss arising from listed equity investments for the year was RMB108,545.00 (2011: RMB106,429.09).

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

48. Investment income (loss) (Continued)

(2) Details of investment income from jointly controlled entities and associates

Item	2012	2011	Reason for changes
Shuangxin Cement	–	(1,582,909.56)	Disposed in 2011
Dongjiang Veolia	10,357,933.36	6,517,814.25	Increase in profitability
Shenzhen Micronutrients	831,203.51	100,017.79	Increase in profitability
Shenzhen Resource	1,340,348.34	1,529,264.77	Decrease in profitability
Zhuhai Qingxin	(272,644.89)	(237,756.98)	Became a subsidiary in July 2012
Dongjiang Songzao	(693,846.99)	(765,646.29)	Became a subsidiary in October 2012
Total	11,562,993.33	5,560,783.98	

There are no significant restrictions on remittance of investment gains back to the Company.

49. Non-operating income

(1) Breakdown of non-operating income

Item	2012	2011	Recorded as non-recurring profit or loss
Gain on disposal of fixed assets	476,571.68	540,716.78	476,571.68
Gain on disposal of intangible assets	–	4,720.00	–
Gain on disposal of non-current assets	476,571.68	545,436.78	476,571.68
Government grants	14,876,810.33	23,085,960.57	10,778,182.92
The excess of share of fair value of net identifiable assets of subsidiaries over the cost of investment for acquisition	486,508.23	–	486,508.23
Others	3,415,656.64	498,456.79	3,415,653.77
Total	19,255,546.88	24,129,854.14	15,156,916.60

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

49. Non-operating income (Continued)

(2) Details of government grants

2012

Item	Amount received	Transfer of deferred income of asset-related government grants (Note VIII.31)	Credited to non-operating income	Source and basis
Reward for tax declaration	4,098,627.41	–	4,098,627.41	Ministry of Finance, State Tax Administration Bureau (CaiShui [2008] No. 157)
Subsidies for discount interest	1,570,000.00	–	1,570,000.00	Shaoguan Bureau of Finance (ShaoCaiGong [2012] No.80)
Financial subsidies	1,000,000.00	–	1,000,000.00	Shaoguan Bureau of Finance (ShaoCaiGong [2012] No.160)
Special Construction Funds from The National Development and Reform Commission	9,000,000.00	9,000,000.00	–	Responsibility Statement for the use of special funds of Wuhua District 2012022
Reward for top tax payer	200,000.00	–	200,000.00	Kunzhengfa [2012] No.45
Subsidies for High-New Technologies	100,000.00	–	100,000.00	
Funds from Finance Bureau of Huizhou Zhongkai High Technology Industry Development Zone	80,000.00	–	80,000	HuiZhongJingFa [2011] No.125
Reward for top tax payer in Qiandeng Town	50,000.00	–	50,000	QianZhengFa [2011] No.5

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

49. Non-operating income (Continued)

(2) Details of government grants (Continued)

2012 (Continued)

Item	Amount received	Transfer of deferred income of asset-related government grants (Note VIII.31)	Credited to non-operating income	Source and basis
Reward for Waste Reduction from Shenzhen CCHS	40,000.00	-	40,000.00	
Reward for top sales	20,000.00	-	20,000.00	
Subsidies for labour placement	7,143.45	-	7,143.45	Labor and Employment Service Center (ShenLaoJiu [2006] No.13) Reward of improvement of enterprises hiring people who have difficulties in finding jobs
Funds of application for a patent	6,000.00	-	6,000.00	Shenzhen Administrative Method of Application for subsidies for patents
Funds of application for a patent	6,000.00	-	6,000.00	Shenzhen Administrative Method of Application for subsidies for patents
Subsidies for patents	5,000.00	-	5,000.00	KunZhiFa [2012] No. 13
Funds of application for a patent	3,800.00	-	3,800.00	Shenzhen Administrative Method of Application for subsidies for patents
Subsidies for Nanshan District High-level Innovative Manpower Training	2,400.00	-	2,400.00	Nanshan District High-level Innovative Manpower Training Base Management Method
Subsidies for industrial park development	5,053,019.00	5,053,019.00	-	

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

49. Non-operating income (Continued)

(2) Details of government grants (Continued)

2012 (Continued)

Item	Amount received	Transfer of deferred income of asset-related government grants (Note VIII.31)	Credited to non-operating income	Source and basis
Subsidies for construction work of Shenzhen Fuyong river sludge treatment plant (phase 2)	5,000,000.00	5,000,000.00	–	Contract for the Use of Special Funds of Shenzhen Environmental Protection Project
Subsidies for construction work of Longgang District Dongjiang industrial wastes treatment base	4,000,000.00	4,000,000.00	–	Contract for the Use of Special Funds of Shenzhen Environmental Protection Project
Southern cities Sludge anaerobic digestion and the safe operation of the technology and equipment	3,350,000.00	3,350,000.00	–	Mission Statements for Issues of National Hig-Tech Research and Development Plan (Plan 863)
Research of key technology of recycling of waste printed circuit board and integrated demonstration projects	190,000.00	190,000.00	–	Contract for Funds of Shenzhen Science and Technology Research and Development Projects
Sub-total	33,781,989.86	26,593,019.00	7,188,970.86	
Amortisation of asset-related government grants transfer from other non-current liabilities (Note VI.31)			7,687,839.47	
Total	33,781,989.86	26,593,019.00	14,876,810.33	

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

49. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011

Item	Amount received	Transfer to deferred income (Note VIII.31)	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 (CaiShui [2008] No. 157) [2008] No. 157)
Special funds for bank-and-enterprise project	4,080,000.00	–	4,080,000.00	Shaoguan Bureau of Finance (ShaoCaiGong [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 (CaiShui [2008] No. 156)
Nanshan region economic development special fund—rewards for famous brands in Chinese and Guangdong Province	800,000.00	–	800,000.00	NanGong Ji [2011] No.7
Shaoguan Special subsidies for ecological civilisation	200,000.00	–	200,000.00	Shaoguan Finance Bureau (ShaoCaiGong [2001] No. 154-Notice about the arrangement of the balance of special fund for ECCI
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)

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

49. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011 (Continued)

Item	Amount received	Transfer to deferred income (Note VIII.31)	Credited to non-operating income	Source and basis
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 about reward and special fund 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 documents (HuiZhongJingFa [2011] No.125) Notice about special fund for Zhongkai Region energy-saving project plan
Subsidies for patent from Shenzhen Market Supervision Bureau	27,400.00	–	27,400.00	Shenzhen intellectual property office (ShenCaiQi [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)

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

49. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011 (Continued)

Item	Amount received	Transfer to deferred income (Note VIII.31)	Credited to non-operating income	Source and basis
Subsidies for labour placement	6,405.87	–	6,405.87	Labor and Employment Service Center (ShenLaoJiu [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
Reward for patent application and authorisation in 2011	2,500.00	–	2,500.00	Kunshan Intellectual Property Office, Kunshan Finance Bureau patent application expenses (KunZhiFa [2010] No.17, KunCaiZi [2010] No. 258)
Wastewater treatment reconstruction projects	3,800,000.00	3,800,000.00	–	ShenFu [2006] No. 196 of Shenzhen Environmental Protection Bureau
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 (FaGaiTouZi [2010] No.451), Shenzhen Development and Reform Commission (ShenFaGai [2010] No.582)
Resource-saving and environmental protection funds for Qingyuan Dongjiang	10,000,000.00	10,000,000.00	–	FaGai anHuanZi [2011] No.1191 of National Development and Reform Bureau

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

49. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011 (Continued)

Item	Amount received	Transfer to deferred income (Note VIII.31)	Credited to non-operating income	Source and basis
Subsidies for wastewater treatment in Northern Guangdong	5,000,000.00	5,000,000.00	–	WengCaiQi [2010] No.38 Wenguan Financial Bureau
Funds for projects in Northern Guangdong	4,636,000.00	4,636,000.00	–	Wenguan Government, Shaoguan, Guangdong
Research of key technology of recycling of waste printed circuit board and integrated demonstration projects	750,000.00	750,000.00	–	YueKeGuiHuaZi [2010] No.126
Sub-total	49,697,600.18	31,186,000.00	18,511,600.18	
Transfer from other non-current liabilities (Note VI.31)			4,574,360.39	
Total	49,697,600.18	31,186,000.00	23,085,960.57	

50. Non-operating expenses

Item	2012	2011	Recorded as non-recurring profit or loss for 2012
Loss on disposal of fixed assets	1,099,770.97	674,982.80	1,099,770.97
Donations	846,000.00	828,000.00	846,000.00
Others	361,246.59	1,464,113.16	361,246.59
Total	2,307,017.56	2,967,095.96	2,307,017.56

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For the year ended 31 December 2012

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

51. Auditors' remuneration

The auditors' remuneration for the year ended 31 December 2012 was RMB800,000.00 (2011: RMB800,000.00).

52. Income tax expenses

(1) *Income tax expenses comprise:*

Item	2012	2011
Current income tax	39,726,287.74	35,355,304.89
Deferred income tax	(1,015,009.02)	2,113,149.31
Total	38,711,278.72	37,468,454.20

(2) *Current income tax*

Item	2012	2011
Current income tax		
– PRC	42,691,769.39	35,355,304.89
– Hong Kong	173,476.80	–
Sub-total	42,865,246.19	35,355,304.89
Over-provision in prior years		
– PRC	3,138,958.45	–
Total	39,726,287.74	35,355,304.89

(3) *Reconciliation of total profit to current income tax for the year*

Item	2012	2011
Total profit	332,728,247.24	256,659,881.89
Income tax calculated at tax rate of 15%	49,909,237.09	38,498,982.28
Effect of non-taxable income	(9,000,923.91)	(12,762,986.12)
Effect of non-deductible expenses	1,393,428.55	6,579,538.85
Effect of additional research and development expenditure deduction	(1,382,311.14)	(1,257,155.28)
Effect special tax exemption	(2,811,747.69)	–
Effect of inconsistent tax rate among subsidiaries and branches	1,320,563.08	2,899,106.41
Utilisation of unrecognised deductible temporary differences	(2,544,339.09)	(1,006,694.75)
Unrecognized deductible losses and deductible temporary differences	4,966,330.29	4,517,662.81
Over-provision for prior years	(3,138,958.45)	–
Income tax expenses	38,711,278.72	37,468,454.20

NOTES TO FINANCIAL STATEMENTS

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

53. Other comprehensive income (losses)

Item	2012	2011
Translation of financial statements denominated in foreign currency	606,146.94	(988,426.38)

54. Calculation of basic and diluted earnings per shares

Item	No.	2012	2011
Net profit attributable to shareholders of the Company	1	266,705,803.99	203,725,280.45
Non-recurring profit or loss attributable to the shareholders of the Company	2	17,773,187.08	9,015,688.16
Net profit attributable to shareholders of the Company, excluding non-recurring profit or loss	3=1-2	248,932,616.91	194,709,592.29
Number of shares at beginning of year	4	125,476,374.40	1,254,763,744.00
Increase in number of shares by new issue or conversion from debts (I)	5	25,000,000.00	–
No. of months to the balance sheet date after the increase in shares (I)	6	8	–
No. of months in the reporting period	7	12	–
Number of shares reduced by shares consolidation after the balance sheet date	8	–	1,129,287,369.60
Weighted average number of ordinary shares in issue	9=4+5×6÷7-8	142,143,041.07	125,476,374.40
Basic earnings per share (I)	10=1÷9	1.88	1.62
Basic earnings per share (Excluding non-recurring profit (loss) (II))	11=3÷9	1.75	1.56

Diluted earnings per share was same as basic earnings per share for the two years ended 31 December 2012 as there were no diluting events during both years.

55. Dividends

Dividends attributable to the year

Item	2012	2011
Interim dividend declared and distributed of RMB0.5per share (2011: NIL)	75,238,187.00	–
Final dividend proposed after the balance sheet date of RMB0.4 per share (2011: NIL)	60,190,549.60	–
Total	135,428,736.60	–

The Company has distributed and paid an interim dividend of RMB0.5 for each share of the Company in 2012, thereby distributing dividend of a total of RMB75,238,187 in cash.

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

55. Dividends (Continued)

The Board recommends the payment of a final dividend of RMB0.4 per share of the Company (inclusive of tax) (2011: NIL) to all shareholders of the Company based on the total number of shares of 150,476,374 shares of the Company as at 31 December 2012, with the total amount of dividend to be paid be RMB60,190,549.60, subject to approval by the shareholders of the Company at the annual general meeting to be convened and held. In addition, the Board proposes to offer to all shareholders of the Company 5 ordinary shares for each 10 ordinary shares held by shareholders of the Company by way of conversion of capital reserve, thereby issuing 75,238,187 shares (including 17,790,000 H shares and 57,448,187 A shares) based on the total number of 150,476,374 shares of the Company as at 31 December 2012.

Following the aforesaid conversion of capital reserve, the Company shall have a total of 225,714,561 shares (including 53,370,000 H shares and 172,344,561 A shares). The aforesaid conversion of capital reserve is subject to, among other things, having obtained the approval by shareholders of the Company at the annual general meeting, the class meeting for holders of H shares and the class meeting for holders of A shares to be convened and held, and the Stock Exchange granting approval for the listing of the 17,790,000 H shares to be issued on the Main Board of the Stock Exchange.

56. Supplementary information of consolidated cash flow statement

(1) Other cash receipts relating to operating activities

Item	2012	2011
Government grants	29,683,362.45	40,544,514.90
Interest income	17,362,467.16	7,131,134.44
Current accounts with other companies and individuals	8,865,294.66	49,069,430.59
Total	55,911,124.27	96,745,079.93

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

56. Supplementary information of consolidated cash flow statement (Continued)

(2) Other cash payments relating to operating activities

Item	2012	2011
Transportation	31,593,786.85	24,416,558.21
Research and development expenses	29,527,209.99	22,582,574.09
Current accounts with other companies and individuals	26,681,674.20	39,709,028.31
Other expenses	11,931,437.37	6,578,734.36
Entertainment	10,968,462.36	12,799,862.55
Office expenses	7,292,106.76	7,603,153.59
Rent	5,233,905.97	8,577,142.36
Travelling	3,872,859.19	6,240,328.01
Listing expenses	3,425,645.96	–
Water and electricity	3,412,171.21	2,387,512.97
Securities	3,395,764.05	2,274,555.82
Consultation fee	3,283,989.34	2,158,982.93
Advertisement and promotion fees	2,613,068.15	–
Professional fee	1,944,680.20	2,744,940.57
Repairs and maintenance	1,512,335.42	2,628,492.31
Communication	1,029,990.56	1,482,405.61
Technical services fee	217,650.00	2,265,124.67
Total	147,936,737.58	144,449,396.36

(3) Other cash receipts relating to financing activities

Item	2012	2011
Guarantee deposit for loans	824,340.00	2,700,000.00

(4) Other cash payments relating financing activities

Item	2012	2011
Professional fee for issue of shares	9,053,900.00	–
Payments of guarantee deposit for loans	8,560,000.00	–
Finance lease related payments	15,483,107.86	5,066,148.97
Total	33,097,007.86	5,066,148.97

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

56. Supplementary information of consolidated cash flow statement (Continued)

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

Item	2012	2011
Net profits	294,016,968.52	219,191,427.69
Add: Provision for assets impairment	(1,936,943.95)	25,795,514.72
Depreciation of fixed assets	63,782,505.49	53,322,981.73
Amortisation of intangible assets	10,578,484.87	12,767,447.84
Amortisation of long-term prepayments	640,726.19	181,500.00
(Gain) loss on disposal of fixed assets, intangible assets and other long-term assets	623,199.29	129,546.02
Loss on written off of disposal fixed assets	-	(196,494.95)
(Gain) loss on changes in fair value	(237,660.00)	483,619.00
Finance costs	2,802,355.29	26,202,527.92
(Gain) loss on investment	(11,671,538.33)	(10,531,756.89)
(Increase) decrease in deferred income tax assets	(295,533.64)	926,624.84
Increase in deferred income tax liabilities	(719,475.38)	1,186,524.47
(Increase) decrease in inventories	(15,439,110.68)	57,328,845.09
Decrease (increase) in operating receivables	(97,346,987.56)	(69,953,828.56)
Increase in operating payables	66,988,860.10	83,897,826.57
Net cash flow from operating activities	311,785,850.21	400,732,305.49

(6) Significant non-cash investing and financing transactions

Item	2012	2011
Acquisition of fixed assets under finance leases	5,909,958.81	11,941,611.00

(7) Changes in cash and cash equivalents

Item	2012	2011
Cash and cash equivalents at end of year	1,016,889,376.48	247,813,761.76
Less: Cash and cash equivalent at beginning of year	247,813,761.76	174,236,578.41
Changes in cash and cash equivalents	769,075,614.72	73,577,183.35

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

56. Supplementary information of consolidated cash flow statement (Continued)

(8) Information of acquisition of or disposal of subsidiary or other operating units

Item	2012
Information on disposal of subsidiaries	
1. Consideration of disposal of subsidiaries or other operating undertakings	110,997,010.00
2. Cash and cash equivalents received from disposal of subsidiaries or other operating units	86,377,010.00
Less: Cash and cash equivalent balance of the disposing subsidiaries or other operating units	69,708,418.21
3. Net cash received from disposal of subsidiaries or other operating units	16,668,591.79
4. Net assets of the disposing subsidiaries Non-current liabilities	
Current assets	123,740,996.01
Non-current assets	69,960,118.61
Current liabilities	24,075,633.49
Non-current liabilities	22,975,655.00

(9) Cash and cash equivalents

Item	2012	2011
Cash on hand	350,885.83	354,376.95
Bank deposits readily available for payments	1,016,335,154.61	247,364,899.80
Other bank deposit and cash readily available for payment	203,336.04	94,485.01
Cash and cash equivalents at end of reporting period	1,016,889,376.48	247,813,761.76

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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VII. 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 shareholdings of controlling shareholder and the movement during the year are as follows:

Name of controlling shareholder	Shareholdings		Proportion (%)	
	2012	2011	2012	2011
Mr Zhang Wei Yang	43,158,960.00	43,158,960.00	28.68	34.40

(2) *Subsidiaries*

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

(3) *Jointly controlled entities and associates*

Details of the Group's jointly controlled entities and associates are set out in Note VI.11.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions

(1) Purchasing goods or receiving services

The Group

Related party	Nature of transactions	Pricing policy and procedures for decision-making	2012		2011	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Jointly controlled entities and associates						
Dongjiang Veolia	Receiving services	Contracted price and approved by board of directors	8,829,110.53	14.47	10,084,659.65	24.52
Shenzhen Resources	Purchase of goods	Contracted price and approved by board of directors	3,920,178.52	0.62	20,699.14	0.06
Shenzhen Micronutrients	Receiving services	Contracted price and approved by board of directors	-	-	1,086,709.78	2.99
Total			12,749,289.05		11,192,068.57	

The Company

Related party	Nature of transactions	Pricing policy and procedures for decision-making	2012		2011	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Jointly controlled entities and associates						
Dongjiang Veolia	Receiving services	Contracted price and approved by board of directors	2,773,912.31	6.57	1,969,596.11	6.74
Shenzhen Resources	Purchase of goods	Contracted price and approved by board of directors	-	-	16,947.01	0.03
Shenzhen Micronutrients	Receiving services	Contracted price and approved by board of directors	-	-	225,000.00	0.77
Total			2,773,912.31		2,211,541.12	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

(2) Sales of goods/rendering of services

The Group

Related party	Nature of transactions	Pricing policy and procedures for decision-making	2012		2011	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Jointly controlled entities and associates						
Dongjiang Veolia	Sales of goods	Contracted price and approved by board of directors	1,545,798.00	0.17	190,712.86	0.02
Dongjiang Veolia	Rendering services	Contracted price and approved by board of directors	5,816,378.07	2.90	3,764,825.39	2.53
Dongjiang Veolia	Rendering services	Contracted price and approved by board of directors	–	–	2,008,160.35	0.19
Shenzhen Micronutrients	Sales of goods	Contracted price and approved by board of directors	127,586,497.32	13.59	88,396,893.38	8.44
Shenzhen Resources	Sales of goods	Contracted price and approved by board of directors	586,950.09	1.76	55,508,205.09	5.30
Total			135,535,623.48		149,868,797.07	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012
(Unless otherwise stated, the financial statements are expressed in RMB)

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

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

The Company

Related party	Nature of transactions	Pricing policy and procedures for decision-making	2012		2011	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Jointly controlled entities and associates						
Shenzhen Micronutrients	Sales of goods	Contracted price and approved by board of directors	18,414,307.70	3.77	7,477,021.34	1.37
Dongjiang Veolia	Sales of goods	Contracted price and approved by board of directors	4,437,025.17	0.91	3,893,390.56	0.71
Shenzhen Resources	Sales of goods	Contracted price and approved by board of directors	-	-	55,965,832.03	10.25
Shenzhen Resources	Sales of goods	Contracted price and approved by board of directors	-	-	3,034,755.62	4.44
Total			22,851,332.87		70,370,999.55	

(3) Leasing-The Group and the Company as lessor

The Group and the Company

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	94,339.92

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

(4) Guarantee with related parties

- 1) Financial guarantee provided for jointly controlled entities

The Group and the Company

The Group and the Company 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 2012 was RMB40,000,000 (2011: RMB40,000,000). The maximum balance of these financial guarantee was RMB40,000,000 (2011: RMB60,000,000). The breakdown of the financial guarantee is as follows:

Guarantor	Secured party	Amount of guarantee	Date of commencement	Date of termination	Completed
The Company	Dongjiang Veolia	21,600,000.00	2011-12-30	2013-12-30	No
The Company	Dongjiang Veolia	18,400,000.00	2011-11-30	2013-11-23	No

- 2) Financial guarantee given by controlling shareholder

The Group and the Company

The controlling shareholder, 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 2012 was RMB304,468,059.00 (2011: RMB278,500,000). The maximum balance of these financial guarantee was RMB429,468,059 (2011: RMB675,000,000). The breakdown of the financial guarantee is as follows:

Guarantor	Secured party	Amount of guarantee	Date of commencement	Date of termination	Completed
The Company, Zhang Wei Yang	Shaoguan Green	75,000,000.00	2009-04-29	2012-12-21	Yes
The Company, Zhang Wei Yang	Shaoguan Green	90,000,000.00	2009-04-29	2015-04-29	No
The Company, Zhang Wei Yang	Shaoguan Green	60,000,000.00	2012-06-27	2017-06-27	No
The Company, Zhang Wei Yang	Shaoguan Green	30,000,000.00	2012-03-30	2013-11-23	No
The Company, Zhang Wei Yang	Shaoguan Green	20,000,000.00	2012-06-29	2013-11-23	No
The Company, Zhang Wei Yang	Shaoguan Green	30,000,000.00	2012-5-31	2013-5-31	No
Zhang Wei Yang	Lik Shun Services	4,468,059.00	2011-06-20	2017-04-16	No
Zhang Wei Yang	The Company	40,000,000.00	2009-11-11	2013-11-11	No
Zhang Wei Yang	The Company	30,000,000.00	2010-02-09	2012-02-09	Yes
Zhang Wei Yang	The Company	20,000,000.00	2011-06-01	2012-02-01	Yes
Zhang Wei Yang	The Company	30,000,000.00	2011-02-28	2014-02-28	No

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For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

(4) Guarantee with related parties (Continued)

- 3) Financial guarantee provided by subsidiaries

The Group

Subsidiary Dongjiang HK provided financial guarantee to bank for securing banking facilities granted to Lik Shun Services. The balances of these financial guarantee yet to expire as at 31 December 2012 was RMB13,274,433.00 (2011: RMB13,013,500.00). The maximum balance of these financial guarantee was RMB13,274,433.00 (2011: RMB17,176,100.00). The breakdown of these financial guarantees is as follows:

Guarantor	Guarantee	Amount of guarantee	Date of commencement	Date of termination	Completed
Dongjiang HK	Lik Shun Services	13,274,433.00	2009-08-01	2017-10-17	No

- 4) Financial guarantee provided to subsidiaries

The Company

The Company provided financial guarantee to bank for securing banking facilities granted to subsidiaries. The balances of these financial guarantee yet to expire as at 31 December 2012 was RMB401,481,611.00, of which RMB275,000,000.00 were jointly provided by Mr. Zhang Wei Yang (2011: RMB383,318,800.00). The maximum balance of these financial guarantee was RMB613,917,166.00 (2011: RMB459,007,300.00). The breakdown of the financial guarantees is as follows:

Guarantor	Guarantee	Amount of guarantee	Date of commencement	Date of termination	Completed
The Company	Longgang Dongjiang	50,564,445.00	2011-12-12	2019-12-12	No
The Company, Zhang Wei Yang	Shaoguan Green	75,000,000.00	2009-04-29	2012-12-21	Yes
The Company, Zhang Wei Yang	Shaoguan Green	90,000,000.00	2009-04-29	2015-04-29	No
The Company, Zhang Wei Yang	Shaoguan Green	60,000,000.00	2012-06-27	2017-06-27	No
The Company, Zhang Wei Yang	Shaoguan Green	30,000,000.00	2012-03-30	2013-11-23	No
The Company, Zhang Wei Yang	Shaoguan Green	20,000,000.00	2012-06-29	2013-11-23	No
The Company	Shaoguan Green	35,000,000.00	2010-04-30	2015-04-30	No
The Company	Renewable Energy	60,000,000.00	2011-06-02	2016-06-02	No
The Company	Renewable Energy	40,000,000.00	2011-01-04	2016-01-04	No
The Company	Lik Shun Services	8,019,000.00	2011-06-14	2013-06-14	No
The Company	Lik Shun Services	7,898,166.00	2008-05-01	2013-05-01	No

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

(5) Loans with related parties

The Company

Item	Amount	Date of commencement	Date of termination	Balance at 31.12.2012
Dongjiang Songzao	10,040,880.00	2011-01-31	2023-01-30	9,036,792.00
Dongjiang Veolia	1,026,964.56	2012-01-01	2012-12-31	69,393.77
Total	11,067,844.56			9,106,185.77

Note: The loan with Dongjiang Songzao was the entrust loan issued by Ping'an Bank Shenzhen branch on behalf of the Company (see Note XV.16).

(6) Emoluments of Directors, Supervisors and Employees

The Group and the Company

1) Emoluments of Directors and Supervisors

	2012	2011
Fee of directors and supervisors		
Executive directors	–	–
Non-executive directors and Independent non-executive directors	396,000.00	396,000.00
Supervisors	–	–
Sub-total	396,000.00	396,000.00
Other emoluments of executive directors		
Basic salaries and allowances	2,895,122.96	3,541,102.50
Retirement benefits scheme contributions	84,621.96	76,761.36
Sub-total	2,979,744.92	3,617,863.86
Other emoluments of supervisors		
Basic salaries and allowances	241,322.00	169,344.34
Retirement benefits scheme contributions	24,000.00	20,109.00
Sub-total	265,322.00	189,453.34
Total	3,641,066.92	4,203,317.20

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 2012

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VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

(6) Emoluments of Directors, Supervisors and Employees (Continued)

1) Emoluments of Directors and Supervisors (Continued)

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

2012

Name	Fee of directors and supervisors	Other emoluments		Total
		Basic salaries and allowances	Retirement benefits scheme contributions	
Executive directors				
Zhang Wei Yang	-	1,408,374.32	28,207.32	1,436,581.64
Chen Shu Sheng	-	918,374.32	28,207.32	946,581.64
Li Yong Peng	-	568,374.32	28,207.32	596,581.64
Sub-total	-	2,895,122.96	84,621.96	2,979,744.92
Non-executive directors				
Feng Tao	-	-	-	-
Feng Bo	-	-	-	-
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
Wang Ji De	132,000.00	-	-	132,000.00
Sub-total	396,000.00	-	-	396,000.00
Supervisors				
Yuan Wei	-	-	-	-
Luo Xiao Hong	-	-	-	-
Liu An	-	241,322.00	24,000.00	265,322.00
Sub-total	-	241,322.00	24,000.00	265,322.00
Total	396,000.00	3,136,444.96	108,621.96	3,641,066.92

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

(6) Emoluments of Directors, Supervisors and Employees (Continued)

1) Emoluments of Directors and Supervisors (Continued)

i) The details of emoluments of directors and supervisors were as follows: (Continued)

2011

Name	Fee of directors and supervisors	Basic salaries and allowances	Other emoluments	Total
			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	–	–	–	–
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	–	–	–	–
Luo Xiao Hong	–	–	–	–
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 2012

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VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

2. Related party transactions (Continued)

(6) 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 (2011: three) were directors of the Company. The emoluments of the remaining two (2011: two) individuals were as follows:

Item	2012	2011
Basic salaries and allowances	1,376,748.64	1,243,689.00
Retirement benefits scheme contributions	56,414.64	51,174.24
Total	1,433,163.28	1,294,863.24

i) Their emoluments were within the following bands:

Item	2012 (Number)	2011 (Number)
0 – RMB405,450 (HKD500,000)	–	–
RMB405,451 – RMB810,900 (HKD500,001-1,000,000)	2	2
Total	2	2

No emoluments were paid to directors or supervisors or the five individuals with highest emoluments as an inducement to join or upon joining the Company or as compensation for loss of office.

3) The category of senior management emolument:

Item	2012 (Number)	2011 (Number)
0 – RMB405,450 (HKD500,000)	–	1
RMB405,451 – RMB810,900 (HKD500,001-1,000,000)	3	2
Total	3	3

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

3. Current account balances with related parties

The Group

(1) *Accounts receivable due from related parties*

Related party	2012			2011		
	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts
Jointly controlled entities and associates						
Dongjiang Veolia	5,356,238.45	2.38	-	6,858.00	0.00	-
Shenzhen Resources	21,456.63	0.01	-	481,060.94	0.25	-
Shenzhen Micronutrients	60,403,505.66	26.82	-	58,098,517.88	30.00	-
Beijing Shuangyi	1,140,000.00	0.51	1,140,000.00	1,140,000.00	0.59	1,140,000.00
Total	66,921,200.74	29.72	1,140,000.00	59,726,436.82	30.84	1,140,000.00

(2) *Other receivables due from related parties*

Related party	2012			2011		
	Carrying amount	Proportion to total other receivables (%)	Provision for bad debts	Carrying amount	Proportion to total other receivables (%)	Provision for bad debts
Jointly controlled entities and associates						
Dongjiang Veolia	69,393.77	0.13	-	1,026,964.56	1.76	-
Beijing Shuangyi	361,117.32	0.65	361,117.32	361,117.33	0.62	361,117.33
Beijing Lisheng Membrane	120,000.00	0.22	120,000.00	120,000.00	0.21	120,000.00
Zhejiang Shuangyi	90,000.00	0.17	90,000.00	90,000.00	0.15	90,000.00
Zhuhai Qingxin	-	-	-	149,556.01	0.26	-
Total	640,511.09	1.17	571,117.32	1,747,637.90	2.99	571,117.33

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

3. Current account balances with related parties (Continued)

The Group (Continued)

(3) Accounts payable due to related parties

Related party	2012	2011
Jointly controlled entities and associates		
Dongjiang Veolia	4,174,235.45	1,986,910.10
Shenzhen Micronutrients	60,403,505.66	–
Shenzhen Resources	38,366.00	22,000.00
Total	64,616,107.11	2,008,910.10

(4) Other payables due to related parties

Related party	2012	2011
Controlling shareholder and ultimate controlling shareholder		
Zhang Wei yang	1,621,800.00	–
Jointly controlled entities and associates		
Shenzhen Micronutrients	–	14,675.30
Dongjiang Veolia	69,393.77	4,840,000.00
Total	1,691,193.77	4,854,675.30

(5) Receipts in advance from related parties

Related party	2012	2011
Dongjiang Veolia	–	5,041,201.16

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

3. Current account balances with related parties (Continued)

The Company

(1) Accounts receivable due from related parties

Related party	2012			2011		
	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts
Subsidiary						
Huizhou Dongjiang	17,759,881.08	15.86	-	18,049,488.41	14.01	-
Qingyuan Dongjiang	8,352,804.50	7.47	-	6,949,973.16	5.04	-
Longgang Dongjiang	4,772,558.45	4.27	-	-	-	-
Shaoguan Dongjiang	1,282,291.96	1.15	-	6,426,898.75	4.99	-
Qingyuan Xinlv	506,180.03	0.45	-	-	-	-
Shaoguan Green	50,923.19	0.05	-	-	-	-
Resource Recycling	-	-	-	18,049,488.41	14.01	-
Dongjiang Heritage	-	-	-	6,949,973.16	5.04	-
Sub-total	32,724,639.22	29.25	-	31,426,360.32	24.04	-
Associate						
Shenzhen Micronutrients	5,770,080.00	5.16	-	8,793,630.00	6.83	-
Dongjiang Veolia	3,752,667.75	3.35	-	-	-	-
Shenzhen Resources	21,456.63	0.02	-	481,060.94	0.37	-
Sub-total	9,544,204.38	8.53	-	9,274,691.94	7.20	-
Total	42,268,843.59	37.78	-	40,701,051.26	31.24	-

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

3. Current account balances with related parties (Continued)

The Company (Continued)

(2) Other receivables due from related parties

Related party	2012			2011		
	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts
Subsidiary						
Hunan Dongjiang	101,350,479.00	30.20	-	94,350,479.00	19.90	-
Shaoguan Green	54,889,061.13	16.36	-	60,629,613.28	12.78	-
Qingdao Dongjiang	30,061,750.00	8.96	-	32,633,398.30	6.88	-
Huizhou Dongjiang	27,222,514.45	8.11	-	37,756,844.68	7.96	-
Beijing Novel	23,487,322.85	7.00	-	22,319,972.81	4.71	-
Shaoguan Dongjiang	16,179,600.86	4.82	-	16,188,927.86	3.41	-
Dongjiang HK	15,109,659.60	4.50	-	15,317,722.82	3.23	-
Yunnan Dongjiang	14,685,059.50	4.38	-	11,548,059.50	2.44	-
Baoan Dongjiaing	12,566,730.00	3.74	-	9,477,050.00	2.00	-
Chengdu Treatment Centre	8,803,300.00	2.62	-	8,703,300.00	1.84	-
Jiangmen Dongjiang	6,113,450.87	1.82	-	-	-	-
Products Trading	5,005,689.98	1.49	-	3,007,016.67	0.63	-
Dongjiang Transport	2,348,426.83	0.70	-	321,545.10	0.07	-
Resource Recycling	1,128,464.00	0.34	-	30,088,464.00	6.34	-
Dongjiang Property Service	804,783.72	0.24	-	-	-	-
Dongjiang Heritage	124,138.34	0.04	-	130,639.24	0.03	-
Longgang Dongjiang	-	-	-	32,145,800.00	6.78	-
Renewable Energy	-	-	-	14,159,793.00	2.99	-
Qingyuan Dongjiang	-	-	-	55,809,329.13	11.77	-
Sub-total	319,880,431.13	95.31	-	444,587,955.39	93.76	-
Jointly controlled entity						
Dongjiang Veolia	69,393.77	0.02	-	1,026,964.56	0.22	-
Total	319,949,824.90	95.33	-	445,614,919.95	93.98	-

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

3. Current account balances with related parties (Continued)

The Company (Continued)

(3) Prepayment due from related parties

Related party	2012			2011		
	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts	Carrying amount	Proportion to total accounts receivables (%)	Provision for bad debts
Subsidiary						
Huizhou Dongjiang	3,000,000.00	9.94		3,000,000.00	8.02	–

(4) Accounts payable due to related parties

Related party	2012	2011
Subsidiary		
Resource Recycling	36,180,049.99	49,716,372.46
Longgang Dongjiang	622,389.35	–
Huizhou Dongjiang	555,213.76	–
Huabao Technology	(2,500.00)	–
Qingyuan Dongjiang	35,150.00	4,250.00
Shaoguan Dongjiang	(279,127.78)	224,379.04
Dongjiang Transport	5,052,059.82	–
Products Trading	2,721,779.29	3,624,943.50
Zhuhai Qinxin	1,110,000.00	–
Sub-total	45,995,014.43	53,569,945.00
Jointly controlled entity		
Dongjiang Veolia	1,194,014.45	–
Total	47,189,028.88	53,569,945.00

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

VII. RELATED PARTIES AND RELATED PARTIES TRANSACTIONS (Continued)

3. Current account balances with related parties (Continued)

The Company (Continued)

(5) Other payables due to related parties

Related party	2012	2011
Subsidiary		
Resource Recycling	22,265,557.11	38,218,537.92
Longgang Dongjiang	19,806.87	–
Huizhou Dongjiang	58,550.00	16,778.04
Huabao Technology	5,976,236.72	303,809.17
Qingyuan Dongjiang	6,285,312.26	–
Renewable Energy	31,246,319.52	61,172,319.51
Dongjiang Property Service	–	416,193.03
Hubei Dongjiang	4,950,000.00	–
Qingyuan Xinlv	14,440,000.00	–
Jiaxing Deda	10,180,000.00	–
Sub-total	95,421,782.48	100,127,637.67
Associates		
Shenzhen Micronutrients	14,835.30	14,835.30
Total	95,436,617.78	100,142,472.97

(6) Receipts in advance due to related parties

Related party	2012	2011
Subsidiary		
Dongjiang Heritage	1,047,138.48	126,000.00

VIII. SHARE-BASED PAYMENT

There was no share-based payment.

IX. CONTINGENCIES

1. Contingent liabilities relating to provision of financial guarantees

As at 31 December 2012, the Group and the Company has contingent liabilities relating to financial guarantees. The financial guarantees were given to the related parties, the details of which are set out in VII. 2(4).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

IX. CONTINGENCIES (Continued)

- 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 and the Company had no significant contingent liabilities at 31 December 2012.

X. COMMITMENTS

The Group

1. Significant commitments of capital expenditures

Item	2012	2011
Capital expenditures contracted for but not provided for in the financial statements		
Construction in progress	21,408,671.43	42,912,409.66
Acquisition of land use rights	–	31,146,659.00
Acquisition of equipment	14,879,563.00	17,354,389.66
Total	36,288,234.43	91,413,458.32

(1) As at 31 December 2012, the Group has sub-contracting contracts in respect of construction in progress, which were contracted for but not provided for in the financial statements totaling RMB21,408,671.43. The details of which are as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2012	Estimated investment period
Shaoyang wastes landfill project	24,082,727.48	15,971,790.00	431,467.48	7,679,470.00	2013
Shaoguan Green wastewater plant project	17,272,924.43	10,888,483.00	–	6,384,441.43	2013
Longgang Dongjiang steel structure engineering	6,070,000.00	4,249,000.00	–	1,821,000.00	2013
Reconstruction of Qingyuan Dongjiang godowns and irrigation area project	5,673,900.00	3,404,340.00	–	2,269,560.00	2013
ERP project	4,815,400.00	4,010,600.00	6,500.00	798,300.00	2013
Construction of Huizhou Dongjiang materialized plant for waste water evaporation and concentration system	3,080,000.00	924,000.00	4,600.00	2,151,400.00	2013
Construction of cap for Hunan regulation pool	1,370,000.00	1,301,500.00	–	68,500.00	2013
Hubei Dongjiang reconstruction project	810,000.00	574,000.00	–	236,000.00	2013
Total	63,174,951.91	41,323,713.00	442,567.48	21,408,671.43	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

X. COMMITMENTS (Continued)

The Group (Continued)

1. Significant commitments of capital expenditures (Continued)

(2) As at 31 December 2012, the Group has expenditures in respect of acquisition of equipment, which were contracted for or readily for execution but not provided for in the financial statements totaling RMB14,879,563.00. The details of which are as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2011	Estimated investment period
Vehicles for Huizhou Dongjiang	9,125,600.00	2,554,100.00	-	6,571,500.00	2013
Dalian Lipu Environmental Energy Engineering Technology Co. Limited	7,426,208.00	3,499,520.00	-	3,926,688.00	2013
Equipment for Qiandeng Waste Treatment	4,744,000.00	1,442,600.00	-	3,301,400.00	2013
Equipment for the head office	1,714,250.00	815,875.00	-	898,375.00	2013
Equipment for Huizhou Dongjiang	642,000.00	460,400.00	-	181,600.00	2013
Total	23,652,058.00	8,772,495.00	-	14,879,563.00	

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

(1) As at 31 December 2012, the Group, as a lessee, had contracted with landlord for the minimum lease payment under non-cancellable operating leases in respect of office building and motor vehicles:

Period	2012	2011
Within 1 year	4,061,900.00	3,369,402.00
In 1-2 years	1,983,390.00	3,021,189.45
In 2-3 years	1,983,390.00	2,261,025.17
After 3 years	3,904,000.00	2,524,209.00
Total	11,932,680.00	11,175,825.62

(2) As at 31 December 2012, the Group, as a lessor, had contracted with tenant for the minimum lease receivable under non-cancellable operating leases in respect of office building:

Period	2012	2011
Within 1 year	8,663,566.42	7,253,864.34
In 1-2 years	8,054,613.65	7,536,308.32
In 2-3 years	2,527,301.88	7,125,058.33
After 3 years	14,485,109.68	15,942,726.88
Total	33,730,591.63	37,857,957.87

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

X. COMMITMENTS (Continued)

The Group (Continued)

2. Lease agreement contracted for or readily for execution and their financial effect (Continued)

(3) As at 31 December 2012, the Group, as a lessee, had contracted with landlord for the minimum lease payment under non-cancellable operating leases in respect of motor vehicles:

Period	2012	2011
Within 1 year	14,658,271.72	13,683,375.13
In 1-2 years	13,964,908.43	12,966,589.86
In 2-3 years	13,735,282.63	12,237,607.61
After 3 years	5,748,275.21	16,117,010.07
Total	48,106,737.99	55,004,582.67

3. Other than the details as disclosed above, the Group had no significant commitments at 31 December 2012.

The Company

1. Significant commitments of capital expenditures

	2012	2011
Capital expenditures contracted for but not provided for in the financial statements		
– Construction in progress	798,300.00	6,020,300.86
– Acquisition of equipment	898,375.00	–
Total	1,696,675.00	6,020,300.86

(1) As at 31 December 2012, the Group has sub-contracting contracts in respect of construction in progress, which were contracted for but not provided for in the financial statements totaling RMB798,300.00. The details of which are as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2012	Estimated investment period
ERP project	4,815,400.00	4,010,600.00	6,500.00	798,300.00	2013

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

X. COMMITMENTS (Continued)

The Company (Continued)

1. Significant commitments of capital expenditures (Continued)

(2) As at 31 December 2012, the Group has expenditures in respect of acquisition of equipment, which were contracted for or readily for execution but not provided for in the financial statements totaling RMB898,375.00. The details of which are as follows:

Project	Contract amount	Accumulated amount paid	Amount recognised as liabilities	Unrecognised amount as at 31 December 2011	Estimated investment period
Equipment for the head office	1,714,250.00	815,875.00	-	898,375.00	2013

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

(1) As at 31 December 2012, the Group, as a lessee, had contracted with landlord for the minimum lease payment under non-cancellable operating leases in respect of office building and motor vehicles:

Period	2012	2011
Within 1 year	1,707,390.00	1,707,390.00
In 1-2 years	1,707,390.00	1,707,390.00
In 2-3 years	1,707,390.00	1,707,390.00
After 3 years	2,736,000.00	4,443,390.00
Total	7,858,170.00	9,565,560.00

(2) As at 31 December 2012, the Group, as a lessor, had contracted with tenant for the minimum lease receivable under non-cancellable operating leases in respect of office building:

Period	2012	2011
Within 1 year	8,663,566.42	7,253,864.34
In 1-2 years	8,054,613.65	7,536,308.32
In 2-3 years	2,527,301.88	7,125,058.33
After 3 years	14,485,109.68	15,942,726.88
Total	33,730,591.63	37,857,957.87

3. Other than the details as disclosed above, the Company had no significant commitments at 31 December 2012.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XI. POST-BALANCE SHEET EVENTS

1. Dividends

The net profit attributable to shareholders of the Company for the year ended 31 December 2012 was RMB266,705,803.99. After setting aside 10% statutory surplus reserves of RMB22,418,684.90; adding the balance of undistributed profits from previous year of RMB750,701,355.81; deducting the cash dividends distributed during the year of RMB75,238,187.00, the balance of undistributed profits as at 31 December 2012 was RMB919,750,287.90. The Board proposes the payment of a final dividend of RMB0.4 per share of the Company (inclusive of tax) to all shareholders of the Company based on the total number of shares of 150,476,374 shares of the Company as at 31 December 2012, with the total amount of dividend to be paid be RMB60,190,549.60. In addition, the Board proposes to offer to all shareholders of the Company 5 ordinary shares for each 10 ordinary shares held by shareholders of the Company by way of conversion of capital reserve, thereby issuing 75,238,187 shares based on the total number of 150,476,374 shares of the Company as at 31 December 2012. Following the aforesaid conversion of capital reserve, the Company shall have a total of 225,714,561 shares.

2. Disposal of the subsidiary

Pursuant to the resolution passed at the 40th Meeting of the 4th Session of Board of directors Meeting on 24 January 2013. The Company will dispose equity interests of 55% in Beijing Novel held by the Company to Mr. Niu Jingjun at a consideration of RMB3,300,000.

The Company has signed a share transfer agreement with Mr. Niu Jingjun and received the disposal consideration of RMB3,300,000 from him. However, according to the agreement, the procedures of share transfer will be taken place only after the amount due to the Company by Beijing Novel has been fully repaid. Up to the approval date of these financial statements, Beijing Novel repaid RMB10,000,000 to the Company and the balance of RMB13,487,322.85 and the interest thereon is still outstanding. Accordingly, the procedures of share transfer have not been completed and the Company still has control over Beijing Novel.

3. Repayment after balance sheet date

Item	Amount
Significant amount of accounts payable due over 1 year	3,597,123.65

4. Other than as disclosed above, the Group and the Company had no significant post balance sheet events.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XII. 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:

Reportable segment	Major activities
Industrial waste recycling	Processing and sale of recycled products
Industrial waste treatment and disposal	Collection, treatment and disposal of industrial services waste
Municipal waste treatment and disposal	Collection, treatment and disposal of municipal waste
Renewable energy utilization	Operation of methane-to-energy power plants
Environmental engineering and services	Construction contract work as a main contractor or subcontractor system and services in respect of environmental services, such as design and construction of environmental projects; operation of environment protection facilities, assessment of environmental impact, environment monitoring and consulting
Trading and others	Sales of chemical products and leasing activities

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 those regularly provided to the Group's management and part of them are used in measuring segment profit or loss and segment assets and liabilities.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XII. SEGMENT INFORMATION (Continued)

Segment results, assets and liabilities (Continued)

The segment information for 2012

Item	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	938,595,848.97	200,398,516.89	126,413,101.88	57,006,523.65	165,745,981.99	33,357,754.79	-	-	1,521,517,728.17
Revenue from intra-segment transactions	34,857,467.05	4,913,259.92	-	-	5,981,371.45	40,147,169.48	-	(85,899,267.90)	-
Segment revenue	973,453,316.02	205,311,776.81	126,413,101.88	57,006,523.65	171,727,353.44	73,504,924.27	-	(85,899,267.90)	1,521,517,728.17
Total operating costs	(816,120,891.74)	(80,715,690.14)	(107,599,829.03)	(48,390,823.52)	(146,215,415.70)	(56,388,108.28)	(45,801,620.50)	83,585,170.33	(1,217,647,208.58)
Gain on changes in fair value	-	-	-	-	-	-	237,660.00	-	237,660.00
Investment income	-	-	(3,336.39)	(690,510.60)	-	-	21,545,385.32	(9,180,000.00)	11,671,538.33
Segment operating profit	157,332,424.28	124,596,086.67	18,809,936.46	7,925,189.53	25,511,937.74	17,116,815.99	(24,018,575.18)	(11,494,097.57)	315,779,717.92
Non-operating income	-	-	-	-	-	-	19,255,546.88	-	19,255,546.88
Non-operating expenses	-	-	-	-	-	-	(2,307,017.56)	-	(2,307,017.56)
Total profit	157,332,424.28	124,596,086.67	18,809,936.46	7,925,189.53	25,511,937.74	17,116,815.99	(7,070,045.86)	(11,494,097.57)	332,728,247.24
Total assets	2,159,920,281.94	246,821,137.83	226,083,704.46	253,033,421.88	227,063,662.35	33,912,963.62	2,095,243,449.72	(2,132,472,608.50)	3,109,606,013.30
Total liabilities	479,358,830.20	73,187,766.34	194,486,494.50	117,801,597.52	187,932,263.60	8,629,030.90	1,060,063,252.46	(1,284,799,243.76)	836,659,991.76
Supplementary information									
Depreciation and amortization	49,901,371.17	9,066,565.52	10,252,380.61	15,503,392.20	1,036,017.47	259,415.41	5,473,062.72	-	91,492,205.10
Capital expenditure	175,884,205.24	48,614,892.81	26,562,656.25	3,629,733.73	768,973.00	722,084.24	29,905,460.81	-	286,088,006.08
Assets impairment losses	(2,287,764.54)	(368,455.62)	324,011.15	(11,808.19)	4,949,009.72	(4,541,936.47)	-	-	(1,936,943.95)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XII. SEGMENT INFORMATION (Continued)

Segment results, assets and liabilities (Continued)

The segment information for 2011

Item	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	-	-	1,501,074,352.90
Revenue from intra-segment transactions	17,298,871.89	1,143,114.00	-	17,136.75	1,382,762.00	39,020,840.79	-	(58,862,725.42)	-
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	-	(58,862,725.42)	1,501,074,352.90
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 2012

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

XIII. 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 receivables, borrowings, accounts payable, employee emolument payables, other payables, etc. Detailed descriptions of these financial instruments are set out in Note VI. Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

1. Objective and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are 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 2012, except for the HKD and USD balances in assets and liabilities, 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 HKD and USD balances may affect the operating results of the Group. As at 31 December 2012, the details of financial assets and financial liabilities denominated in foreign currency are set out in XIV.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 VI.29&30). 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.

XIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(Continued)*

1. Objective and policies of risk management *(Continued)*

(2) Credit risk

On 31 December 2012, 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 2012, the Group had unutilised bank facilities of RMB356,000,000. (2011: RMB342,000,000)

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted remaining contractual obligations:

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For the year ended 31 December 2012

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XIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

1. Objective and policies of risk management (Continued)

(3) Liquidity risk (Continued)

Item	Undiscounted amount				Total	Carrying value
	Within 1 month	1-3 months	3-12 months	1-5 years		
Financial assets						
Bank balances and cash	1,027,814,556.38	-	-	-	1,027,814,556.38	1,027,814,556.38
Financial assets held for trading	3,748,980.00	-	-	-	3,748,980.00	3,748,980.00
Notes receivables	13,070,400.00	15,260,511.33	3,447,630.23	-	31,778,541.56	31,778,541.56
Accounts receivable	-	207,393,388.94	-	-	207,393,388.94	207,393,388.94
Other receivables	-	43,961,746.66	-	-	43,961,746.66	43,961,746.66
Long-term accounts receivable	2,390,000.00	7,170,000.00	19,120,000.00	44,815,000.00	73,495,000.00	73,495,000.00
Total financial assets	1,047,023,936.38	273,785,646.93	22,567,630.23	44,815,000.00	1,388,192,213.54	1,388,192,213.54
Financial liabilities						
Accounts payable	-	209,740,096.74	-	-	209,740,096.74	209,740,096.74
Other payables	-	89,284,382.84	3,681,018.29	21,908,049.72	114,873,450.85	114,873,450.85
Employee benefit payables	-	24,454,789.68	-	-	24,454,789.68	24,454,789.68
Borrowings	2,644,955.33	42,776,427.77	168,400,855.07	145,586,651.76	359,408,889.93	340,424,290.77
Total financial liabilities	2,644,955.33	366,255,697.03	172,081,873.36	167,494,701.48	708,477,227.20	689,492,628.04

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.

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

XIII. 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 2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading	3,748,980.00	–	–	3,748,980.00
As at 31 December 2011				
Financial assets:				
Financial assets held for trading	3,594,220.00	–	–	3,594,220.00

(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

The effect of a 5% change in exchange rate to the profit and loss for the current period and shareholders' equity are set out below:

Foreign currency	Changes in exchange rate	2012		2011	
		Increase (decrease) in net profit	Increase (decrease) in shareholders' equity	Increase (decrease) in net profit	Increase (decrease) in shareholders' equity
USD	Increase 5%	2,730.12	2,730.12	N/A	N/A
USD	Decrease 5%	(2,730.12)	(2,730.12)	N/A	N/A
HKD	Increase 5%	(388,704.14)	(388,704.14)	(90,458.95)	(90,458.95)
HKD	Decrease 5%	388,704.14	388,704.14	90,458.95	90,458.95

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For the year ended 31 December 2012

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

XIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

3. Sensitivity analysis (Continued)

(2) Sensitivity analysis of interest rate risk

The effect of a 5% change in interest rate to the profit and loss for the current period and shareholders' equity are set out below:

Item	Changes in interest rate	2012		2011	
		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%	(2,113,558.34)	(2,113,558.34)	(4,096,503.23)	(4,096,503.23)
Floating rates borrowings	Decrease 1%	2,113,558.34	2,113,558.34	4,096,503.23	4,096,503.23

(3) Sensitivity analysis of other price risk

The effect of a rational change in interest rate to the profit and loss for the current period and after-tax consequences of interests are set out below:

Item	Changes in price	2012		2011	
		Increase (decrease) in net profit	Increase (decrease) in shareholders' equity	Increase (decrease) in net profit	Increase (decrease) in shareholders' equity
Quoted shares	Increase 5%	187,449.00	187,449.00	179,711.00	179,711.00
Quoted shares	Decrease 5%	(187,449.00)	(187,449.00)	(179,711.00)	(179,711.00)

XIV. OTHER SIGNIFICANT EVENTS

1. There were no non-monetary exchange transactions during the year (2011: NIL).

2. There were no debts restructuring during the year (2011: NIL).

3. Leasing

(1) The details of assets held under finance leases are set out in VI.13 (9).

(2) As at 31 December 2012, the minimum lease payments made under finance leases are set out in VI.30 (3).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XIV. OTHER SIGNIFICANT EVENTS (Continued)

3. Leasing (Continued)

(3) As at 31 December 2012, assets leased out under operating leases

Category	2012	2011
Motor vehicles	–	798,004.02
Investment properties	53,630,900.00	53,548,000.00
Total	53,630,900.00	54,346,004.02

4. Assets and liabilities measured at fair value

Item	As at 1 January 2012	Increase/ (decrease)	Changes in fair value	As at 31 December 2012
Financial assets				
Financial assets at fair value through profit or loss	3,594,220.00	–	154,760.00	3,748,980.00
Other assets				
Investment properties	53,548,000.00	–	82,900.00	53,630,900.00
Total	57,142,220.00	–	237,660.00	57,379,880.00

5. Financial assets and financial liabilities denominated in foreign currency

Item	At 31 December 2011	Gain on fair value changes for the year	Accumulated fair value changes included in equity	Provision for impairment losses	At 31 December 2012
Financial assets					
Loan and receivables					
Including:					
Bank deposit and cash	6,191,756.14	–	–	–	5,696,765.18
Accounts receivable	5,636,927.78	–	–	–	6,969,140.58
Prepayments	9,170,229.52	–	–	–	8,020,394.93
Other receivables	2,764,284.21	–	–	–	8,503,465.73
Sub-total of financial assets	23,763,197.65	–	–	–	29,189,766.42
Financial liabilities					
Accounts payable	871,016.40	–	–	–	1,647,575.74
Other payables	22,882,168.92	–	–	–	25,670,603.37
Obligations under finance leases	14,486,219.82	–	–	–	1,647,575.74
Sub-total of financial liabilities	38,239,405.14	–	–	–	28,965,754.85

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Bank balances and cash

Item	Original currency	2012		Original currency	2011	
		Exchange rate	Amount in RMB		Exchange rate	Amount in RMB
Cash						
RMB	922.26	1.0000	922.26	33,179.61	1.0000	33,179.61
Bank deposits						
RMB	667,533,246.41	1.0000	667,533,246.41	125,440,729.18	1.0000	125,440,729.18
HKD	570.32	0.8109	462.47	-	-	-
USD	36.73	6.2856	230.87	-	-	-
Sub-total			667,533,939.75			125,440,729.18
Other bank balances and cash						
RMB	8,978,515.94	1.0000	8,978,515.94	1,133,706.14	1.0000	1,133,706.14
Total			676,513,377.95			126,607,614.93

As at 31 December 2012, the restricted bank deposits of the Group were RMB8,775,179.90 (2011: 1,039,340.00) which were the guarantee deposits for borrowing and were included in "Other bank balances and cash".

2. Financial assets held for trading

Item	2012	2011
Equity investments held for trading, at fair value	3,748,980.00	3,594,220.00

The equity investments are shares listed on the Shanghai Stock Exchange in the PRC.

At 31 December 2012, the fair value of the listed shares was RMB3,748,980.00 (2012: RMB3,594,220.00).

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

3. Notes receivable

(1) Categories of notes receivable

Category	2012	2011
Bank acceptance notes	18,342,900.60	11,828,526.34

All notes receivable held by the Group are aged within one year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

3. Notes receivable (Continued)

(2) As at 31 December 2012, 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	Changsha Xingjia Bio-engineering Co. Limited	2012-10-30	2013-1-30	6,889,800.00
Bank acceptance notes	Changsha Xingjia Bio-engineering Co. Limited	2012-11-27	2013-2-27	4,340,320.00
Bank acceptance notes	Guangdong Guanghua Technology Co., Limited	2012-11-12	2013-2-12	3,200,000.00
Bank acceptance notes	Changsha Xingjia Bio-engineering Co. Limited	2012-10-30	2013-1-30	2,771,200.00
Bank acceptance notes	Guangdong Guanghua Technology Co., Limited	2012-11-12	2013-2-12	1,787,820.00
Total				18,989,140.00

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

(3) There was no notes receivable from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

4. Accounts receivable

	2012	2011
Accounts receivable	111,870,351.91	128,789,154.48
Less: Provision for bad debts	6,687,163.84	5,338,316.85
Total	105,183,188.07	123,450,837.63

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For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

4. Accounts receivable (Continued)

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

Category	2012		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	68,665,180.52	61.38	5,750,836.04	8.38
Related party group	42,268,843.59	37.78	-	-
Sub-total	110,934,024.11	88.16	5,750,836.04	3.12
Accounts receivable that are individually insignificant but are individually provided for bad debts	936,327.80	0.51	936,327.80	100.00
Total	111,870,351.91		6,687,163.84	

Category	2011		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	87,151,775.42	67.67	4,401,989.05	5.05
Related party group	40,701,051.26	31.60	-	-
Sub-total	127,852,826.68	99.27	4,401,989.05	3.44
Accounts receivable that are individually insignificant but are individually provided for bad debts	936,327.80	0.73	936,327.80	100.00
Total	128,789,154.48		5,338,316.85	

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

4. Accounts receivable (Continued)

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

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

Item	Amount	2012		Amount	2011	
		Proportion (%)	Provision for bad debts		Proportion (%)	Provision for bad debts
0-90 days	45,884,062.87	1.50	688,260.94	65,724,297.95	1.50	1,030,751.92
91-180 days	7,507,997.58	3.00	225,239.93	6,325,412.83	3.00	189,765.40
181-365 days	3,293,840.81	5.00	164,692.04	3,655,624.30	5.00	182,781.21
1-2 years	5,107,970.51	20.00	1,021,594.10	9,397,708.24	20.00	1,881,730.89
2-3 years	6,440,519.45	50.00	3,220,259.73	1,870,536.72	50.00	938,764.26
Over 3 years	430,789.30	100.00	430,789.30	178,195.38	100.00	178,195.37
Total	68,665,180.52		5,750,836.04	87,151,775.42		4,401,989.05

- 2) As at 31 December 2012, 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 Shatabao Electronics Factory	735,708.53	735,708.53	100.00	Irrecoverable
Others items under RMB100,000	200,619.27	200,619.27	100.00	Irrecoverable
Total	936,327.80	936,327.80		

(2) Details of bad debts provision reversed (or recovered) during the year ended 31 December 2012

Name	Book value of accounts receivable	Proportion of provision made (%)	Balance of bad debts provision	Amount reversed in 2012	Reason of provision and reversal in the year
Other small items	36,000.00	100.00	36,000.00	36,000.00	Recovered during the year

(3) There were no accounts receivable written off during the year ended 31 December 2012.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

4. Accounts receivable (Continued)

(4) Aging analysis of overdue but without impairment accounts receivable at balance sheet date:

Item	2012	2011
0-90 days	35,061,150.69	40,701,051.26
91-180 days	4,142,643.90	–
181-365 days	3,065,049.00	–
Total	42,268,843.59	40,701,051.26

Overdue but without impairment accounts receivables are related to related parties, these accounts have good credit. According to the past experiences, the management believes that impairment is unnecessary, because the credit quality remains unchanged, and the balances will be recovered in the future.

(5) There were no accounts receivable from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

(6) The top five accounts receivable outstanding as at 31 December 2012 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total account receivables (%)
Huizhou Dongjiang	Subsidiary	17,759,881.08	0-90 days	15.88
Shenzhen Finance Bureau	Independent third party	8,620,990.90	0-90 days	7.71
Qingyuan Dongjiang	Subsidiary	8,352,804.50	Within 1 year	7.47
Dongjiang Micronutrients	Associate	5,770,080.00	0-90 days	5.16
Kerong Circuit Board (Shenzhen) Co. Limited	Independent third party	340,179.86	Within 1 year	0.3
		687,365.08	Within 2 years	0.61
		4,311,221.30	Within 3 years	3.85
Sub-total		5,338,766.24		4.76
Total		45,842,522.72		40.98

(7) As at 31 December 2012, the accounts receivable from related parties were RMB42,268,843.59, representing 37.78% of total accounts receivable (2011: RMB40,701,051.26, 31.60%). The details are set out in note VII.3 (1).

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

4. Accounts receivable (Continued)

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

Foreign currency	2012			2011		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
HKD	-	-	-	6,953,161.19	0.8107	5,636,927.78

5. Prepayments

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

Item	2012		2011	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	27,995,584.38	92.72	37,236,818.62	99.57
1-2 years	2,016,672.35	6.68	36,375.55	0.10
2-3 years	59,933.24	0.20	121,982.00	0.33
Over 3 years	121,982.00	0.40	-	-
Total	30,194,171.97	100.00	37,395,176.17	100.00

(2) Details of the top five prepayments at 31 December 2012

Name	Relationship with the Company	Amount	Aged	Reason of outstanding
Kaiping Third Yilianda Electronics Co. Limited	Independent third party	6,279,636.40	0-90 days	Progress payments as contracted
Dongguan Meiwei Circuits Co. Limited	Independent third party	5,030,815.18	0-90 days	Progress payments as contracted
Zhuhai Zixiang Electronics Technology Co. Limited	Independent third party	3,622,708.66	0-90 days	Progress payments as contracted
Huizhou Huiling Huacheng Co. Limited	Independent third party	2,339,709.40	0-90 days	Progress payments as contracted
South Asia Electronic Material (Huizhou) Co. Limited	Independent third party	1,426,198.20	0-90 days	Progress payments as contracted
Total		18,699,067.84		

(3) There were no prepayments from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

5. Prepayments (Continued)

(4) As at 31 December 2012, prepayments from related parties were RMB3,000,000.00, representing 9.94% of total prepayments (2011: RMB3,000,000.00, 8.02%). The details are set out in note VII.3 (3).

(5) As at 31 December 2012, there were no prepayments in foreign currencies.

6. Other receivables

Item	2012	2011
Other receivables	335,608,153.36	472,336,559.33
Less: Provision for bad debts	2,081,750.41	7,505,296.85
Total	333,526,402.95	464,831,262.48

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

Category	2012			
	Book balance Amount	Proportion (%)	Bad debt provision Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	-	-	-	-
Other receivables that are provided for bad debts on portfolio basis				
Aged group	6,215,748.42	1.85	933,520.41	15.02
Related party group	319,949,824.90	95.33	-	-
Collateral group	8,242,580.04	2.46	-	-
Sub-total	334,408,153.36	99.64	933,520.41	0.28
Other receivables that are individually insignificant but are individually provided for bad debts	1,200,000.00	0.36	1,148,230.00	95.69
Total	335,608,153.36		2,081,750.41	

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

6. Other receivables (Continued)

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

Category	2011		Bad debt provision	
	Book balance Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	5,000,000.00	1.05	5,000,000.00	100.00
Other receivables that are provided for bad debts on portfolio basis				
Aged group	8,196,180.93	1.74	1,216,804.27	14.85
Related party group	445,614,919.95	93.98	–	–
Collateral group	12,172,845.87	2.58	–	–
Sub-total	465,983,946.75	98.66	1,216,804.27	0.26
Other receivables that are individually insignificant but are individually provided for bad debts	1,352,612.58	0.29	1,288,492.58	95.26
Total	472,336,559.33		7,505,296.85	

1) As at 31 December 2012, there were no other receivables that are individually significant or provided for bad debts on individual basis.

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

Item	2012			2011		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
0-90 days	4,236,812.31	1.50	63,552.18	4,794,636.16	1.50	105,352.26
91-180 days	71,029.64	3.00	2,130.89	1,390,401.54	3.00	41,916.67
181-365 days				566,815.83	5.00	28,692.54
1-2 years	1,264,218.91	20.00	252,843.78	250,096.29	20.00	58,141.23
2-3 years	57,388.00	50.00	28,694.00	346,035.00	50.00	175,279.83
Over 3 years	586,299.56	100.00	586,299.56	848,196.11	100.00	807,421.74
Total	6,215,748.42		933,520.41	8,196,180.93		1,216,804.27

NOTES TO FINANCIAL STATEMENTS

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

6. Other receivables (Continued)

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

- 3) As at 31 December 2012, other receivables 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
Total	1,200,000.00	1,148,230.00	95.69	

(2) Details of bad debts provision reversed (or recovered) during the year ended 31 December 2012

Name	Book value of accounts receivable	Proportion of provision made (%)	Balance of bad debts provision	Amount reversed in 2012	Reason of provision and reversal in the year
Shantou Jian'an (Group) Co., Limited Huzhou Branch	5,000,000.00	100	5,000,000.00	5,000,000.00	Recovered during the year

(3) Details of other receivables written off during the year ended 31 December 2012

Name	Nature of accounts receivables	Amounts written-off	Reason for written-off	Whether arisen from related party transaction
Others (Items under RMB50,000)	Deposit	279,592.32	Irrecoverable	No

(4) There were no other receivables from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

6. Other receivables (Continued)

(5) The top five of other receivables outstanding as at 31 December 2012 are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total other receivable (%)	Nature
Hunan Dongjiang	subsidiary	101,350,479.00	Within 2 years	30.2	Loans and current accounts
Shaoguan Green	subsidiary	54,889,061.13	0-180 days	16.36	Loans and current accounts
Qingdao Dongjiang	subsidiary	30,061,750.00	1-2 years	8.96	Loans and current accounts
Huizhou Dongjiang	subsidiary	27,222,514.45	Within 90 days	8.11	Loans and current accounts
Beijing Novel	subsidiary	23,487,322.85	Within 2 years	7.00	Loans and current accounts
Total		237,011,127.43		70.63	

(6) As at 31 December 2012, other receivables from related parties were RMB319,949,824.90, representing 95.33% of total accounts receivable (2011: RMB445,614,919.95, 93.98%). The details are set out in note VII.3(2).

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

Foreign currency	2012			2011		
	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

7. Inventories

(1) Categories of inventories are as follows:

Item	2012		
	Carrying amount	Provision for inventories	Carrying Book value
Raw material	11,968,237.89	-	11,968,237.89
Work-in-progress	25,349.00	-	25,349.00
Finished goods	9,498,005.81	-	9,498,005.81
Consumables	36,630.11	-	36,630.11
Total	21,528,222.81	-	21,528,222.81

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For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

7. Inventories (Continued)

(1) Categories of inventories are as follows: (Continued)

Item	Cost	2011 Provision for inventories	Carrying Book value
Raw materials	11,104,344.78	–	11,104,344.78
Work-in-progress	1,413,647.04	–	1,413,647.04
Finished goods	10,774,517.22	458,564.36	10,315,952.86
Consumables	444,721.99	–	444,721.99
Total	23,737,231.03	458,564.36	23,278,666.67

(2) Movements of provision for inventories during the year ended 31 December 2012 are as follows:

Item	As at 1 January 2012	Provision for the year	Reversal		As at 31 December 2012
			Decrease	Other transfer	
Finished goods	458,564.36	–	458,564.36	–	–

(3) Cost of inventories recognized as expenses for the year was RMB512,122,127.19 (2011: RMB618,268,754.27).

8. Non-current assets due within one year

Item	2012	2011
Long-term accounts receivable due within 1 year (VI.9)	28,680,000.00	–

9. Long-term accounts receivable

Item	2012	2011
Receivables for rendering of services to be recovered by installments	73,495,000.00	–
Less: Amount due within 1 year and showed as non-current assets due within one year (Note VI.8)	28,680,000.00	–
Amount to be recovered after one year	44,815,000.00	–

(1) The aged analysis of the long-term accounts receivable is as follows:

Item	2012	2011
0-90 days	73,495,000.00	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

9. Long-term accounts receivable (Continued)

(2) Name of the receivables: Jiangmen Sungde Circuits Technology Limited

(3) There was no long-term accounts receivable from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.

10. Long-term equity investments

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

Item	2012	2011
Accounted for using cost methods		
Investments in subsidiaries	852,701,620.71	263,394,422.58
Other long-term equity investments	1,800,000.00	1,900,000.00
Sub-total	854,501,620.71	265,294,422.58
Accounted for using equity method of accounting		
Investments in jointly controlled entities and associates	79,858,026.33	73,705,784.14
Less: Impairment losses	529,649.00	529,649.00
Carrying value of investments in jointly controlled entities and associates	79,328,377.33	73,176,135.14
Total carrying value of long-term equity investments	933,829,998.04	338,470,557.72

Item	2012	2011
Unlisted long-term equity investments	933,829,998.04	338,470,557.72

(2) For the purpose of reporting under Hong Kong Companies Ordinance, the details of investments in subsidiaries are as follows:

Item	2012	2011
Investment cost	852,701,620.71	263,394,422.58
Amount due from subsidiaries	361,641,861.84	448,454,839.08
Amount due to subsidiaries	(139,463,935.39)	(128,979,083.81)
Total	1,074,879,547.16	582,870,177.85

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

10. Long-term equity investments (Continued)

(3) Movements of investments in subsidiaries during the year ended 31 December 2012

Name	Proportion of shareholding (%)	Proportion of voting rights (%)	Investment cost	As at 1 January 2012	Increase	Decrease	As at 31 December 2012	Cash dividends received during the year
Accounted for using cost method								
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	54.00	54.00	2,550,000.00	2,550,000.00	43,800,000.00	-	46,350,000.00	-
Resource Recycling	100.00	100.00	2,093,966.50	2,093,966.50	-	-	2,093,966.50	-
Kunshan Kumpeng	51.00	51.00	3,438,970.01	3,438,970.01	-	-	3,438,970.01	255,000.00
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	8,925,000.00
Shaoguan Dongjiang	100.00	100.00	4,500,000.00	4,500,000.00	500,000.00	-	5,000,000.00	-
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	80,324,500.00	-	90,324,500.00	-
Qingyuan Dongjiang	100.00	100.00	18,800,000.00	18,800,000.00	153,669,500.00	-	172,469,500.00	-
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	100.00	100.00	117,800,000.00	117,800,000.00	113,000,000.00	-	230,800,000.00	-
Baoan Dongjiang	100.00	100.00	11,255,102.04	11,255,102.04	5,975,000.00	-	17,230,102.04	-
Huabao Technology	100.00	100.00	500,000.00	500,000.00	5,000,000.00	-	5,500,000.00	-
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	-
Products Trading	100.00	100.00	2,000,000.00	2,000,000.00	-	-	2,000,000.00	-
Dongjiang Transport	100.00	100.00	10,000,000.00	-	10,000,000.00	-	10,000,000.00	-
Hubei Dongjiang	100.00	100.00	10,000,000.00	-	10,000,000.00	-	10,000,000.00	-
Qingyuan Xinv	62.50	62.50	54,310,000.00	-	68,750,000.00	-	68,750,000.00	-
Zhuohai Qingxin	75.00	75.00	6,615,000.00	-	18,104,598.13	-	18,104,598.13	-
Jiaying Deda	51.00	51.00	9,367,300.00	-	30,183,600.00	-	30,183,600.00	-
Jiangmen Dongjiang	100.00	100.00	50,000,000.00	-	50,000,000.00	-	50,000,000.00	-
Total			403,981,261.45	263,394,422.58	589,307,198.13	-	852,701,620.71	9,180,000.00

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

10. Long-term equity investments (Continued)

(4) Movements of other long-term equity investments during the year ended 31 December 2012

Name	Proportion of shareholding (%)	Proportion of voting rights (%)	Investment cost	As at 1 January 2012	Increase	Decrease	As at 31 December 2012	Cash dividends received during the year
Other long-term equity investments								
Wuhan Yunfeng	11.00	11.00	1,800,000.00	1,800,000.00	-	-	1,800,000.00	-
Dongjiang Green Resources	10.00	10.00	100,000.00	100,000.00	-	100,000.00	-	-
Total			1,900,000.00	1,900,000.00	-	100,000.00	1,800,000.00	-

(5) Movements of investments in jointly controlled entities and associates during the year ended 31 December 2012

Name	Proportion of shareholding (%)	Proportion of voting rights (%)	Investment cost	As at 1 January 2012	Increase	Decrease	As at 31 December 2012	Cash dividends received during the year
Jointly controlled entity								
Dongjiang Veolia	51.00	50.00	22,440,000.00	37,426,301.57	10,357,933.36	-	47,784,234.93	-
Associate								
Shenzhen Micronutrients	38.00	40.00	760,000.00	1,303,948.99	831,203.51	-	2,135,152.50	-
Shenzhen Resource	49.00	42.86	20,894,176.47	28,598,290.56	1,340,348.34	-	29,938,638.90	-
Zhuhai Qingxin	75.00	75.00	6,615,000.00	6,377,243.02	(272,644.89)	(6,104,598.13)	-	-
Total			50,709,176.47	73,705,784.14	12,256,840.32	(6,104,598.13)	79,858,026.33	-

(6) Provision for impairment for long-term equity investments

Name	As at 1 January 2012	Increase	Decrease	As at 31 December 2012
Shenzhen Micronutrients	529,649.00	-	-	529,649.00

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

11. Investment properties

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

Item	Fair value as at 1 January 2012	Additions	Increase Changes in fair value	Decrease	Fair value as at 31 December 2012
Cost					
Buildings	48,414,356.82	–	–	–	48,414,356.82
Changes in fair value					
Buildings	5,133,643.18	–	82,900.00	–	5,216,543.18
Net carrying value					
Buildings	53,548,000.00	–	82,900.00	–	53,630,900.00

On 31 December 2012, the investment properties were revalued by Shenzhen Pengxin Assets Appraisal and Valuation Co., Limited on an open market basis.

(2) *As at 31 December 2012, all the investment properties have proper legal property rights certificate.*

(3) *The investment properties were located in the PRC and were held under medium-term leases (more than 10 years but less than 50 years).*

(4) *Rental income generated from investment properties for the year was RMB8,669,158.65 (2011:RMB7,800,382.75).*

(5) *Breakdown of investment properties is as follows:*

NO.	Address	Purpose
1	No.3, Jingtian, Futian District, Shenzhen	office
2	South side of Langshan Road, Nanshan District, Shenzhen	office

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For the year ended 31 December 2012

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

12. Fixed assets

(1) Breakdown of fixed assets

Items	As at 1 January 2012	Increase	Decrease	As at 31 December 2012
Cost				
Buildings	147,336,609.63	792,979.31	519,448.22	147,610,140.72
Plant and Machinery	38,096,521.81	4,679,552.63	1,772,986.16	41,003,088.28
Motor vehicles	20,848,953.33	6,137,558.50	1,043,597.59	25,942,914.24
Office equipment	7,624,284.87	2,088,627.17	359,706.26	9,353,205.78
Others	25,663,723.63	9,497,562.60	2,237,624.73	32,923,661.50
Total cost	239,570,093.27	23,196,280.21	5,933,362.96	256,833,010.52
Accumulated depreciation				
Buildings	16,640,865.49	6,406,569.03	159,765.41	22,887,669.11
Plant and Machinery	16,300,114.55	7,335,126.03	1,575,507.10	22,059,733.48
Motor vehicles	15,872,705.03	2,151,602.18	1,335,902.03	16,688,405.18
Office equipment	4,120,236.63	1,453,636.11	1,366,180.41	4,207,692.33
Others	13,146,234.43	2,398,959.12	30,405.07	15,514,788.48
Total accumulated depreciation	66,080,156.13	19,745,892.47	4,467,760.02	81,358,288.58
Net carrying amount				
Buildings	130,695,744.14			124,722,471.61
Plant and Machinery	21,796,407.26			18,943,354.80
Motor vehicles	4,976,248.30			9,254,509.06
Office equipment	3,504,048.24			5,145,513.45
Others	12,517,489.20			17,408,873.02
Total net carrying amount	173,489,937.14			175,474,721.94
Provision for impairment losses				
Buildings	3,312,605.26	–	–	3,312,605.26
Plant and Machinery	3,353,369.03	–	152,013.41	3,201,355.62
Motor vehicles	1,000,000.00	–	–	1,000,000.00
Office equipment	8,804.67	–	–	8,804.67
Others	1,023,689.35	–	219,542.04	804,147.31
Total provision for impairment losses	8,698,468.31	–	371,555.45	8,326,912.86
Net carrying value				
Buildings	127,383,138.88			121,409,866.35
Plant and Machinery	18,443,038.23			15,741,999.18
Motor vehicles	127,383,138.88			121,409,866.35
Office equipment	18,443,038.23			15,741,999.18
Others	11,493,799.85			16,604,725.71
Total net carrying value	164,791,468.83			167,147,809.08

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

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

12. Fixed assets *(Continued)*

- (2) *Impairment loss on fixed assets once recognized will not be reversed in subsequent years.*
- (3) *The amount of construction in progress transferred to fixed assets during the year ended 31 December 2012 was RMB1,553,663.11.*
- (4) *Depreciation on fixed assets recognised in income statement for the year was RMB19,745,892.47 (2011: RMB17,241,124.28).*
- (5) *Loss on disposal of fixed assets recognised in income statement for the year was RMB203,245.72 (2011: a gain of RMB29,448.85).*
- (6) *The buildings are situated in the PRC and were held under medium-term leases (more than 10 years but less than 50 years).*
- (7) *As at 31 December 2012, there were no pledge of fixed assets*
- (8) *As at 31 December 2012, there were no idle fixed assets.*
- (9) *As at 31 December 2012, there were no assets held under financial leases.*
- (10) *As at 31 December 2012, there were no assets held under operating lease.*
- (11) *Fixed assets without property rights certificates as at 31 December 2012:*

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 2012 of RMB25,947,400. 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 2012 of RMB2,739,000 because it was built on the land leased by the Company and did not qualify for property rights certificate.

NOTES TO FINANCIAL STATEMENTS

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

13. Construction in progress

(1) Breakdown of construction in progress

Item	2012		Carrying value	2011		Carrying value
	Carrying amount	Provision for impairment		Carrying amount	Provision for impairment	
Sludge Project	18,126,057.08	-	18,126,057.08	3,333,137.08	-	3,333,137.08
Hazardous wastes transport system	2,737,680.00	-	2,737,680.00	-	-	-
Kingdee ERP System	2,632,051.29	-	2,632,051.29	2,724,970.09	-	2,724,970.09
Laboratory project in Shayi	2,341,220.50	-	2,341,220.50	1,967,470.50	-	1,967,470.50
Kingdee EAS Management softwares	1,491,199.36	-	1,491,199.36	-	-	-
Abandoned circuit board recycling treatment project	890,139.32	-	890,139.32	1,004,615.39	-	1,004,615.39
kitchen waste vehicles	427,500.00	-	427,500.00	-	-	-
Testing of kitchen waste project	181,363.64	-	181,363.64	-	-	-
Decoration of 12-13 floor of Dongjiang Building	163,662.40	-	163,662.40	-	-	-
Moulds	111,111.12	-	111,111.12	-	-	-
Making bricks from sludge project	85,000.00	-	85,000.00	34,000.00	-	34,000.00
Equipment for Macao project	-	-	-	806,705.14	-	806,705.14
Total	29,186,984.71		29,186,984.71	9,870,898.20	-	9,870,898.20

(2) Movements of significant construction in progress projects during the year ended 31 December 2012

Name of project	As at 1 January 2012		Decrease		As at 31 December 2012	Budget amount	Proportion of expenditure injected to budget (%)	Progress (%)	Accumulated capitalised interest	Including: Interest capitalised for the year	Source of funds
	Increase	Transfer to fixed assets	Other deductions								
Sludge Project in Fuyong	3,333,137.08	14,792,920.00	-	-	18,126,057.08	70,000,000.00	26	40	-	-	Own funds
Hazardous wastes transport system	-	2,737,680.00	-	-	2,737,680.00	9,125,600.00	30	30	-	-	Own funds
Kingdee ERP System	2,724,970.09	-	-	92,918.80	2,632,051.29	-	-	-	-	-	Own funds
Laboratory project in Shayi	1,967,470.50	373,750.00	-	-	2,341,220.50	50,000,000.00	5	35	-	-	Own funds
Kingdee EAS Management softwares	-	1,491,199.36	-	-	1,491,199.36	10,000,000.00	15	38	-	-	Own funds
Abandoned circuit board recycling treatment project	1,004,615.39	-	-	114,476.07	890,139.32	-	-	-	-	-	Own funds
kitchen waste vehicles	-	427,500.00	-	-	427,500.00	1,546,790.00	28	30	-	-	Own funds
Total	9,030,193.06	19,823,049.36		207,394.87	28,645,847.55						

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

14. Intangible assets

(1) Breakdown for intangible assets:

Item	As at 1 January 2012	Increase	Decrease	As at 31 December 2012
Cost				
Land use rights	14,985,483.39	–	–	14,985,483.39
Patents	105,400.00	–	–	105,400.00
Software	411,965.81	–	–	411,965.81
Total cost	15,502,849.20	–	–	15,502,849.20
Accumulated amortisation				
Land use rights	2,524,203.59	290,904.95	–	2,815,108.54
Patents	54,456.45	21,079.93	–	75,536.38
Software	17,720.63	82,392.48	–	100,113.11
Total accumulated Amortisation	2,524,203.59	290,904.95	–	2,815,108.54
Carrying value				
Land use rights	12,461,279.80			12,170,374.85
Patents	50,943.55			29,863.62
Software	394,245.18			311,852.70
Total carrying value	12,906,468.53			12,512,091.17

(2) Amortisation on intangible assets recognised in income statement for the year was RMB394,377.36 (2011: RMB568,605.71).

(3) The land use rights related to the land situated in the PRC and held under medium-term lease (more than 10 years but less than 50 years).

(4) As at 31 December 2012, there was no pledge of intangible assets.

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

15. Deferred income tax assets and deferred income tax liabilities

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

Item	2012	2011
Deferred income tax assets		
Provision for impairment loss of assets	2,643,821.42	3,379,544.30
Changes in fair value of financial assets held for trading	640,962.60	664,176.60
Deferred income	3,781,937.30	3,036,569.77
Total	7,066,721.32	7,080,290.67
Deferred income tax liabilities		
Equity adjustments to long-term equity investments	–	194,078.04
Changes in fair value of investment properties	782,481.48	770,046.48
Total	782,481.48	964,124.52

(2) *Details of deductible temporary differences and taxable temporary differences as at 31 December 2012 were as follows:*

Item	2012	2011
Deductible temporary difference		
Provision for impairment loss of assets	17,625,476.11	22,530,295.37
Changes in fair value of held for trading financial assets	4,273,084.00	4,427,844.00
Deferred income	25,212,915.36	20,243,798.44
Total	47,111,475.47	47,201,937.81
Taxable temporary difference		
Equity adjustments to long-term equity investments	–	1,293,853.61
Changes in fair value of investment properties	5,216,543.18	5,133,643.18
Total	5,216,543.18	6,427,496.79

16. Other non-current assets

Item	2012	2011
Trust Loan	9,036,792.00	10,040,880.00

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 2012 for the terms of 132 months. The loan was charged at interest rate of 5.26% per annum.

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

17. Short-term borrowings

(1) *Category of short-term borrowings*

Category	2012	2011
Bank loans	-	80,000,000.00

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

Category	2012	2011
Secured	-	20,000,000.00
Guaranteed	-	60,000,000.00
Total	-	80,000,000.00

(3) *There was no loan overdue as at 31 December 2012 (2011: NIL)*

18. Accounts payable

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

	2012	2011
Within 90 days	101,685,283.28	83,339,088.41
91-180 days	660,358.09	1,688,227.75
181-365 days	18,310,065.65	2,193,760.48
Over 1 year	496,547.20	4,237,938.02
Total	121,152,254.22	91,459,014.66

(2) *There were no accounts payable due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.*

(3) *As at 31 December 2012, the accounts payable due to related parties were RMB47,189,028.88, representing 38.95% of total accounts payable (2011: RMB53,569,945.00, 58.57%). The details are set out in note VII.3(4).*

(4) *As at 31 December 2012, there were no accounts payable in foreign currencies.*

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

19. Receipts in advance

Item	2012	2011
Within 1 year	9,108,105.58	18,874,195.37
Over 1 year	2,250,800.23	2,640,657.61
Total	11,358,905.81	21,514,852.98

- (1) The balances with significant amount and aged over 1 year were mainly receipts of contracting fee for projects yet to complete. Up to the approval date of these financial statements, no amount was settled.
- (2) There were no receipts in advance due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.
- (3) As at 31 December 2012, the receipts in advance due to related parties were RMB1,047,138.48, representing 9.22 % of total accounts payable (2011: 126,000.00, 0.59%). The details are set out in note VII.3(6).

20. Employee emolument payables

Item	As at 1			As at 31
	January 2012	Increase	Decrease	December 2012
Salaries, bonus, allowance and subsidies	15,412,656.58	69,372,592.90	68,734,712.31	16,050,537.17
Staff welfare	1,241,001.00	5,112,710.37	6,223,222.49	130,488.88
Social security	–	4,873,569.74	4,873,569.74	–
Including:				
Medical insurance	–	943,764.07	943,764.07	–
Basic pension	–	3,424,125.67	3,424,125.67	–
Unemployment insurance	–	183,081.58	183,081.58	–
Injury insurance	–	236,765.90	236,765.90	–
Maternity insurance	–	85,832.52	85,832.52	–
Housing provident fund	–	2,132,303.85	2,132,303.85	–
Union operation cost and staff education cost	–	665,937.94	665,937.94	–
Others	–	189,069.00	189,069.00	–
Total	16,653,657.58	82,346,183.80	82,818,815.33	16,181,026.05

- (1) The balance of staff emolument payables as at 31 December 2012 included accrued expenditure of salaries, bonus and subsidies of RMB16,050,000.00. There were no unpaid salaries.
- (2) There were no overdue salaries as at 31 December 2012.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

21. Tax payables

Item	2012	2011
VAT	2,798,392.09	(305,830.49)
EIT	17,087,098.45	5,348,938.66
Business tax	3,496,873.66	924,728.68
Individual income tax	180,988.41	272,508.22
Urban maintenance and construction tax	484,076.28	7,573.31
Education surcharge	380,030.89	33,873.05
Land use tax	12,961.95	104,994.78
Property tax	249,566.18	6,110.21
Others	672.10	19.49
Total	24,690,660.01	6,392,915.91

22. Other payables

Item	2012	2011
Within 1 year	147,766,454.15	112,651,688.01
Over 1 year	2,657,178.65	3,111,662.96
Total	150,423,632.80	115,763,350.97

The balances of other payables with 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) As at 31 December 2012, other payables with significant amount were mainly due to related parties
- (2) There was no other payables due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at 31 December 2012.
- (3) As at 31 December 2012, the other payables due to related parties were RMB95,436,617.78, representing 63.45% of total accounts payable (2011: RMB100,142,472.97, 86.51%). The details are set out in note VII.3(5).
- (4) As at 31 December 2012, there were no other payables in foreign currencies

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

23. Non-current liabilities repayable within one year

Item	2012	2011
Long-term borrowings – repayable within 1 year (Note XV.25)	14,000,000.00	30,000,000.00

24. Other current liabilities

The deferred income represents asset-related government grants. The details are set out in Note XV.26.

Item	2012	2011
Environmental special fund	2,086,883.08	2,086,883.08
Subsidies of energy-saving and emission-reduction projects	420,000.00	420,000.00
Total	2,506,883.08	2,506,883.08

25. Long-term borrowings

Item	2012	2011
Long-term bank loans	14,000,000.00	85,000,000.00
Less: Amount repayable within one year and showed under non-current liabilities due within one year (Note VIII.23)	14,000,000.00	30,000,000.00
Long-term borrowings repayable after 1 year	–	55,000,000.00

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

Item	2012	2011
Within 1 year	14,000,000.00	110,000,000.00
In more than 1 year but less than 2 years	–	27,000,000.00
In more than 2 years but less than 5 years	–	28,000,000.00
Total	14,000,000.00	165,000,000.00

(2) Category of long-term bank loans

Category	2012	2011
Unsecured, not mortgage or guaranteed	14,000,000.00	165,000,000.00

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

25. Long-term borrowings (Continued)

(3) The top five long-term bank loans were as follows:

Lender	Commencement date	Due date	Interest rate (%)	2012	2011
Industrial Bank Shenzhen Gaoxingqu Branch	2009-11-11	2013-11-11	Floating rate	14,000,000.00	27,000,000.00
Shenzhen Development Bank Co. Limit	2010-2-9	2012-2-9	Floating rate	-	30,000,000.00
China Citic Bank Xixinag Branch	2011-2-28	2014-2-28	Floating rate	-	28,000,000.00
Total				14,000,000.00	27,000,000.00

26. Other non-current liabilities

Item	2012	2011
Deferred income of asset-related government grants	25,212,915.36	19,979,798.44
Less: Amount realisable within 1 year (Note XV.24)	2,506,883.08	2,506,883.08
Amount realisable after one year	22,706,032.28	17,472,915.36

(1) Movements of deferred income during the year ended 31 December 2012 were as follows:

Category	As at 1 January 2012	Government grants received during the year (Note VIII.29)	Amortisation for the year (Credited to non-operating income)	Exchange difference	As at 31 December 2012
Copper sludge projects of the Company	1,266,666.67	-	400,000.00	-	866,666.67
Special funds for environmental protection projects for the Company	8,278,931.76	-	356,083.08	-	7,922,848.68
Subsidies for energy conservation of the Company	2,280,000.01	-	720,000.00	-	1,560,000.01
Wastewater treatment re-construction projects	7,064,200.00	-	1,830,800.00	-	5,233,400.00
Environmental emergency response equipment and supplies allowances	340,000.00	-	-	-	340,000.00
Research of key technology of recycling of waste printed circuit board and integrated demonstration projects	750,000.00	190,000.00	-	-	940,000.00
South cities Sludge anaerobic digestion and the safe operation of the technology and equipment	-	3,350,000.00	-	-	3,350,000.00
Shenzhen fuyong river sludge treatment plant (phase 2)	-	5,000,000.00	-	-	5,000,000.00
Total	19,979,798.44	8,540,000.00	3,306,883.08	-	25,212,915.36

There was no return of government grants during the year (2011: NIL).

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For the year ended 31 December 2012
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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

27. Net current assets

Item	2012	2011
Current assets	1,217,717,244.35	790,986,304.22
Less: Current liabilities	340,313,361.97	364,290,675.18
Net current assets	877,403,882.38	426,695,629.04

28. Total assets less current liabilities

Item	2012	2011
Total assets	2,474,943,540.67	1,387,694,868.17
Less: Current liabilities	(340,313,361.97)	(364,290,675.18)
Total assets less current liabilities	2,134,630,178.70	1,023,404,192.99

29. Borrowings

For the purposes of reporting under Hong Kong Companies Ordinance, the borrowings of the Company are summarized as follows

Items	2012	2011
Short term bank loan	–	80,000,000.00
Long term loan	14,000,000.00	85,000,000.00
Total	14,000,000.00	165,000,000.00

Items	2012	2011
Bank Loan		
Wholly repayable within 5 years	14,000,000.00	165,000,000.00

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

30. Operating revenue and operating costs

Item	2012	2011
Operating revenue	842,244,292.45	923,298,597.09
Other operating revenue	–	–
Total	842,244,292.45	923,298,597.09
Operating costs	512,122,127.19	618,268,754.27
Other operating costs	–	–
Total	512,122,127.19	618,268,754.27

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

	2012		2011	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Industrial waste recycling	488,950,255.41	331,460,633.71	545,994,883.53	444,005,960.93
Industrial waste treatment and disposal	153,668,829.91	42,245,731.86	190,303,398.17	29,217,235.78
Municipal waste treatment and disposal	63,587,968.75	43,171,585.27	77,228,416.57	56,061,453.25
Environment engineering and services	125,079,315.79	93,784,612.57	41,473,325.71	35,515,777.51
Trading and others	10,957,922.59	1,459,563.78	68,298,573.11	53,468,326.80
Total	842,244,292.45	512,122,127.19	923,298,597.09	618,268,754.27

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

Location	2012		2011	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Shenzhen	382,088,532.71	214,605,788.31	429,020,296.00	278,133,971.26
Other regions of Pearl River Delta	196,704,095.66	106,931,410.06	157,668,361.70	86,032,758.32
Other regions of Guangdong Province	112,223,111.61	88,939,633.45	151,999,254.37	107,104,979.15
Other Provinces	151,228,552.47	101,645,295.37	184,610,685.02	146,997,045.54
Total	842,244,292.45	512,122,127.19	923,298,597.09	618,268,754.27

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For the year ended 31 December 2012

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

30. Operating revenue and operating costs (Continued)

(3) The top five customers of revenue from principal operations for the year ended 31 December 2012

Name of customer	Operating revenue	Proportion to total operating revenue (%)
Jiangmen Chongda Circuit Technique Co., Limited	73,495,000.00	8.73
Shenzhen Xiaping Solid Waste Landfill Site	47,789,233.57	5.67
Jiangxin Xinjinye Industrial Co., Limited	43,902,455.97	5.21
Guangdong Guanghua Technology Co., Limited	31,389,341.46	3.73
Zhuyou Electrical and Electronic Products (Shenzhen) Co. Limit	19,053,629.15	2.260
Total	215,629,660.15	25.60

31. Gross profit

Item	2012	2011
Operating revenue	842,244,292.45	923,298,597.09
Less: Operating costs	512,122,127.19	618,268,754.27
Gross profit	330,122,165.26	305,029,842.82

32. Sales tax and levies

Item	2012	2011
Business tax	3,259,994.75	637,364.41
Urban maintenance and construction tax	2,525,411.11	1,727,519.08
Education surcharge	1,804,241.79	1,192,554.04
Total	7,589,647.65	3,590,558.24

33. Selling expenses

Item	2012	2011
Total	3,957,424.27	11,333,482.69
Including:		
Advertisement	246,266.34	933,832.09
Salaries	744,144.21	3,051,990.37
Transportation	2,589,174.26	1,880,220.72

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

34. Administrative expenses

Item	2012	2011
Total	106,117,043.57	89,802,291.28
Including:		
Salaries	28,654,018.45	28,630,624.99
Depreciation	8,961,205.59	7,987,978.96
Research and development expenses	15,276,819.95	16,182,070.38
Entertainment	4,792,247.10	5,593,301.10
Office expenses	4,170,073.91	3,308,585.04
Rental	2,971,174.53	4,053,392.86
Travelling	2,364,262.94	3,005,383.74
Labour insurance	2,438,185.18	1,688,291.79
Staff welfare	2,537,184.16	3,268,895.96
Professional fee	1,599,936.80	22,600.00

35. Finance costs

(1) Breakdown of finance costs

Item	2012	2011
Interest expenses	4,927,420.33	13,514,724.84
Less: Interest income	17,845,197.69	8,264,636.43
Add: Exchange difference	(193,824.31)	768,129.70
Add: Other expenses	353,907.78	423,748.43
Total	(12,757,693.89)	6,441,966.54

(2) Interest expenses comprising:

Item	2012	2011
Interest on bank loans		
– Wholly repayable within 5 years	4,927,420.33	13,514,724.84

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

36. Impairment loss of assets

Item	2012	2011
Provision (reversal) for bad debts	(3,798,497.14)	(384,180.31)
Impairment loss on inventories	(458,564.36)	–
Total	(4,257,061.50)	(384,180.31)

37. Gain (loss) on fair value changes

Item	2012	2011
Trading financial assets	154,760.00	(79,530.00)
Investment properties on fair value	82,900.00	(404,089.00)
Total	237,660.00	(483,619.00)

38. Investment income (loss)

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

Item	2012	2011
Share of profit of jointly controlled entities and associates	12,256,840.32	6,326,430.27
Dividends from subsidiaries	9,180,000.00	7,650,000.00
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	108,545.00	94,366.14
Loss on disposal of financial assets held-for-trading	–	(209,785.34)
Income received from entrusted loans	–	476,802.35
Total	21,545,385.32	18,938,410.05

Investment gain arising from listed equity investments for the year was RMB108,545.00 (2011: a loss of RMB115,419.20).

There are no significant restrictions on remittance of investment gains back to the Company.

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

38. Investment income (Continued)

(2) Details of share of profit (loss) of jointly controlled entities and associates

Item	2012	2011	Reason for changes
Shuangxin Cement	–	(1,582,909.56)	Disposed in 2011
Shenzhen Micronutrients	831,203.51	100,017.79	Increase in profitability
Dongjiang Veolia	10,357,933.36	6,517,814.25	Increase in profitability
Shenzhen Resource	1,340,348.34	1,529,264.77	Decrease in profitability
Zuhai Qingxin	(272,644.89)	(237,756.98)	Became a subsidiary during the year
Total	12,256,840.32	6,326,430.27	

(3) Dividends received from subsidiaries

Item	2012	2011	Reason for changes
Qiandeng Wastes Treatment	8,925,000.00	6,885,000.00	Increase in profitability
Kunshan Kunpeng	255,000.00	765,000.00	Increase in profitability
Total	9,180,000.00	7,650,000.00	

39. Non-operating income

(1) Breakdown of non-operating income

Item	2012	2011	Recorded as non-recurring profit or loss
Gain on disposal of fixed assets	371,895.32	60,348.11	371,895.32
Gain on disposal of intangible assets	–	1,230,011.87	–
Gain on disposal of non-current assets	371,895.32	1,290,359.98	371,895.32
Government grants (note 2)	3,325,083.08	4,454,283.08	3,325,083.08
Others	771,229.37	314,384.38	771,229.37
Total	4,468,207.77	6,059,027.44	4,468,207.77

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

39. Non-operating income (Continued)

(2) Details of government grants

2012

Item	Amount received	Transfer of asset-related government grants to deferred income (Note VIII.26)	Credited to non-operating income	Source and basis
Subsidies for patents from Shenzhen Market Supervision Bureau	15,800.00	-	15,800.00	Shenzhen Administrative Method of Application for subsidies for patents
Subsidies for Nanshan District High-level Innovative Manpower Training	2,400.00	-	2,400.00	Nanshan District High-level Innovative Manpower Training Base Management Method
Research of key technology of recycling of waste printed circuit board and integrated demonstration projects	190,000.00	190,000.00	-	Contract for Funds of Shenzhen Science and Technology Research and Development Projects
Southern cities Sludge anaerobic digestion and the safe operation of the technology and equipment	3,350,000.00	3,350,000.00	-	Mission Statements for Issues of National Hig-Tech Research and Development Plan (Plan 863)
Subsidies for construction work of Shenzhen Fuyong river sludge treatment plant (phase 2)	5,000,000.00	5,000,000.00	-	Contract for the Use of Special Funds of Shenzhen Environmental Protection Project
Sub-total	8,558,200.00	8,540,000.00	18,200.00	
Amortisation of asset-related government grants transfer from other non-current liabilities (Note XV.26)			3,306,883.08	
Total	8,558,200.00	8,540,000.00	3,325,083.08	

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

39. Non-operating income (Continued)

(2) Details of government grants (Continued)

2011

Item	Amount received	Transfer to deferred income (Note VIII.26)	Credited to non-operating income	Source and basis
Nanshan region economic development special fund—rewards for famous brands in Chinese and Guangdong Province	800,000.00	-	800,000.00	Nan Gong Ji [2011] No. 7
Subsidies for patent from Shenzhen Market Supervision Bureau	27,400.00	-	27,400.00	Shenzhen intellectual property office (Shen Cai Qi [2005] No.37)
Pengchang reward for pollution reduction 2009	20,000.00	-	20,000.00	Kunshan City Qiandeng Town (Qianzhengfa [2011] No.5)
Wastewater treatment reconstruction projects	3,800,000.00	3,800,000.00	-	Shen Fu [2006] No. 196 of Shenzhen Environmental Protection Bureau
Shen Fu [2006] No. 196 of Shenzhen Environmental Protection Bureau	3,000,000.00	3,000,000.00	-	Shen Fu [2006] No. 196 of Shenzhen Environmental Protection Bureau
Shen Fu [2006] No. 196 of Shenzhen Environmental Protection Bureau	750,000.00	750,000.00	-	Yue Ke Gui Hua Zi [2010] No.126
Sub-total	8,397,400.00	7,550,000.00	847,400.00	
Transfer from other non-current liabilities (Note XV.26)			3,606,883.08	
Total	8,397,400.00	7,550,000.00	4,454,283.08	

40. Non-operating expenses

Item	2012	2011	Recorded as non-recurring profit or loss for 2012
Loss on disposal of fixed assets	575,141.04	30,899.26	575,141.04
Donations	800,000.00	800,000.00	800,000.00
Others	223,557.76	573,239.85	223,557.76
Total	1,598,698.80	1,404,139.11	1,598,698.80

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

41. Income tax expenses

(1) *Income tax expenses comprise:*

Item	2012	2011
Current income tax	30,106,584.17	21,104,927.04
Deferred income tax	(168,073.69)	952,959.65
Total	29,938,510.48	22,057,886.69

(2) *Current income tax*

Item	2012	2011
Current income tax	29,188,628.89	21,104,927.04
Under-provision in prior years	917,955.28	–
Total	30,106,584.17	21,104,927.04

(3) *Reconciliation of total profit to current income tax for the year*

Item	2012	2011
Total profit	254,125,359.45	217,355,403.76
Income tax calculated at tax rate of 15%	38,118,803.92	32,603,310.56
Effect of non taxable income	(7,570,050.47)	(11,254,960.40)
Effect of non-deductible expenses	(382,436.75)	1,966,691.81
Effect of additional research and development expenditure deduction	(1,145,761.50)	(1,257,155.28)
Under-provision in prior years	917,955.28	–
Income tax expenses	29,938,510.48	22,057,886.69

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT COMPANY

(Continued)

42. Supplementary information of cash flow statement of the Company

1) *Reconciliation of net profit as cash flows from operating activities*

Item	2012	2011
Net profit	224,186,848.97	195,297,517.07
Add: Provision for assets impairment	(4,257,061.50)	(384,180.31)
Depreciation of fixed assets	19,745,892.47	17,241,124.28
Amortisation of intangible assets	394,377.36	568,605.71
(Gain) loss on disposal of fixed assets, intangible assets and other long-term assets	203,245.72	(1,289,064.36)
Loss on written off of disposal fixed assets	-	4,254.14
(Gain) loss on changes in fair value	(237,660.00)	483,619.00
Finance costs	4,733,596.02	13,521,240.66
(Gain) loss on investment	(21,545,385.32)	(18,938,410.05)
(Increase) decrease in deferred income tax assets	13,569.35	819,494.96
Increase in deferred income tax liabilities	(181,643.04)	133,464.69
Increase in inventories	2,209,008.22	46,556,778.42
Decrease (increase) in operating accounts receivable	52,022,697.25	(70,867,632.96)
Increase in operating accounts payable	8,442,686.79	39,343,824.68
Net cash flow from operating activities	285,730,172.29	222,490,635.94

2) *Changes in cash and cash equivalents*

Item	2012	2011
Cash at end of year	667,738,198.05	125,568,274.93
Less: Cash equivalent at end of last year	125,568,274.93	84,954,056.48
Changes in cash and cash equivalents	542,169,923.12	40,614,218.45

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XVI. 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	2012	2011
Gain on disposal of non-current assets	(623,199.29)	(129,546.02)
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	1,027,193.76	664,972.65
Government grants credited to profit for the period (Except for those grants that are closely related with the Company’s business and in fixed amount or quantity as determined according to the national uniform standards)	10,778,182.92	9,980,666.26
The excess of the share of fair value of net identifiable assets of the investee company over the cost of investment of acquisition of subsidiaries, associates and jointly controlled entities	486,508.23	–
Funds used fee received from non-financial enterprises and recorded in profit or loss for the period	–	1,614,766.10
Except for effective hedging for the ordinary course of operations of the company, profit or loss arising from fair value change in financial assets held for trading and financial liabilities held for trading; and investment income from gain or loss on disposal of financial assets held for trading, financial liabilities held for trading and available for sale financial assets	263,305.00	(185,959.09)
Reversal of provision for bad debts for accounts receivable which was individually tested for impairment	5,085,380.00	579,024.50
Income received from held for trust loans during the period	264,074.52	476,802.35
Changes in fair value of investment properties measured at fair value	82,900.00	(404,089.00)
Other non-operating income and expenses	2,208,410.05	(1,793,656.37)
Sub-total	19,572,755.19	10,802,981.38
Effect on income tax	(1,566,658.66)	(855,394.26)
Effect on minority interest (after tax)	(232,909.45)	(1,681,709.60)
Total	17,773,187.08	8,265,877.52

2. Returns on net assets and earnings per share

In accordance with the requirements of “Compilation Rules for Information Disclosures by Listed Companies No. 9-Calculations and disclosures for the weighted average returns on net assets and earnings per share” (as amended in 2011) 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 2012 are as follows:

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XVI. SUPPLEMENTARY INFORMATION (Continued)

2. Returns on net assets and earnings per share (Continued)

Profit for the reporting 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	15.37	1.88	1.88
Net profit attributable to shareholders of the Company (excluding non-recurring profit and loss)	14.34	1.75	1.75

3. Explanations of changes in significant items in the consolidated financial statements

The analysis of significant items whose fluctuation are over 30% (inclusive of 30%) as compared with last year; or whose amount are more than 5% (inclusive of 5%) of the total assets; or 10% (inclusive of 10%) of the total profit of the Group for the year of 2012.

(Unit: in '000)

Assets	Note	2012	2011	Movement	Percentage of change
Cash and bank balances	Note 1	1,027,814.60	252,003.10	775,811.50	307.86
Notes receivable	Note 2	31,778.50	22,922.10	8,856.40	38.64
Accounts receivable	Note 3	207,393.40	180,256.70	27,136.70	15.05
Prepayments	Note 4	164,694.00	147,663.80	17,030.20	11.53
Non-current assets due within one year	Note 5	28,680.00	–	28,680.00	–
Inventories	Note 6	258,488.50	225,153.00	33,335.50	14.81
Long-term receivables	Note 5	44,815.00	–	44,815.00	–
Fixed assets	Note 7	572,193.60	473,101.00	99,091.80	20.95
Construction in progress	Note 8	239,146.00	300,798.40	(61,652.30)	(20.50)
Intangible assets	Note 9	298,560.50	169,684.00	128,876.50	75.95
Goodwill	Note 10	42,789.70	3,052.00	39,737.70	1,302.01

Note 1: Proceeds from issue of A shares were received;

Note 2: Notes receivable from industrial waste recycling sales was increased in this period. The notes were bank accepted bills.

Note 3: Revenue from municipal waste treatment and disposal, environmental engineering and services income were increased. The turnover of receivables was about 4 months;

Note 4: The increase was caused by the unsettlement of construction in progress.

Note 5: It was the receivables from rendering of services of environmental engineering services. The receivables was contracted to be settled by installments;

Note 6: The cost of certain environmental engineering works were unsettled and the newly acquired subsidiaries, Jiaying Deda and Qingyuan Xinlv;

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XVI. SUPPLEMENTARY INFORMATION (Continued)

3. Explanations of changes in significant items in the consolidated financial statements (Continued)

Note 7: It was caused by the transfer of construction in progress to fixed assets when the investment projects were at the conditions for the intended use; and the inclusion of new subsidiaries;

Note 8: It was caused by the transfer of construction in progress to fixed assets when the investment projects were at the conditions for the intended use;

Note 9: It was caused by the transfer of construction in progress to intangible assets when the investment projects were at the conditions for the intended use;

Note 10: The goodwill was resulted from acquisition of subsidiaries Jiaxing Deda, Qingyuan Xinlv and Zhuhai Qingxin during the period.

(Unit: in '000)

Liability and Equity	Note	2012	2011	Movement	Percentage of change
Short term borrowing	Note 1	38,109.00	128,107.00	(89,998.00)	(70.25)
Accounts payable	Note 2	209,740.10	154,155.80	55,584.30	36.06
Receipts in advance	Note 3	58,671.80	86,559.80	(27,888.00)	(32.22)
Tax payable	Note 4	13,538.80	(11,021.00)	24,559.80	(222.85)
Other payables	Note 5	114,873.50	60,540.20	54,333.30	89.75
Non-current liabilities due within 1 year	Note 6	152,811.80	55,065.80	97,746.00	177.51
Long-term borrowing	Note 7	118,556.20	341,964.40	(223,408.20)	(65.33)
Other non-current liabilities	Note 8	69,429.00	51,3407.0	18,088.30	35.23
Total non-current liabilities	Note 9	220,803.30	432,090.60	(211,287.20)	(48.90)
Surplus reserves	Note 10	93,173.20	70,754.60	22,418.70	31.69
Undistributed profits	Note 11	919,750.30	750,701.40	169,048.90	22.52
Translation of financial statements denominated in foreign currency	Note 12	19.60	(586.60)	606.10	(103.33)
Minority shareholder's equity	Note 13	178,923.00	103,337.50	75,585.50	73.14

Note 1: The loans were matured and repaid;

Note 2: The purchase were increase as a result of the expansion in production scale;

Note 3: The sales which required customers to pay in advance were decreased because the price for metal was dropped;

Note 4: It was caused by the increase in income tax and decrease in input VAT;

Note 5: It was caused by the increase in payables for acquisition of equity interests from minority shareholders;

Note 6: The portion of long-term borrowings to be repayable within 1 year were increased;

Note 7: The borrowings were matured and repaid;

Note 8: The assets-related government grants were increased;

Note 9: Long term borrowings were matured for repayment and the obligations under finance leases were decreased;

Note 10: It was caused by the provision for statutory surplus reserves for the year;

Note 11: The profit for the year was included and dividends were paid during the year;

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

XVI. SUPPLEMENTARY INFORMATION (Continued)

3. Explanations of changes in significant items in the consolidated financial statements (Continued)

Note 12: It was arisen from the change in exchange rate;

Note 13: The number of subsidiary was increased and the share of minority interests was transferred in.

(Unit: in '000)

Profit and loss	Note	2012	2011	Movement	Percentage of change
Operating revenue	Note 1	1,521,517.70	1,501,074.40	20,443.40	1.36
Operating cost	Note 2	959,814.50	978,389.40	(18,575.00)	(1.90)
Selling expenses	Note 3	34,011.70	56,397.80	(22,386.20)	(39.69)
Administrative expenses	Note 4	207,692.60	179,152.90	28,539.70	15.93
Finance cost	Note 5	3,192.40	19,641.30	(16,448.90)	(83.75)
Impairment loss of assets	Note 6	(1,936.94)	25,795.51	(27,732.46)	(107.51)
Gain on fair value changes	Note 7	237.70	(483.60)	721.30	(149.14)
Income tax expenses	Note 8	38,711.30	37,468.50	1,242.80	3.32
Other comprehensive income	Note 9	606.10	(988.40)	1,594.60	(161.32)

Note 1: Revenue from environmental engineering and service and industrial waste treatment and disposal were increased as a result of expansion in market;

Note 2: The production cost was effectively controlled as a result of the upgrading of internal management and optimising of techniques;

Note 3: Transportation cost was decreased as a result of the efficient vehicle dispatching and enhancement of training in examination and repairing skills for drivers. Furthermore, the labour costs were decreased as a result of slimlining the staffing of products trading, decreasing the rate of commission for sales personnel due to the change in market situation;

Note 4: The increase in administrative expenses was mainly due to the continuously enhancement of research and development. Besides, it was due to the increase in road show and promotional costs as a result of the listing of A shares; the merger industrial waste department into market management department in order to strengthen the market management and further enhance internal control system; the increase in number of subsidiaries, etc.;

Note 5: The bank loans were decreased;

Note 6: The bad debts of RMB5 million provided in prior period were recovered during the year and the provision of impairment loss on goodwill of RMB23.83 million was made in last year;

Note 7: It was caused by the changes in fair value of investment properties;

Note 8: It was caused by increase in profit for the year;

Note 9: The change in exchange rate caused the changes in translation difference on consolidation.

XVII. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 27 March 2013.

Dongjiang Environmental Company Limited
27 March 2013