

Interim Report
2007



深圳市東江環保股份有限公司
Shenzhen Dongjiang Environmental Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)

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This report, for which the directors (the “Directors”) of Shenzhen Dongjiang Environmental Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the six months ended 30 June, 2007 (the "Period"), the Group realized a sustainable growth in its core business-sale of recycled products and waste treatment.
- Revenue was increased by approximately 68.7% to RMB310,338,000 for the Period as compared to that of the same period in 2006 (2006: RMB183,974,000).
- Profit attributable to equity holders of the parent was increased by approximately 67.5% to RMB59,872,000 for the Period as compared to that of the same period in 2006 (2006: RMB35,736,000).
- Earnings per share was RMB0.0954 (2006: RMB0.0570) for the Period.
- The Board does not recommend the payment of any dividend for the Period (2006: Nil).

INTERIM RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months and three months ended 30 June, 2007, together with the comparative figures of the corresponding periods of 2006, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June,		Three months ended 30 June,	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
REVENUE	2	310,338	183,974	175,289	98,329
Cost of sales		(160,573)	(97,574)	(80,826)	(46,585)
Gross Profit		149,765	86,400	94,463	51,744
Other income		2,747	4,086	46	–
Selling and distribution costs		(12,426)	(10,290)	(4,088)	(4,657)
Administrative expenses		(34,626)	(17,949)	(20,767)	(8,442)
Other operating expenses		(28,953)	(20,041)	(24,368)	(16,577)
Finance costs		(747)	(121)	(463)	(114)
PROFIT BEFORE TAX	4	75,760	42,085	44,823	21,954
Income tax expenses	5	(13,913)	(8,380)	(7,147)	(4,435)
PROFIT FOR THE PERIOD		61,847	33,705	37,676	17,519
Attributable to:					
Equity holders of the parent		59,872	35,736	37,138	19,819
Minority interests		1,975	(2,031)	538	(2,300)
		61,847	33,705	37,676	17,519
DIVIDENDS	6	–	–	–	–
EARNINGS PER SHARE – BASIC	7	RMB0.0954	RMB0.0570	RMB0.0591	RMB0.0316

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	At 30 June, 2007 (Unaudited) RMB'000	At 31 December, 2006 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	220,899	173,209
Investment properties		2,914	2,914
Prepaid lease payments		34,621	22,175
Intangible assets		350	160
Interests in associates		393	393
Deferred tax assets		2,288	2,798
		261,465	201,649
CURRENT ASSETS			
Inventories		26,771	34,793
Amounts due from customers for contract work		1,946	–
Trade and other receivables	9	129,417	70,544
Prepaid lease payments		559	475
Other current assets		–	24,000
Bank balances and cash		186,802	145,783
		345,495	275,595
CURRENT LIABILITIES			
Trade and other payables	10	150,994	96,250
Amounts due to customers for contract works		12,274	12,235
Income tax payable		5,019	3,490
Interest-bearing bank borrowings		48,800	39,000
		217,087	150,975
NET CURRENT ASSETS		128,408	124,620
TOTAL ASSETS LESS CURRENT LIABILITIES		389,873	326,269

	<i>Notes</i>	At 30 June, 2007 (Unaudited) RMB'000	At 31 December, 2006 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred revenue		11,000	10,000
		378,873	316,269
CAPITAL AND RESERVES			
Share Capital	11	62,738	62,738
Reserves		261,528	201,357
EQUITY ATTRIBUTABLE TO EQUITY			
HOLDERS OF THE PARENT		324,266	264,095
MINORITY INTERESTS		54,607	52,174
TOTAL EQUITY		378,873	316,269

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the parent								
	Share capital	Share premium	Reserve funds	Translation reserve	Retained earnings	Dividend reserve	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2006	62,738	30,309	27,285	-	64,318	12,548	197,198	53,942	251,140
Profit for the period	-	-	-	-	35,736	-	35,736	(2,031)	33,705
Transfer from retained earnings	-	-	1,748	-	(1,748)	-	-	-	-
Exchange adjustment	-	-	-	(12)	-	-	(12)	-	(12)
Contribution from minority shareholders	-	-	-	-	-	-	-	6,860	6,860
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(7,726)	(7,726)
At 30 June, 2006	62,738	30,309	29,033	(12)	98,306	12,548	232,922	51,045	283,967
At 1 January, 2007	62,738	30,309	45,984	(50)	125,114	-	264,095	52,174	316,269
Profit for the period	-	-	-	-	59,872	-	59,872	1,975	61,847
Exchange adjustment	-	-	-	(108)	123	-	15	-	15
Contribution from minority shareholders	-	-	-	-	-	-	-	200	200
Disposal of a subsidiary	-	-	-	-	284	-	284	258	542
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-
At 30 June, 2007	62,738	30,309	45,984	(158)	185,393	-	324,266	54,607	378,873

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June,	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	<i>RMB'000</i>
Net cash inflow from operating activities	84,656	84,427
Net cash used in investing activities	(76,892)	(81,608)
Net cash from financing activities	33,255	11,001
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Increase in cash and cash equivalents	41,019	13,820
Cash and cash equivalents at beginning of the period	145,783	82,109
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	186,802	95,929
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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS:**1. Basis of preparation and principal accounting policies**

The unaudited condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements of the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and Chapter 18 of the GEM Listing Rules. The condensed consolidated interim financial statements are prepared on historical cost basis except for certain investment properties and financial instruments, which are measured at fair value (where applicable).

The accounting policies and methods of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December, 2006. The consolidated results are unaudited and have been reviewed by the audit committee of the Company.

2. Revenue

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

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

	Six months ended		Three months ended	
	30 June,		30 June,	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Sale of recycled products and the provision of waste treatment services	295,127	163,205	167,867	85,264
Revenue from construction and operation of environmental protection systems	8,414	11,610	2,740	7,993
Trading of chemical products	6,797	9,131	4,682	5,072
Consultation service income	-	28	-	-
	310,338	183,974	175,289	98,329

3. Segment information

For management purposes, the Group is currently organised into four operating divisions – production and sales of recycled products and provision of waste treatment services, construction and operation of environmental protection systems, trading of chemical products and provision of consultation service. These divisions are the basis on which the Group reports its primary segment information.

The Group adopted business segments as the primary basis of segment reporting and the analysis of the Group's revenue and contribution to results by business segment during the Period are as follows:

For the six months ended 30 June:

	Production and sales of recycled products and the provision of waste treatment		Construction and operation of environmental protection systems		Trading of chemical products		Consultation service		Total	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
<i>Amounts in RMB'000</i>										
Segment revenue:										
Sales to external customers	295,127	163,205	8,414	11,610	6,797	9,131	-	28	310,338	183,974
Segment results	86,598	41,366	2,209	2,078	638	261	-	1	89,445	43,706
Unallocated corporate expenses (Note)									(12,938)	(1,500)
Finance costs									(747)	(121)
Profit before tax									75,760	42,085
Income tax expenses									(13,913)	(8,380)
Profit for the period									61,847	33,705
OTHER INFORMATION:										
Capital expenditure of property, plant and equipment	57,166	36,058	10,489	830	19	18	-	-	67,674	36,906
Depreciation of property, plant and equipment	7,768	4,895	707	230	98	146	-	5	8,573	5,276
Impairment losses on property, plant and equipment	11,644	9,045	-	-	-	-	-	-	11,644	9,045

Note: Unallocated corporate expenses include general and administrative expenses and advertising and promotion fees etc. of the Company.

No further geographical segment information is presented as the Group's customers and operations are mostly located in the People's Republic of China ("PRC").

4. Profit before tax

The Group's profit before tax is arrived at after charging:

	Six months ended	
	30 June,	
	2007	2006
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Cost of goods sold	147,206	83,882
Depreciation	8,573	5,276
Amortisation of prepaid lease payments	501	213
Amortisation of intangible assets	160	17
Impairment losses on property, plant and equipment	11,644	9,045

5. Income tax expenses

The Company is located in the Shenzhen Special Economic Zone and subject to the PRC corporate income tax at a rate of 15% (2006: 15%) of the estimated assessable income determined in accordance with the relevant income tax rules and regulations of the PRC. During the Period, the Company was eligible to a preferential tax rate of 7.5% for three years since 2006 as an Advanced New Technology Enterprise (2006: 7.5%).

The subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC corporate income tax at a rate of 15% (2006: 15%). Subsidiaries located in other cities are subject to the PRC corporate income tax at a rate of 33% (2006: 33%).

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

6. Dividends

The Board does not recommend the payment of an interim dividend for the Period (2006: Nil).

7. Earnings per share

The calculation of the basic earnings per share is based on the unaudited profit attributable to the equity holders of the parent for the Period of RMB59,872,000 (2006: RMB35,736,000) and the weighted average number of 627,381,872 (2006: 627,381,872) ordinary shares in issue during the Period.

No diluted earnings per share was presented as no diluting events existed for each of the six months ended 30 June, 2006 and 2007.

8. Property, plant and equipment

During the Period, the Group acquired approximately RMB67,674,000 property, plant and equipment for group expansion. The Group charged approximately RMB8,573,000 depreciation and recognised impairment losses of approximately RMB11,644,000 in respect of those idle plant and machinery for the Period.

9. Trade and other receivables

The Group allows an average credit period of 30 days to 90 days given to its trade customers, except for new customers, where payment in advance is normally required.

An aged analysis of trade receivables, based on invoice date and net of allowance, is as follows:

	30 June, 2007 (Unaudited) RMB'000	31 December, 2006 (Audited) RMB'000
Current to 90 days	54,744	31,472
91 to 180 days	5,701	3,421
181 to 365 days	4,996	1,751
Over 1 year	–	826
	65,441	37,470

10. Trade and other payables

An aged analysis of trade payables, based on payment due date is as follows:

	30 June, 2007 (Unaudited) RMB'000	31 December, 2006 (Audited) RMB'000
Current to 90 days	67,957	45,695
91 to 180 days	6,132	6,646
181 to 365 days	5,384	91
Over 1 year	579	1,519
	80,052	53,951

11. Share Capital

	30 June, 2007 (Unaudited) RMB'000	31 December, 2006 (Audited) RMB'000
Ordinary shares of RMB0.10 each Authorized, issued and fully paid:		
449,481,872 domestic shares	44,948	44,948
177,900,000 H shares	17,790	17,790
	62,738	62,738

12. Capital commitment

	30 June, 2007 (Unaudited) RMB'000	31 December, 2006 (Audited) RMB'000
Contracted, but not provided for:		
Property, plant and equipment (Note 1)	17,500	3,884
Construction in progress (Note 2)	55,796	31,542
Acquisition of additional interest in subsidiaries (Note 3)	3,000	–
	76,296	35,426

Notes:

- Contracts entered into by the Company's 100%-owned subsidiary Shenzhen Dongjiang Environment Recycled Power Co., Ltd (深圳市東江環保再生能源有限公司) for purchasing new electricity generating equipment.
- The amount included: RMB40,000,000 under a contract entered into by the Company's 51%-owned subsidiary Huizhou Dongjiang-Veolia Environmental Services Co., Ltd. (惠州東江威立雅環境服務有限公司) (formerly known as Huizhou Dongjiang-Onyx Solid Waste Treatment Co., Ltd. (惠州東江奧綠思固體廢物處理有限公司)) for facilities construction and RMB15,796,000 under contracts entered into by the Company and its four subsidiaries for facilities construction.
- Pursuant to an equity interest transfer agreement entered into between the Company and the minority shareholder of Lishan, the Company would increase its shareholding in Lishan to 100% at a cash consideration of RMB3,000,000.

13. Related party transactions

The Group entered into the following transactions during the Period with related parties:

	Six months ended	
	30 June,	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of finished goods to a minority shareholder of Dongjiang Heritage	9,176	–
Rental income received from Shenzhen Fang Yuan Petrochemical Industrial Co., Ltd. (“Fang Yuan”) which is the shareholder of the Company	300	250
Rental expense in respect of motor vehicle paid to Shenzhen Wen Ying Trading Company Limited (“Wen Ying”) which is the shareholder of the Company	–	60
Rental expense in respect of the technology use right paid to a minority shareholder of Shenzhen Longgang Dongjiang Industrial Waste Treatment Co., Ltd.	677	676
Rental income received from a company in which a director of the Company is a shareholder	71	71

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period under review, the Group closely adhered to the 2007 operation objectives set up by the Board and focused on the core businesses of detoxification, reduction and recycling of wastes. The results for the Period recorded significant growth, which further consolidates the leading position of the Group in the industry.

Business Review

During the Period under review, the Group has accurately seized the market opportunities, strengthened brand operation and boosted innovative management across departments, therefore maintained healthy and speedy development. During the Period, the Group attained growth of 68.7% and 67.5% in the revenue and profit attributable to equity holders of the parent to RMB310,338,000 and RMB59,872,000 respectively.

The encouraging increase in revenue mainly came from the increase in revenue of waste treatment and recycling businesses. Among them, the revenue of solid waste treatment business increased approximately by 123.9% as compared to the corresponding period of last year. It was mainly attributable to the trial run of the landfill site of the Demonstration Centre Project (phase one), which has contributed revenue of RMB4,865,000.

The growth in the waste recycling business was primarily contributed by the increased amount of waste collected, uprising trends in both of the production and sales of the Group's recycled products and a rise in the selling price. Besides, as there was vigorous demand from the market, the Group has strengthened its production management, enhanced the resource utilization efficiency and product quality throughout the Period. As a result, competitiveness of the recycled products was further reinforced. Through successful adjustment in product positioning and marketing strategy, the newly developed nickel product recorded approximately 218.2% increase in revenue to RMB18,693,000 as compared to the corresponding period of last year. Another new product, alpha-crystal trial basic copper chloride (TBCC), which has been granted a new product license by the Chinese Ministry of Agriculture early this year, has focused on developing the mainland market during the Period and realized a 62.6% growth in revenue compared to the corresponding period of last year to RMB40,183,000.

During the Period under review, the methane power generation project has been progressing smoothly. The initial set of the electricity generating units has completed installation and trial run and has started generating electrical power. During the Period, the project realized revenue of RMB897,000.

Operations Management

To raise the operational efficiency and maintain sustainable development, the Group has, during the Period, started to launch a new management system among divisions. With the objective of optimising resource allocation, the management and business structure of the Group has been re-divided into four divisions namely “detoxification”, “recycling”, “new energy” and “environmental service” in order to achieve professional and specialised development for each division. In addition, the Group has streamlined the management in some of the subsidiaries, which will bring positive impact on saving costs and upgrading service standard in the future.

During the Period under review, the Group has been vigorously promoting the talent team-up plan. At present, it has established a dynamic system for teaming up talents by recording information in relation to their performance in trainings, examinations and assessments and evaluation of their respective results, etc., which would improve the utilization of human resources in the Group.

Research and Development

The Group’s research results have been satisfactory during the Period under review. The research of the “Comprehensive Treatment and Utilization Technology for Liquid Waste of Printing Circuit Board” which was initiated by the Group independently, has been rewarded the First Prize for Technology Innovation of Guangdong Province Environmental Industry Technology. In addition, the Company was successfully elected as one of the first batch of “National Leading Scientific Innovation and Quality Management Bodies” and rewarded as “Key Enterprise of China’s Environmental Protection Industry” for the year of 2006.

During the Period under review, the Group has invested RMB10,416,000 in research and development. Other than researches that aim to improve and renew the existing technologies of hazardous waste management, the Group has launched the research of “Treatment and Recycling Technologies of Precious Metal Contained Waste and Electronic Waste”, “Anaerobic Digestion Treatment and Biogas Recovery Technologies” for restaurant and kitchen waste, sewage sludge and livestock dejection, and “High Concentration Ammonia Nitrogen Waste Water Comprehensive Treatment Technology”, which have satisfactory results in the present stage.

Financial Review

For the six months ended 30 June, 2007, the Group’s revenue was increased by approximately 68.7% to RMB310,338,000 (2006: RMB183,974,000) as compared to the corresponding period of last year. The profit attributable to equity holders of the parent was increased by approximately 67.5% to RMB59,872,000 (2006: RMB35,736,000).

The growth in revenue was mainly attributable to the business of wastes treatment and recycling. The revenue generated from this business segment was approximately RMB295,127,000 (2006: RMB163,205,000), representing an increase of 80.8%.

During the Period under review, the Group's gross profit margin increased from 46.9% to 48.3%. The increase was mainly due to the high gross profit margin of the segment of wastes treatment and recycling and the increasing proportion of the segment over the total revenue.

For the six months ended 30 June, 2007, the Group's selling and distribution costs was approximately RMB12,426,000 (2006: RMB10,290,000), representing 4.0% (2006: 5.6%) of the Group's revenue. The increase in selling and distribution was mainly attributable to the expansion of sales scale.

For the six months ended 30 June, 2007, the Group's administrative expenses was approximately RMB34,626,000 (2006: RMB17,949,000), comprising 11.2% (2006: 9.7%) of the Group's revenue. There are two main reasons for the increase in administrative expenses. Firstly, the Group has invested more resources in safety operation, environmental protection and human resources. Secondly, three subsidiaries of the Group have commenced operation in succession during the Period which led to an increase in administrative expenses.

For the six months ended 30 June, 2007, other operating expenses of the Group was approximately RMB28,953,000 (2006: RMB20,041,000), representing 9.3% (2006: 10.9%) of the Group's revenue. The other operating expenses mainly comprised research and development investment amounting to RMB10,416,000 (2006: RMB6,080,000) and provision against impairment of approximately RMB11,644,000 (2006: RMB9,045,000).

Financial Resources and Liquidity

As at 30 June, 2007, the Group had current assets of RMB345,495,000 (31 December, 2006: RMB275,595,000) and current liabilities of RMB217,087,000 (31 December, 2006: RMB150,975,000). Current assets include cash and cash equivalents of RMB186,802,000 (31 December, 2006: RMB145,783,000).

As at 30 June, 2007, the Group had total liabilities of RMB228,087,000 (31 December, 2006: RMB160,975,000). The Group's gearing ratio was 37.6% (31 December, 2006: 33.7%) which is calculated based on the Group's total liabilities over total assets. As at 30 June, 2007, the Group had bank loans of RMB48,800,000 (31 December, 2006: RMB39,000,000) at interest rates from 5.103% to 7.555% per annum. In view of the good financial resources and liquidity conditions of the Group, it will be able to meet the needs of future expansion and research and development.

Substantial Investment

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

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

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the Period, the Company entered into two equity transfer agreements, pursuant to which, the Company increased its shareholdings in Lishan and Chengdu Hazardous Waste Treatment Centre Co., Ltd. to 100% with the considerations for the acquisitions of RMB3,000,000 and RMB1,300,000 respectively.

Pledge of Assets

As at 30 June, 2007, the Group had no pledged assets.

Interest Rate and Exchange Rate Risk

During the Period under review, the Group was granted the short-term bank loans at the fixed interest rate of 5.103% and 7.555% per annum respectively, which would not expose to interest rate risk.

The Group did not expose to any major exchange risk as most of the income and expenses were settled in RMB.

Information on Employees and Remuneration Policies

As at 30 June, 2007, the number of full-time employees stood at 1,044 (2006: 917) with a total staff cost for the six months ended 30 June, 2007 of approximately RMB16,090,000 (2006: RMB10,096,000). The Group’s remuneration and bonus policies are determined with reference to the performance and experience of individual employees. The Group offered continuing training, remuneration package and a range of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June, 2007 and as at 31 December, 2006.

Future Prospects

The PRC government has put significant emphasis on environmental protection and energy conservation in recent years. In May 2007, The State Council of China promulgated “General Work Plan for Energy Conservation and Pollutant Discharge Reduction”, which highlighted the concern of energy conservation and pollutant discharge reduction and requested for stringent implementation of the General Work Plan in the industry. The Group will adhere to the guidance and policies of the government and make full use of its vantage point. While consolidating and expanding the existing core operations, the Group will also undergo expansion in areas regarding solid waste treatment, utilization of new energy and environmental services. In the second half of the year 2007, the Group will focus on the following tasks:

- To further expand the markets of waste collection and treatment in the Guangdong region and speed up the establishment of waste treatment facilities in regions such as Shaoguan (韶關) and Qingyuan (清遠); and enlarge our customer base and market share through acquisition, merger or cooperation with other companies.
- To further undergo research and development projects, especially technologies regarding the detoxification treatment and disposal of hazardous waste so as to strive for more achievements. Meanwhile, the Group will actively conduct cooperation and exchange of technology with other companies, colleges and research institutions.
- To further raise the Group's integrated operation capacity and market competitiveness through comprehensive professionalizing and streamlining the management.
- To continuously and vigorously explore new business opportunities in several designated regions and areas relating to environmental protection such as renewable energy utilization, restaurant waste treatment and tailings (尾礦) recycling, in order to establish new profitable operations.

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

As at 30 June, 2007, the interests or 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 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 Rule 5.46 of the GEM Listing Rules, were as follows:

Long position in ordinary shares of the Company

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

Notes:

- (1) These shares are held by Fang Yuan, 90% of which is owned by Mr. Li Yong Peng.
- (2) These shares are held by Wen Ying, 90% of which is owned by Mr. Chen Shu Sheng.

Save as disclosed above, none of the Directors, supervisors or chief executive of the Company had registered, as at 30 June, 2007, an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, supervisors or chief executive of the Company, as at 30 June, 2007, the following persons (other than the Directors, supervisors and chief executive of the Company) had their interests or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholders	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital in its class
Shanghai New Margin Venture Capital Co., Ltd (Note 1)	Beneficial Owner	61,566,558 domestic shares	13.70%
Fang Yuan	Beneficial Owner	35,389,750 domestic shares (Note 2)	7.87%
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services (Note 3)	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environmental Fund 2002, LP	Beneficial Owner	11,500,000 H shares	6.46%

Notes:

1. Shanghai News Margin Venture Capital Co., Ltd is owned as to 25% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, as to 25% by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 50% equally held by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowth Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the Directors, supervisors, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.
2. The shares are held by Fang Yuan, 90% of which is owned by Mr. Li Yong Peng.
3. Leading Environmental Solutions and Services owns approximately 76.92% of China Environment Fund 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the Directors, supervisors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 June, 2007, the Directors 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 required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

As at 30 June, 2007, none of the Directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company or had any rights to acquire H shares in the Company.

SHARE OPTION SCHEME

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

COMPETING INTERESTS

During the six months ended 30 June, 2007, none of the Directors, supervisors 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 GEM Listing Rules.

AUDIT COMMITTEE

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

The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng. The audit committee has reviewed the Company's financial statements for the six months ended 30 June, 2007 and has provided advice and comments thereon.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors considered that the Company has complied with the requirement of Board practices and procedures of Rule 5.34 of the GEM Listing Rules throughout the six months ended 30 June, 2007.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 June, 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since 29 January, 2003, the date on which the Company's H shares were listed on the GEM, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

CORPORATE GOVERNANCE PRACTICES

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

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

Taking into account that Mr. Zhang's strong expertise and excellent insight of the environmental industry, the Board deems that chairman and chief executive officer being performed by Mr. Zhang will lead to more effective implementation of the overall strategy and ensure smooth operation of the Group. In order to maintain the good corporate governance and fully comply with Code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

By order of the Board
Shenzhen Dongjiang Environmental Company Limited*
ZHANG WEI YANG
Chairman

9 August, 2007
Shenzhen, Guangdong Province, the PRC

As at the date of this report, the Board comprises three executive Directors, being Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng; three non-executive Directors, being Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping; and three independent non-executive Directors, being Mr. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng.

* *For identification purpose only*