# 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 Peoples's Republic of China)*
(Stock Code: 8230)

东江环保
DONG JIANG

# INTERIM REPORT 2008

* For identification purposes only

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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 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, 2008 (the "Period"), the Group realized a sustainable growth in its principal business.

- Revenue was increased by approximately 21.38% to RMB376,685,000 for the Period as compared to that of the same period in 2007 (2007: RMB310,338,000).

- Profit attributable to equity holders of the parent was increased by approximately 44.63% to RMB86,595,000 for the Period as compared to that of the same period in 2007 (2007: RMB59,872,000).

- Earnings per share was RMB0.1380 (2007: RMB0.0954) for the Period.

- The Board does not recommend the payment of any dividend for the Period (2007: 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, 2008, together with the comparative figures of the corresponding periods of 2007, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended 30 June, | | Three months ended 30 June, | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| REVENUE | *2* | **376,685** | 310,338 | **208,164** | 175,289 |
| Cost of sales | | **(187,203)** | (160,573) | **(99,164)** | (80,826) |
| Gross Profit | | **189,482** | 149,765 | **109,000** | 94,463 |
| Other income | | **5,092** | 2,747 | **3,606** | 46 |
| Selling and distribution costs | | **(19,344)** | (12,426) | **(9,303)** | (4,088) |
| Administrative expenses | | **(49,000)** | (34,626) | **(22,027)** | (20,767) |
| Other operating expenses | | **(8,731)** | (28,953) | **(6,613)** | (24,368) |
| Finance costs | | **(7,064)** | (747) | **(4,745)** | (463) |
| PROFIT BEFORE TAX | *4* | **110,435** | 75,760 | **69,918** | 44,823 |
| Income tax expenses | *5* | **(21,466)** | (13,913) | **(15,749)** | (7,147) |
| PROFIT FOR THE PERIOD | | **88,969** | 61,847 | **54,169** | 37,676 |
| Attributable to: | | | | | |
| Equity holders of the parent | | **86,595** | 59,872 | **53,491** | 37,138 |
| Minority interests | | **2,374** | 1,975 | **678** | 538 |
| | | **88,969** | 61,847 | **54,169** | 37,676 |
| DIVIDENDS | *6* | **–** | – | **–** | – |
| EARNINGS PER SHARE – BASIC | *7* | **RMB0.1380** | RMB0.0954 | **RMB0.0852** | RMB0.0591 |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | **At 30 June, 2008 (Unaudited)** *RMB'000* | At 31 December, 2007 (Audited) *RMB'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *8* | **435,309** | 322,556 |
| Investment properties | | **3,896** | 3,896 |
| Prepaid lease payments | | **49,033** | 34,252 |
| Goodwill | | **2,363** | – |
| Intangible assets | | **312** | 329 |
| Available-for-sale investment | | **1,800** | 1,800 |
| Interests in associates | | **2,279** | 676 |
| Deferred tax assets | | **8,867** | 8,867 |
| | | **503,859** | 372,379 |
| CURRENT ASSETS | | | |
| Inventories | | **67,090** | 54,935 |
| Amounts due from customers for contract work | | **–** | 3,154 |
| Trade and other receivables | *9* | **217,228** | 139,603 |
| Prepaid lease payments | | **709** | 752 |
| Investments held for trading | | **6,272** | 9,687 |
| Other current assets | | **7** | – |
| Bank balances and cash | | **334,737** | 250,996 |
| | | **626,043** | 459,127 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | *10* | **222,696** | 210,120 |
| Amounts due to customers for contract works | | **–** | 219 |
| Income tax payable | | **14,342** | 4,264 |
| Interest-bearing bank borrowings | | **178,700** | 62,300 |
| | | **415,738** | 276,903 |
| NET CURRENT ASSETS | | **210,305** | 182,224 |
| Total assets less current liabilities | | **714,164** | 554,603 |

| | Notes | **At 30 June, 2008 (Unaudited)** ***RMB'000*** | At 31 December, 2007 (Audited) *RMB'000* |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred revenue | | **11,000** | 11,250 |
| Interest-bearing bank borrowings | | **91,303** | 72,500 |
| Interest-bearing long-term payables | | **11,547** | – |
| | | **113,850** | 83,750 |
| | | **600,314** | 470,853 |
| CAPITAL AND RESERVES | | | |
| Share capital | *11* | **62,738** | 62,738 |
| Reserves | | **432,156** | 342,226 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | **494,894** | 404,964 |
| MINORITY INTERESTS | | **105,420** | 65,889 |
| TOTAL EQUITY | | **600,314** | 470,853 |

# 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, 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 |
| At 1 January, 2008 | **62,738** | **30,309** | **61,630** | **(394)** | **250,681** | **–** | **404,964** | **65,889** | **470,853** |
| Profit for the period | **–** | **–** | **–** | **–** | **86,595** | **–** | **86,595** | **2,374** | **88,969** |
| Exchange adjustment | **–** | **–** | **–** | **284** | **–** | **–** | **284** | **–** | **284** |
| Contribution from minority shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **37,450** | **37,450** |
| Disposal of a subsidiary | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(293)** | **(293)** |
| Acquisition of subsidiaries | **–** | **–** | **–** | **–** | **3,051** | **–** | **3,051** | **–** | **3,051** |
| Dividend paid to minority shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| At 30 June, 2008 | **62,738** | **30,309** | **61,630** | **(110)** | **34,327** | **–** | **494,894** | **105,420** | **600,314** |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June, | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Net cash inflow from operating activities | **83,760** | 84,656 |
| Net cash used in investing activities | **(148,026)** | (76,892) |
| Net cash from financing activities | **148,007** | 33,255 |
| Increase in cash and cash equivalents | **83,740** | 41,019 |
| Cash and cash equivalents at beginning of the period | **250,997** | 145,783 |
| Cash and cash equivalents at end of the period | **334,737** | 186,802 |

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS:

## 1. Basis of preparation and principal accounting polices

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, 2007. 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, trading of chemical products and provision of construction contracts and consultation services by the Group to outsiders, less value added tax, sales tax, returns and trade discounts.

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

| | **Six months ended 30 June,** | | **Three months ended 30 June,** | |
|---|---|---|---|---|
| | **2008 (unaudited)** ***RMB'000*** | 2007 (unaudited) *RMB'000* | **2008 (unaudited)** ***RMB'000*** | 2007 (unaudited) *RMB'000* |
| Sale of recycled products and the provision of waste treatment services | **329,252** | 295,127 | **175,266** | 167,867 |
| Construction and operation of environmental protection systems and consultation service | **30,029** | 8,414 | **20,805** | 2,740 |
| Trading of chemical products | **17,404** | 6,797 | **12,093** | 4,682 |
| | **376,685** | 310,338 | **208,164** | 175,289 |

### 3. Segment information

For management purposes, the Group is currently organised into three operating divisions – production and sales of recycled products and provision of waste treatment services; construction and operation of environmental protection systems and consultation service; and trading of chemical products. 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 provision of waste treatment | | Construction and operation of environmental protection systems and consultation service | | Trading of chemical products | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2008 (unaudited)** | 2007 (unaudited) | **2008 (unaudited)** | 2007 (unaudited) | **2008 (unaudited)** | 2007 (unaudited) | **2008 (unaudited)** | 2007 (unaudited) |
| *Amounts in RMB'000* | | | | | | | | |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **329,252** | 295,127 | **30,029** | 8,414 | **17,404** | 6,797 | **376,685** | 310,338 |
| Segment results | **123,911** | 86,598 | **2,945** | 2,209 | **1,176** | 638 | **128,032** | 89,445 |
| Unallocated corporate expenses *(Note)* | | | | | | | **(10,533)** | (12,938) |
| Finance costs | | | | | | | **(7,064)** | (747) |
| Profit before tax | | | | | | | **(110,435)** | 75,760 |
| Income tax expenses | | | | | | | **(21,466)** | (13,913) |
| Profit for the period | | | | | | | **88,969** | 61,847 |
| OTHER INFORMATION: | | | | | | | | |
| Capital expenditure of property, plant and equipment | **27,868** | 57,166 | **1,057** | 10,489 | **274** | 19 | **29,199** | 67,674 |
| Depreciation of property, plant and equipment | **13,730** | 7,768 | **1,077** | 707 | **61** | 98 | **14,868** | 8,573 |
| Impairment losses on property, plant and equipment | **–** | 11,644 | **–** | – | **–** | – | **–** | 11,644 |

*Note:* Unallocated corporate expenses include general and administrative expenses, 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, | |
|---|---|---|
| | **2008 (unaudited)** ***RMB'000*** | 2007 (unaudited) *RMB'000* |
| Cost of goods sold | **178,139** | 147,206 |
| Depreciation | **14,868** | 8,573 |
| Amortisation of prepaid lease payments | **357** | 501 |
| Amortisation of intangible assets | **18** | 160 |
| Impairment losses on property, plant and equipment | **–** | 11,644 |

**5. Income tax expenses**

In accordance with the relevant income tax rules and regulations of the PRC, the subsidiaries located in Shenzhen are subject to the PRC enterprise income tax at a rate of 18% (2007: 15%). Subsidiaries located in other cities are subject to the PRC enterprise income tax at a rate of 25% (2007: 33%).

The Company is located in Shenzhen and is entitled to a 50% reduction of PRC enterprise income tax at a rate of 9% (2007: 7.50%) as Advanced Technology Enterprise.

The Company's subsidiaries, Shenzen Dongjiang Environmental Recycled Power Co., Ltd and Huizhou Dongjiang Veolia Environmental Services Co., Ltd, are exempt from PRC enterprise income tax for two years commencing from 2008, followed by a 50% tax reduction for the next three years. The Company's another subsidiary, Shenzhen Dongjiang Heritage Technologies Co., Ltd. ("Dongjiang Heritage") is entitled to a 50% reduction of PRC enterprise income tax at a rate of 9%.

The subsidiaries established in Hong Kong are subject to Hong Kong Profits Tax at the rate of 17.50%.

**6. Dividends**

The Board does not recommend the payment of an interim dividend for the Period (2007: 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 RMB86,595,000 (2007: RMB59,872,000) and the weighted average number of 627,381,872 (2007: 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, 2007 and 2008.

**8. Property, plant and equipment**

During the Period, the Group acquired approximately RMB29,199,000 property, plant and equipment for the Group's expansion. The Group charged approximately RMB14,868,000 depreciation 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, 2008 (Unaudited)** ***RMB'000*** | 31 December, 2007 (Audited) *RMB'000* |
|---|---|---|
| Current to 90 days | **81,549** | 35,395 |
| 91 to 180 days | **9,160** | 6,772 |
| 181 to 365 days | **8,253** | 17,712 |
| Over 1 year | **3,570** | 2,236 |
| | **102,532** | 62,115 |

**10. Trade and other payables**

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

| | **30 June, 2008 (Unaudited)** ***RMB'000*** | 31 December, 2007 (Audited) *RMB'000* |
|---|---|---|
| Current to 90 days | **72,984** | 87,228 |
| 91 to 180 days | **4,431** | 4,144 |
| 181 to 365 days | **6,075** | 17,036 |
| Over 1 year | **13,471** | 4,778 |
| | **96,961** | 113,186 |

## 11. Share capital

| | **30 June, 2008 (Unaudited)** ***RMB'000*** | 31 December, 2007 (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, 2008 (Unaudited)** ***RMB'000*** | 31 December, 2007 (Audited) *RMB'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | **10,191** | 10,249 |
| Construction in progress | **73,158** | 79,824 |
| Addition capital injection in a subsidiary | **15,528** | 7,410 |
| Acquisition of subsidiary | **–** | 100,000 |
| | **98,877** | 197,483 |

## 13. Related party transactions

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

| | Six months ended 30 June, | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Sales of finished goods to a minority shareholder of Dongjiang Heritage | **44,201** | 9,176 |
| Rental income received from Shenzhen Fang Yuan Petrochemical Industrial Co., Ltd. ("Fang Yuan") which is the shareholder of the Company | **300** | 300 |
| Rental expense paid to a shareholder of Shenzhen Resource Environmental Technology Co., Ltd. | **126** | – |
| Rental expense in respect of the technology use right paid to a minority shareholder of Shenzhen Longgang Dongjiang Industrial Waste Treatment Co., Ltd. | **677** | 677 |
| Rental income received from a company in which a director of the Company is a shareholder | **71** | 71 |

# MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2008, China's national economy continued to develop towards the expected direction spelled out by the macro adjustment, maintaining an overall steady and considerably fast development despite the slowdown in the pace of growth. In face of the complicated and changing external environment, the Group had made proactive changes to its strategies through continuous pursuit of the two main paths of development, namely "strengthening and enlarging industrial waste treatment business" and "actively expanding into municipal waste treatment market". As a result, the Group had achieved steady growth in its operating results and satisfactory progress in its new projects.

## Business Review

During the Period, the Group has taken efforts in overcoming various unfavorable factors such as rising operating costs and intensified market competition, together with various measures to expand new markets and customer base, as well as exerting the synergy of business units. During the Period, the revenue and the profit attributable to equity holders of the parent had increased by 21.38% and 44.63% to RMB376,685,000 and RMB86,595,000, respectively, comparing to the corresponding period in 2007.

### Industrial Waste Treatment and Disposal

The development in industrial waste treatment and disposal is the main force driving the growth of the Group's business. During the Period, the Group achieved promising progress in the expansion of waste collection market by adhering to its thoughts of development in term of "integration of waste collection market". The Group's new operation sites in Guangdong Province had, one after another, completed their team building and market researches in the first quarter and successfully commenced their waste collection businesses in the second quarter of 2008. During the Period, the waste collection team has achieved good results with over 300 new customers secured.

Acknowledging the huge potential in the industrial solid waste market, the Group had always been emphasizing on the expansion of the industrial solid waste treatment business, enabling the business to sustain strong growth and record RMB55,699,000 in revenue for the Period, representing an increase of 99.50% over the same period in 2007. At the same time, the Demonstration Center Project had completed in full and obtained the trial operation permit, providing a wider platform for the Group's further expansion into the industrial waste treatment market in the Pearl Delta Region. During the Period the Demonstration Center had received hazardous wastes amounting to over 7,000 tons and generated RMB17,267,000 in revenue.

In face of the pressure from rising prices of raw material, energy and labor, the treatment bases of the Group continuously pushed forward clean production, energy saving and emission reduction strategies, implementing more precise classification and testing of wastes. Through the above measures, the treatment bases were in better control of the unfavorable situation presented by fast rising costs, which in turn enabled them to maintain healthy operations and achieve steady growth in their recycling businesses. The Group also made timely adjustments in its recycled product mix in response to changing market conditions. During the Period, the tin product realized fast growth in production and recorded a 264.49% increase in revenue compared with the corresponding period in 2007.

In addition, the Group speeded up the construction of Qingyuan Treatment Base and the North Guangdong Treatment Project in the second quarter of 2008 with an aim to expand its industrial waste treatment capacity and the market coverage as soon as possible.

## Municipal Waste Treatment and Disposal

The municipal waste treatment and disposal, a core business newly established by the Group, is in its early developmental stage. The Municipal Solid Waste Business Division set up at the beginning of 2008 is now in full operation and had achieved various results in the second quarter, paving the way for its further development.

*Methane Utilization and Clean Development Mechanism ("CDM")*

CDM projects had achieved promising developments in China in recent years, offering enormous business opportunities. In June 2008, the Group won the bid for concession right of Qingdao Xiaojianxi Landfill Gas Collection, Power Generation and Utilization CDM Project ("Qingdao CDM Project"). The landfill gas power generators used in Qingdao CDM Project have a capacity of 3 X 1063KW and is expected to generate a total of 247 gigawatt hour of electricity approximately over the term of 12-year concession right. The project company had been incorporated and its construction will take one year.

In the same month, the Company established a joint venture in Guangzhou with an enterprise under AES AgriVerde ("AES"), one of the world's largest independent power providers. The Company had contributed 51% of the registered capital of the joint venture. The principal business of the joint venture is to undertake and manage green house gas emission reduction projects. It will principally engage in livestock farm waste disposal and methane collection projects and generate revenue by selling the approved carbon emission reduction volume.

The above two CDM projects will further expand the Group's business scale with respect to methane utilization and the field of CDM and enhance its competitive advantage. Particularly, the joint venture with AES had established a very favorable international cooperation platform for the Group's development in the field of renewable energy.

*Hunan Shaoyang Project*

In February 2008, the Group was granted by Hunan Shaoyang Municipal Government 30 years of concession right for investment in, building and operation of "Shaoyang Domestic Waste Landfill". It is the Group's first domestic waste treatment project, the designed capacity of which is approximately 700 tons per day. The project is now under construction, which will take about one year and make it the only domestic waste landfill in Shaoyang upon its completion.

*Acquisition of Lik Shun Services Limited ("Lik Shun")*

In order to expand the environmental protection business in Hong Kong, Dongjiang Environmental (HK) Co., Ltd ("Dongjiang HK") acquired Lik Shun in May 2008. Lik Shun specializes in waste collection business and is now responsible for municipal waste collection in some of the areas of Kwai Ching, Sai Kung and Hong Kong Island and the whole district of Tai Po. Besides, it also supplies waste compressors to 15 waste compressing stations in Hong Kong and provides waste collection services to some industrial districts and schools. The acquisition of Lik Shun enables the Group to venture into the field of municipal waste treatment in Hong Kong and will enhance the Group's recognition in Hong Kong.

*Municipal Sludge Treatment*

According to estimates, the urban and rural sewage treatment rate in China will reach 60% by 2010, generating 30 million tons sludge countrywide per year. Due to various reasons, such as technology and policy, most of the sludge is not being treated properly, making sludge treatment one of the major urban environmental issues in China. To capture the business opportunity, the Group entered into an operation agreement in respect to a municipal sludge treatment project with Shenzhen City Administration in 2008, pursuant to which a sludge solidification treatment plant with a daily treatment capacity of 700 tons will be established and will receive and treat sludge from Shenzhen municipal sewage treatment plants. It's a pilot project on sludge treatment jointly pursued by the Group and Shenzhen Municipal Government with an aim to resolve municipal sludge issue of Shenzhen, and at the same time, provide an opportunity for the Group to apply and promote its sludge treatment technology, laying the foundation for the Group's further development in the relevant field.

## Environmental Engineering and Consultancy

The Group's business of construction and operation of Environmental Protection ("EP") systems and consultation service, after a period of adjustment, achieved substantial growth in the first half of 2008 with an increase of revenue by 256.89% to RMB30,029,000, comparing to the corresponding period in 2007.

Of which, the environmental engineering operation business had treated a total of 2,587,000 tons of waste water for our clients for the Period, representing an increase of 10% as compared with the same period in 2007. The number of waste water operation sites has also increased from 15 to 19. At the same time of enlarging its business scale, the Group also strived to enhance its engineering business management standard and service quality with an emphasis on establishing its corporate and brand image. Several model engineering projects had been completed with an aim to unify image identification in various operation sites and standardize technical specifications. In addition, the Group went smoothly in the environmental engineering construction business with new contracts signed for 7 projects amounting to RMB25,000,000 in aggregate.

Beijing Novel Environmental Protection Co., Ltd ("Beijing Novel"), a company acquired by the Group at the end of 2007, had completed its structural adjustment and gradually incorporated into the Group's business chain, making the effect of synergy more apparent. During the Period, Beijing Novel went smoothly in its business development by taking advantage of its strengths in terms of broad business network and flexibility with 24 new contracts concluded in relation to environmental engineering and consultancy. It had also provided technical support to the other related businesses of the Group.

## Research and Development ("R&D")

During the Period, the Group continued to push forward R&D on its core businesses and achieved progress in stages. Of which, the projects on "Technical Study on Producing of Electrolytic Zinc from Secondary Zinc Oxide" and "The Recovery of Rare Metals from Industrial Waste" had completed their technical road maps and laboratory research, and were about to commence industrial scale trial runs. Furthermore, the R&D center continued its experiments on projects such as "Research on Kitchen Waste-to-gas and Fertilizer" and "Research on New Technology for Treatment of Chemical Copper Plating Effluent with Chemical-Biological Method", both of which had attained satisfactory results.

In order to strengthen its research capability in the field of environmental monitoring, the Group acquired an environment monitoring company, namely Shenzhen Hua Bao Technology Company Limited in April 2008 with an aim to promote the development of the Group's central laboratory and environmental analysis and testing center.

In the aspect of technology management, the Group's project on "Comprehensive Treatment and Utilization Technology of PCB (Printed Circuit Board) Waste Liquid (Water)" won the Shenzhen 2008 Technical Innovation Award (industry category) in May, ranking it the first in industry category. It also won the second prize of the 2008 Guangdong Environmental Protection Science and Technology Award in June.

## Operation Management

The Group made major adjustment to its management structure in the first half of 2008, classifying its businesses into "Industrial Solid Waste Business Division" and "Municipal Solid Waste Business Division", which were managed by two operation teams so as to be in line with the Group's strategies and direction of future development. The adjustment had further weakened the business operation function of the headquarters and realized specialization and internal resource integration of business divisions, in addition to reinforcing the functions of environmental health and safety and technical management. Both of the two business divisions had environmental services departments under them, reflecting the Group's philosophy of providing quality and comprehensive environmental services to its clients. It is believed that the new management structure will facilitate the implementation of the Group's strategies.

## Financial Review

For the six months ended 30 June, 2008, the Group's revenue was increased by approximately 21.38% to RMB376,685,000 (2007: RMB310,338,000) as compared to the corresponding period of last year. The profit attributable to equity holders of the parent was increased by approximately 44.63% to RMB86,595,000 (2007: RMB59,872,000).

The growth in revenue was mainly attributable to the business of wastes treatment and recycling. The revenue generated from this business segment was approximately RMB329,252,000 (2007: RMB295,127,000), representing an increase of 11.56%. Besides, the construction and operation of EP systems and consultation service realized a 256.89% increase in revenue to RMB30,029,000 as compared to the same period in 2007.

During the Period, the Group's gross profit margin increased from 48.26% to 50.30%. The increase was mainly due to the high gross profit margin of the segment of wastes treatment and the increasing proportion of the segment over the total revenue.

For the six months ended 30 June, 2008, the Group's selling and distribution costs was approximately RMB19,334,000 (2007: RMB12,426,000), representing 5.13% (2007: 4%) of the Group's revenue. The increase in selling and distribution costs was mainly attributable to the expansion of sales scale.

For the six months ended 30 June, 2008, the Group's administrative expenses was approximately RMB49,000,000 (2007: RMB34,626,000), comprising 13.01% (2007: 11.16%) of the Group's revenue. There are two main reasons for the increase in administrative expenses. Firstly, the Group has invested more resources in the market development of the municipal waste treatment. Secondly, several subsidiaries were acquired by the Group during the Period which led to an increase in administrative expenses.

For the six months ended 30 June, 2008, finance cost of the Group was approximately RMB7,064,000 (2007: RMB747,000), representing 1.88% (2007: 0.24%) of the Group's revenue. The increase in finance cost was attributable to the increased bank loans.

For the six months ended 30 June, 2008, the Group's income tax expenses was approximately RMB 21,466,000 (2007: RMB13,913,000), representing 19.44% of the Group's profit before tax (2007:18.36%). The increase was mainly due to implementation of the law of the PRC on Enterprise Income Tax (the "New Law"). Pursuant to the New Law and Implementation Regulations, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January, 2008. There will be a transitional period for the Enterprises in Shenzhen that currently entitled to preferential tax rates of 15%, the transitional provisions of a concessionary tax rate gradually from 15% to 25% within five years, and the income tax rate is 18% in 2008. And this requirement will result in the increase of Group's enterprises income tax expenses year by year.

## Financial Resources and Liquidity

As at 30 June, 2008, the Group had current assets of RMB626,043,000 (31 December, 2007: RMB459,127,000) and current liabilities of RMB415,738,000 (31 December, 2007: RMB276,903,000). Current assets include cash and cash equivalents of RMB334,737,000 (31 December, 2007: RMB250,996,000).

As at 30 June, 2008, the Group had total liabilities of RMB529,588,000 (31 December, 2007: RMB360,653,000). The Group's gearing ratio was 46.87% (31 December, 2007: 43.37%) which is calculated based on the Group's total liabilities over total assets. As at 30 June, 2008, the Group had bank loans of RMB268,700,000 (31 December, 2007: RMB134,800,000) at interest rates from 6.48% to 7.47% per annum.

## Substantial Investments, Acquisitions and Disposals of Subsidiaries and Associates

In April 2008, the Company invested RMB500,000 to acquire 100% interest in Shenzhen Huabao Technology Co., Ltd. (深圳市華保科技有限公司) ("Huabao Technology"). Huabao Technology is mainly engaged in the environmental monitoring. This investment will allow the Group to expansion the chain of environmental services and therefore strengthen its competitiveness.

In May 2008, the Group invested RMB2,550,000 to establish a 51%-owned subsidiary namely Shenzhen Dongjiang Lisai Recycled Power Co., Ltd. (深圳市東江利賽再生能源有限公司) ("Dongjiang Lisai") in the PRC. Dongjiang Lisai will be mainly responsible for the implementation of Lao Hu Keng CDM Project.

In May 2008, the Group's wholly-owned subsidiary Dongjiang HK invested HK$1,800,000 to acquire 100% interest in Lik Shun.

In June 2008, the Group invested RMB15,000,000 to establish a 100%-owned subsidiary namely Qingdao Dongjiang Environmental Recycled Power Co., Ltd. (青島市東江環保再生能源有限公司) ("Qingdao Dongjiang") in the PRC. Qingdao Dongjiang will be mainly responsible for the implementation of Qingdao CDM Project.

## Pledge of Assets

As at 30 June, 2008, certain assets of the Group were pledged to secure bank borrowings granted to the Group and as follows:

| | **At 30 June 2008 (Unaudited)** ***RMB'000*** | At 31 December 2007 (Audited) *RMB'000* |
|---|---|---|
| Property, plant and equipment | **10,829** | 6,234 |
| Prepaid lease payments on land use rights | **6,656** | 4,183 |
| Bank deposits | **–** | 10,842 |
| | **17,485** | 21,259 |

## Interest Rate and Exchange Rate Risk

During the Period, the Group was granted the short-term bank loans at the fixed interest rate of 6.48% and 7.47% 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, 2008, the number of full-time employees stood at 1,420 (2007: 1,044) with a total staff cost for the six months ended 30 June, 2008 of approximately RMB24,135,000 (2007: RMB16,090,000). 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, 2008 and 31 December, 2007.

## Future Prospects

It is widely expected that the economy in China will sustain its growth in the second half of the year while the demand for investment in the environmental protection industry will remain strong. The Group will, as it did in the past, capture each opportunity for development and carefully structure each of its business modules in order to strengthen its core competitiveness continuously.

In the aspect of industrial waste treatment, the project in relation to moving and expansion of facilities of the treatment bases in Kunshan, Jiangsu Province, had completed and the base is now in full operation. Besides, the exports and domestic sales of Trial Basic Copper Chloride (TBCC) are expected to increase further. All these will drive the growth of the Group's revenue, even though there is no new project to be commenced in the second half of 2008. In addition, leveraging on the two hazardous waste treatment centers located respectively in east and north Guangdong, the Group's solid waste treatment business will sustain its strong growth, keeping the upward trend of its contribution to the Group's revenue. At the same time, the Group will actively identify and negotiate acquisitions as well as try out new technology and modes of treating hazardous waste with an aim to create more opportunities for the Group's business to develop in the future.

In the field of municipal solid waste management, the second half of 2008 will be key to our business development effort with multiple project tenders coming due. The Company is fully prepared to effectively compete in these tenders and is confident about our chance of winning. At the same time, the Group will rely on our strong brand name and track record to broaden and deepen our partnerships with large renowned multinational enterprises in our industry to become the most ideal platform for these companies to enter the China market, improving our business scope and depth in China. Moreover, to become the leader of China's coming wave of environmental revolution and win over our competitions, the Group intends to proactively seek outside partnership and acquisition opportunities, including the ones in the field of industrial service and municipal waste water treatment.

In addition, the Group will, starting from the second half of this year, invest in the promising field of waste plastic and metal recycling, conducting the collection, sorting, and processing of renewable solid waste materials that can be recycled and turned into valuable resources. The Group intends to work with local governments as well as reputable domestic and international recycling companies and organizations to develop "venous" industrial parks and projects, and to build a green, scalable, high-tech, and internationalized modern recycling operation.

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

At 30 June, 2008, the interests and short positions of the directors, supervisors and chief executive of the Company in the share capital, 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 Exchange pursuant to the Model Code for Securities Transactions by Directors of Rules 5.46 of the GEM Listing Rules, were as follows:

**Long positions in ordinary shares of the Company:**

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

*Notes:*

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

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

Save as disclosed above, as at 30 June, 2008, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the 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 or chief executive of the Company, as at 30 June, 2008, the following persons (other than 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 of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long position in the shares of the Company**

| **Name of Shareholders** | **Capacity and Nature of Interest** | **Number of ordinary shares held** | **Percentage of shareholding in its class** |
|---|---|---|---|
| Shanghai New Margin Venture Capital Co., Ltd *(Note 1)* | Beneficial owner | 61,566,558 domestic shares | 13.70% |
| Shenzhen Fang Yuan Petrochemical Industries Co., Ltd | Beneficial owner | 35,389,750 domestic shares *(Note 2)* | 7.87% |
| Cai Hong | Beneficial owner | 28,232,184 domestic shares | 6.28% |
| Leading Environmental Solutions and Services *(Note 3)* | Interest of a controlled corporation | 11,500,000 H shares | 6.46% |
| China Environmental Fund 2002, LP | Beneficial owner | 11,500,000 H shares | 6.46% |

*Notes:*

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

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

3. Leading Environmental Solutions and Services owns approximately 76.92% of China Environment Fund 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 June, 2008, the Directors are not aware of any other person (other than the directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the 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, 2008, none of the directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 30 June, 2008, none of the directors, supervisors and chief executive of the Company 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, 2008, 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. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng. The audit committee has reviewed the Company's financial statements for the six months ended 30 June, 2008 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, 2008.

## 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 Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 June, 2008.

## 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 the 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*

7 August, 2008
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. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng.*

* *For identification purposes only*