




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)
(Stock Code: 8230)

First Quarterly Report
2009



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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

- Revenue was decreased by approximately 34.34% to approximately RMB110,654,000 for the three months ended 31 March, 2009, as compared to that of the corresponding period in 2008 (2008: approximately RMB168,521,000).
- Profit attributable to equity holders of the Company was decreased by approximately 72.40% to approximately RMB9,138,000 for the three months ended 31 March, 2009, as compared to that of the corresponding period in 2008 (2008: approximately RMB33,104,000).
- Earnings per share was approximately RMB0.0146 (2008: approximately RMB0.0528) for the three months ended 31 March, 2009.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2009 (2008: Nil).

FIRST QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)

The board of Directors (the "Board") of 深圳市東江環保股份有限公司 (Shenzhen Dongjiang Environmental Company Limited) (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March, 2009 (the "Period"), together with the comparative figures of the corresponding period of 2008 as follows:

		Three months ended 31 March,	
	Notes	2009 (unaudited) RMB'000	2008 (unaudited) RMB'000
REVENUE	2	110,654	168,521
Cost of sales		(67,006)	(88,039)
Gross profit		43,648	80,482
Other income		3,002	1,486
Selling and distribution costs		(7,791)	(10,041)
Administrative expenses		(21,559)	(26,973)
Other operating expenses		(287)	(2,118)
PROFIT FROM OPERATING ACTIVITIES		17,013	42,836
Finance costs		(4,697)	(2,319)
PROFIT BEFORE TAX		12,316	40,517
Income tax expenses	3	(3,146)	(5,717)
PROFIT FOR THE PERIOD		9,170	34,800
Attributable to:			
Equity holders of the Company		9,138	33,104
Minority interests		32	1,696
		9,170	34,800
DIVIDENDS	4	–	–
EARNINGS PER SHARE – BASIC	5	RMB0.0146	RMB0.0528



NOTES:

1. Basis of preparation and principal accounting policies

The unaudited consolidated first quarterly results have been 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 accounting policies and methods of computation used in the preparation of the unaudited consolidated first quarterly results are consistent with those adopted in the annual financial statements for the year ended 31 December, 2008. The consolidated results are unaudited but have been reviewed by the audit committee of the Company.

2. Revenue

Revenue represents the net amounts received and receivables for sale of recycled products, provision of waste treatment services, trading of chemical products and provision of environmental engineering 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:

	Three months ended 31 March,	
	2009 (unaudited) RMB'000	2008 (unaudited) RMB'000
Sale of recycled products and the provision of waste treatment services	90,795	153,986
Construction and operation of environmental protection systems and consultation service	14,919	9,224
Trading of chemical products	4,940	5,311
	110,654	168,521



3. Income tax expenses

The Company and its subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC enterprise income tax at a rate of 20% (2008: 18%) of the estimated assessable income determined in accordance with the relevant income tax rules and regulations of the PRC. Subsidiaries located in other cities are subject to the PRC enterprise income tax at a rate of 25% (2008: 25%).

In accordance with the relevant income tax rules and regulations of the PRC, the Company's subsidiary, 深圳東江華瑞科技有限公司 (Shenzhen Dongjiang Heritage Technologies Co., Ltd.) is exempted from PRC enterprise income tax for two years commencing from their first profit-making year, followed by a 50% tax reduction for the next three years. Another two subsidiaries, 深圳市東江環保再生能源有限公司 (Shenzhen Dongjiang Environmental Recycled Power Limited) and 惠州東江威立雅環境服務有限公司 (Huizhou Dong Jiang Veolia Environmental Services Limited) are exempted from PRC enterprise income tax for two years from 2008, followed by a 50% tax reduction for the next three years.

The subsidiaries of the Company established in Hong Kong are subject to Hong Kong Profits Tax at the rate of 16.50%.

4. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2009 (2008: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the unaudited profit attributable to equity holders of the Company for the three months ended 31 March, 2009 of approximately RMB9,138,000 (2008: approximately RMB33,104,000) and the weighted average number of 627,381,872 (2008: 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 three months ended 31 March, 2008 and 2009.

6. Reserves

Other than the profit attributable to equity holders of Company, minority interests for the three months ended 31 March, 2009, there were no movements to or from reserves of the Group and the Company during the Period (2008: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS


Business Review

During the Period, the Group endeavored to defuse the adverse impact exerted by the financial crisis through continuously pushing forward the philosophy of focusing on both adjustment and development to drive the gradual stabilization and recovery of its business.

Industrial Waste Treatment and Disposal

The expansion and operation of the industrial waste treatment business were still under great pressure in the first quarter due to the current economic recession. To cope with the changed market and economic environment and in line with its strategy for business transformation, the Group reclassified and restructured its markets in Guangdong province at the end of 2008 to focus its market expansion on the solid waste business. During the Period, benefiting from the preliminary adjustment and consolidation, the twelve reclassified regional business divisions commenced full operation and achieved remarkable advantage in synergy. As a result, the volume of the waste collection gradually rebounded, in particular, the number of contracts secured in the new business regions increased substantially. Furthermore, the recycling business was in stable operation under the new pricing mechanism and the sales situation was better than that of the fourth quarter of 2008.

During the Period, the Group activated the cost control project in due course and achieved significant results for the various cost and expenditure control measures carried out within the Group. Treatment costs were reduced effectively and the value of waste was maximized in each treatment base of the Group through innovative thinking and technological breakthrough whereby waste was used to treat waste.



In respect of new project development, in February 2009, a 51%-owned subsidiary of the Company named Shenzhen Longgang Dongjiang Industrial Waste Disposal Co., Ltd. was granted by Longgang District Government of Shenzhen Municipality the concession right of Longgang Hazardous Waste Treatment and Disposal Project (the "Project") and will be in charge of the design, construction and operation of the Project. The Project has a term of 22-year concession right and will undertake the treatment and disposal of hazardous waste in Longgang District upon completion of its construction, and will by then further boost the Group's comprehensive capability for hazardous waste treatment. Furthermore, the Group had started to develop hazardous waste disposal business in Jiangxi province with an aim to further enlarge market coverage and the room for business development.

Municipal Waste Treatment and Disposal

During the Period, the business of municipal waste treatment and disposal was progressing smoothly: 1) the Xiaping Landfill Gas Power Generation Project was operating well with the five electricity generating units maintaining an average of approximately 80% online rate and contributed revenue of approximately RMB4,505,000, increasing by approximately 42.88% compared with the corresponding period in 2008; 2) the Municipal Sludge Treatment Project was under trial operation after the initial fine-tuning phase and, treated a total of approximately 40,000 tons of sludge in the first quarter of 2009; 3) Lik Shun Services Limited operated smoothly and in late March of 2009 it was granted the renewal of two contracts by the Hong Kong Government till April 2011 with a total contract sum of HK\$19,226,980. Meanwhile, other new projects were also pushed forward steadily, of which Qingdao Landfill Gas Utilization Project had commenced the work relating to the development of Clean Development Mechanism and was actively preparing for the verification of the certified emission reduction volume.

Environmental Engineering

Since its establishment last year, the Environmental Services Branch Company had been actively in consolidating environmental engineering business and in reforming the management mode. It realized the synergy of integrated service by more vigorous market development externally and strengthened cooperation and resources sharing with other business units of the Group internally. For the three months ended 31 March, 2009, the environmental engineering business generated revenue of approximately RMB14,919,000, increasing by approximately 61.74% as compared with the corresponding period in 2008. Furthermore the each operation site of the waste water operation business recorded profits for the first quarter through preliminary adjustment in pricing mechanism and reinforced on-site control and cost management.



Financial Review

For the three months ended 31 March, 2009, the Group's revenue was decreased by approximately 34.34% to approximately RMB110,654,000 (2008: approximately RMB168,521,000) as compared to the corresponding period in 2008. The profit attributable to equity holders of the Company was decreased by approximately 72.40% to approximately RMB9,138,000 (2008: approximately RMB33,104,000).

The decline was mainly attributable to the simultaneous drop in the sales amount and price of the recycled products of the Group due to the sluggish market condition. The revenue generated from the business of sales of recycled products and waste treatment was decreased by approximately 41.04% to approximately RMB90,795,000 (2008: approximately RMB153,986,000). It is gratifying that the businesses of solid waste and environmental engineering were maintaining growth momentum, and for the Period, recorded an increase of approximately 30.64% and approximately 61.74% to approximately RMB27,789,000 and approximately RMB14,919,000 respectively as compared to the corresponding period in 2008.

During the Period, the Group's gross profit margin was approximately 39.45% (2008: approximately 47.76%). The decrease in gross profit margin was mainly due to the price fluctuation of the raw materials and the drop of the sales price of the recycled product sold by the Group.

For the three months ended 31 March, 2009, the Group's selling and distribution costs was approximately RMB7,791,000 (2008: approximately RMB10,041,000), representing approximately 7.04% of the Group's revenue (2008: approximately 5.96%).

For the three months ended 31 March, 2009, the Group's administrative expenses were approximately RMB21,559,000 (2008: approximately RMB26,973,000), representing approximately 19.48% of the Group's revenue (2008: approximately 16.01%). To cope with the adverse effect caused by the financial crisis, the Group endeavored to control the management scale and cut various expenditures during the Period resulting in an overall reduction of approximately RMB5,414,000 in administrative expenses as compared to the same period in 2008.



Future Prospects

With the implementation of a series of plans by the PRC Government to further boost domestic demand and sustain steady and rapid growth in national economy, there was a positive change taking place in the operation of China's national economy in the first quarter of 2009 with the overall performance better than the expectation. The Group will capitalize on the favorable opportunities brought about by the improved market conditions to strengthen internal resources consolidation and to focus on the development of services business including waste treatment and disposal and environmental engineering so as to enhance profitability. Meanwhile, the Group will continue to implement the strategy of competition, which regards good service and brand name as its priority. With the fulfillment of its strength in quality, treatment capacity and operating management, the Group will carry out different service strategies and management modes according to different customers and expand its market share and business scale through cooperation and acquisition. In addition, the Group will further optimize business flow and enhance overall operational efficiency through strengthened fine management and strict cost and expenditure control.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2009 (2008: Nil).

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

At 31 March, 2009, the interests and short positions of the directors, supervisors and chief executive of the Company in the share, 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 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	30,781,384 domestic shares (Note 2)	6.85%

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 31 March, 2009, none of the directors, supervisors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March, 2009, the following persons (other than the Directors, Supervisors or chief executive of the Company) had interests of 5% or more of the issued share capital of the Company which were 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	Number and class of shares	Percentage of shareholding in this 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%
Shenzhen Wen Ying Trading Limited	Beneficial Owner	30,781,384 domestic shares (Note 3)	6.85%



Name of shareholders	Capacity	Number and class of shares	Percentage of shareholding in this class
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services (Note 4)	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 New 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 Shenzhen Fang Yuan Petrochemical Industries Co., Ltd, 90% of which is owned by Mr. Li Yong Peng.
3. The shares are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Mr. Chen Shu Sheng.
4. 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 31 March, 2009, 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 31 March, 2009, 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 March, 2009, 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 three months ended 31 March, 2009, none of the directors 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 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, namely Messrs. Ye Ru Tang, Hao Ji Ming and Liu Xue Sheng. The audit committee has reviewed the Company's financial statements for the three months ended 31 March, 2009 and has provided advice and comments thereon.



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 three months ended 31 March, 2009.

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.

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

11 May, 2009
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 purpose only*