



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)

Interim 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 GEM 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, 2009 (the "Period"), the Group's revenue was decreased by approximately 19.75% to RMB302,290,000 for the Period as compared to that of the same period in 2008 (2008: RMB376,685,000).
 - Profit attributable to equity holders of the Company was decreased by approximately 50.80% to RMB42,609,000 for the Period as compared to that of the same period in 2008 (2008: RMB86,595,000).
 - Earnings per share was RMB0.0679 (2008: RMB0.1380) for the Period.
 - The Board does not recommend the payment of any dividend for the Period (2008: Nil).
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INTERIM RESULTS

The board of directors (the "Board") of the Company hereby announces the unaudited results of the Company and its subsidiaries (the "Group") for the six months and three months ended 30 June, 2009, together with the comparative figures of the corresponding periods of 2008, as follows:

CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the six months ended 30 June, 2009

	Notes	Six months ended 30 June,		Three months ended 30 June,	
		2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
REVENUE	2	302,290	376,685	191,636	208,164
Cost of sales		(180,552)	(187,203)	(113,546)	(99,164)
Gross profit		121,738	189,482	78,090	109,000
Other income		9,611	5,092	6,609	3,606
Selling and distribution costs		(14,182)	(19,344)	(6,391)	(9,303)
Administrative expenses		(50,478)	(49,000)	(28,919)	(22,027)
Other operating expenses		(319)	(8,731)	(32)	(6,613)
Finance costs		(9,150)	(7,064)	(4,453)	(4,745)
PROFIT BEFORE TAX	4	57,220	110,435	44,904	69,918
Income tax expenses	5	(11,883)	(21,466)	(8,737)	(15,749)
PROFIT FOR THE PERIOD		45,337	88,969	36,167	54,169
Attributable to:					
Equity holders of the Company		42,609	86,595	33,471	53,491
Minority interests		2,728	2,374	2,696	678
		45,337	88,969	36,167	54,169
DIVIDENDS	6	-	-	-	-
EARNINGS PER SHARE – BASIC	7	RMB0.0679	RMB0.1380	RMB0.0533	RMB0.0852

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June, 2009

	Notes	At 30 June, 2009 (Unaudited) RMB'000	At 31 December, 2008 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	409,580	357,215
Investment properties		3,727	3,727
Prepaid lease payments		41,233	38,561
Goodwill		33,884	33,884
Concession intangible assets		189,775	192,405
Intangible assets		277	309
Available-for-sale investment		1,800	1,800
Interests in associates		277	277
Prepayment for acquisition of property, plant and equipment		13,818	59,318
Deferred tax assets		9,205	10,184
		703,576	697,680
CURRENT ASSETS			
Inventories		67,455	30,881
Amounts due from customers for contract work		227	21,502
Trade and other receivables	9	368,340	191,094
Prepaid lease payments		–	848
Investments held for trading		5,089	3,022
Other current assets		6	–
Bank balances and cash		258,854	247,693
		699,971	495,040
CURRENT LIABILITIES			
Trade and other payables	10	176,198	136,726
Amounts due to customers for contract works		1,564	686
Income tax payable		12,346	16,713
Obligations under finance lease		–	3,318
Interest-bearing bank borrowings		300,790	233,000
		490,898	390,443
NET CURRENT ASSETS			
		209,073	104,597
TOTAL ASSETS LESS CURRENT LIABILITIES			
		912,649	802,277

	<i>Notes</i>	At 30 June, 2009 (Unaudited) RMB'000	At 31 December, 2008 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred revenue		49,519	47,029
Interest-bearing bank borrowings		145,000	77,500
Obligations under finance lease		6,815	7,757
Preferred tax liabilities		306	306
		201,640	132,592
		711,009	669,685
CAPITAL AND RESERVES			
Share capital	<i>11</i>	62,738	62,738
Reserves		491,112	449,106
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
MINORITY INTERESTS		553,850	511,844
		157,159	157,841
TOTAL EQUITY		711,009	669,685

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June, 2009

	Attributable to equity holders of the Company								
	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, 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)	340,327	-	494,894	105,420	600,314
At 1 January, 2009	62,738	30,309	71,159	550	347,088	-	511,844	157,841	669,685
Profit for the Period	-	-	-	-	42,609	-	42,609	2,728	45,337
Exchange adjustment	-	-	-	(603)	-	-	(603)	-	(603)
Contribution from minority shareholders	-	-	-	-	-	-	-	390	390
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(3,800)	(3,800)
At 30 June, 2009	62,738	30,309	71,159	(53)	389,697	-	553,850	157,159	711,009

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June, 2009

	Six months ended 30 June,	
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Net cash inflow from operating activities	43,528	83,760
Net cash used in investing activities	(142,417)	(148,026)
Net cash from financing activities	110,050	148,007
Increase in cash and cash equivalents	11,161	83,740
Cash and cash equivalents at beginning of the Period	247,693	250,997
Cash and cash equivalents at end of the Period	258,854	334,737

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 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, 2008. 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 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:

	Six months ended 30 June,		Three months ended 30 June,	
	2009 (unaudited) RMB'000	2008 (unaudited) RMB'000	2009 (unaudited) RMB'000	2008 (unaudited) RMB'000
Sale of recycled products and the provision of waste treatment services	256,464	329,252	165,669	175,266
Construction and operation of environmental protection systems and consultation service	36,302	30,029	21,383	20,805
Trading of chemical products	9,524	17,404	4,584	12,093
	302,290	376,685	191,636	208,164

3. Segment information

For management purposes, the Group is currently organised into three operating divisions – 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:

	Sales of recycled products and provision of waste treatment		Construction and operation of environmental protection systems and consultation service		Trading of chemical products		Total	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
Amounts in RMB'000								
Segment revenue:								
Sales to external customers	256,464	329,252	36,302	30,029	9,524	17,404	302,290	376,685
Segment results	69,538	123,911	3,588	2,945	1,244	1,176	74,370	128,032
Unallocated corporate expenses (Note)							(8,000)	(10,533)
Finance costs							(9,150)	(7,064)
Profit before tax							57,220	110,435
Income tax expenses							(11,883)	(21,466)
Profit for the period							45,337	88,969

	Sales of recycled products and provision of waste treatment		Construction and operation of environmental protection systems and consultation service		Trading of chemical products		Total	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
OTHER INFORMATION:								
Capital expenditure of property, plant and equipment	56,428	27,868	20,641	1,057	89	274	77,158	29,199
Depreciation of property, plant and equipment	24,382	13,730	1,047	1,077	69	61	25,498	14,868

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,	
	2009 (unaudited) RMB'000	2008 (unaudited) RMB'000
Cost of goods sold	174,357	178,139
Depreciation	25,398	14,868
Amortisation of prepaid lease payments	424	357
Amortisation of intangible assets	18	18

5. 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 profitmaking 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%.

6. Dividends

The Board does not recommend the payment of an interim dividend for the Period (2008: 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 Company for the Period of RMB42,609,000 (2008: RMB86,595,000) 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 six months ended 30 June, 2008 and 2009.

8. Property, plant and equipment

During the Period, the Group acquired approximately RMB77,158,000 property, plant and equipment for the Group's expansion. The Group charged approximately RMB25,498,000 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, 2009 (Unaudited) RMB'000	31 December, 2008 (Audited) RMB'000
Current to 90 days	80,337	53,944
91 to 180 days	10,406	6,587
181 to 365 days	6,544	3,027
Over 1 year	9,696	1,551
	106,983	65,109

10. Trade and other payables

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

	30 June, 2009 (Unaudited) RMB'000	31 December, 2008 (Audited) RMB'000
Current to 90 days	39,717	39,171
91 to 180 days	2,196	756
181 to 365 days	23,769	15,151
Over 1 year	12,100	15,406
	77,782	70,484

11. Share capital

	30 June, 2009 (Unaudited) RMB'000	31 December, 2008 (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, 2009 (Unaudited) RMB'000	31 December, 2008 (Audited) RMB'000
Contracted, but not provided for:		
Property, plant and equipment	64,802	34,555
Construction in progress	142,810	45,418
	207,612	79,973

13. Related party transactions

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

	Six months ended 30 June,	
	2009 (unaudited) <i>RMB'000</i>	2008 (unaudited) <i>RMB'000</i>
Sales of finished goods to a minority shareholder of Dongjiang Heritage	12,408	44,201
Purchase of goods from a shareholder of Shenzhen Resource Environmental Technology Co., Ltd. ("Shenzhen Resource")	6,147	7,835
Sales of goods to a shareholder of Shenzhen Resource	545	–
Waste treatment fee received from a shareholder of Shenzhen Resource	1,740	–
Rental income received from Shenzhen Fang Yuan Petrochemical Industrial Co., Ltd. which is the shareholder of the Company	389	300
Service fee of technology paid to a company controlled by a minority shareholder of Dongjiang Heritage	452	–
Rental income received from a shareholder of Shenzhen Resource	–	126
Rental expense in respect of the technology use right paid to a minority shareholder of Shenzhen Longgang Dongjiang Industrial Waste Treatment Co., Ltd.	603	677
Rental income received from a company in which a director of the Company is a shareholder	71	71

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of 2009, along with the complete implementation of a basket of plans to address the global financial crisis, the economy of China stepped towards to a better direction and the overall condition was stable. The Group took good advantage of the favorable factors under the better market situation and continued to strengthen its market development and integration of internal resources. Each business segment showed a satisfactory development momentum. For the six months ended 30 June, 2009, the Group's revenue and the profits attributable to equity holders of the Company recorded a decrease respectively as compared with the corresponding period in 2008. Whereas, for the second quarter of 2009, there was a growth of approximately 73.18% and 266.28% in the Group's revenue and profit attributable to equity holders of the Company respectively as compared with that of the first quarter of 2009, which indicated a significant increase in operating results.

Industrial Waste Treatment and Disposal

During the Period, in light of the unfavorable situation of under-operating rate generally encountered by existing customers, the Group focused on strengthening the geographical expansion and deployment of industrial waste treatment business and invested more resources in developing market and customer base of service charging business such as solid waste treatment business. Through effective measures on market integration and continued strengthening of service and brand awareness, the Group had formed a marketing team with strong competitiveness currently and achieved an apparent advantage in overall synergy. During the Period, the marketing team of the Group had built relationship with a total of over 800 new customers as the volume of waste collection maintained an upgrading trend. In particular, the industrial solid waste treatment business had recorded a remarkable performance, which realized an increase of 61.25% in revenue to RMB89,813,000 for the six months ended 30 June, 2009 as compared with the corresponding period in 2008.

During the Period, the Group's treatment base at Kunshan made a breakthrough in market expansion at the upper and lower stream and the volume of business maintained a strong growth which went on track for its development. For the six months ended 30 June, 2009, Kunshan Treatment Base recorded revenue of RMB40,610,000, representing an increase of approximately 213% as compared with the corresponding period in 2008.

Along with the increase in the volume of waste collection and the recovery of market, the productivity and sales of recycled products of the Group increased simultaneously during the Period and some products were at a higher level as compared with the corresponding period in 2008. Due to the drastic decrease in demand for export and uncompleted opening up of the domestic market, the sales revenue of TBCC products recorded a decrease of approximately 67.13% as compared with the corresponding period in 2008.

In line with the expansion of waste collection market and the growth of the volume of future business, the Group accelerated the construction progress of its new projects during the Period. Among the projects, North Guangdong Treatment Project had completed the main part of its sub project "Comprehensive Utilization of Desclozite Residues" and proceeded to the stage of equipment installation, which was expected to be put into operation in the forth quarter this year. The industrial waste treatment project at Langfang, Hebei province invested by Shenzhen Resource, a subsidiary of the Group, had commenced equipment installation and planned for a trial operation beginning in September this year. Upon completion of the project, approximately 30,000 tons of industrial waste can be handled every year.

Since the Group strictly promoted a cost control project at beginning of the year, each treatment base made a positive response and implemented control measures on various cost and expenses seriously. Through the implementation of the project, the operating cost of each treatment base was generally reduced and a good consciousness of cost control was formed, creating a condition for further enhancing the operating efficiency.

Municipal Waste Treatment and Disposal

During the Period, the business of municipal waste treatment and disposal achieved satisfactory results, which featured that: (1) the Xiaping Landfill Gas Power Generation Project was operating well with higher level of on-grid sales volume of electricity and utilization rate of electricity generators. The average utilization rate of electricity generating units was approximately 86% during the first half of the year which contributed approximately RMB10,365,000 in, representing a growth of 85.71% as compared with the corresponding period in 2008; (2) the Municipal Sludge Treatment Project was in normal operation and received and treated a total of approximately 85,000 tons of sludge in the first half of 2009, which materialize a revenue of approximately RMB17,418,000; (3) Qingdao Landfill Gas Utilization Project signed a sales agreement for carbon emission reduction volume with E.ON AG successfully, pursuant to which E.ON AG will purchase the certified carbon emission reduction volume from the project. The Group will also regard it as a critical opportunity to strengthen its cooperation with E.ON AG in respect of renewable energy and waste comprehensive treatment.

Environmental Engineering

During the Period, the Group captured the opportunity of “optimization and upgrade plan for environment facilities” led by government authorities and made good use of its technology advantages to expand its environmental engineering business progressively. Among them, the Environmental Services Branch Company of the Group secured a number of reconstruction contracts for environment facilities with a contract sum of approximately RMB38,145,000. In respect of environmental operation sector, five more new operation sites were established in the first half in 2009 as compared with the corresponding period in 2008. Through cost control measures such as upward price adjustment and waste reuse, the operating cost was reduced drastically and the profit level of each operation site increased significantly. In addition, Beijing Novel Environmental Protection Co., Ltd, a subsidiary of the Group, continued to strengthen its advantageous businesses such as environmental evaluation, engineering design and operation, and broaden the scope of services. It signed up 43 projects in the first half of 2009 with a contract sum of approximately RMB38,217,000.

In all, environmental engineering business of the Group maintained a better upward trend and recorded revenue of RMB36,302,000 for the six months ended 30 June, 2009, representing a growth of approximately 20.89% compared with the corresponding period in 2008.

Financial Review

For the six months ended 30 June, 2009, the Group's revenue was decreased by approximately 19.75% to RMB302,290,000 (2008: RMB376,685,000) as compared to the corresponding period of last year. The profit attributable to equity holders of the Company was decreased by approximately 50.80% to RMB42,609,000 (2008: RMB86,595,000).

The decline was mainly due to the shrink of the sales of recycled products. The revenue generated from the business of sales of recycled products and waste treatment was approximately RMB256,464,000 (2008: RMB329,252,000), representing a decrease of 22.11%. It is gratifying that the businesses of solid waste treatment and environmental engineering recorded an increase of approximately 61.25% and approximately 20.89% to approximately RMB89,813,000 and approximately RMB36,302,000 respectively as compared to the corresponding period in 2008.

During the Period, the Group's gross profit margin increased from 39.20% to 40.27%. The increase was mainly due to the improved gross profit margin of the business of construction and operation of environmental protection systems and consultant service.

For the six months ended 30 June, 2009, the Group's selling and distribution costs was approximately RMB14,182,000 (2008: RMB19,344,000), representing 4.69% (2008: 5.13%) of the Group's revenue. The decrease in selling and distribution costs was mainly due to the reduction of sales scale resulted from the financial crisis.

For the six months ended 30 June, 2009, the Group's administrative expenses was approximately RMB50,478,000 (2008: RMB49,000,000), comprising 16.70% (2008: 13.01%) of the Group's revenue. The main reasons for the increase in administrative expenses was that the Group has invested more resources in the market development of the industrial and the municipal solid waste treatment.

For the six months ended 30 June, 2009, finance cost of the Group was approximately RMB9,150,000 (2008: RMB7,064,000), representing 3.03% (2008: 1.88%) of the Group's revenue. The increase in finance cost was attributable to the increased bank loans.

For the six months ended 30 June, 2009, the Group's income tax expenses was approximately RMB11,883,000 (2008: RMB21,466,000), representing 20.77% of the Group's profit before tax (2008: 19.44%). 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 20% in 2009. 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, 2009, the Group had current assets of RMB699,971,000 (31 December, 2008: RMB495,040,000) and current liabilities of RMB490,898,000 (31 December, 2008: RMB390,443,000). Current assets include cash and cash equivalents of RMB258,854,000 (31 December, 2008: RMB247,693,000).

As at 30 June, 2009, the Group had total liabilities of RMB692,538,000 (31 December, 2008: RMB523,035,000). The Group's gearing ratio was 49.34% (31 December, 2008: 43.85%) which is calculated based on the Group's total liabilities over total assets. As at 30 June, 2009, the Group had bank loans of RMB445,790,000 (31 December, 2008: RMB310,500,000) at interest rates from 4.779% to 5.346% per annum.

Capital Structure

During the Period, there were no changes in capital structure. The total number of issued share capital of the Company as at 30 June 2009 was 449,481,872 domestic share and 177,900,000 H shares.

Substantial Investments, Acquisitions and Disposals of Subsidiaries and Associates

During the Period, there was no substantial investment, acquisition and disposal of subsidiaries and associates by the Group.

Pledge of Assets

As at 30 June, 2009, certain assets of the Group were pledged to secure bank borrowings granted to the Group and as follows:

	At 30 June, 2009 (Unaudited) RMB'000	At 31 December, 2008 (Audited) RMB'000
Property, plant and equipment	36,209	20,814
Prepaid lease payments on land use rights	2,492	2,492
	38,701	23,306

Interest Rate and Exchange Rate Risk

During the Period, the Group was granted the bank loans at the fixed interest rate of 4.779% and 5.346% 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 Reminbi.

Information on Employees and Remuneration Policies

As at 30 June, 2009, the number of full-time employees stood at 1,326 (2008: 1,420) with a total staff cost for the six months ended 30 June, 2009 of approximately RMB29,755,000 (2008: RMB24,135,000). 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, 2009 and 31 December, 2008.

Future Prospects

In the second half year of 2009, under the dual influence of policy and investment driven effects, it is forecasted that the recovery of China economy will maintain. However, there are uncertainties, such as the serious insufficiency of external demand, shrunken exports and difficulties in production and operation for some enterprises and industries. The Group will actively address the changes of market condition, continue implementing strategic shift, intensify market expansion of industrial solid waste and broaden its income sources. In the course of the business and market expansion, it will concentrate on developing the synergy effect of each business unit and the resources integrating effect and continuously enhance its overall competitiveness. The Group will also expedite the construction of new projects and enhance the capacity and level of waste treatment. Meanwhile, it will pay its efforts on increasing the efficiency of resource utilization and

developing recycled products of high competitiveness and added value. In addition, the Group will make cost control on the focus of internal management during the second half of the year, further optimize management and promote the enhancement of corporate effectiveness.

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

At 30 June, 2009, the interests and short positions of the Directors, supervisors and chief executive or their respective associates 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")) (Chapter 571 of the Laws of Hong Kong), which were notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or 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	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 30 June, 2009, none of the Directors, supervisors or chief executive or their respective associates 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, which were notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors or chief executive of the Company, as at 30 June, 2009, 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 which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the 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%

Name of shareholders	Capacity and nature of interest	Number of ordinary shares held	Percentage of shareholding in its class
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. These 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, 2009, 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, 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 30 June, 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.

CONTINUING CONNECTED TRANSACTIONS

Sales Agreement

On 30 April 2009, 深圳市東江環保股份有限公司貿易分公司 (Shenzhen Dongjiang Environmental Company Limited Trading Branch*), a wholly owned subsidiary of the Company in which the Company beneficially holds 100% equity interest, entered into the sales agreement (the "Sales Agreement") with 深圳市危險廢物處理站有限公司 (Shenzhen Hazardous Waste Treatment Station Company Limited*) ("SHWTS"). As SHWTS beneficially holds 50% equity interest in Shenzhen Resource, a joint venture company established in Shenzhen, PRC, in which 50% owned by the Company and 50% owned by SHWTS, SHWTS is a connected person of the Company under the GEM Listing Rules and the Sales Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

Waste Treatment Agreement

On 30 April 2009, 惠州東江威立雅環境服務有限公司 (Huizhou Dongjiang Veolia Environmental Services Company Limited*), a non-wholly owned subsidiary of the Company in which the Company beneficially holds 51% equity interest, entered into the waste treatment agreement (the "Waste Treatment Agreement") with SHWTS. The Waste Treatment Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

The Directors (including the independent non-executive Directors) were of the view that the Sales Agreement and the Waste Treatment Agreement and the transaction contemplated thereunder (including the proposed annual caps) were entered into, and would be carried out, in the ordinary and usual course of business of the Group and on normal commercial terms which were fair and reasonable and in the interests of the Group and the shareholders as a whole.

COMPETING INTERESTS

During the six months ended 30 June, 2009, 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, 2009 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, 2009.

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, 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

11 August, 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 purposes only*