



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
2010

* For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 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

- Turnover was increased by approximately 87.61% to approximately RMB207,595,000 for the three months ended 31 March, 2010, as compared to that of the corresponding period in 2009 (2009: approximately RMB110,654,000).
- Profit attributable to owners of the Company was increased by approximately 168.18% to approximately RMB24,506,000 for the three months ended 31 March, 2010, as compared to that of the corresponding period in 2009 (2009: approximately RMB9,138,000).
- Earnings per share was approximately RMB0.0391 (2009: approximately RMB0.0146) for the three months ended 31 March, 2010.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2010 (2009: Nil).

FIRST QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)

The board of Directors (the "Board") of 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, 2010 (the "Period"), together with the comparative figures of the corresponding period of 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	Three months ended 31 March,	
		2010 (unaudited) RMB'000	2009 (unaudited) RMB'000
TURNOVER	2	207,595	110,654
Cost of sales		(122,436)	(67,006)
Gross profit		85,159	43,648
Other income		2,553	3,002
Selling and distribution costs		(10,256)	(7,791)
Administrative expenses		(33,033)	(21,559)
Other operating expenses		(2,091)	(287)
PROFIT FROM OPERATING ACTIVITIES		42,332	17,013
Finance costs		(5,584)	(4,697)
PROFIT BEFORE TAX		36,748	12,316
Income tax expenses	3	(8,310)	(3,146)
PROFIT FOR THE PERIOD		28,438	9,170
Attributable to:			
Owners of the Company		24,506	9,138
Minority interests		3,932	32
		28,438	9,170
DIVIDENDS	4	–	–
EARNINGS PER SHARE – BASIC	5	RMB0.0391	RMB0.0146

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, 2009. The consolidated results are unaudited but have been reviewed by the audit committee of the Company.

2. TURNOVER

Turnover represents the net amounts received and receivables for processing and sale of recycled products, provision of waste treatment services, construction and provision of environmental systems and services, production of renewable energy and trading of chemical products by the Group to outsiders less trade discounts.

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

	Three months ended 31 March,	
	2010 (unaudited) RMB'000	2009 (unaudited) RMB'000
Processing and sale of recycled products	115,025	50,002
Collection, treatment and disposal of industrial waste	37,552	22,311
Collection, treatment and disposal of municipal waste	23,518	14,112
Construction and the provision of environmental systems and services	21,668	14,876
Production of renewable energy	6,632	4,413
Trading of chemical products	3,200	4,940
	207,595	110,654

3. INCOME TAX EXPENSES

In accordance with the relevant income tax rules and regulations of the People's Republic of China (the "PRC"), the Company and its subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC enterprise income tax at a rate of 22% (2009: 20%) of the estimated assessable income determined. Subsidiaries located in other cities are subject to the PRC enterprise income tax at a rate of 25% (2009: 25%). The Company has been recognized as a national high-tech enterprise in 2009, and is subject to the high-tech enterprise income tax at a rate of 15% since 2009.

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 entitled to enjoy a 50% tax reduction of PRC enterprise income tax at a rate of 11%. The other two subsidiaries of the Company, 深圳市東江環保再生能源有限公司 (Shenzhen Dongjiang Environmental Renewable Energy Limited*) and 惠州東江威立雅環境服務有限公司 (Huizhou Dongjiang 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, 2010 (2009: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited profit attributable to owners of the Company for the three months ended 31 March, 2010 of approximately RMB24,506,000 (2009: approximately RMB9,138,000) and the weighted average number of 627,381,872 (2009: 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, 2009 and 2010.

6. RESERVES

Other than the profit attributable to owners of Company, minority interests for the three months ended 31 March, 2010, there were no movements to or from reserves of the Group and the Company during the Period (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first quarter of 2010, the micro-economy maintained an accelerated recovery. The Group kept its hold well on the favorable situation of the external operation environment, pushed on its strategic transformation continuously, speeded up the change of its operating mode, promoted the stable and fast development of various business segments, and achieved satisfactory growth in operating results. For the three months ended 31 March, 2010, the Group's turnover was increased by approximately 87.61% to RMB207,595,000, and the profit attributable to the owners of the Company increased by approximately 168.18% to RMB24,506,000 as compared to the corresponding period of 2009. Meanwhile, during the Period, the Group devoted itself to building up its professionalized service brand, achieving great breakthrough on cross-regional market expansion and development of operation and management projects. As a result, its overall competitiveness was enhanced.

Industrial Waste Treatment and Disposal

Treatment and disposal of industrial waste as the core business of the Group mainly include treatment, disposal and recycling of various industrial wastes. During the Period, under the advantageous conditions that the economy revived and the operations of industrial enterprises improved generally, the Group adopted proactive market expansion strategies to promote the rapid development of industrial waste disposal and treatment business. For the waste collection market expansion, through the implementation of an array of strategies such as reorganizing the business structure, intensifying new business territory expansion, enhancing client management and service level, adjusting business incentive program and so on, the amount of the waste collected and the number of newly secured customers both grew significantly. For the three months ended 31 March, 2010, the Group recorded a turnover of RMB37,552,000 in the business of collection, treatment and disposal industrial waste, representing an increase of approximately 68.31% as compared to the corresponding period of 2009. Meanwhile, the Group emphasized on the discovery and management of the value of waste. Aided with more meticulous sorting, check and examination as well as application of new technology and new technique, the treatment cost was reduced and the recycling rate was enhanced with the value of waste maximized.

As the amount of waste collected increased and the market environment improved, the Group's recycled products posed a favorable situation that both production and sales thrived. For the three months ended 31 March, 2010, the Group made a striking growth in processing and sale of recycled products with a turnover of RMB115,025,000 representing an increase of approximately 130.04% as compared with the corresponding period of 2009.

During the Period, the Group hastened its expansion of new business fields and new projects. The increasing per-capital income of domestic residents' results in household appliance products being rapidly replaced and vast business opportunities emerged in the wasted household appliance treatment industry. In order to seize the vital opportunity, the Group planned to build a wasted electric appliance disassembly and comprehensive utilization demonstration project with an annual treatment capacity of approximately 10,000 tons at its treatment base in Qingyuan. In respect of the project, the Group will adopt advanced technique and equipment in recycling treatment and utilization of the wasted electronic and electric appliance to recycle various metal and nonmetal material to realize environmental protection and resource saving. On the basis of the successful demonstration of the project, the Group will enlarge its treatment capacity and business scale according to the market situation in order to gain competitive strength in the wasted household appliance treatment industry.

Municipal Waste Treatment and Disposal

Municipal waste treatment and disposal is another pillar business of the Group with main development fields including the collection, treatment and disposal of domestic waste, the treatment and disposal of municipal sludge, construction waste and recycling and comprehensive utilization. For the three months ended 31 March, 2010, the municipal waste treatment and disposal business of the Group developed smoothly and realized a turnover of approximately RMB23,518,000, representing an increase of approximately 66.65% as compared to the corresponding period of 2009. Among which the municipal sludge treatment project, and the municipal waste collection and transportation business operated by Lik Shun Services Limited maintained a steady operation, with a turnover of approximately RMB16,474,000 and RMB7,044,000 realized respectively for the three months ended 31 March, 2010, and an increase of approximately 110.05% and 12.36% respectively as compared to the corresponding period of 2009.

In addition, the Group made a pleasing progress in the operation and management of domestic waste treatment project. Subsequent to the provision of operation service for Shenzhen Xiaping Solid Waste Landfill Plant ("Xiaping Landfill Plant") for five months in 2009, the Group won the bid in the public bidding of landfill service project of Xiaping Landfill Plant during the Period, and secure the overall operation management business for a term of one year starting from 1 January, 2010, with a contract amount of RMB27,298,000. The winning of the bid of this project started a new revenue source for the Group, and also established a favorable situation for further expansion of operation and management for domestic treatment projects for the Group.

Utilization of Renewable Energy and the Development of CDM Project

During the Period, the Group was proceeding well with business of application of renewable energy and the development of Clean Development Mechanism (“CDM”) Project. Xiaping Landfill Gas Power Generation Project was operating very well with a turnover of approximately RMB6,632,000 for the three months ended 31 March, 2010, representing an increase of approximately 50.28% as compared to the corresponding period of 2009. The Qingdao Landfill Gas Utilization project and Lao Hu Keng Landfill Gas Utilization project have been approved by the National Development and Reform Commission (“NDRC”) as CDM projects. The Chongqing Song Zao Coal Mine Ventilation Air Utilization Project has entered into the carbon emission reduction purchase agreement and the relevant application has been submitted to the NDRC for being approved as a CDM project.

Environmental Engineering and Services

The Group provides customers with environmental engineering and consulting services including design and construction of environment and municipal projects, operation of environment protecting facilities and assessment of environmental impact, environmental monitoring and consulting. During the Period, the Group intensified its market development externally, strengthened its cooperation with various business segments and resources sharing internally, gave play to the synergy of integration of service, and promoted the growth of environmental engineering and services business. For the three months ended 31 March, 2010, the Group’s environmental engineering and services has contribute a turnover of RMB21,668,000, increased by 45.66% as compared to the corresponding period of 2009. Among which, the number of client of waste water operation business increased by 4 and totaled 24 during the Period, with an operating revenue of approximately RMB7,227,000.

Research and Development

During the Period, the Group continued its research and development (“R&D”) in its core business. With regard to new technology, the R&D Center finished three invention patent applications including *Method for Recycling Copper from Cupric Chloride Etchant Liquid*, *Method for Producing Iron Oxide Red from Ferrous Oxide (FeO)*, and *A Method for Producing Manganese Sulphate*. These applications have been accepted by National Patent Office. Meanwhile, to accelerate the transformation from technology achievement to application, the Group further increased the added-value of its products. The R&D team has launched a number of product upgrade solutions, which has passed the assessment and entered the phase of engineering design.

To harmonize with the business development, the Inspection Center of the Group has submitted more than 200 certificate expansion applications to relevant governmental competent authorities after the completion of upgrading the laboratory. Meanwhile, it has also submitted national laboratory accreditation application to the relevant authorities, such that the Group can provide more extensive and higher quality inspecting services to clients.

Financial Review

For the three months ended 31 March, 2010, the Group's turnover was increased by approximately 87.61% to approximately RMB207,595,000 (2009: approximately RMB110,654,000) as compared to the corresponding period in 2009. The profit attributable to owners of the Company was increased by approximately 168.18% to approximately RMB24,506,000 (2009: approximately RMB9,138,000).

The increase of turnover mainly results from the growth of processing and sale of recycled products, which recorded a turnover of RMB115,025,000 representing a significant increase of approximately 130.04% as compared with the corresponding period of 2009 (2009: approximately RMB50,002,000) due to favorable market situation. Meanwhile, the other main businesses were also realized satisfactory growth in turnover.

During the Period, the Group's gross profit margin was approximately 41.02% (2009: approximately 39.45%). The increase in gross profit margin was mainly due to the strengthened cost control by the Group during the Period.

For the three months ended 31 March, 2010, the Group's selling and distribution costs was approximately RMB10,256,000 (2009: approximately RMB7,791,000), representing approximately 4.94% of the Group's turnover (2009: approximately 7.04%).

For the three months ended 31 March, 2010, the Group's administrative expenses were approximately RMB33,033,000 (2009: approximately RMB21,559,000), representing approximately 15.91% of the Group's turnover (2009: approximately 19.48%). The increase in the administrative expenses was mainly because more resources were put into the R&D and several projects completed the construction and entered into the phase of trial run which caused more administrative expenses.

Future Prospects

Benefited by the economic growth of China and the Government's supporting policies, the environmental protection industry will maintain a momentum of rapid development. The Group will seize every favorable opportunity, on the basis of the market layout established in the early stage, to robustly implement regional expansion strategies, and increase the market share. The Group will continue to carry out its service-oriented market competition strategies to integrate market and customer resources of each business unit and fully undertake the changes for the operation mode. Meanwhile, it will speed up the planning and construction for each project, proactively push the development of new projects and merger and acquisition forward, enhance the waste disposal ability and level. In addition, the Group will also strive to undertake more waste treatment and operation management projects by making use of its advantages in operation management service, and build up its own brand of professionalized services.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2010 (2009: Nil).

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

At 31 March, 2010, the interests and short positions of the Directors, 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 of interests required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to 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	15,423,884 domestic shares (Note 2)	3.43%

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, 2010, none of the Directors 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' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March, 2010, the following persons (other than the Directors or chief executive of the Company) had interests or short position in the shares, underlying shares and debentures 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	Number and class of shares	Percentage of shareholding in this class
Shanghai New Margin Venture Capital Co., Ltd. <i>(Note 1)</i>	Beneficial owner	61,566,558 domestic shares	13.70%
Shenzhen Fang Yuan Petrochemical Industries Co., Ltd.	Beneficial owner	35,389,750 domestic shares <i>(Note 2)</i>	7.87%
Cai Hong	Beneficial owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services <i>(Note 3)</i>	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. Leading Environmental Solutions and Services and China Environmental Fund 2002 Management Ltd. own approximately 76.92% and 0.10% 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, 2010, 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 Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register of the interests required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

As at 31 March, 2010, 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, 2010, 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, 2010, 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 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 auditor, reviewing the Company's financial information and its disclosure, monitoring the Company's internal control system and its implementation, reviewing and providing supervision over the Group's financial reporting process and internal control of the Company.

The audit committee of the Company comprises three independent non-executive Directors, namely Messrs. Liu Xue Sheng, Ye Ru Tang and Hao Ji Ming. The audit committee of the Company has reviewed the Company's financial statements for the three months ended 31 March, 2010 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, 2010.

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, 2010
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*