



DONGJIANG ENVIRONMENTAL COMPANY LIMITED\*

東江環保股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00895)



INTERIM REPORT  
**2011**

\* For identification purposes only

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

ZHANG Wei Yang (*Chairman*)  
CHEN Shu Sheng  
LI Yong Peng

## NON-EXECUTIVE DIRECTORS

FENG Tao (*Vice-chairman*)  
FENG Bo  
SUN Ji Ping

## INDEPENDENT NON-EXECUTIVE DIRECTORS

YE Ru Tang  
HAO Ji Ming  
WANG Ji De

## SUPERVISORS

YUAN Wei  
CAI Wen Sheng  
LIU An

## COMPANY SECRETARY

LO Wah Wai, *HKICPA, AICPA*

## AUDIT COMMITTEE

WANG Ji De (*Chairman*)  
YE Ru Tang  
HAO Ji Ming

## REMUNERATION AND APPRAISAL COMMITTEE

ZHANG Wei Yang (*Chairman*)  
YE Ru Tang  
HAO Ji Ming  
WANG Ji De

## NOMINATION COMMITTEE

HAO Ji Ming (*Chairman*)  
ZHANG Wei Yang  
YE Ru Tang

## STRATEGIC DEVELOPMENT COMMITTEE

ZHANG Wei Yang (*Chairman*)  
YE Ru Tang  
FENG Tao

## AUTHORIZED REPRESENTATIVES

ZHANG Wei Yang  
LO Wah Wai, *HKICPA, AICPA*

## STOCK CODE

00895

## AUTHORIZED REPRESENTATIVE TO ACCEPT SERVICE OF PROCESSES AND NOTICES

LO Wah Wai, *HKICPA, AICPA*

## AUDITORS

SHINewing CERTIFIED PUBLIC  
ACCOUNTANTS Co., Ltd.

## LEGAL ADVISORS

Loong & Yeung (*as to Hong Kong law*)  
北京市君合律師事務所 (*as to China law*)

## PRINCIPAL BANKER

China Merchants Bank

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## REGISTERED OFFICE

1st Floor, 3rd Floor, North of 8th Floor  
9th-12th Floor  
Dongjiang Environmental Building  
No. 9 Langshan Road  
North Zone of Hi-tech Industrial Park  
Nanshan District, Shenzhen  
The People's Republic of China

## COMPANY HOMEPAGE

<http://www.dongjiang.com.cn>

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 06-12, 33rd Floor  
Shui On Centre  
6-8 Harbour Road  
Wanchai, Hong Kong

## INTERIM RESULTS (UNAUDITED)

The board (the "Board") of directors (the "Directors") of Dongjiang Environmental Company Limited (the "Company") hereby announces the unaudited results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2011 (the "Period"), together with the comparative figures of the corresponding period of 2010, as follows:

(Unless specified otherwise, the financial information of the Company in this report was stated in Renminbi ("RMB").)

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 (Unaudited)	2010 (Unaudited)
<b>Total operating revenue</b>	2	<b>760,885,421.07</b>	492,908,623.96
<b>Total operating costs</b>		<b>638,107,971.61</b>	387,047,615.51
Cost of operation		<b>492,560,133.89</b>	293,973,101.86
Sales tax and levies		<b>8,102,089.90</b>	2,837,524.76
Selling expenses		<b>27,495,727.56</b>	19,716,067.74
Administrative expenses		<b>72,120,787.57</b>	57,049,534.31
Finance costs	4	<b>13,569,568.21</b>	10,972,547.46
Impairment loss for assets	5	<b>24,259,664.48</b>	2,498,839.38
Gain (loss) on fair value changes		<b>501,960.00</b>	(984,682.94)
Investment income (loss) from jointly controlled entities and associates		<b>1,971,840.42</b>	(2,918,618.61)
Other investment (loss) income		<b>(107,985.97)</b>	170,921.45
<b>Operating profit</b>		<b>125,143,263.91</b>	102,128,628.35
Add: Non-operating income		<b>3,221,915.62</b>	2,052,566.06

# CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Continued)

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 (Unaudited)	2010 (Unaudited)
Less: Non-operating expenses		<u>1,444,299.44</u>	<u>261,430.26</u>
<b>Total profit</b>		<b>126,920,880.09</b>	103,919,764.15
Less: Income tax expenses	6	<u>22,827,299.98</u>	<u>21,073,074.34</u>
<b>Net profit</b>		<b>104,093,580.11</b>	82,846,689.81
<b>Other comprehensive income</b>		<u>(906,184.98)</u>	<u>—</u>
<b>Total comprehensive income</b>		<u><b>103,187,395.13</b></u>	<u>82,846,689.81</u>
<b>Net profit attributable to:</b>			
Shareholders of the Company		<b>99,044,520.41</b>	74,259,009.79
Minority interests		<u><b>5,049,059.70</b></u>	<u>8,587,680.02</u>
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		<b>98,138,335.43</b>	74,259,009.79
Minority interests		<u><b>5,049,059.70</b></u>	<u>8,587,680.02</u>
<b>Earnings per share:</b>	7		
Basic earnings per share		<b>0.79</b>	0.59
Diluted earnings per share		<u><b>0.79</b></u>	<u>0.59</u>
<b>Dividends</b>	8	<u><u>—</u></u>	<u><u>—</u></u>

# INCOME STATEMENT OF THE COMPANY (UNAUDITED)

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
<b>Total operating revenue</b>	<b>529,508,410.33</b>	260,464,722.51
<b>Total operating costs</b>	<b>405,604,118.11</b>	200,234,166.35
Cost of operation	<b>358,547,830.98</b>	158,432,383.60
Sales tax and levies	<b>1,993,268.01</b>	993,657.62
Selling expenses	<b>6,053,763.36</b>	4,092,296.36
Administrative expenses	<b>35,132,075.26</b>	28,355,532.18
Finance costs	<b>4,982,259.94</b>	5,860,296.59
Impairment loss for assets	<b>(1,105,079.44)</b>	2,500,000.00
Gain (loss) on fair value changes	<b>501,960.00</b>	(939,203.96)
Investment income (loss) from jointly controlled entities and associates	<b>1,341,592.60</b>	(2,918,618.61)
Other investment income (loss)	<b>3,153,827.71</b>	931,352.50
Include: Profit (loss) on sale of investment or property	<b>511,158.96</b>	—
<b>Operating profit</b>	<b>128,901,672.53</b>	57,304,086.08
Add: Non-operating income	<b>2,327,464.32</b>	1,884,683.44
Less: Non-operating expenses	<b>855,924.54</b>	8,000.00
Including: Loss on disposal of non-current assets	<b>2,804.14</b>	—
<b>Total profit</b>	<b>130,373,212.31</b>	59,180,769.52
Less: Income tax expenses	<b>15,645,230.92</b>	8,800,777.81
<b>Net profit</b>	<b>114,727,981.39</b>	50,379,991.71
<b>Other comprehensive income</b>	—	—
<b>Total comprehensive income</b>	<b>114,727,981.39</b>	50,379,991.71

# CONSOLIDATED BALANCE SHEET

At 30 June 2011

	Note	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
<b>Current assets:</b>			
Cash and bank balances		234,537,958.73	178,654,812.40
Held for trading financial assets		4,175,710.00	4,511,646.00
Bills receivables		37,648,236.48	52,407,555.18
Accounts receivables	9	152,438,927.18	158,038,481.61
Prepayments		85,935,223.56	66,875,351.10
Other receivables		48,669,926.76	69,116,661.93
Inventories		212,454,494.13	282,481,876.70
<b>Total current assets</b>		<b>775,860,476.84</b>	<b>812,086,384.92</b>
<b>Non-current assets:</b>			
Investments in jointly controlled entities and associates		84,808,338.33	116,591,720.88
Other long-term equity investments		1,900,000.00	1,900,000.00
Investment properties		53,952,089.00	53,952,089.00
Fixed assets	10	419,524,119.29	378,101,272.84
Construction in progress		364,155,476.27	322,338,261.31
Intangible assets		62,637,412.49	59,968,007.02
Goodwill		3,052,019.14	26,883,677.58
Long-term prepayments		90,000.00	181,500.00
Deferred income tax assets		10,628,962.78	10,074,535.27
Other non-current assets		10,040,880.00	-
<b>Total non-current assets</b>		<b>1,010,789,297.30</b>	<b>969,991,063.90</b>
<b>Total assets</b>		<b>1,786,649,774.14</b>	<b>1,782,077,448.82</b>
<b>Current liabilities:</b>			
Short-term borrowings		169,120,088.31	288,000,000.00
Accounts payables	11	132,113,263.84	145,704,548.17
Receipts in advance		48,525,661.09	55,346,052.98
Employee benefits payables		3,000,928.45	16,439,339.14
Tax payables		2,323,894.45	(3,705,441.77)
Other payables		54,867,694.35	34,868,399.03

# CONSOLIDATED BALANCE SHEET

(Continued)

At 30 June 2011

	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
Non-current liabilities repayable within one year	42,051,230.17	112,450,022.02
Deferred income realizable within one year	2,956,883.08	2,506,883.08
<b>Total current liabilities</b>	<b>454,959,643.74</b>	<b>651,609,802.65</b>
<b>Non-current liabilities:</b>		
Long-term borrowings	321,600,000.00	265,587,320.00
Obligations under finance leases	35,238,936.72	2,743,746.44
Deferred income tax liabilities	3,360,359.10	1,403,846.70
Deferred income	31,923,234.13	21,902,527.71
<b>Total non-current liabilities</b>	<b>392,122,529.95</b>	<b>291,637,440.85</b>
<b>Total liabilities</b>	<b>847,082,173.69</b>	<b>943,247,243.50</b>
<b>Shareholders' equity:</b>		
Share capital	125,476,374.40	125,476,374.40
Surplus reserve	70,754,552.84	70,754,552.84
Undistributed profits	646,020,595.77	546,976,075.36
Exchange difference on translation of financial statements denominated in foreign currency	(504,348.75)	401,836.23
<b>Equity attributable to shareholders of the Company</b>	<b>841,747,174.26</b>	<b>743,608,838.83</b>
Minority interests	97,820,426.19	95,221,366.49
<b>Total shareholders' equity</b>	<b>939,567,600.45</b>	<b>838,830,205.32</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,786,649,774.14</b>	<b>1,782,077,448.82</b>
<b>Net current assets</b>	<b>320,900,833.10</b>	<b>160,476,582.27</b>
<b>Total assets less current liabilities</b>	<b>1,331,690,130.40</b>	<b>1,130,467,646.17</b>

# BALANCE SHEET OF THE COMPANY

At 30 June 2011

	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
<b>Current assets:</b>		
Bank balances and cash	129,498,226.18	87,869,056.48
Held for trading financial assets	4,175,710.00	4,511,646.00
Bills receivables	23,093,018.98	50,875,526.00
Accounts receivables	120,090,235.95	110,735,057.89
Prepayments	19,512,247.29	10,432,536.06
Other receivables	422,264,966.19	369,597,158.75
Inventories	22,644,594.31	69,835,445.09
<b>Total current assets</b>	<b>741,278,998.90</b>	<b>703,856,426.27</b>
<b>Non-current assets:</b>		
Investment in subsidiaries	244,594,422.58	244,594,422.58
Investment in jointly controlled entities and associates	68,191,297.47	99,885,439.91
Other long-term equity investments	1,900,000.00	1,900,000.00
Investment properties	53,952,089.00	53,952,089.00
Fixed assets	153,129,395.55	156,410,227.78
Construction in progress	11,469,612.48	18,046,080.14
Intangible assets	24,584,994.92	24,871,296.56
Deferred income tax assets	6,798,087.48	7,899,785.63
Other non-current assets	10,040,880.00	-
<b>Total non-current assets</b>	<b>574,660,779.48</b>	<b>607,559,341.60</b>
<b>Total assets</b>	<b>1,315,939,778.38</b>	<b>1,311,415,767.87</b>



# BALANCE SHEET OF THE COMPANY

(Continued)

At 30 June 2011

	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
<b>Current liabilities:</b>		
Short-term borrowings	80,000,000.00	240,000,000.00
Accounts payables	71,517,448.47	41,096,320.96
Receipts in advance	30,171,662.63	30,782,705.98
Employee benefits payables	(61,031.17)	9,009,956.57
Tax payables	14,917,755.47	8,169,906.79
Other payables	136,260,797.77	135,819,900.18
Non-current liabilities repayable within one year	30,000,000.00	–
Other current liabilities	2,506,883.08	2,506,883.08
<b>Total current liabilities</b>	<b>365,313,516.25</b>	<b>467,385,673.56</b>
<b>Non-current liabilities:</b>		
Long-term borrowings	63,500,000.00	70,000,000.00
Deferred income tax liabilities	2,212,412.80	830,659.83
Deferred income	15,516,231.90	16,529,798.44
<b>Total non-current liabilities</b>	<b>81,228,644.70</b>	<b>87,360,458.27</b>
<b>Total liabilities</b>	<b>446,542,160.95</b>	<b>554,746,131.83</b>
<b>Shareholders' equity:</b>		
Share capital	125,476,374.40	125,476,374.40
Capital reserve	4,107,466.93	4,107,466.93
Surplus reserve	56,708,797.72	56,708,797.72
Undistributed profits	683,104,978.38	570,376,996.99
<b>Total shareholders' equity</b>	<b>869,397,617.43</b>	<b>756,669,636.04</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,315,939,778.38</b>	<b>1,311,415,767.87</b>
<b>Net current assets</b>	<b>375,965,482.65</b>	<b>236,470,752.71</b>
<b>Total assets less current liabilities</b>	<b>950,626,262.13</b>	<b>844,030,094.31</b>

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the six months ended 30 June 2011

	For the six months ended 30 June 2011							Total shareholders' equity
	Equity attributable to shareholders of the Company							
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Exchange reserve	Sub-total	Minority interests	
At 1 January 2011	125,476,374.40	-	70,754,552.84	546,976,075.36	401,836.23	743,608,838.83	95,221,366.49	838,830,205.32
Net profit	-	-	-	99,044,520.41	-	99,044,520.41	5,049,059.70	104,093,580.11
Other comprehensive income	-	-	-	-	(906,184.98)	(906,184.98)	-	(906,184.98)
<b>Total comprehensive income</b>	-	-	-	99,044,520.41	(906,184.98)	98,138,335.43	5,049,059.70	103,187,395.13
Dividends paid to shareholders	-	-	-	-	-	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	(2,450,000.00)	(2,450,000.00)
<b>Sub-total of profits appropriation</b>	-	-	-	-	-	-	(2,450,000.00)	(2,450,000.00)
<b>Sub-total of transfer</b>	-	-	-	-	-	-	-	-
<b>Increase (decrease) for the Period</b>	-	-	-	99,044,520.41	(906,184.98)	98,138,335.43	2,599,059.70	100,737,395.13
At 30 June 2011	<u>125,476,374.40</u>	<u>-</u>	<u>70,754,552.84</u>	<u>646,020,595.77</u>	<u>(504,348.75)</u>	<u>841,747,174.26</u>	<u>97,820,426.19</u>	<u>939,567,600.45</u>

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Continued)

For the six months ended 30 June 2011

	For the six months ended 30 June 2010							
	Equity attributable to shareholders of the Company							
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Exchange reserve	Sub-total	Minority interests	Total shareholders' equity
<b>At 1 January 2010</b>	62,738,187.20	35,476,560.53	71,159,092.84	457,499,139.98	543,267.22	627,416,247.77	133,419,127.50	760,835,375.27
Net profit	-	-	-	74,259,009.79	-	74,259,009.79	8,587,680.03	82,846,689.82
Other comprehensive income	-	-	-	-	(39,412.36)	(39,412.36)	-	(39,412.36)
<b>Total comprehensive income</b>	-	-	-	74,259,009.79	(39,412.36)	74,219,597.43	8,587,680.03	82,807,277.46
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	(13,201,870.12)	(13,201,870.12)
<b>Sub-total of contribution from shareholders and reduction of capital</b>	-	-	-	-	-	-	(13,201,870.12)	(13,201,870.12)
Dividends paid to shareholders	-	-	-	(31,369,093.60)	-	(31,369,093.60)	-	(31,369,093.60)
Dividends paid to minority shareholders	-	-	-	-	-	-	(1,470,000.00)	(1,470,000.00)
<b>Sub-total of profits appropriation</b>	-	-	-	(31,369,093.60)	-	(31,369,093.60)	(1,470,000.00)	(32,839,093.60)
Transfer of capital reserve to share capital	31,369,093.60	(31,369,093.60)	-	-	-	-	-	-
Transfer of undistributed profits to share capital	31,369,093.60	-	-	(31,369,093.60)	-	-	-	-
<b>Sub-total of transfer</b>	62,738,187.20	(31,369,093.60)	-	(31,369,093.60)	-	-	-	-
<b>Increase (decrease) for the Period</b>	<u>62,738,187.20</u>	<u>(31,369,093.60)</u>	<u>-</u>	<u>11,520,822.57</u>	<u>(39,412.36)</u>	<u>42,850,503.83</u>	<u>(6,084,190.09)</u>	<u>36,766,313.74</u>
<b>At 30 June 2010</b>	<u>125,476,374.40</u>	<u>4,107,466.93</u>	<u>71,159,092.84</u>	<u>469,019,962.57</u>	<u>503,854.86</u>	<u>670,266,751.60</u>	<u>127,334,937.41</u>	<u>797,601,689.01</u>

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY (UNAUDITED)

For the six months ended 30 June 2011

	For the six months ended 30 June 2011				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	
<b>At 1 January 2011</b>	<b>125,476,374.40</b>	<b>4,107,466.93</b>	<b>56,708,797.72</b>	<b>568,376,996.99</b>	<b>754,669,636.04</b>
Net profit	-	-	-	114,727,981.39	114,727,981.39
<b>Increase (decrease) for the Period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114,727,981.39</b>	<b>114,727,981.39</b>
<b>At 30 June 2011</b>	<b><u>125,476,374.40</u></b>	<b><u>4,107,466.93</u></b>	<b><u>56,708,797.72</u></b>	<b><u>683,104,978.38</u></b>	<b><u>869,397,617.43</u></b>

	For the six months ended 30 June 2010				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	
<b>At 1 January 2010</b>	<b>62,738,187.20</b>	<b>35,476,560.53</b>	<b>56,708,797.72</b>	<b>486,183,264.98</b>	<b>641,106,810.43</b>
Net profit	-	-	-	50,379,991.71	50,379,991.71
Dividends paid to shareholders	-	-	-	(31,369,093.60)	(31,369,093.60)
Transfer of capital reserve to share capital	31,369,093.60	(31,369,093.60)	-	-	-
Transfer of undistributed profits to share capital	31,369,093.60	-	-	(31,369,093.60)	-
<b>Increase (decrease) for the Period</b>	<b><u>62,738,187.20</u></b>	<b><u>(31,369,093.60)</u></b>	<b><u>-</u></b>	<b><u>(12,358,195.49)</u></b>	<b><u>19,010,898.11</u></b>
<b>At 30 June 2010</b>	<b><u>125,476,374.40</u></b>	<b><u>4,107,466.93</u></b>	<b><u>56,708,797.72</u></b>	<b><u>473,825,069.49</u></b>	<b><u>660,117,708.54</u></b>

# CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2011

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
<b>I. Cash flows from operating activities:</b>		
Cash received from sales of goods and rendering of services	<b>933,367,840.67</b>	545,144,683.33
Other cash receipts relating to operating activities	<b>54,393,771.11</b>	2,052,566.06
Sub-total of cash inflows from operating activities	<b>987,761,611.78</b>	547,197,249.39
Cash paid for goods and services	<b>511,991,023.40</b>	349,988,266.66
Cash paid to and on behalf of employees	<b>71,172,073.63</b>	55,119,572.23
Payments of taxes and levies	<b>83,816,473.99</b>	46,222,003.03
Other cash payments relating to operating activities	<b>55,411,154.81</b>	34,037,923.26
Sub-total of cash outflows from operating activities	<b>722,390,725.83</b>	485,367,765.18
<b>Net cash flows from operating activities</b>	<b>265,370,885.95</b>	61,829,484.21
<b>II. Cash flows from investing activities:</b>		
Cash received from investments	<b>722,238.80</b>	-
Cash received from returns on investments	<b>216,000.20</b>	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>40,037,432.00</b>	-
Net cash received from disposal of subsidiaries and other operating units	<b>33,000,000.00</b>	-
Other cash receipts relating to investing activities	<b>-</b>	2,074,403.79
Sub-total of cash inflows from investing activities	<b>73,975,671.00</b>	2,074,403.79
Cash paid to acquire fixed assets, intangible assets and other long-term assets	<b>107,995,215.49</b>	129,497,764.08
Cash paid on investments	<b>10,040,880.00</b>	-
Net cash paid on acquisition of subsidiaries and other operating units	<b>-</b>	23,705,102.04
Sub-total of cash outflows from investing activities	<b>118,036,095.49</b>	153,202,866.12
<b>Net cash flows used in investing activities</b>	<b>(44,060,424.49)</b>	(151,128,462.33)

# CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

(Continued)

For the six months ended 30 June 2011

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
<b>III. Cash flows from financing activities:</b>		
Cash received from borrowings	<b>264,578,680.00</b>	324,478,400.00
Other cash received relating to financing activities	<b>2,700,000.00</b>	-
Sub-total of cash inflows from financing activities	<b>267,278,680.00</b>	324,478,400.00
Cash payments for settlement of borrowings	<b>407,445,911.69</b>	226,736,635.00
Cash payments for interest expenses, distribution of dividend or profits	<b>15,746,208.11</b>	13,044,790.05
Other cash payments relating to financing activities	<b>7,156,433.51</b>	-
Sub-total of cash outflows from financing activities	<b>430,348,553.31</b>	239,781,425.05
<b>Net cash flows from financing activities</b>	<b>(163,069,873.31)</b>	84,696,974.95
<b>IV. Effect of foreign exchange rate changes</b>	<b>(1,623,345.66)</b>	129,954.53
<b>V. Net increase in cash and cash equivalents</b>	<b>56,617,242.49</b>	(4,472,048.63)
Add: Cash and cash equivalents at beginning of the Period	<b>174,236,578.41</b>	230,360,564.53
<b>VI. Cash and cash equivalents at end of the Period</b>	<b>230,853,820.90</b>	225,888,515.90

# CASH FLOW STATEMENT OF THE COMPANY (UNAUDITED)

For the six months ended 30 June 2011

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
<b>I. Cash flows from operating activities:</b>		
Cash received from sales of goods and rendering of services	<b>616,691,512.84</b>	270,175,401.09
Other cash receipts relating to operating activities	<b>35,957,035.29</b>	53,977,207.58
Sub-total of cash inflows from operating activities	<b>652,648,548.13</b>	324,152,608.67
Cash paid for goods and services	<b>328,377,744.10</b>	226,587,086.26
Cash paid to and on behalf of employees	<b>30,931,506.21</b>	25,846,207.79
Payments of taxes and levies	<b>34,009,762.34</b>	9,492,765.85
Other cash payments relating to operating activities	<b>59,155,895.81</b>	30,770,298.98
Sub-total of cash outflows from operating activities	<b>452,474,908.46</b>	292,696,358.88
<b>Net cash flows from operating activities</b>	<b>200,173,639.67</b>	31,456,249.79
<b>II. Cash flows from investing activities:</b>		
Cash received from investments	<b>722,238.80</b>	-
Cash received from returns on investments	<b>2,758,325.95</b>	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	<b>800.00</b>	-
Net cash received from disposal of subsidiaries and other operating units	<b>33,000,000.00</b>	-
Other cash receipts relating to investing activities	<b>-</b>	1,451,067.11
Sub-total of cash inflows from investing activities	<b>36,481,364.75</b>	1,451,067.11
Cash paid to acquire fixed assets, intangible assets and other long-term assets	<b>21,743,568.93</b>	19,902,601.04
Cash paid on investments	<b>28,040,880.00</b>	-
Net cash paid on acquisition of subsidiaries and other operating units	<b>-</b>	23,705,102.04
Sub-total of cash outflows from investing activities	<b>49,784,448.93</b>	43,607,703.08
<b>Net cash flows used in investing activities</b>	<b>(13,303,084.18)</b>	(42,156,635.97)

## CASH FLOW STATEMENT OF THE COMPANY (UNAUDITED)

(Continued)

For the six months ended 30 June 2011

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
<b>III. Cash flows from financing activities:</b>		
Cash received from borrowings	<b>120,000,000.00</b>	210,000,000.00
Other cash received relating to financing activities	<b>2,700,000.00</b>	—
Sub-total of cash inflows from financing activities	<b>122,700,000.00</b>	210,000,000.00
Cash payments for settlement of borrowings	<b>256,500,000.00</b>	194,736,635.00
Cash payments for interest expenses, distribution of dividend or profits	<b>7,773,442.95</b>	8,924,509.09
Sub-total of cash outflows from financing activities	<b>264,273,442.95</b>	203,661,144.09
<b>Net cash flows from financing activities</b>	<b>(141,573,442.95)</b>	6,338,855.91
<b>IV. Effect of foreign exchange rate changes</b>	<b>(967,942.84)</b>	—
<b>V. Net increase in cash and cash equivalents</b>	<b>44,329,169.70</b>	(4,361,530.27)
Add: Cash and cash equivalents at beginning of the Period	<b>84,954,056.48</b>	125,875,383.48
<b>VI. Cash and cash equivalents at end of the Period</b>	<b>129,283,226.18</b>	121,513,853.21



## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS:

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICES

The unaudited interim financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises (《企業會計準則》) issued by the Ministry of Finance of the People's Republic of China and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and methods of computation used in the preparation of the unaudited interim financial statements are consistent with those adopted in the annual financial statements of the Company for the year ended 31 December 2010. This interim result has not been audited by the auditors of the Company, and has been reviewed by the audit committee of the Company.

### 2. OPERATING REVENUE

Operating revenue represents the net amount received and receivable for goods sold and services rendered by the Group to outside customers, less trade discounts.

Analysis of the Group's operating revenue during the Period is as follows:

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
Industrial waste recycling	<b>554,042,123.90</b>	274,693,596.34
Industrial waste treatment and disposal	<b>76,551,592.82</b>	56,603,967.92
Municipal waste treatment and disposal	<b>53,597,679.39</b>	62,473,570.60
Renewable energy utilization	<b>24,067,905.70</b>	14,108,600.00
Environmental engineering and services	<b>29,838,827.34</b>	44,523,660.38
Trading and others	<b>22,787,291.92</b>	40,505,228.72
Total	<b><u>760,885,421.07</u></b>	<u>492,908,623.96</u>

### 3. SEGMENT INFORMATION

The Group is currently organised into six operating divisions, namely, (i) industrial waste recycling; (ii) industrial waste treatment and disposal; (iii) municipal waste treatment and disposal; (iv) renewable energy utilization; (v) environmental engineering and services; and (vi) trading and others. These divisions are the basis on which the Group reports its primary segment information.

i) For the six months ended 30 June 2011 (unaudited)

	Industrial waste recycling	Industrial waste treatment and disposal	Municipal waste treatment	Renewable energy	Environmental engineering	Trading and others	Unallocated amounts	Elimination	Total
Total operating revenue	558,422,996.68	77,015,109.49	53,597,679.39	24,067,905.70	30,931,103.34	60,738,812.89	-	(43,888,186.42)	760,885,421.07
Including: Revenue from external transactions	554,042,123.90	76,551,592.82	53,597,679.39	24,067,905.70	29,838,827.34	22,787,291.92	-	-	760,885,421.07
Revenue from intra-segment	4,380,872.78	463,516.67	-	-	1,092,276.00	37,951,520.97	-	(43,888,186.42)	-
Operating profit (loss)	<u>110,904,386.56</u>	<u>48,686,883.91</u>	<u>6,793,542.75</u>	<u>4,253,193.78</u>	<u>15,021.67</u>	<u>3,711,741.20</u>	<u>(24,625,949.39)</u>	<u>(24,595,556.57)</u>	<u>125,143,263.91</u>

ii) For the six months ended 30 June 2010 (unaudited)

	Industrial waste recycling	Industrial waste treatment and disposal	Municipal waste treatment and disposal	Renewable energy utilization	Environmental engineering and services	Trading and others	Unallocated amounts	Elimination	Total
Total operating revenue	294,915,653.90	59,302,892.16	62,473,570.60	14,108,600.00	44,523,660.38	53,390,961.94	-	(35,806,715.02)	492,908,623.96
Including: Revenue from external transactions	274,693,596.34	56,603,967.92	62,473,570.60	14,108,600.00	44,523,660.38	40,505,228.72	-	-	492,908,623.96
Revenue from intra-segment	20,222,057.56	2,698,924.24	-	-	1,092,276.00	12,885,733.22	-	(35,806,715.02)	-
Operating profit (loss)	<u>87,169,102.01</u>	<u>29,967,044.29</u>	<u>11,616,961.12</u>	<u>2,935,500.30</u>	<u>4,516,277.01</u>	<u>4,019,228.52</u>	<u>(18,020,000.00)</u>	<u>(20,075,484.90)</u>	<u>102,128,628.35</u>

#### 4. FINANCE COSTS

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
Interest expenses	13,818,450.84	13,044,790.05
Less: Interest income	(1,565,691.54)	(2,074,403.79)
Add: Exchange difference	850,058.12	(133,988.32)
Add: Other expenses	466,750.79	136,149.52
Total	<u>13,569,568.21</u>	<u>10,972,547.46</u>

Breakdown of interest expenses is as follows:

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
Interest on bank loans		
— bank loans wholly repayable within 5 years	18,598,487.14	18,685,030.05
Finance lease charge	522,242.73	—
	<u>19,120,729.87</u>	<u>18,685,030.05</u>
Less: Amount capitalised	(5,302,279.03)	(5,640,240.00)
Total	<u>13,818,450.84</u>	<u>13,044,790.05</u>

Borrowing cost capitalized during the Period is calculated by applying a capitalization rate of 1.77% (2010: 1.47%) per annum to expenditure on qualifying assets.

#### 5. ASSETS IMPAIRMENT LOSSES

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
Provision of provision for bad debts	428,006.04	2,500,000.00
Impairment loss on inventories	—	(1,160.62)
Impairment loss on goodwill (Note)	23,831,658.44	—
Total	<u>24,259,664.48</u>	<u>2,498,839.38</u>

Note: At the end of the Period, the management of the Company conducted impairment loss test on the goodwill based on the value in use calculation. As the result, an impairment loss of RMB23,831,658.44 was recognised on goodwill arising from the acquisition of Shaoguan Green Resource Recycling Development Co., Ltd. (韶關綠然再生資源發展有限公司).

## 6. 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 Shenzhen are subject to the PRC enterprise income tax at a rate of 24%. Subsidiaries located in other cities in the PRC are subject to the PRC enterprise income tax at a rate of 25%. The Company is subject to the PRC enterprise income tax at a rate of 15% as the Company was classified as new technology enterprise since 2009. Kunshan Qiandeng Wastes Treatment Company Limited (昆山市千燈三廢淨化有限公司), a subsidiary of the Company, was subject to the PRC enterprise income tax at a rate of 15% as it was classified as new technology enterprise in 2010.

In accordance with the relevant income tax rules and regulations of the PRC, Shenzhen Dongjiang Environmental Renewable Energy Company Limited (深圳市東江環保再生能源有限公司), a subsidiary of the Company, is entitled to enjoy a 50% tax reduction of PRC enterprise income tax at a rate of 12%.

Hong Kong Profits Tax has been provided for the subsidiaries in Hong Kong at 16.5% on the estimated assessable profits.

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the Period is based on the unaudited net profit for the Period attributable to shareholders of the Company of RMB99,044,520.41 (2010: RMB 74,259,009.79), and the weighted average of 125,476,374 (2010: 125,476,374) ordinary shares in issue during the Period.

The Company had no diluted potential shares in both 2010 and 2011 interim periods and the diluted earnings per share was same as basic earnings per share.

## 8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the Period (2010: Nil).

## 9. ACCOUNTS RECEIVABLES

	<b>At 30 June 2011 (Unaudited)</b>	At 31 December 2010 (Audited)
Accounts receivables	<b>163,785,868.47</b>	171,965,694.20
Less: Provision for bad debts	<b>(11,346,941.29)</b>	(13,927,212.59)
Total	<b><u>152,438,927.18</u></b>	<u>158,038,481.61</u>

The Group allows an average credit period of 90 days to its customers, except for new customers where payment in advance is normally required. The Group does not hold any collateral over accounts receivables.

The following is an aging analysis of accounts receivables net of provision for bad debts:

	<b>At 30 June 2011 (Unaudited)</b>	At 31 December 2010 (Audited)
Within 90 days	<b>120,130,458.39</b>	120,039,542.87
91 to 180 days	<b>14,409,918.85</b>	16,704,603.41
181 to 365 days	<b>8,292,661.91</b>	12,267,935.94
1 to 2 year(s)	<b>8,337,795.86</b>	7,842,886.21
2 to 3 years	<b>1,268,092.17</b>	1,167,487.18
Over 3 years	-	16,026.00
Total	<b><u>152,438,927.18</u></b>	<u>158,038,481.61</u>

## 10. FIX ASSETS

The net carrying value of fixed assets of the Group for the Period was increased by RMB108,653,364.63, representing 34.95% as compared with the same period in 2010. The increase is mainly caused by the transfer of the projects of the Group, such as landfill gas power generation projects in Shenzhen and Qingdao, from work in progress after the construction work have completed.

Impairment loss on fixed assets once recognised will not be reversed in subsequent years.

## 11. ACCOUNTS PAYABLES

The following is an aging analysis of accounts payables:

	<b>At 30 June 2011 (Unaudited)</b>	At 31 December 2010 (Audited)
Within 90 days	<b>90,386,989.52</b>	100,156,306.82
91 to 180 days	<b>20,763,010.21</b>	23,748,123.98
181 to 365 days	<b>13,806,006.79</b>	16,743,699.35
Over 1 year	<b>7,157,257.32</b>	5,056,418.02
Total	<b><u>132,113,263.84</u></b>	<u>145,704,548.17</u>

## 12. PROFIT BEFORE TAX

Profit before tax had been arrived at after charging (crediting), which is as follows:

	Six months ended 30 June	
	2011 (unaudited)	2010 (unaudited)
Cost of goods sold	<b>376,693,667.43</b>	299,457,000
Depreciation	<b>28,574,002.49</b>	28,256,000
Amortisation of prepaid lease payments	<b>509,818.05</b>	272,000
Amortisation of intangible assets	<b><u>4,273,198.48</u></b>	<u>34,000</u>

## 13. RESERVES

Other than total comprehensive income and minority interests for the Period, there were no movements to or from reserves of the Group and the Company during the Period (2010: Nil).

## 14. COMMITMENT

	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
Construction in progress	<b>14,217,560.75</b>	28,335,880.38
Intangible assets		
— Built-Operation-Transfer (BOT) Projects	<b><u>77,524,730.26</u></b>	<u>88,809,004.20</u>
Sub-Total	<b>91,742,291.01</b>	117,144,884.58
Acquisition of equipment	<b><u>18,879,341.16</u></b>	<u>26,617,102.60</u>
Total	<b><u>110,621,632.17</u></b>	<u>143,761,987.18</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

In the first half of 2011, China's economy operated properly and there was a steady growth in industrial production. The Chinese government launched various policies such as "Opinion on Further Strengthening the Supervision of Hazardous and Medical Wastes" (《關於進一步加強危險廢物和醫療廢物監管工作的意見》), "Opinion on Further Strengthening the Treatment for Municipal Domestic Wastes" (《關於進一步加強城市生活垃圾處理工作的意見》) and "Twelfth Five-Year Plan on National Technological Development for Environmental Protection" (《國家環境保護「十二五」科技發展規劃》), showing an unprecedented emphasis on environmental protection industry and is beneficial to the development of enterprises engaging in eco-business. The Group fully captured the opportunities for industry development following the promotion of policies by the government and continuously enhanced its core competitiveness to achieve a significant growth in the Group's operating results. For the Period, the Group's total operating revenue increased by approximately 54.37% to approximately RMB760,885,421, and the net profit attributable to shareholders of the Company increased by approximately 33.38% to approximately RMB99,044,520 as compared to the corresponding period in 2010.

## Industrial Waste Treatment

Industrial waste treatment is the core business of the Group, which mainly focuses on reduction processing and detoxification disposal of wastes including waste liquid, sludge and waste residue through chemical, physical and biologic means, and conversion of substances with reuse value from wastes into recycled products. In the first half of 2011, the Group continued to further the construction and deployment of its base in order to fully develop the edges in its brand and its complete industrial chain and actively explored customer resources, which drove a remarkable growth in such business. During the Period, industrial waste treatment business of the Group achieved an operating revenue of approximately RMB630,593,717, representing an increase of approximately 90.34% as compared to the corresponding period in 2010.

During the Period, the Group further improved its market deployment, optimized customer profile and put great efforts in creating a quality customer base. Meanwhile, the Group set up a customer service control function to improve its service quality continuously and a higher level of customer satisfaction had been recorded as compared to the corresponding period in 2010. In addition, the Group further strengthened its management on safety, environmental protection, logistics and warehouse storage in the collection and transportation process, so that the efficiency of market operation had been obviously enhanced.

During the Period, the Group continued to upgrade and reconstruct its facilities in order to enhance the efficiency of waste treatment. Besides, the Group gave an impetus to intensive processing of recycled products through technical research and development (“R&D”) to optimize the quality and structure of recycled products. During the Period, the Group launched high value-added products such as copper oxide products and electroplating copper sulfate products in response to market condition, and together with sensible arrangement for production and marketing, their profitability was further enhanced.

## **Municipal Waste Treatment**

Municipal waste treatment was another pillar of the businesses of the Group with its main fields of development include removal and treatment of domestic waste, landfill gas power generation, treatment of municipal sludge, construction waste and kitchen waste as well as recycling. For the Period, the municipal waste treatment and disposal business of the Group developed steadily and realized an operating revenue of approximately RMB77,665,585 (including approximately RMB53,597,679 contributed by the segment of domestic treatment and disposal, and approximately RMB24,067,906 contributed by the segment of renewable energy utilization), representing an increase of approximately 1.41% as compared to the corresponding period in 2010.

The operation of the municipal waste collection and transportation business by Lik Shun Services Limited, a subsidiary of the Group, remained steady, with an operating revenue of approximately RMB14,148,150 for the Period, representing an increase of approximately 0.66 % as compared to the corresponding period in 2010.

For the municipal waste treatment, during the Period, the Group’s Munciple Sludge Treatment Project operated normally, and achieved an operating revenue of approximately RMB23,496,166. The contract for the landfill project of Shenzhen Xiaping Landfill, which the Group has already undertaken the operation management, was successfully renewed. On the other hand, the Shaoyang Domestic Waste Landfill Project in Hunan Province invested and built by the Group had passed the engineering acceptance work and is expected to be put into operation in the second half of 2011. Also, during the Period, the Group obtained the right to operate and manage the Domestic Waste Compression and Transfer Station Project in Shaoyang for an operation period of ten years and six months, including a trial operation period of six months.

For renewable energy utilization, the Group was proceeding well with each of its landfill gas power generation and Clean Development Mechanism (“CDM”) projects, and recorded an operating revenue of approximately RMB24,067,906 for the Period, representing an increase of approximately 70.59% as compared to the corresponding period in 2010. The Shenzhen Xiaping Landfill Gas Power Comprehensive Utilization Project operated smoothly during the Period and the two new power generating units were put into trial operation. During the



Period, the Group further optimized the gas collection system for the Qingdao Xiaojianxi Project and the power generation efficiency improved steadily. Shenzhen Laohukeng Project was put into trial operation in the first half of 2011. Relevant CDM project had been applied for registration with the United Nations (the "U.N.") CDM Executive Council. The Chongqing Coal Mine Ventilation Air and Emission Reduction Project had been successfully registered with the U.N. CDM Executive Council.

## **Environmental Engineering and Service**

The Group's environmental engineering and consulting services include related service such as design and construction of environment and municipal projects, operation of environment protecting facilities and assessment of environmental impact, environmental monitoring, and consulting services. During the Period, the Group fully utilized its vast customer base, explored its customer needs and enhanced its comprehensive service capability. For the Period, an operating revenue of approximately RMB 29,838,827 was recorded, representing a decrease of approximately 32.98% as compared to that of the corresponding period in 2010 since most of the construction projects were under negotiation or at early stages. Capitalizing on solid inspection strength, Shenzhen Huabao Technology Co., Ltd. (深圳市華保科技有限公司), a subsidiary of the Group, well accomplished the environmental quality inspection for the stadiums of the 26th Summer Universiade held in Shenzhen (the "Universiade"), and will continue to undertake the environmental inspection work during the holding of the Universiade.

## **Research and Development**

In the first half of 2011, the Group's technological research centered on the core business of the Group, and has unfolded the research on integrated use and upgrade of recycled products. The "Laboratory Research on Preparing High Purity Highly Solvable Copper Oxide and Joint Production of High Purity Copper Oxide and Other Copper-series Products" (「高純即溶活性氧化銅製備及高純氧化銅聯產其他銅系列產品的實驗室研究」) has been successfully completed, and currently, designing work for the results incubation and the pilot experimental for such research results are in progress. For technological achievements, the Group has completed the registration of 8 patents, including "Processing Waste PCB into Compound Material" (「廢棄PCB加工成複合材料」), "Alkali-activated Solidification of Solid Waste Incineration Ash" (「城激發固化穩定處理垃圾焚燒飛灰的方法」) and "A Kind of High Quality Copper Sulfate Dissolution Apparatus" (「一種高品質硫酸銅溶解裝置」) during the Period. In order to accelerate the transformation of its R&D results, the Group has commenced the construction of a base for pilot test and R&D, the facilities of which include R&D and experimental zone, results incubation and pilot test zone, and pilot test system for industrial waste water treatment. The construction is expected to be partially completed and ready for use in the second half of the year. By that time, technological R&D, results transformation and product pilot test can be completed in the base on a one-stop basis.

During the Period, the Group further strengthened the cooperation and exchange of technology with external parties. It established the “Heavy Metal Recycling and Technology Control Joint Research Center” jointly with the School of Environment, Tsinghua University in March 2011. The center places emphasis on the technical research on the technology of integrated treatment of solid waste and heavy metal contamination control as well as recycling and utilization, and is committed to develop itself to be the R&D base with stronger influence in those domains.

## Financial Review

For the Period, the Group’s total operating revenue increased by approximately 54.37% to approximately RMB760,885,421 (2010: approximately RMB492,908,624) as compared to the corresponding period in 2010. The net profit attributable to shareholders of the Company increased by approximately 33.38% to approximately RMB99,044,520 (2010: approximately RMB74,259,010). The increase of total operating revenue mainly resulted from the growth of industrial waste recycling, industrial waste treatment and disposal, renewable energy utilization and CDM project, representing an increase of approximately 101.69%, 35.24% and 70.59% respectively in their revenue as compared to the corresponding period in 2010.

During the Period, the Group’s gross profit margin was approximately 35.26% (2010: approximately 40.36%). The drop in the gross profit margin was mainly due to the rising costs of raw materials and manpower during the Period, which led to the decrease of the profit margin of the industrial waste recycling business by 5.94 percentage points to 32.55%.

For the Period, the Group’s selling expenses was approximately RMB27,495,728 (2010: approximately RMB19,716,068), representing approximately 3.61% of the Group’s total operating revenue (2010: approximately 4.00%). The increase in selling expenses was mainly due to the expansion of Group’s overall business scale as a result of proactive market expansion.

For the Period, the Group’s administrative expenses were approximately RMB72,120,788 (2010: approximately RMB57,049,534), representing approximately 9.48% of the Group’s total operating revenue (2010: approximately 11.57%). The increase in the administrative expenses was mainly resulted from the Group’s increasing investment in R&D. Moreover, the increase in number of staff due to business expansion, and continuous inflation within the PRC also gave rise to the increase in administrative expenses.

For the Period, the Group’s finance cost was approximately RMB13,569,568 (2010: approximately RMB10,972,547), representing approximately 1.78% of the Group’s operating revenue (2010: approximately 2.23%). The increase in the finance cost was mainly due to the rise in the rates of bank loans.

For the Period, the Group’s income tax expenses was approximately RMB22,827,300 (2010: approximately RMB21,073,074), representing approximately 17.99% of the Group’s profit before tax (2010: approximately 20.28%).

## **Financial Resources and Liquidity**

As at 30 June 2011, the Group had current assets of approximately RMB775,860,477 (31 December 2010: approximately RMB812,086,385) and current liabilities of approximately RMB454,959,644 (31 December 2010: approximately RMB651,609,803). The current assets include cash and cash equivalent of approximately RMB234,537,959 (31 December 2010: approximately RMB178,654,812).

As at 30 June 2011, the Group had total liabilities of approximately RMB847,082,174 (31 December 2010: approximately RMB943,247,244). The Group's gearing ratio was approximately 47.41% (31 December 2010: approximately 52.93%) which is calculated based on the Group's total liabilities over total assets. As at 30 June 2011, the Group had bank loans of approximately RMB532,771,318 (31 December 2010: approximately RMB666,037,342) at interest rates from 5.560% to 6.983% per annum.

## **Share Capital Structure**

As at 30 June 2011, the Company had an issued share capital of RMB125,476,374, comprising 89,896,374 domestic shares of RMB1.00 each and 35,580,000 H shares of RMB1.00 each.

## **Substantial Investments, Acquisitions and Disposals of Subsidiaries, Jointly Controlled Entities and Associates**

In April 2011, the Company disposed of its entire 50% equity interest in Huizhou Huiyang Shuangxin Cement Company Limited (惠州市惠陽雙新水泥有限公司) ("Shuangxin Cement"), its then jointly controlled entity, with the consideration of RMB33,000,000. The reason for disposal is that the original plan of investment in Shuangxin Cement, which was utilizing the traditional cement production facilities to treat waste, has not been implemented as expected.

Save as disclosed in this report, the Group does not have any substantial investments, acquisitions and disposals of subsidiaries, jointly controlled entities and associates during the Period.

## **Interest Rate and Exchange Risk**

### ***Interest Rate Risk***

The Group is exposed to fair value interest rate risk due to fixed interest rate bank borrowings. Currently, the Group does not have any interest rate hedging policy. However, the interest rate risk is monitored by the management, and the management will consider taking necessary actions in case any material risk is expected.

The Group is also exposed to cash flow interest rate risk due to its floating interest rate bank borrowings. The Group's policy is to maintain the floating interest rate bank borrowings in order to reduce the risk of cash flow interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated in the fluctuation of the interest rate basis announced by the People's Bank of China generated from the Group's borrowings in RMB.

### **Foreign Exchange Risk**

The Group's working currency is RMB and most of the Group's transactions are denominated in RMB. However, certain bank balances tradings and other receivables and payables are denominated in currencies other than RMB. The expenses of the Group's overseas business are also settled in foreign currencies.

### **Pledge of Assets**

As at 30 June 2011, certain assets of the Group were pledged to secure bank borrowings and letter of credit facilities granted to the Group, details of which are set out as follows:

	<b>At 30 June 2011 (Unaudited)</b>	At 31 December 2010 (Audited)
Fixed assets	<b>27,734,500.00</b>	15,893,000.00
Intangible assets-land use rights	<b>2,691,000.00</b>	2,736,000.00
Inventories	-	<u>107,900,000.00</u>
Total	<b><u>30,425,500.00</u></b>	<u>126,529,000.00</u>

### **Information on Employees and Remuneration Policies**

As at 30 June 2011, the number of full-time employees was 2,120 (2010: 2,043) with a total staff cost for the Period of approximately RMB59,144,483 (2010: approximately RMB31,740,000). The Group offered continuing training and remuneration package of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

### **Contingent Liabilities**

As at 30 June 2011, financial guarantee provided by the Group was RMB31,400,000 (30 June 2010: RMB31,400,000) to banks for securing banking facilities granted to a jointly controlled entity Huizhou Dongjiang Veolia Environmental Services Company Limited (惠州東江威立雅環境服務有限公司). The maximum amount during the Period was RMB31,400,000 (2010: RMB33,900,000).

Due to the existing collection and processing of industrial waste method adopted by the Group, the Group has not incurred any significant expenditure on environmental rehabilitation since its establishment. There is, however, no assurance that stringent environmental policies and/or standards on environmental rehabilitation will not be implemented by the relevant authorities in the PRC in future which would require the Group to undertake the prescribed environmental measures. The financial position of the Group may be adversely affected by any environmental obligations which may be imposed under such new environmental policies and/or standards.

Save as disclosed above, the Group had no significant contingent liabilities as at 30 June 2011.

### **Future Prospects**

It is expected the “Twelfth five-year” plan and auxiliary measures on environmental industry will be launched intensively in the second half of 2011, which may lead to a rapid development of the industry. In particular, the domestic waste and hazardous waste treatment has latecomer advantage and will be the most rapidly developing segment. The Group will closely grasp the trend of the policies and continuously consolidate and reinforce the core competitive advantages. On one hand, the Group will continue to expand and upgrade the facilities of the existing industrial and municipal solid waste treatment bases to enhance the regional business deployment and strengthen its leadership in the market. On the other hand, it will speed up the progress of each project and seize the opportunity given by the great demand for solid waste treatment investment, put more efforts in investment and acquisition, actively expand into new business domains and thereby perfect the Group’s industry chain and promote the regional expansion. Meanwhile, the Group believes that advances in technology will be an important driving force for environmental industry as well as one of the key elements of competition within the industry in future. Therefore, the Group continue to put more efforts in R&D, especially in the researches concerning new business and technologies related to new projects, in order to maintain the leadership in respect of the technologies of the Group’s core business and provide a strong technological back up for the Company’s development. In addition, the Group will proceed with the relevant works of the proposed public offering and listing of A shares in the PRC and raise funds for its subsequent development as soon as possible.

### **DIVIDENDS**

The Board does not recommend the payment of an interim dividend for the Period (2010: Nil).

## DISMISSAL OF INTERNATIONAL AUDITORS

At the first extraordinary general meeting in 2011 of the Company held on 1 March 2011, it was resolved that SHINEWING (HK) CPA Limited be dismissed as the international auditors of the Company whilst SHINEWING CERTIFIED PUBLIC ACCOUNTANTS Co., Ltd. (信永中和會計師事務所有限責任公司) be appointed as the only auditors auditing the Company's financial statements for the financial year ended 31 December 2010 preparing in accordance with the China Accounting Standards for Business Enterprises, and undertaking the role of international auditors in compliance with the Listing Rules with effect from 1 March 2011.

## CONSOLIDATION OF SHARES AND CHANGE OF BOARD LOT SIZE

Pursuant to the general practice of the PRC securities market, A shares are generally of a nominal value of RMB1.00 each. In light of the recommendation of the relevant authorities in the PRC, the Board resolved to effect the consolidation of the shares of the Company on the basis of every 10 ordinary shares of the Company with a nominal value of RMB0.10 each in the issued or unissued share capital of the Company be consolidated into one ordinary share of the Company with a nominal value of RMB1.00 each (the "Share Consolidation") to facilitate the implementation of the Issue of A shares pursuant to the authorization granted by the shareholders at the extraordinary general meeting of the Company held on 9 December 2010, the class meeting for holders of H shares and the class meeting for holders of domestic shares held on 9 December 2010, respectively.

Upon the Share Consolidation became effective on 20 January 2011, the board lot size of the H shares for trading on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") has changed from 2,000 H shares with a nominal value of RMB0.10 each to 200 consolidated H shares with a nominal value of RMB1.00 each. The relevant procedures in relation thereto had been completed.

## CHANGE OF THE NAME OF THE COMPANY

At the extraordinary general meeting of the Company held on 9 December 2010, it was resolved that the Chinese name of the Company be changed from "深圳市東江環保股份有限公司" to "東江環保股份有限公司", and "Dongjiang Environmental Company Limited" be adopted as the English name of the Company for identification purpose only. All the necessary registration and/or filing procedures in respect of the change of the Company's name have been completed on 11 January 2011. The Company's stock short names and the stock code remain unchanged.

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

As at 30 June 2011, the interests and short positions of the Directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register 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 the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules were as follows:

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

<b>Name</b>	<b>Capacity</b>	<b>Number and class of shares held</b>	<b>Percentage of equity of the Company /shareholding in this class</b>
Zhang Wei Yang	Beneficial owner	43,158,964 domestic shares	34.40%/48.01%
Li Yong Peng	Beneficial owner	6,385,155 domestic shares	5.09%/7.10%
Chen Shu Sheng	Beneficial owner	3,256,299 domestic shares	2.60%/3.62%

Save as disclosed above, as at 30 June 2011, none of the Directors, supervisors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2011, the following persons (other than Directors, supervisors and chief executive of the Company) had an interest or short position in the 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 ordinary shares of the Company

Name	Capacity	Number and class of shares held	Percentage of equity of the Company /shareholding in this class
Shanghai New Margin Venture Capital Co., Ltd. (Note 1)	Beneficial owner	12,313,312 domestic shares	9.81%/13.70%
Cai Hong	Beneficial owner	5,646,437 domestic shares	4.50%/6.28%
CITIC Securities International Investment Management (HK) Limited	Investment manager	3,216,200 H shares	2.56%/9.04%
China Alpha Fund Management Limited	Investment manager	2,862,500 H shares	2.29%/8.05%
Wang Jun Yan	Beneficial owner	2,862,500 H shares	2.29%/8.05%
Leading Environmental Solutions and Services (Note 2)	Interest of a controlled corporation	2,300,000 H shares	1.83%/6.46%
China Environment Fund 2002 Management Limited	Interest of a controlled corporation	2,300,000 H shares	1.83%/6.46%
China Environmental Fund 2002, LP	Beneficial owner	2,300,000 H shares	1.83%/6.46%
China Alpha II Fund Limited	Beneficial owner	2,158,500 H shares	1.72%/6.07%



*Notes:*

1. Shanghai New Margin Venture Capital Co., Ltd. is owned as to 24.5% 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 24.5% by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 51% equally by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowths Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the Directors, supervisors, chief executive of the Company or substantial shareholders of the Company or an associate of any of them.
2. Leading Environmental Solutions and Services and China Environment Fund 2002 Management Ltd. own approximately 76.92% and 0.10% of the shares of China Environment Fund 2002, LP, which holds 2,300,000 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 or substantial shareholders or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 June 2011, the Directors, supervisors and chief executive of the Company 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 of the interests required to be kept by the Company under Section 336 of the SFO.

## **DIRECTORS' RIGHTS TO ACQUIRE H SHARES**

As at 30 June 2011, 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 2011, none of the Directors, supervisors and chief executive of the Company had any rights to acquire H shares of the Company.

## **SHARE OPTION SCHEME**

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

## **COMPETING INTERESTS**

During the Period, none of the Directors, supervisors, chief executive 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 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 controls of the Company.

As at the date of this report, the audit committee of the Company comprises three independent non-executive Directors of the Company, namely Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Wang Ji De. The audit committee of the Company has reviewed the Company's unaudited financial statements and this report for the Period and has provided advice and comments thereon.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the Model Code. 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 Period.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## DISCLOSURE OF INFORMATION ON DIRECTORS AND SUPERVISORS

Pursuant to rule 13.51B of the Listing Rules, the changes of information on the Directors and the supervisors of the Company are as follows:

Mr. Feng Bo, a non-executive Director, has ceased to be a director of Beijing Venustech Inc. (listed on Shenzhen Stock Exchange (Stock Code: 002439)) with effect from 26 July 2011.

### **Re-election and Appointment of Directors and Supervisors**

Mr. Zhang Wei Yang ("Mr. Zhang"), Mr. Chen Shu Sheng and Mr. Li Yong Peng have been re-elected as the executive Directors at the annual general meeting held on 8 June 2011 (the "AGM").

Mr. Feng Tao and Ms. Sun Ji Ping have been re-elected as the non-executive Directors at the AGM. And Mr. Feng Bo has been appointed as the non-executive Director at the AGM.

Mr. Ye Ru Tang and Mr. Hao Ji Ming have been re-elected as the independent non-executive Directors at the AGM. And Mr. Wang Ji De has been appointed as the independent non-executive Director at the AGM.

Ms. Yuan Wei and Mr. Cai Wen Sheng have been re-elected as the supervisors at the AGM. And Mr. Liu An has been re-elected as supervisor at the staff representatives meeting of the Company held on 8 June 2011.

Each of the Directors and the supervisors has entered into a service contract with the Company for a term of three years commencing from the conclusion of the AGM.

### **Retirement of Directors**

Mr. Wu Shui Qing and Mr. Liu Xue Sheng had ceased to be the non-executive Director and the independent non-executive Director respectively, upon their retirements from the Board at the conclusion of the AGM in accordance with the articles of association of the Company, to devote more time to pursue their other business interests.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has applied the principles set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "Code"). The Company has complied with all the code provisions of the Code throughout the Period, except for the deviation of code provision A.2.1 mentioned in the paragraphs below.

The division of responsibilities of the chairman and chief executive officer of the Company is clearly set out in the articles of association of the Company.

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

Taking into account Mr. Zhang's strong expertise and excellent insight of the environmental protection industry, the Board considered that the roles of 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 good corporate governance and fully comply with the code provisions of the Code, 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  
**Dongjiang Environmental Company Limited\***  
**Zhang Wei Yang**  
*Chairman*

28 July 2011  
Shenzhen, Guangdong Province, the PRC