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## **Shenzhen Dongjiang Environmental Company Limited\***

**深圳市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: 8230)

### **CONTINUING CONNECTED TRANSACTIONS**

On 29 September 2009, the Board is please to announce that the Sales Agreement was entered into between the Company and Heritage, in which the Heritage Group agreed to purchase the Products from the Dongjiang Group. The term of the Sales Agreement is 3 years commencing from 1 December 2009 and ending on 30 November 2012. Heritage, through a subsidiary of it, holds 38% of the equity interest in DJ Heritage, a 62% owned subsidiary of the Company and is therefore a connected person of the Company under the GEM Listing Rules. The Sales Agreement constitutes a continuing connected transaction for the Company under the GEM Listing Rules.

As each applicable percentage ratios (other than the profits ratio and the equity capital ratio which is not applicable) of the annual caps of the Sales Agreement exceed 2.5%, the Sales Agreement are therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to Rules 20.45 to 20.48 of the GEM Listing Rules.

An Independent Board Committee has been established to advise the Shareholders as to whether the terms of the Sales Agreement are fair and reasonable so far as the Shareholders are concerned. The Company has appointed an independent financial adviser for the purposes of advising the Independent Board Committee and the Shareholders regarding the Sales Agreement and the related annual caps. A circular containing, among other things, (1) details of the terms of the Sales Agreement; (2) recommendation of the Independent Board Committee; (3) letter and recommendation from the independent financial adviser; and (4) notice of EGM to be convened at which ordinary resolutions will be proposed to consider and, if thought fit, approve the Sales Agreement and the related annual caps, will be despatched to the Shareholders as soon as practicable.

## **INTRODUCTION**

The Previous Sales Agreement was entered into between DJ Heritage and Heritage on 2 February 2007, pursuant to which Products were sold by DJ Heritage to Heritage. The details of the Previous Sales Agreement had been disclosed in the announcement of the Company dated 2 February 2007 and has been approved by the Shareholder on an extraordinary general meeting held on 12 April 2007.

## **THE SALES AGREEMENT**

As the Previous Sales Agreement is due to expire on 31 December 2009. The Board announces that on 29 September 2009, the Company entered into the Sales Agreement for a term of three years commencing from 1 December 2009 and ending on 30 November 2012 with Heritage details which are set out as following:

Buyer:	Heritage Group
Seller:	Dongjiang Group
Product:	chemical products offered by the Dongjiang Group from time to time
Shipping cost:	to be paid by the Heritage Group

Pursuant to the Sales Agreement, the Dongjiang Group covenants and agrees, during the term of the Sales Agreement, to fulfill purchase orders for shipment directly to the Heritage Group, the price of the Products will be agreed upon by the parties and will be the current fair market value taking into account of the quality level, global market prices of the similar products, shipping rates and import/export tax. The Directors consider that it is fair and reasonable to determine the price of the Products with reference to the similar prices of products in the market. The Directors advised that the same pricing mechanism which has been applied to the independent customers of the Dongjiang Group will be adopted in the Sales Agreement.

Upon the Sales Agreement becoming effective (after the Sales Agreement and the relevant annual caps being approved by Shareholders), the sales and purchase of the products under the Previous Sales Agreement will be discontinued.

## **ANNUAL CAPS**

In considering the annual caps for the Sales Agreement, the Directors have considered a number of factors including: (i) the previous sales income from products sold by DJ Heritage to the Heritage during the period from 2007 to 2009 under the Previous Sales Agreement of approximately RMB39 million for the year 2007, approximately RMB56 million for year 2008 and approximately RMB14 million for the seven months ended 31 July 2009 ; (ii) the existing scale of the Heritage Group operations and the anticipated growth of the business of the Dongjiang Group; and (iii) the recent prices of similar products in the market. Having considered the above factors, the Directors propose that the annual caps for the Sales Agreement shall be as

follows:

From 1 December 2009 to 31 December 2009	RMB 20 million
From 1 January 2010 to 31 December 2010	RMB 189 million
From 1 January 2011 to 31 December 2011	RMB 208 million
From 1 January 2012 to 30 November 2012	RMB 220 million

The Directors (excluding the independent non-executive Directors whose views will be set out in the circular to be sent to the Shareholders) consider that the Sales Agreement is on normal commercial terms and in the ordinary and usual course of business of the Dongjiang Group, the annual caps stated above are fair and reasonable, and the terms of the Sales Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

## **REASONS FOR ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS**

The Dongjiang Group is principally engaged in (i) the collection, detoxification and recycle of industrial wastes and sale of recycle products; (ii) the provision environmental of services; and (iii) the development of environmental protection-related products.

Heritage is principally engaged in recycle of spent etchant, which is an industrial waste generated from the circuit board manufacturing industry, and the provision of improved traditional copper nutritional supplements to the livestock feed industry.

As approximately 50% of the Products sold under the Sales Agreement will be exported, the Sales Agreement provides an opportunity to the Dongjiang Group to penetrate the overseas market, especially the North America. The Sales Agreement could also expand the customer base of the Dongjiang Group.

## **LISTING RULES IMPLICATIONS**

The Company and Heritage entered into a joint venture agreement on 16 December 2003 and jointly established a limited liability company in the PRC, DJ Heritage, which were 62% held by the Company and 38% held by Heritage and Heritage subsequently transferred its shares of DJ Heritage to its 100% owned company named Heritage Technologies Asia Limited in December 2008. Accordingly, Heritage 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 chapter 20 of the GEM Listing Rules.

As each applicable percentage ratios (other than the profits ratio and the equity capital ratio which is not applicable) of the annual caps of the Continuing Connected Transactions exceed 2.5%, the Continuing Connected Transactions is therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to Rules 20.45 to 20.48 of the GEM Listing Rules. Furthermore, the Company will also comply with the annual review requirements under the GEM Listing Rules 20.37 to 20.40.

An Independent Board Committee has been established to advise the Shareholders as to whether the terms of the Sales Agreement are fair and reasonable so far as the Shareholders are concerned. The Company has appointed an independent financial adviser for the purposes of advising the Independent Board Committee and the Shareholders regarding the Sales Agreement and the related annual caps. A circular containing, among other things, (1) details of the terms of the Sales Agreement; (2) recommendation of the Independent Board Committee; (3) letter and recommendation from the independent financial adviser; and (4) notice of EGM to be convened at which ordinary resolutions will be proposed to consider and, if thought fit, approve the Sales Agreement, will be despatched to the Shareholders as soon as practicable.

Save as disclosed herein this announcement, neither Heritage nor its shareholders, directors or their respective associates currently holds any shares in the Company and therefore no Shareholders have any material interest in the Sales Agreement. As such, none of the Shareholders will be required to abstain from voting at the EGM to approve the Sales Agreement and the relevant annual caps.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Board”	the board of Directors
“Company”	Shenzhen Dongjiang Environmental Company Limited, a joint stock limited company established in the PRC with limited liability
“Continuing Connected Transactions”	the transactions contemplated under the Sales Agreement
“Directors”	director(s) of the Company
“DJ Heritage”	深圳東江華瑞科技有限公司 (Shenzhen Dongjiang Heritage Technologies Company Limited*), a company incorporated in the PRC with limited liability, owned as to 62% by the Company and 38% by the Heritage through its 100% owned subsidiary
“Dongjiang Group”	the Company, its subsidiaries and affiliated companies from time to time
“EGM”	the extraordinary general meeting of the Company to be convened for approving the Sales Agreement and the related annual caps
“GEM”	the Growth Enterprise Market of the Stock Exchange

“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Heritage”	Heritage Technologies, LLC, a company incorporated on 25 July 1995 in the State of Indiana of the USA with limited liability
“Heritage Group”	Heritage, its subsidiaries and affiliated companies from time to time
“Independent Board Committee”	the independent committee of the Board comprising Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng, which has been established to advise the Shareholders in respect of the Continuing Connected Transactions
“PRC”	the People’s Republic of China
“Previous Sales Agreement”	The sales agreement dated 2 February 2007 entered into between DJ Heritage and Heritage in relation to the sale of Products to Heritage by DJ Heritage
“Products”	Chemical products offered by the Dongjiang Group from time to time
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Agreement”	the supply and purchase agreement dated 29 September 2009 in relation to the sale of Products by the Dongjiang Group to the Heritage Group
“Shareholder(s)”	The holders of the share of RMB 0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

On behalf of the Board  
**Shenzhen Dongjiang Environmental Company Limited\***  
**Zhang Wei Yang**  
*Chairman*

Shenzhen, the PRC  
29 September 2009

*As at the date of this notice, 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.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 notice 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 notice misleading; and (3) all opinions expressed in this notice have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the date of its posting and on the Company's website at <http://www.dongjiang.com.cn> from the date of publication.*

*\* For identification purpose only*