



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)

2009

Third Quarterly Report

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 Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

HIGHLIGHTS

- For the Period, revenue was decreased by approximately 11.52% to approximately RMB520,575,000, as compared to the corresponding period in 2008 (2008: approximately RMB588,380,000).
- Profit attributable to equity holders of the Company was decreased by approximately 44.79% to approximately RMB69,176,000 for the Period, as compared to the corresponding period in 2008 (2008: approximately RMB125,302,000).
- Earnings per share was RMB0.1103 (2008: RMB0.1997) for the Period.
- The Board does not recommend the payment of a dividend for the Period (2008: Nil).

THIRD QUARTERLY 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 nine months and three months ended 30 September, 2009, together with the comparative figures of the corresponding periods of 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | Nine months ended 30 September, | | Three months ended 30 September, | |
|--------------------------------|-------|------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | | 2009 (unaudited) RMB'000 | 2008 (unaudited) RMB'000 | 2009 (unaudited) RMB'000 | 2008 (unaudited) RMB'000 |
| REVENUE | 2 | 520,575 | 588,380 | 218,285 | 211,695 |
| Cost of sales | | (327,961) | (297,052) | (147,409) | (109,849) |
| Gross Profit | | 192,614 | 291,328 | 70,876 | 101,846 |
| Other income | | 15,887 | 5,616 | 6,276 | 524 |
| Selling and distribution costs | | (22,647) | (30,788) | (8,465) | (11,444) |
| Administrative expenses | | (70,452) | (80,355) | (19,974) | (31,355) |
| Other operating expenses | | (5,862) | (11,601) | (5,543) | (2,870) |
| Finance costs | | (14,194) | (11,940) | (5,044) | (4,876) |
| PROFIT BEFORE TAX | | 95,346 | 162,260 | 38,126 | 51,825 |
| Income tax expenses | 3 | (19,695) | (33,266) | (7,812) | (11,800) |
| PROFIT FOR THE PERIOD | | 75,651 | 128,994 | 30,314 | 40,025 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 69,176 | 125,302 | 26,567 | 38,707 |
| Minority interests | | 6,475 | 3,692 | 3,747 | 1,318 |
| | | 75,651 | 128,994 | 30,314 | 40,025 |
| DIVIDENDS | 4 | – | – | – | – |
| EARNINGS PER SHARE | | | | | |
| – BASIC | 5 | RMB0.1103 | RMB0.1997 | RMB0.0423 | RMB0.0617 |

NOTES:

1. Basis of preparation and principal accounting policies

The unaudited consolidated third quarterly results for the nine months ended 30 September, 2009 (the "Period") 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 consolidated financial statements are prepared on historical cost basis except for certain investment properties and financial instruments, which are measured at fair value (where applicable).

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

2. Revenue

Revenue represents the net amounts received and receivables for sale of recycled products, provision of waste treatment services, trading of chemical products and provision of construction contracts and consultation services by the Group to outsiders, less value added tax, sales tax, returns and trade discounts.

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

| | Nine months ended 30 September, | | Three months ended 30 September, | |
|---|------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | 2009 (unaudited) RMB'000 | 2008 (unaudited) RMB'000 | 2009 (unaudited) RMB'000 | 2008 (unaudited) RMB'000 |
| Sale of recycled products and the provision of waste treatment services | 451,656 | 510,614 | 195,192 | 181,362 |
| Construction and operation of environmental protection systems and consultation service | 54,837 | 52,735 | 18,535 | 22,706 |
| Trading of chemical products | 14,082 | 25,031 | 4,558 | 7,627 |
| | 520,575 | 588,380 | 218,285 | 211,695 |

3. Income tax expenses

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

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

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

4. Dividends

The Board does not recommend the payment of a dividend for the Period (2008: Nil).

5. Earnings per share

The calculation of the basic earnings per share is based on the unaudited profit attributable to equity holders of the Company for the Period of approximately RMB69,176,000 (2008: approximately RMB125,302,000) and the weighted average number of 627,381,872 (2008: 627,381,872) ordinary shares in issue during the Period.

No diluted earnings per share was presented as no diluting events existed for each of the nine months ended 30 September, 2008 and 2009.

6. Reserves

Other than the profit attributable to equity holders of Company and minority interests for the Period, there was no movement to or from reserves of the Group during the Period (2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period, the external economies and market condition sustained an upturn trend and all businesses of the Group recovered rapidly, with a satisfied achievement in market expansion.

Industrial Waste Treatment and Disposal

During the Period, the Group progressively carried through its implementation of strategy deployment that has been planned previously and achieved an anticipated outcome in the market expansion and customer base broadening. The industrial solid waste treatment business had realized an increase of 44.33% in revenue to RMB117,551,000 for the Period compared with the corresponding period in 2008. During the Period, the waste collection team of the Group secured over 1,200 new customers, which led to an increase to approximately 3,000 customers in total. With a continuously broadened customer base, the Group had commenced to establish a more effective customer management and service system in order to further enhance its service level and strengthen its brand advantages.

Moreover, each treatment bases of the Group was operated well and the construction of new projects were in smooth progress, with the completion of extension and construction on the facilities of the Shajing Treatment Base of the Company, which proceeded to the stage of trial operation and technical testing, and the completion of the industrial waste treatment project at Langfang on schedule, which obtained the permit for trial operation. In addition, the Group continues to explore new method of solid waste treatment. In light of the international advanced waste management experience and practice, the cement production process has been proven an efficient method to eliminate solid waste. Therefore, in recent years the Group has been paying attention to the opportunities in this field. During the Period, the Group has established cooperation with a cement plant located in Huizhou, Guangdong Province of the PRC for application of new technology on the traditional cement production facilities for waste treatment, which will greatly enhance the Group's solid waste treatment and disposal capability in terms of enlarged capacity and lowered cost.

Municipal Waste Treatment and Disposal

During the Period, the business of municipal waste treatment and disposal had a stable development. There was abundant and steady gas supply for the Xiaping Landfill Gas Power Generation Project, which contributed approximately RMB15,689,000 during the Period, representing a growth of 149.47% as compared with the corresponding period in 2008; considering that the first five electricity-generating units were in full load operation, the Group will add two generating units one by one during the fourth quarter in 2009. In addition, the Municipal Sludge Treatment Project has received and treated a total of approximately 150,000 tons of sludge since the first quarter of 2009 when it put into operation, which materialized a revenue of approximately RMB30,395,000.

Environmental Engineering

During the Period, the environmental engineering business of the Group sustained an upward trend and recorded a revenue of RMB54,837,000, representing a growth of approximately 3.99% as compared with the corresponding period in 2008. The Group continued to capture the opportunity in the “Optimization and Upgrade Plan for Environmental Protection Facilities” led by government authorities and to assist its customers in implementing the upgrade of environmental protection facilities. Meanwhile, the waste water operation business got on track for a healthy development and turned losses into gains for the existing 20 operation sites by adopting a more flexible and reasonable operation rate pricing mechanism.

Financial Review

During the Period, the Group’s revenue was decreased by approximately 11.52% to RMB520,575,000 (2008: RMB588,380,000) as compared to the corresponding period of 2008. The profit attributable to equity holders of the Company was decreased by approximately 44.79% to RMB69,176,000 (2008: RMB125,302,000).

The decrease in revenue was mainly due to the decline in sales of recycled products. The revenue generated from the business of sales of recycled products and waste treatment was approximately RMB451,656,000 (2008: RMB510,614,000), representing a decrease of approximately 11.55%. The industrial solid waste treatment business recorded an increase of approximately 44.33% in revenue to approximately RMB117,551,000 (2008: approximately RMB81,445,000).

During the Period, the Group's gross profit margin was 37.00% (2008: 49.51%). The decrease in gross profit margin was mainly due to a drop in the selling price of the recycled products as compared with the corresponding period in 2008.

During the Period, the Group's selling and distribution costs was approximately RMB22,647,000 (2008: RMB30,788,000), representing 4.35% (2008: 5.23%) of the Group's revenue. The decrease in selling and distribution costs was mainly due to the reduction of sales scale of the Group which was affected by the financial crisis.

During the Period, the Group's administrative expenses was approximately RMB70,452,000 (2008: RMB80,355,000), comprising 13.53% (2008: 13.66%) of the Group's revenue, which remained basically at the same level as compared with corresponding period in 2008.

During the Period, finance cost of the Group was approximately RMB14,194,000 (2008: RMB11,940,000), representing 2.73% (2008: 2.03%) of the Group's revenue. The increase in finance cost was attributable to the increased bank loans.

Financial Resources and Liquidity

As at 30 September, 2009, the Group had current assets of RMB684,870,000 (31 December, 2008: RMB495,040,000) and current liabilities of RMB512,091,000 (31 December, 2008: RMB390,443,000). Current assets include cash and cash equivalents of RMB195,849,000 (31 December, 2008: RMB247,693,000).

As at 30 September, 2009, the Group had total assets of RMB1,495,165,000 (31 December 2008: RMB1,192,720,000) and total liabilities of RMB753,852,000 (31 December, 2008: RMB523,035,000). The Group's gearing ratio was 50.42% (31 December, 2008: 43.85%) which is calculated based on the Group's total liabilities over total assets. As at 30 September, 2009, the Group had bank loans of RMB507,790,000 (31 December, 2008: RMB310,500,000) at interest rates from 4.37% to 5.38% per annum.

Future Prospects

The Group will actively address the changes of market condition, continue implementing strategic shift, intensify market expansion of industrial solid waste treatment and broaden its income sources. In the course of the business and market expansion, it will concentrate on developing the synergy effect of each business unit and the resources integrating effect and continuously enhance its overall competitiveness. The Group will also expedite the construction of new projects and enhance the capacity and level of waste treatment. Meanwhile, it will make its efforts on increasing the efficiency of resource utilization and developing recycled products of high competitiveness and added value. In addition, the Group will make cost control on the focus of internal management, further optimize management and enhance corporate effectiveness.

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

At 30 September, 2009, the interests and short positions of the Directors, supervisors and chief executive or their respective associates of the Company in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (Chapter 571 of the Laws of Hong Kong), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register 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 (the "Model Code") of Rules 5.46 of the GEM Listing Rules, were as follows:

Long position in shares of the Company

| Name | Capacity | Number and class of ordinary shares held | Percentage of shareholding in this class |
|--------------------|--------------------------------------|--|--|
| Mr. Zhang Wei Yang | Beneficial owner | 233,651,966 domestic shares | 51.98% |
| Mr. Li Yong Peng | Interest of a controlled corporation | 35,389,750 domestic shares (Note 1) | 7.87% |
| Mr. Chen Shu Sheng | Interest of a controlled corporation | 30,781,384 domestic shares (Note 2) | 6.85% |

Notes:

- (1) These shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd., 90% of which is owned by Mr. Li Yong Peng.
- (2) These shares are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Mr. Chen Shu Sheng.

Save as disclosed above, none of the Directors, supervisors or chief executive of the Company had registered, as at 30 September, 2009, 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 the Model Code.

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

So far as is known to the Directors or chief executive of the Company, as at 30 September, 2009, the following persons (other than the Directors, supervisors and chief executive of the Company) had their 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 as follow:

Long position in the shares of the Company

| Name of shareholders | Capacity | Number and class of ordinary shares held | Percentage of shareholding in its class |
|---|--------------------------------------|--|---|
| Shanghai New Margin Venture Capital Co., Ltd. (Note 1) | Beneficial owner | 61,566,558 domestic shares | 13.70% |
| Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. | Beneficial owner | 35,389,750 domestic shares (Note 2) | 7.87% |
| Shenzhen Wen Ying Trading Limited | Beneficial owner | 30,781,384 domestic shares (Note 3) | 6.85% |
| Cai Hong | Beneficial owner | 28,232,184 domestic shares | 6.28% |
| Leading Environmental Solutions and Services (Note 4) | Interest of a controlled corporation | 11,500,000 H shares | 6.46% |
| China Environment Fund 2002, LP | Beneficial owner | 11,500,000 H shares | 6.46% |

Notes:

1. Shanghai New Margin Venture Capital Co., Ltd. is owned as to 25% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, as to 25% by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 50% equally held by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowth Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the Directors, supervisors, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.
2. The shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd, 90% of which is owned by Mr. Li Yong Peng.
3. The shares are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Mr. Chen Shu Sheng.
4. Leading Environmental Solutions and Services and China Environment 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 30 September, 2009, the Directors are not aware of any other person (other than the Directors, supervisors and chief executive of the Company) who has interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

In the third quarter of 2009, the Company entered into a supply and purchase agreement dated 29 September 2009 (the "Sales Agreement") with Heritage Technologies, LLC ("Heritage"), a company incorporated on 25 July 1995 in the State of Indiana of the USA with limited liability, in which Heritage, its subsidiaries and affiliated companies from time to time agreed to purchase chemical products from the Group and the affiliated companies of the Company from time to time. 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 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 Heritage through its 100% owned subsidiary, and is therefore a connected person of the Company under the GEM Listing Rules. The Sales Agreement constituted a continuing connected transaction for the Company under the GEM Listing Rules. Details had been published in the Company's announcement dated 29 September 2009.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

As at 30 September, 2009, none of the Directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company or 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 Period, none of the Directors, supervisors or the management shareholders of the Company and their respective associates was 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 the Audit Committee on 14 January, 2003 with written terms of reference, for the purpose of reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, formulating and implementing policies in relation to the non-audit services provided by auditors, reviewing the Company's financial information and its disclosure, monitoring the Company's internal control system and its implementation, reviewing and providing supervision over the Group's financial reporting process and internal controls of the Company.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng. The Audit Committee has reviewed the Company's unaudited financial statements for the Period and has provided advice and comments thereon.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors considered that the Company has complied with the requirement of board practices and procedures in Rule 5.34 of the GEM Listing Rules throughout the Period.

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 and 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 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

12 November, 2009
Shenzhen, Guangdong Province, the PRC

As at the date of this report, the Board comprises three executive Directors, being Mr. Zhang Wei Yang, Mr. Chen Shu Sheng and Mr. Li Yong Peng; three non-executive Directors, being Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping; and three independent non-executive Directors, being Mr. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng.

* *for identification purpose only*