



深圳市東江環保股份有限公司
Shenzhen Dongjiang Environmental Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8230)

Interim Report

2010

* For identification purposes only

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This report, for which the directors (the “Directors”) of Shenzhen Dongjiang Environmental Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- For the six months ended 30 June, 2010 (the "Period"), the Group's turnover was increased by approximately 72.23% to approximately RMB520,646,000 for the Period as compared to that of the same period in 2009 (2009: approximately RMB302,290,000).
- Profit attributable to owners of the Company was increased by approximately 74.28% to approximately RMB74,260,000 for the Period as compared to that of the same period in 2009 (2009: approximately RMB42,609,000).
- Earnings per share was approximately RMB0.0592 (2009: approximately RMB0.0340) for the Period.
- The Board does not recommend the payment of any dividend for the Period (2009: Nil).

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of the Company hereby announces the unaudited results of the Company and its subsidiaries (collectively the "Group") for the six months and three months ended 30 June, 2010, together with the comparative figures of the corresponding periods of 2009, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June, 2010

| | Notes | Six months ended 30 June, | | Three months ended 30 June, | |
|-----------------------------------|-------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| TURNOVER | 2 | 520,646 | 302,290 | 313,051 | 191,636 |
| Cost of sales | | (310,136) | (180,552) | (187,700) | (113,546) |
| Gross profit | | 210,510 | 121,738 | 125,351 | 78,090 |
| Other income | | 5,050 | 9,611 | 2,497 | 6,609 |
| Selling and distribution costs | | (20,555) | (14,182) | (10,299) | (6,391) |
| Administrative expenses | | (63,963) | (50,478) | (30,930) | (28,919) |
| Other operating expenses | | (6,335) | (319) | (4,244) | (32) |
| Finance costs | | (16,318) | (9,150) | (10,734) | (4,453) |
| Share of result of associates | | (3,427) | – | – | – |
| PROFIT BEFORE TAX | 4 | 104,962 | 57,220 | 71,641 | 44,904 |
| Income tax expenses | 5 | (21,625) | (11,883) | (13,315) | (8,737) |
| PROFIT FOR THE PERIOD | | 83,337 | 45,337 | 58,326 | 36,167 |
| Attributable to: | | | | | |
| Owners of the Company | | 74,260 | 42,609 | 49,754 | 33,471 |
| Minority interests | | 9,077 | 2,728 | 5,145 | 2,696 |
| | | 83,337 | 45,337 | 54,899 | 36,167 |
| DIVIDENDS | 6 | – | – | – | – |
| EARNINGS PER SHARE – BASIC | 7 | RMB0.0592 | RMB0.0340 | RMB0.0397 | RMB0.0267 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June, 2010

| | Notes | At 30 June, 2010 (Unaudited) RMB'000 | At 31 December, 2009 (Audited) RMB'000 |
|-------------------------------------------------------------------------|-------|--------------------------------------------------|----------------------------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 527,987 | 462,214 |
| Investment properties | | 51,468 | 51,468 |
| Prepaid lease payments | | 58,168 | 47,541 |
| Goodwill | | 34,992 | 26,884 |
| Concession intangible assets | | 245,073 | 241,718 |
| Intangible assets | | – | 362 |
| Available-for-sale investment | | 1,800 | 1,800 |
| Interests in associates | | 192 | – |
| Interests in a jointly controlled entity | | 38,931 | 42,550 |
| Prepayment for acquisition of property, plant and equipment | | 49,228 | 34,161 |
| Deposit paid for acquisition of additional interests in a subsidiary | | – | 7,000 |
| Other non-current assets | | 94,716 | 92,158 |
| Deferred tax assets | | 11,609 | 10,866 |
| | | 1,114,164 | 1,018,722 |
| CURRENT ASSETS | | | |
| Inventories | | 232,415 | 140,476 |
| Amounts due from customers for contract work | | 25,391 | 28,811 |
| Trade and other receivables | 10 | 230,503 | 258,994 |
| Prepaid lease payments | | – | 1,055 |
| Investments held for trading | | 6,454 | 6,111 |
| Amounts due from a jointly controlled entity | | 30,781 | 17,443 |
| Pledged bank deposits | | – | 31,240 |
| Bank balances and cash | | 227,962 | 212,459 |
| | | 753,506 | 696,589 |

| | Notes | At 30 June, 2010 (Unaudited) RMB'000 | At 31 December, 2009 (Audited) RMB'000 |
|---------------------------------------------------------|-------|--------------------------------------------------|----------------------------------------------------|
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 189,405 | 198,129 |
| Dividends payable | | 31,369 | – |
| Amounts due to customers for contract works | | – | 719 |
| Derivative financial instruments | | – | 447 |
| Income tax payable | | 19,679 | 17,790 |
| Obligations under finance lease | | – | 3,475 |
| Interest-bearing bank borrowings | | 303,000 | 317,037 |
| | | <u>543,453</u> | <u>537,597</u> |
| NET CURRENT ASSETS | | <u>210,053</u> | <u>158,992</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,324,217</u> | <u>1,177,714</u> |
| NON-CURRENT LIABILITIES | | | |
| Deferred revenue | | 54,425 | 53,863 |
| Interest-bearing bank borrowings | | 426,078 | 316,700 |
| Obligations under finance lease | | 5,409 | 5,459 |
| Provision | | – | 541 |
| Preferred tax liabilities | | 4,966 | 3,676 |
| | | <u>490,878</u> | <u>380,239</u> |
| Total net assets | | <u>833,339</u> | <u>797,475</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 12 | 125,476 | 62,738 |
| Reserves | 8 | 542,046 | 565,252 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | |
| | | <u>670,843</u> | <u>627,990</u> |
| MINORITY INTERESTS | | <u>162,496</u> | <u>169,485</u> |
| TOTAL EQUITY | | <u>833,339</u> | <u>797,475</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June, 2010

| | Attributable to owners of the Company | | | | | | | Minority interests | Total |
|----------------------------------------|---------------------------------------|---------------|---------------|---------------------|-------------------|------------------|----------------|--------------------|----------------|
| | Share capital | Share premium | Reserve funds | Translation reserve | Retained earnings | Dividend reserve | Total | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January, 2009 | 62,738 | 30,309 | 71,159 | 550 | 347,088 | - | 511,844 | 157,841 | 669,685 |
| Profit for the Period | - | - | - | - | 42,609 | - | 42,609 | 2,728 | 45,337 |
| Exchange adjustment | - | - | - | (603) | - | - | (603) | - | (603) |
| Contribution from | | | | | | | | | |
| minority shareholders | - | - | - | - | - | - | - | 390 | 390 |
| Disposal of a subsidiary | - | - | - | - | - | - | - | - | - |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | - | - |
| Dividend paid to | | | | | | | | | |
| minority shareholders | - | - | - | - | - | - | - | (3,800) | (3,800) |
| At 30 June, 2009 | <u>62,738</u> | <u>30,309</u> | <u>71,159</u> | <u>(53)</u> | <u>389,697</u> | <u>-</u> | <u>553,850</u> | <u>157,159</u> | <u>711,009</u> |
| At 1 January, 2010 | 62,738 | 30,309 | 74,226 | 542 | 428,806 | 31,369 | 627,990 | 169,485 | 797,475 |
| Profit for the period | - | - | - | - | 74,260 | - | 74,260 | 9,077 | 83,337 |
| Transfer from retained earnings | 32,429 | - | - | - | (32,429) | - | - | - | - |
| Transfer from share premium | 30,309 | (30,309) | - | - | - | - | - | - | - |
| Exchange adjustment | - | - | - | (38) | - | - | (38) | - | (38) |
| Contribution from | | | | | | | | | |
| minority shareholders | - | - | - | - | - | - | - | - | - |
| Increase in investment in subsidiaries | - | - | - | - | - | - | - | - | - |
| Disposal of a subsidiary | - | - | - | - | - | - | - | - | - |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | (14,596) | (14,596) |
| Payment of cash dividend | - | - | - | - | - | (31,369) | (31,369) | - | - |
| Dividend paid to | | | | | | | | | |
| minority shareholders | - | - | - | - | - | - | - | (1,470) | (1,470) |
| At 30 June, 2010 | <u>125,476</u> | <u>-</u> | <u>74,226</u> | <u>504</u> | <u>470,637</u> | <u>-</u> | <u>670,843</u> | <u>162,496</u> | <u>833,339</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)

For the six months ended 30 June, 2010

| | Six months ended 30 June, | |
|---------------------------------------------------------|--------------------------------|--------------------------------|
| | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| Net cash inflow from operating activities | 50,156 | 43,528 |
| Net cash used in investing activities | (145,696) | (142,417) |
| Net cash from financing activities | 79,803 | 110,050 |
| Increase in cash and cash equivalents | (15,737) | 11,161 |
| Cash and cash equivalents at beginning of the Period | <u>243,699</u> | <u>247,693</u> |
| Cash and cash equivalents at end of the Period | <u><u>227,962</u></u> | <u><u>258,854</u></u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December, 2009. The consolidated results are unaudited and have been reviewed by the audit committee of the Company.

2. TURNOVER

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

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

| | Six months ended | |
|----------------------------------------------------------------------|-------------------------|-------------|
| | 30 June, | |
| | 2010 | 2009 |
| | (unaudited) | (unaudited) |
| | RMB'000 | RMB'000 |
| Processing and sale of recycled products | 300,492 | 154,783 |
| Collection, treatment and disposal of industrial waste | 87,642 | 57,634 |
| Collection, treatment and disposal of municipal waste | 62,474 | 33,890 |
| Construction and the provision of environmental systems and services | 43,651 | 36,526 |
| Production of renewable energy | 14,057 | 9,933 |
| Trading of chemical products | 12,330 | 9,524 |
| | 520,646 | 302,290 |

3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into five operating divisions, (i) processing and sale of recycled products; (ii) provision of waste treatment services; (iii) construction and provision of environmental protection systems and services; (iv) production of renewable energy and (v) trading of chemical products. These divisions are the basis on which the Group reports its primary segment information.

The Group adopted business segments as the primary basis of segment reporting and the analysis of the Group's revenue and contribution to results by business segments during the Period are as follows:

For the six months ended 30 June:

| | Processing and sale of recycled products | | Provision of waste treatment services | | Construction and provision of environmental protection systems and services | | Production of renewable energy | | Trading of chemical products | | Total | |
|------------------------------------------------------|------------------------------------------|---------------|---------------------------------------|-------------|-----------------------------------------------------------------------------|-------------|--------------------------------|-------------|------------------------------|-------------|----------------|---------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Amounts in RMB'000 | | | | | | | | | | | | |
| Segment revenue | | | | | | | | | | | | |
| External sales | <u>300,492</u> | 154,783 | <u>150,116</u> | 91,524 | <u>43,651</u> | 36,526 | <u>14,057</u> | 9,933 | <u>12,330</u> | 9,524 | <u>520,646</u> | 302,290 |
| Segment results | <u>69,661</u> | <u>39,008</u> | <u>58,319</u> | 28,083 | <u>4,516</u> | 3,203 | <u>2,936</u> | 2,832 | <u>3,868</u> | 1,244 | <u>139,300</u> | 74,370 |
| Unallocated corporate expenses | | | | | | | | | | | (18,020) | (8,000) |
| Operating activities profits | | | | | | | | | | | 121,280 | 66,370 |
| Finance cost | | | | | | | | | | | (16,318) | (9,150) |
| Profit before tax | | | | | | | | | | | 104,962 | 57,220 |
| Income tax expenses | | | | | | | | | | | (21,625) | (11,883) |
| Profit for the period | | | | | | | | | | | <u>83,337</u> | <u>45,337</u> |
| Other information: | | | | | | | | | | | | |
| Capital expenditure of property, plant and equipment | <u>36,268</u> | 47,072 | <u>10,419</u> | 6,156 | <u>105</u> | 20,641 | <u>15,164</u> | 3,200 | <u>103</u> | 89 | <u>62,059</u> | 77,158 |
| Depreciation of property, plant and equipment | <u>18,091</u> | 13,782 | <u>7,126</u> | 5,426 | <u>235</u> | 1,047 | <u>2,726</u> | 5,174 | <u>78</u> | 69 | <u>28,256</u> | 25,498 |

Note: Unallocated corporate expenses include general and administrative expenses, advertising and promotion fees, etc. of the Company.

No further geographical segment information is presented as the Group's customers and operations are mostly located in the People's Republic of China ("PRC").

4. PROFIT BEFORE TAX

Profit before tax had been arrived at after charging (crediting) (unaudited):

| | Six months ended | |
|----------------------------------------|-------------------------|-------------|
| | 30 June, | |
| | 2010 | 2009 |
| | (unaudited) | (unaudited) |
| | RMB'000 | RMB'000 |
| Cost of goods sold | 299,457 | 174,357 |
| Depreciation | 28,256 | 25,398 |
| Amortisation of prepaid lease payments | 272 | 424 |
| Amortisation of intangible assets | 34 | 18 |

5. INCOME TAX EXPENSES

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

In accordance with the relevant income tax rules and regulations of the PRC, the Company's subsidiary, 深圳東江華瑞科技有限公司 (Shenzhen Dongjiang Heritage Technologies Co., Ltd.*) is entitled to enjoy a 50% tax reduction of PRC enterprise income tax at a rate of 11%. The other two subsidiaries of the Company, 深圳市東江環保再生能源有限公司 (Shenzhen Dongjiang Environmental Renewable Energy Limited*) and 惠州東江威立雅環境服務有限公司 (Huizhou Dongjiang Veolia Environmental Services Limited*) are exempted from PRC enterprise income tax for two years from 2008, followed by a 50% tax reduction for the next three years.

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

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the Period (2009: Nil).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the unaudited profit attributable to owners of the Company for the Period of approximately RMB74,260,000 (2009: approximately RMB42,609,000) and the weighted average number of 1,254,764,000 ordinary shares in issue and bonus shares during the Period.

The earnings per share for each presented period was restated based on the number of shares after the bonus issue of shares of the Company in the Period on the basis of one bonus share for every one existing issued share.

8. RESERVES

Other than the profit attributable to owners of the Company, minority interests for the six months ended 30 June, 2010, there were no movements to or from reserves of the Group and the Company during the Period (2009: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired approximately RMB62,059,000 of property, plant and equipment for the Group's expansion. The Group charged approximately RMB28,256,000 depreciation for the Period.

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days given to its trade customers, except for new customers, where payment in advance is normally required.

The following is an aged analysis of trade and bills receivables net of allowance for bad and doubtful debts of trade receivables:

| | 30 June, 2010 (Unaudited) RMB'000 | 31 December, 2009 (Audited) RMB'000 |
|-----------------|------------------------------------------------------|----------------------------------------------|
| Within 90 days | 124,918 | 104,645 |
| 91 to 180 days | 37,762 | 4,345 |
| 181 to 365 days | 9,367 | 502 |
| Over 1 year | 5,405 | 595 |
| | <u>177,452</u> | <u>110,087</u> |

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

| | 30 June, 2010 (Unaudited) RMB'000 | 31 December, 2009 (Audited) RMB'000 |
|--------------------|------------------------------------------------------|----------------------------------------------|
| Current to 90 days | 103,326 | 75,445 |
| 91 to 180 days | 9,737 | 1,686 |
| 181 to 365 days | 16,304 | 2,563 |
| Over 1 year | 5,899 | 9,622 |
| | <u>135,266</u> | <u>89,316</u> |

12. SHARE CAPITAL

| | 30 June, 2010 (Unaudited) RMB'000 | 31 December, 2009 (Audited) RMB'000 |
|-----------------------------------------------------------------------|------------------------------------------------------|----------------------------------------------|
| Ordinary shares of RMB0.10 each Authorized, issued and fully paid: | | |
| 898,963,744 domestic shares | 89,896 | 44,948 |
| 355,800,000 H shares | 35,580 | 17,790 |
| | 125,476 | 62,738 |

13. CAPITAL COMMITMENT

| | 30 June, 2010 (Unaudited) RMB'000 | 31 December, 2009 (Audited) RMB'000 |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------------------|
| Capital expenditure contracted, but not provided for in the consolidated financial statements in respect of: | | |
| Property, plant and equipment | 44,039 | 26,940 |
| Construction in progress | 68,153 | 31,915 |
| Concession intangible assets | 80,685 | 98,971 |
| Establishment of an associate | 8,367 | 16,734 |
| | 201,244 | 174,560 |

14. RELATED PARTY TRANSACTIONS

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

| | Six months ended | |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| | 30 June, | |
| | 2010 (unaudited) RMB'000 | 2009 (unaudited) RMB'000 |
| Sold goods to minority shareholders of Shenzhen Dongjiang Heritage Technologies Co., Ltd. ("Dongjiang Heritage") | 28,817 | 12,408 |
| Purchased goods from minority shareholders of Shenzhen Resource Environmental Technology Co., Ltd. ("Shenzhen Resource") | 6,513 | 6,147 |
| Sold goods to minority shareholders of Shenzhen Resource | 183 | 545 |
| Waste treatment fee received from minority shareholders of Shenzhen Resource | 2,584 | 1,740 |
| Paid rent to Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. | 324 | 389 |
| Service fee of technology paid to a company controlled by a minority shareholder of Dongjiang Heritage | – | 452 |
| Technology service fees paid to minority shareholders of Shenzhen Longgang Dongjiang Industrial Waste Disposal Co., Ltd. | 533 | 603 |
| Rental income received from a company in which a director of the Company is a shareholder | – | 71 |

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2010, the Chinese government continued to implement package programs to promote a steady growth of economy, expedite the change of mode of economic development and its structural adjustment, such that the fundamentals of the macro-economy have further rebounded and improved. The Group capitalized fully on the governmental effects to vigorously carry out its regional expansion strategy to increase market share on the basis of the market layout that has been established in the early stage, resulting in a significant increase of the Group's turnover as well as profit. For the Period, the Group's turnover was increased by approximately 72.23% to RMB520,646,000, and the profit attributable to the owners of the Company increased by 74.28% to RMB74,260,000 as compared to the corresponding period of 2009.

Industrial Waste Treatment and Disposal

Treatment and disposal of industrial waste as the core business of the Group mainly include treatment, disposal and recycling of various industrial wastes. As the economy recovered, the operating rate of capacity of upstream customers of the Group has improved greatly with considerable number of orders secured in the first half of 2010. In light of the prosperous market environment, the Group adopted proactive market expansion strategies to further intensify the regional expansion and market layout of industrial waste treatment and disposal business. In addition, the Group continued to carry out its service-oriented market competition strategies to integrate market and customer resources for various operating segments and fully implement the business mode transformation. During the Period, the Group's market team has secured approximately 1,000 new customers, representing an increase of approximately 17.60% as compared with the corresponding period of 2009. Through the strategies mentioned above, the treatment and disposal of industrial waste business realized a speedy development with a turnover of approximately RMB87,642,000 for the Period, representing an increase of approximately 52.07% as compared with the corresponding period of 2009.

In respect of recycling business, the Group has been regarding the recycling technology upgrade and structural adjustment as its main force to push forward the development of this business. During the Period, each production base of the Group hastened the implementation of upgrade and the replacement programs of various products, advanced in the course towards product diversification and precision, continued to optimize product structure and improve the added-value and profitability of recycling products. Meanwhile, the Group timely adjusted its marketing strategy and transformed to the mode of market orientation and production by sales, so as to adapt to market needs and improve the market competitiveness of products. For the Period, the Group made a striking growth in processing and sale of recycling products with a turnover of approximately RMB300,492,000, representing an increase of approximately 94.14% as compared with the corresponding period of 2009.

Meanwhile, the Group made the steady progress in the construction and expansion of new projects during the Period. During the Period, the North Guangdong Hazardous Waste Treatment and Disposal Center had completed the construction of "Lead-zinc Tailing Comprehensive Utilization Project", among which, Lead Recycling Project had commenced the trial run, while Zinc Recycling Project had completed the main part of the equipment installation and was expected to be put into operation in the second half of 2010. In addition, in order to take advantage of vast business opportunities emerged in the worn-out household appliance treatment and disposal industry, the Group has planned and embarked on building a worn-out electronic appliance disassembly and comprehensive utilization demonstration project with an annual treatment capacity of approximately 10,000 tons at its Qingyuan treatment base, which has been shortlisted in the Directory of Units for Electronic Waste Disassembly, Utilization and Disposal. Currently, this demonstration project has completed its infrastructure construction, and is under the installation and commissioning of disassembly lines of refrigerators, air conditioners, TVs and computers. This project is expected to be put into trial operation in August of 2010. The Group will actively procure the provincial designated disassembly qualification of worn-out household appliance replacement on the basis of the successful demonstration of the project, which will lay a solid foundation for the subsequent business space.

Municipal Waste Treatment and Disposal

Municipal waste treatment and disposal is another pillar business of the Group with main develop fields including the collection, treatment and disposal of domestic waste, the treatment, disposal and utilization of municipal sludge, construction waste and kitchen waste. For the Period, the municipal waste treatment and disposal business of the Group developed rapidly and realized a turnover of RMB62,474,000, representing an increase of approximately 84.34% as compared to the corresponding period of 2009. Among which the municipal sludge treatment project is saturated and treated a total volume of approximately 170,000 tones of municipal sludge for the Period with a turnover of approximately RMB34,769,000, representing an increase of approximately 70.54% as compared with the corresponding period of 2009. The municipal waste collection and transportation business operated by Lik Shun Services Limited maintained a steady operation, with a turnover of approximately RMB14,056,000 for the Period, representing an increase of approximately 11.21% as compared to the corresponding period of 2009.

Besides, the Group began to conduct the overall operation management for Shenzhen Xiaping Solid Waste Landfill from January 1, 2010. In the first half of 2010, an aggregate of exceeding 600,000 tons of domestic waste were treated with a standard-attaining treatment rate of 100% and a turnover of approximately RMB13,649,000. In respect of the construction of new projects, Shaoyang Domestic Waste Landfill Project, the Group's first domestic waste treatment and disposal project, has passed its environmental acceptance during the Period and will be put into trial operation in the fourth quarter of 2010.

In recent years, the Group has been paying attention to the expansion opportunity in the disposal and the recycling of construction waste and has achieved breakthrough recently as the Group was selected as the implementation unit of the Comprehensive Treatment Demonstration Project of Construction Waste in the Western Area of Kunming (the "Project") by Kunming Municipal Government. This is one of the disposal and recycling demonstration projects with a demonstration period of five years planned by Kunming Municipal Government in the Eastern and Western area of Kunming for the purpose of treating the vast construction waste produced by the old city redevelopment in the next few years. The Group as the implementation unit of the Project will conduct the investment, construction and operation of the Project by cooperating with the local government. The roughly planned annual treatment capacity of the Project is approximately 2 million tons. After completion, the Project will be responsible for the disposal and comprehensive utilization of construction waste produced in Wuhua District, Xishan District and High-Tech Development Zone in the Western area of Kunming. The Project signifies that the Group has taken a crucial step in the expansion and layout of the municipal waste treatment and disposal business, creating favorable conditions for further procurement of recycling and comprehensive utilization projects of construction waste in the future.

Utilization of Renewable Energy and the Development CDM Project

During the Period, the Group was proceeding well with business of utilization of renewable energy and the development of Clean Development Mechanism (“CDM”) Project. Xiaping Landfill Gas Power Generation Project was operating very well with a turnover of approximately RMB14,057,000 for the Period, representing an increase of approximately 41.52% as compared to the corresponding period of 2009. The Qingdao Landfill Gas Utilization Project completed the construction and is under the expansion of collection systems and commissioning of power generating units currently. Shenzhen Lao Hu Keng Landfill Gas Utilization Project has begun its construction work during the Period and is under well development currently. The above two projects are expected to be put into operation in the second half of this year. In addition, Chongqing Song Zao Coal Mine Ventilation Air Utilization Project has commenced equipment procurement and civil construction, which is expected to complete the trial run by the end of 2010.

Environmental Engineering and Services

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 continued to capture the opportunity in the “Optimization and Upgrade Plan for Environmental Protection Facilities” led by government authorities, intensified its environment engineering business and service expansion depending on its own technology and brand advantages. During the Period, the Group maintained a soaring trend for its environment engineering and service business, has contribute a turnover of RMB43,651,000, increased by 19.51% compared to the corresponding period of 2009. The Group’s Engineering Service Branch entered into 7 environmental engineering transformation projects; and waste water operation business treated total approximately 2,409,000 tons of waste water with a turnover of approximately RMB18,322,000. In addition, Beijing Novel Environmental Protection Co., Ltd, a subsidiary of the Group, achieved an ideal result in broadening its business during the Period, which entered into 30 new projects and consultancy contracts with a contract sum of approximately RMB70,241,700.

Research and Development

In the first half of 2010, the Group focused on the formation of such a mode that integrates the production, study and research to push forward the transformation from technology achievement to application, and focused on the research and application of the utilization technology of recycling products. Among them, the recycling technology upgrade project of "the New Technology Pilot Research on the Recycling of Cupric Chloride Etchant Liquid" achieved a great breakthrough. The testing result of the experimental product showed that all indicators comply with the requirements of HG/T3592-1999 of electroplating copper sulfate, which provided technical support for the structural adjustment and upgrade and replacement of recycling products of the Group.

Management Improvement

During the Period, the Group took a number of management improvement measures directed against organizational structure, human resource management, investment management and project management to encourage the employees of the Group to actively participate in project construction and new market development. In respect of organizational structure, the Group sorted and adjusted its management structure, further highlighting the role of technology research and development in guiding the business and future development of the Group and intensifying the risk control in the process of investment and operation according to needs of strategic positioning and business development. In respect of human resource management improvement, the Group optimized its employee performance appraisal system, training system and talent recruitment and introduction system to lay a solid foundation for the Group's efforts to establish a talent team with core competence.

Financial Review

For the Period, the Group's turnover was increased by approximately 72.23% to approximately RMB520,646,000 (2009: approximately RMB302,290,000) as compared to the corresponding period in 2009. The profit attributable to owners of the Company was increased by approximately 74.28% to approximately RMB74,260,000 (2009: approximately RMB42,609,000).

The increase of turnover mainly resulted from the growth of processing and sale of recycled products, treatment and disposal of industrial waste and municipal waste, which representing an increase of approximately 94.14%, 52.07% and 84.34% respectively as compared to the corresponding periods of 2009. Meanwhile, the turnover from production of renewable energy and provision of environmental systems and services was increased by approximately 41.52% to approximately RMB14,057,000 and approximately 19.51% to approximately RMB43,651,000 respectively.

During the Period, the Group's gross profit margin was approximately 40.43% (2009: approximately 40.27%).

For the Period, the Group's selling and distribution expenses was approximately RMB20,555,000 (2009: approximately RMB14,182,000), representing approximately 3.95% of the Group's turnover (2009: approximately 4.69%). The increase in selling and distribution expenses was mainly because the Group's overall business scale was expanded due to favorable market situation.

For the Period, the Group's administrative expenses were approximately RMB63,963,000 (2009: approximately RMB50,478,000), representing approximately 12.29% of the Group's turnover (2009: approximately 16.70%). The increase in the administrative expenses was mainly because the Group put more resources into research and development and several projects completed the construction and entered into the phase of trial run which caused more administrative expenses.

For the Period, the Group's finance cost was approximately RMB16,318,000 (2009: approximately RMB9,150,000), representing approximately 3.13% of the Group's turnover (2009: approximately 3.03%). The increase in the finance cost was mainly attributed by the increase in the bank loans.

For the Period, the Group's income tax expenses was approximately RMB21,625,000 (2009: approximately RMB11,883,000), representing approximately 20.60% of the Group's profit before tax (2009: approximately 20.77%).

Financial Resources and Liquidity

As at 30 June, 2010, the Group had net current assets of approximately RMB753,506,000 (31 December, 2009: approximately RMB696,589,000) and current liabilities of approximately RMB543,453,000 (31 December, 2009: approximately RMB537,597,000). The current assets include cash and cash equivalent of total approximately RMB227,962,000 (31 December, 2009: approximately RMB243,699,000).

As at 30 June, 2010, the Group had total liabilities of approximately RMB1,034,331,000 (31 December, 2009: approximately RMB917,836,000). The Group's gearing ratio was approximately 55.38% (31 December, 2009: approximately 53.51%) which is calculated based on the Group's total liabilities over total assets. As at 30 June, 2010, the Group had bank loan of approximately RMB729,078,000 (31 December, 2009: approximately RMB633,737,000) at interest rates from 4.779% to 5.940% per annual.

Capital Structure

The total number of issued share capital of the Company as at 30 June 2010 was 898,963,744 domestic shares and 355,800,000 H shares.

Substantial Investments, Acquisitions and Disposals of Subsidiaries and Associates

In March 2010, the Company invested RMB17,800,000 to purchase 10% equity interest of a 50% owned subsidiary of the Company, namely Shaoguan Green Recycling Resource Development Co., Ltd.

In March 2010, the Company invested RMB4,700,000 to purchase 29% equity interest of a 51% owned subsidiary of the Company, namely Shenzhen Dongjiang Lisai Renewable Energy Co., Ltd.

In May 2010, the Company invested RMB8,367,000 in the registered capital of a 51% owned associate of the Company, namely Chongqing Dongjiang Songzao Renewable Energy Development Co., Ltd.

In June 2010, the Company invested RMB200,000 to purchase 10% equity interest of a 90% owned subsidiary of the Company, namely Qingyuan Dongjiang Environmental Technology Co.,Ltd.

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

Pledge of Assets

As at 30 June, 2010, certain assets of the Group were pledged to secure bank borrowings and letter of credit facilities granted to the Group, as follows:

| | At 30 June, 2010 (Unaudited) RMB'000 | At 31 December, 2009 (Audited) RMB'000 |
|-------------------------------|-------------------------------------------------------------|----------------------------------------------------|
| Property, plant and equipment | 8,565 | 6,204 |
| Bank deposits | – | 31,240 |
| Inventories | 129,625 | 94,981 |
| | 138,190 | 132,425 |

Interest Rate and Exchange Rate Risk

During the Period, the Group was granted the bank loans at the fixed interest rate from 4.779% to 5.940% per annum, which would not expose to interest rate risk.

The Group did not expose to any major exchange risk as most of the income and expenses were settled in Reminbi.

Information on Employees and Remuneration Policies

As at 30 June, 2010, the number of full-time employees was 2,043 (2009: 1,326) with a total staff cost for the Period of approximately RMB31,740,000 (2009: approximately RMB29,755,000). The Group offered continuing training, remuneration package of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

Contingent Liabilities

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 their 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 the future which require the Group to undertake the environmental measures. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental policies and/or standards.

Other than as disclosed above, the Group had no significant contingent liabilities as at 30 June, 2010.

Future Prospects

In the second half of 2010, the Group will seize every favorable opportunity to speed up the expansion of treatment and disposal business of industrial waste, improve the waste treatment and disposal capacity and level, and strive for such new businesses like the comprehensive utilization of electronic waste, strengthen the merger and acquisition, and increase the market share. Meanwhile, the Group will consolidate the existing municipal waste treatment and disposal business, give priority to the development of the service business of the operation management, and focus on the development of the treatment and comprehensive utilization project for construction waste and kitchen waste. The Group will also continue to intensify the research and development investment to improve the self-independent innovation capability, build the technical support system that satisfies the rapid development of the Group, and push forward the transformation of the Group into a technology-oriented enterprise.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June, 2010 (2009: Nil).

BONUS ISSUE OF SHARES

In the annual general meeting held on 31 May, 2010, the shareholders of the Company approved a bonus share issue.

On 10 June, 2010, the Company allotted and issued 177,900,000 H shares of RMB0.10 each as bonus shares on the basis of one bonus H share for every one existing H share held.

On 11 June, 2010, the Company allotted and issued 449,481,872 domestic shares of RMB0.10 each as bonus shares on the basis of one bonus domestic share for every one existing domestic share held.

CHANGE OF BOARD LOT SIZE

Upon the bonus issue of shares, the board lot size for trading in the H shares of the Company was changed from 10,000 H shares to 2,000 H shares effective 23 June, 2010.

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

At 30 June, 2010, 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 rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

| Name | Capacity | Number and class of shares hold | Percentage of shareholding in this class |
|--------------------|------------------|---------------------------------|------------------------------------------|
| Mr. Zhang Wei Yang | Beneficial owner | 431,589,646 domestic shares | 48.01% |
| Mr. Li Yong Peng | Beneficial owner | 63,701,550 domestic shares | 7.09% |
| Mr. Chen Shu Sheng | Beneficial owner | 32,562,991 domestic shares | 3.62% |
| Mr. Luo Xiao Hong | Beneficial owner | 800,000 domestic shares | 0.09% |

Save as disclosed above, as at 30 June, 2010, none of the Directors, supervisors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

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

As at 30 June, 2010, the following persons (other than Directors, supervisors and chief executive of the Company) had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the shares of the Company

| Name of shareholders | Capacity | Number and class of shares held | Percentage of shareholding in its class |
|----------------------------------------------------------|--------------------------------------|---------------------------------|-----------------------------------------|
| Shanghai New Margin Venture Capital Co., Ltd (Note 1) | Beneficial owner | 123,133,116 domestic shares | 13.70% |
| Cai Hong | Beneficial owner | 56,464,368 domestic shares | 6.28% |
| Leading Environmental Solutions and Services (Note 2) | Interest of a controlled corporation | 23,000,000 H shares | 6.46% |
| China Environmental Fund 2002, LP | Beneficial owner | 23,000,000 H shares | 6.46% |

Notes:

- Shanghai New Margin Venture Capital Co., Ltd. is 25% owned 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, and is 25% owned by Shanghai Alliance Investment Ltd., a state-owned enterprise and is 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 shareholders or management shareholders of the Company or an associate of any of them.

2. Leading Environmental Solutions and Services and China Environmental Fund 2002 Management Ltd. own approximately 76.92% and 0.10% of China Environment Fund 2002, LP, which hold 23,000,000 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 shareholders or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 June, 2010, 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, 2010, none of the directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 30 June, 2010, none of the Directors, supervisors and chief executive of the Company had any rights to acquire H shares in the Company.

SHARE OPTION SCHEME

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

COMPETING INTERESTS

During the 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 GEM Listing Rules.

AUDIT COMMITTEE

The Company has set up an audit committee on 14 January, 2003 with written terms of reference, for the purpose of reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, formulating and implementing policies in relation to the non-audit services provided by auditor, reviewing the Company's financial information and its disclosure, monitoring the Company's internal control system and its implementation, reviewing and providing supervision over the Group's financial reporting process and internal controls of the Company.

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. Liu Xue Sheng. The audit committee of the Company has reviewed the Company's unaudited financial statements for the Period and has provided advice and comments thereon.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the 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 of 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 17.50B of the Listing Rules, the changes of information on the Directors and the supervisors of the Company are as follows:

FENG Tao, is a non-executive Director and the vice-chairman of the Board. Mr. Feng ceased to be a director of Jiangsu Lianhuan Pharmaceutical Co., Ltd. (listed on the Shanghai Stock Exchange (Stock Code: 600513)) effective 22 May 2009.

YUAN Wei, is a supervisor of the Company. Ms. Yuan was an investment manager, investment director and a partner of Shanghai New Margin Vecture Capital Co., Ltd. and she is currently a partner of Redpoint Ventures.

LUO Xiao Hong, is a supervisor of the Company. Mr. Luo is currently the president of Shenzhen Great Strategy Real Estate Appraisal & Consulting Co., Ltd., 28.125% interest of which is owned by Mr. Zhang Wei Yang, the chairman of the Board, chief executive officer and executive Director of the Company.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Code on Corporate Governance Practice stated in Appendix 15 of the GEM Listing Rules (the "Code"). The Company has complied with all the Code provisions throughout the Period, except for the deviation mentioned below:

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

Taking into account that Mr. Zhang's strong expertise and excellent insight of the environmental protection industry, the Board considered that chairman and chief executive officer being performed by Mr. Zhang will lead to more effective implementation of the overall strategy and ensure smooth operation of the Group. In order to maintain the good corporate governance and fully comply with the Code provision, the Board will regularly review the need to appoint different individual to perform the roles of chairman and chief executive officer separately.

By order of the Board

Shenzhen Dongjiang Environmental Company Limited*

ZHANG WEI YANG

Chairman

10 August, 2010

Shenzhen, Guangdong Province, the PRC

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

* *for identification purposes only*