



*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 a People's Republic of China)



Preserving the
Environment
Recycling
Resources

THIRD QUARTERLY REPORT
2004

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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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 nine months ended 30 September, 2004, the Group realized a sustainable growth in its core business – sale of recycled products and waste treatment.
- Turnover was increased by approximately 173.4% to RMB157,727,000 for the nine months ended 30 September, 2004, as compared to that of the same period in 2003 (2003: RMB57,697,000).
- Net profit was increased by approximately 88.3% to RMB32,289,000 for the nine months ended 30 September, 2004, as compared to that of the same period in 2003 (2003: RMB17,145,000).
- Earnings per share was RMB0.0515 (2003: RMB0.0302) for the nine months ended 30 September, 2004.

THIRD QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)

The board of directors (the "Board") of Shenzhen Dongjiang Environmental Company Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the nine months ended 30 September, 2004, together with the comparative figures of the corresponding period of 2003 as follows:

	Notes	Nine months ended 30 September,		Three months ended 30 September,	
		2004 (unaudited)	2003 (unaudited)	2004 (unaudited)	2003 (unaudited)
		RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	2	157,727	57,697	64,382	24,689
Cost of sales		(88,830)	(31,046)	(35,785)	(14,393)
Gross profit		68,897	26,651	28,597	10,296
Other revenue and gains		895	154	1	55
Selling and distribution costs		(6,149)	(628)	(2,711)	(304)
Administrative expenses		(20,886)	(6,808)	(7,364)	(2,442)
Other operating expenses		(3,992)	(815)	(2,725)	(363)
PROFIT FROM OPERATING ACTIVITIES		38,765	18,554	15,798	7,242
Finance costs		(714)	(127)	(333)	(127)
Share of profit/(loss) of associates		(666)	4	(416)	(92)
PROFIT BEFORE TAX		37,385	18,431	15,049	7,023
Tax	3	(3,461)	(1,454)	(1,465)	(511)
PROFIT BEFORE MINORITY INTERESTS		33,924	16,977	13,584	6,512
Minority interests		(1,635)	168	(767)	159
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		32,289	17,145	12,817	6,671
DIVIDENDS	4	6,274	5,019	-	-
EARNINGS PER SHARE – BASIC	5	0.0515	0.0302	0.0204	0.0106

Notes:

1. Basis of preparation and principal accounting policies

The unaudited consolidated results have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Listing Rules of the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the third quarterly financial reports are consistent with those adopted in the annual financial statements for the year ended 31 December, 2003.

2. Turnover

Turnover represents the aggregate value of construction services performed, recycled products sold, waste treatment, trading of chemical products, and consultation services rendered, net of value-added tax and business tax, and after allowances for goods returned and trade discounts.

Revenue and gains from the following activities have been included in the Group's turnover:

	Nine months ended 30 September,		Three months ended 30 September,	
	2004 (unaudited) RMB'000	2003 (unaudited) RMB'000	2004 (unaudited) RMB'000	2003 (unaudited) RMB'000
Sale of recycled products, and waste treatment	137,014	54,838	54,962	23,632
Trading of chemical products	9,981	–	4,934	–
Revenue from construction and operation of environmental protection systems	10,567	1,675	4,469	925
Others	165	1,184	17	132
	<u>157,727</u>	<u>57,697</u>	<u>64,382</u>	<u>24,689</u>

3. Tax

The Company and three of its subsidiaries, namely Shenzhen Isoway Corporate Management Consulting Co., Ltd., Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan"), and Shenzhen Dongjiang Heritage Technologies, Co., Ltd. ("Dongjiang Heritage") are located in the Shenzhen Special Economic Zone and as a result, are subject to the People's Republic of China ("PRC") corporate income tax at a rate of 15% (2003: 15%) of the estimated assessable income for the nine months ended 30 September, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC. Another two subsidiaries of the Company – Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited ("Longgang Dongjiang") and Shenzhen Dongjiang Environmental Recycled Resources Co., Ltd. ("Dongjiang Recycled Resources") are also located in the Shenzhen Special Economic Zone. Longgang Dongjiang is exempted from corporate income tax for one year from 1 January, 2004 to 31 December, 2004, as it is an "Integrated Resources Application Enterprise". Dongjiang Recycled Resources is exempted from corporate income tax for one year from 1 January, 2004 to 31 December, 2004, as it is a "Waste Recycling Enterprise".

Another subsidiary of the Company – Chengdu Dangerous Waste Treatment Centre Co., Ltd. ("Chengdu Co.") and the subsidiary of Chengdu Co., Sichuan Xingli Environmental Protection Project Co., Ltd. are located in Chengdu and are subject to the PRC corporate income tax at a rate of 33% (2003: 33%) of the estimated assessable income for the nine months ended 30 September, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC.

Another three subsidiaries of the Company, namely Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng") and Kunshan Qian Deng Three Wastes Treatment Co., Ltd. ("Qian Deng") which are located in Kunshan and Huizhou Dongjiang Environmental Co., Ltd. ("Huizhou Dongjiang"), which is located in Huizhou, are subject to the PRC corporate income tax at a rate of 33% (2003: 33%) of the estimated assessable income for the nine months ended 30 September, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC.

In accordance with the relevant income tax laws and regulations in the PRC, the Company is exempted from corporate income tax for two years commencing from its first year with assessable profits after deducting tax losses brought forward and is entitled to a 50% tax exemption for the next three years. However, if the Company's revenue generated from its manufacturing operations falls below 50% of the Company's total revenue for either one of the years during the tax holidays, the Company is not entitled to any tax benefits for that year.

The nine months ended 30 September, 2004 fall into the Company's fourth year of operations with assessable profits and accordingly the Company made provision for PRC corporate income tax at 7.5% on its estimated assessable profits. Except for KunPeng, Qian Deng, and Huizhou Dongjiang, which made provision of PRC corporate income tax at 33% on its assessable profits, no provision was made for other subsidiaries as they did not earn any estimated assessable profits or they were exempted from corporate income tax during the period.

4. Dividends

	Nine months ended		Three months ended	
	30 September,		30 September,	
	2004	2003	2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Interim dividend	<u>6,274</u>	<u>5,019</u>	<u>-</u>	<u>-</u>

At an extraordinary general meeting held on 28 September, 2004, the Company declared an interim dividend of RMB0.01 per share (inclusive of applicable tax) in cash for the first six months ended 30 June, 2004 amounting to approximately RMB6,274,000 which shall be distributed on or before 15 November, 2004 to the shareholders whose names appeared in the register of members of the Company on 28 September, 2004.

5. Earnings per share

The calculation of basic earnings per share ("EPS") is based on the unaudited net profit attributable to shareholders for the nine months ended 30 September, 2004 of RMB32,289,000 (2003: RMB17,145,000) and the weighted average number of 627,381,872 (2003: 567,811,000) ordinary shares in issue during the nine months.

No diluted earnings per share was presented as no diluting events existed for each of the nine months ended 30 September, 2003 and 2004.

6. Reserves

Other than the net profit for the nine months ended 30 September, 2004 and 2004 interim dividend declared, there were no movements to or from reserves of the Group and the Company during the nine months (2003: none).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group achieved a significant growth both in turnover and net profit consistently during the third quarter in 2004. The growth was mainly attributable to the continuous expansion of the scale of core business as well as the increasing needs in the recycled products the Group provided.

During the period under review, facing a favourable market in mainland China, the Group proactively expanded the collection capacity of wastes and enlarged the production scale of recycled products.

As a result of the commencement of Huizhou Dongjiang and Qian Deng and the improvement of production scale in Shajing Treatment Centre of the Company, our copper salt products achieved an obvious growth in production. Accompanied with appropriate sales strategies, the turnover of the copper salt products increased by approximately 81.4% as compared to that of the same period in last year. As regard other new product series, such as tin salt, iron salt series, organic solvent and fatty acid, a gratifying growth was achieved. At the same time, the synergy effect arisen from the increase in EP construction projects and in trading of chemical products catalyzed the growth in the Group's core business.

The subsidiaries of the Group were running smoothly. Huizhou Dongjiang has commenced its operation mainly in developing upgraded copper salt products. The plant for tri-basic copper chloride ("TBCC") of Dongjiang Heritage had been established and the trial run was in process. In order to consolidate the strategy in developing Changjiang River Delta, the Group disposed of the Shanghai Xin Yu Environmental Protection Technology Co., Ltd. during the review period and focused on the development of Kunshan region.

For sustaining a leading position in the EP industry, the Group strives to strengthen its research and development both on new technologies and new products. During the third quarter of this year, the technical testing for converting ferric chloride wastes to nationally-recognized first class iron red products was completed, and some research and development projects are undergoing industrial testings. These improvements will have a significant effect on the Group's overall competitiveness and sustainable growth.

Financial Review

During the period under review, the Group achieved a 173.4% growth in turnover to RMB157,727,000 (2003: RMB57,697,000) and a 88.3% growth in net profit to RMB32,289,000 (2003: RMB17,145,000) as compared to that of the same period in last year.

The significant growth was mainly contributed by the sale of recycled products and waste treatment, which recorded a 149.9% rise in turnover to RMB137,014,000 (2003: RMB54,838,000). In particular, the copper salt series demonstrated a growth of 81.4% in turnover, while the new products, such as tin salt series, iron salt series, organic solvent series and fatty acid series increased prominently by 364.7%.

As the Group further extended its environmental protection ("EP") projects, this segment recorded an outstanding increase in turnover to RMB10,567,000 (2003: RMB1,675,000). The Trading Branch of the Company demonstrated a turnover of RMB9,981,000 since commencement of operation in March, 2004.

During the period under review, the Group's profit margin was 43.7% (2003: 46.2%). The profit margin of core business of the Group – sale of recycled products and waste treatment remained more or less the same as compared to the same period in last year. Trading of chemical products and EP projects, which contribute to the turnover more significantly, have relatively lower profit margin. This therefore leads to the slight drop in overall profit margin.

For the nine months ended 30 September, 2004, the Group's selling and distribution costs amounted to approximately RMB6,149,000 (2003: RMB628,000) which represents 3.9% (2003: 1.1%) of the Group's turnover. The increase is mainly attributed to the business development in Huizhou Dongjiang, Qian Deng, KunPeng, Lishan and Longgang Dongjiang. Qian Deng incurred selling and distribution costs since it commenced operation in early July 2004. As at 30 September, 2004, total selling and distribution costs incurred by the aforesaid subsidiaries amounted to approximately RMB4,323,000.

For the nine months ended 30 September, 2004, the administrative expenses incurred by the Group amounted to approximately RMB20,886,000 (2003: RMB6,808,000). The ratio between administrative expenses and turnover ("Administrative Expense Ratio") increased slightly to 13.2% (2003: 11.8%). The reason is two-fold: on one hand, the five subsidiaries of the Company, KunPeng, Huizhou Dongjiang, Qian Deng, Dongjiang Recycle Resources and Dongjiang Heritage incurred their administrative expenses after the commencement of operation during the period under review; on the other hand, the Company incurred

additional administrative expenses for business development, corporate governance and human resource management. As at 30 September, 2004, the aforesaid subsidiaries incurred their administrative expenses in aggregate RMB5,002,000. The Group strengthened the control on administrative expenses in the period under review. As a result, the Administrative Expenses Ratio of the third quarter decreased by 3.1% to 11.4% as compared to that of the first six months this year.

For the nine months ended 30 September, 2004, the other operating expenses incurred by the Group amounted to approximately RMB3,992,000 inclusive approximately RMB3,471,000 for R&D (2003: RMB612,000).

FUTURE PROSPECTS

Looking forward, the Group will continue to focus on its core business. In light of the comparative advantages in technology and business scale, the Group will further enlarge its variety and coverage in waste collection during the process of providing value-added EP services to customers. In addition, the Group is planning to equip itself with the final waste disposal facilities, such as the incineration and landfill to strengthen the waste detoxification treatment capability. As a result, the Group will be able to handle a wider variety of wastes.

Regarding the recycled products, the Group will focus on the diversification of products and optimize the structure of the product line. The Group will upgrade its existing copper salt and tin salt products to enrich the variety of the products and maintain its competitive advantages in the market. In the meantime, the Group will continue to develop other new potential products such as nickel salt, iron salt products to generate future profits.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September, 2004, the interests or short positions of the Directors and chief executive of the Company, 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 under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as required under Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

Long position in domestic shares of the Company

Name	Personal interests	Family interests	Corporate interests	Other interests	Percentage of shareholding	
					Total	in this class
Mr. Zhang Wei Yang	261,884,150	35,389,750 <i>(Note 1)</i>	–	–	297,273,900	66.1%
Mr. Li Yong Peng	–	–	35,389,750 <i>(Note 2)</i>	–	35,389,750	7.9%

Notes:

- (1) These shares (representing approximately 7.9% of domestic shares issued) are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Ms. Zhou Wen Ying, the spouse of Mr. Zhang Wei Yang.
- (2) These shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd., 90% of which is owned by Mr. Li Yong Peng.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30 September, 2004, any interests or short positions 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) which would have to be 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 which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, as at 30 September, 2004, the following persons (other than the Directors and chief executive of the Company) had their interests or short positions in shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholder	Capacity	Number and class of shares	Percentage of shareholding in its class
Shanghai New Margin Venture Capital Co., Ltd (<i>Note 1</i>)	Beneficial	61,566,558 domestic shares	13.7%
I.G. Investment Management (Hong Kong) Limited (<i>Note 2</i>)	Investment manager	17,000,000 H shares	9.6%
China Environmental Fund 2002, LP (<i>Note 3</i>)	Beneficial	11,500,000 H shares	6.5%
Leading Environmental Solutions and Services (<i>Note 3</i>)	Interest of a controlled corporation	11,500,000 H shares	6.5%

Name of shareholder	Capacity	Number and class of shares	Percentage of shareholding in its class
Martin Currie Investment Management Limited (<i>Note 2</i>)	Investment manager	10,590,000 H shares	6.0%
Martin Currie China Hedge Fund Limited (<i>Note 2</i>)	Beneficial	8,910,000 H shares	5.0%
UBS AG (<i>Note 2</i>)	Person having a security interest in shares	8,910,000 H shares	5.0%

Notes:

1. Shanghai News 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, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.
2. To the best knowledge of the Directors, this party is independent of and not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.
3. Leading Environmental Solutions and Services owns approximately 76.9% 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, 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, 2004, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SPONSOR'S INTERESTS

Pursuant to the agreement dated 23 January, 2003 entered into between the Company and First Shanghai Capital Limited, First Shanghai Capital Limited has been appointed as a sponsor of the Company for a period up to 31 December, 2005 and the Company shall pay an agreed amount of fee to First Shanghai Capital Limited for its provision of services.

As at 30 September, 2004, China Alpha Fund, a mutual fund managed by First Shanghai Fund Management Ltd. which is an associate of First Shanghai Capital Limited, held 1,650,000 H shares of the Company.

Save as disclosed above, neither First Shanghai Capital Limited, its directors, employees or associates, have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 30 September, 2004.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of the Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company, namely Messrs. Meng Chun, Liu Hong Liang and Wang Ji Wu. The audit committee has reviewed the draft of this third quarterly report 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 of Rules 5.28 to 5.39 of the GEM Listing Rules throughout the nine months 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

11 November, 2004
Shenzhen, Guangdong Province, the PRC

As at the date of this report, the Board comprises:

Executive Directors

Mr. Zhang Wei Yang (*Chairman*)
Mr. He Qi Hu
Mr. Li Yong Peng

Non-executive Directors

Mr. Feng Tao
Mr. Wu Shui Qing
Ms. Sun Ji Ping

Independent non-executive Directors

Mr. Meng Chun
Mr. Liu Hong Liang
Mr. Wang Ji Wu