东江环保
DONG JIANG

Shenzhen Dongjiang Environmental Company Limited*

深圳市東江環保股份有限公司

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

Interim Report **2005**

* For identification purpose 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 Growth Enterprise Market 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: (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 six months ended 30 June, 2005, the Group realized a sustainable growth in its core business-sale of recycled products and waste treatment.
- Turnover was increased by approximately 42.5% to RMB132,991,000 for the six months ended 30 June, 2005 as compared to that of the same period in 2004 (2004: RMB93,345,000).
- Net profit was increased by approximately 35.9% to RMB26,455,000 for the six months ended 30 June, 2005 as compared to that of the same period in 2004 (2004: RMB19,472,000).
- Earnings per share was RMB0.0422 (2004: RMB0.0310) for the six months ended 30 June, 2005.
- The Board does not recommend the payment of any dividend for the six months ended 30 June, 2005 (2004: RMB 0.01 per share).

INTERIM RESULTS

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 six months ended 30 June, 2005, together with the comparative figures of the corresponding period of 2004, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Six months ended 30 June,		**Three months ended 30 June,**	
		2005	2004	**2005**	2004
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
TURNOVER	*2*	**132,991**	93,345	**67,713**	59,141
Cost of sales		**(75,505)**	(53,045)	**(36,622)**	(33,187)
Gross Profit		**57,486**	40,300	**31,091**	25,954
Other revenue and gains		**8,758**	894	**4,885**	449
Selling and distribution costs		**(9,220)**	(3,438)	**(4,598)**	(1,879)
Administrative expenses		**(18,626)**	(13,522)	**(11,136)**	(7,955)
Other operating expenses		**(4,121)**	(1,267)	**(2,026)**	(862)
PROFIT FROM OPERATING ACTIVITIES	*4*	**34,277**	22,967	**18,216**	15,707
Finance costs		**(426)**	(381)	**(224)**	(244)
Share of profits/(losses) of associates		**(17)**	(250)	**(11)**	(56)
PROFIT BEFORE TAX		**33,834**	22,336	**17,981**	15,407
Tax	*5*	**(6,331)**	(1,996)	**(2,730)**	(1,489)
PROFIT BEFORE MINORITY INTERESTS		**27,503**	20,340	**15,251**	13,918
Minority interests		**(1,048)**	(868)	**(808)**	49
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**26,455**	19,472	**14,443**	13,967
PROPOSED DIVIDEND	*6*	**–**	6,274	**–**	6,274
EARNINGS PER SHARE – BASIC	*7*	**0.0422**	0.0310	**0.0231**	0.0222

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June, 2005 (Unaudited) RMB'000	At 31 December, 2004 (Audited) RMB'000
NON-CURRENT ASSETS			
Fixed assets	8	**104,936**	99,322
Goodwill	9	**433**	537
Intangible assets		**213**	231
Interests in associates		**1,809**	1,826
Deferred tax assets		**824**	824
		108,215	102,740
CURRENT ASSETS			
Inventories		**17,903**	15,927
Trade receivables	10	**22,557**	20,538
Prepayments, deposits and other receivables		**22,705**	16,327
Due from a related party		**–**	221
Amounts due from customers for contract work		**520**	453
Notes receivable		**8,100**	3,890
Cash and cash equivalents		**101,723**	87,568
		173,508	144,924
CURRENT LIABILITIES			
Short-term loans		**13,000**	10,200
Trade payables	11	**10,842**	10,555
Tax payables		**3,452**	2,563
Other payables and accruals		**22,328**	29,944
Due to a shareholder		**4,400**	4,400
		54,022	57,662
NET CURRENT ASSETS		**119,486**	87,262
TOTAL ASSETS LESS CURRENT LIABILITIES		**227,701**	190,002
NON-CURRENT LIABILITIES			
Deferred revenue		**2,530**	2,230
MINORITY INTERESTS		**52,333**	35,115
		172,838	152,657
CAPITAL AND RESERVES			
Issued capital	12	**62,738**	62,738
Reserves		**110,100**	83,645
Proposed dividend	6	**–**	6,274
		172,838	152,657

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY (UNAUDITED)

	Paid-in capital	Share premium account	Investment property revaluation reserve	Statutory funds	Retained earnings	Proposed dividend	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January, 2004	62,738	30,309	–	7,016	20,278	–	120,341
Profit for the period	–	–	–	–	19,472	–	19,472
Proposed dividend	–	–	–	–	(6,274)	6,274	–
At 30 June, 2004	62,738	30,309	–	7,016	33,476	6,274	139,813
At 1 January, 2005	62,738	30,309	317	14,063	38,956	6,274	152,657
Profit for the period	–	–	–	–	26,455	–	26,455
Proposed dividend	–	–	–	–	–	(6,274)	(6,274)
At 30 June, 2005	**62,738**	**30,309**	**317**	**14,063**	**65,411**	**–**	**172,838**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June,	
	2005	2004
	RMB'000	*RMB'000*
Net cash inflow from operating activities	**10,488**	9,027
Net cash inflow/(outflow) from investing activities	**7,567**	(9,866)
Net cash inflow/(outflow) before financing	**18,055**	(839)
Net cash inflow/(outflow) from financing	**(3,900)**	15,622
Increase in cash and cash equivalents	**14,155**	14,783
Cash and cash equivalents at beginning of the period	**87,568**	73,392
Cash and cash equivalents at end of the period	**101,723**	88,175
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**101,723**	88,175

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS:

1. Basis of preparation and principal accounting polices

The unaudited condensed consolidated interim financial statements ("interim financial statements") of the Group have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice No. 34 (Interim Financial Reporting) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the GEM Listing Rules. The interim financial statements have been prepared on the basis of historical cost convention, except for the periodic remeasurement of investment properties.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRS") which are effective for Accounting periods beginning on or after 1 January 2005. The adoption of these HKFRS has no material impact on the operating results and financial position of the Group.

2. Turnover

Turnover represents the net invoiced value of recycled products sold, waste treatment services and trading of chemical products, after allowances for goods returned and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of consultation services rendered.

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

	Six months ended 30 June,		**Three months ended 30 June,**	
	2005	2004	**2005**	2004
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Sale of recycled products and waste treatment	**114,169**	82,052	**57,372**	52,582
Trading of chemical products	**7,884**	5,047	**4,111**	3,669
Revenue from construction and operation of environmental protection systems	**10,832**	6,098	**6,135**	2,769
Others	**106**	148	**95**	121
	132,991	93,345	**67,713**	59,141

3. 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 segment during the period are as follows:

	Production and sale of recycled products, and waste treatment Six months ended 30 June,		Construction and operation of environmental protection systems Six months ended 30 June,		Trading of chemical products Six months ended 30 June,		Others Six months ended 30 June,		Total Six months ended 30 June,	
	2005 (unaudited)	2004 (unaudited)	**2005 (unaudited)**	2004 (unaudited)	**2005 (unaudited)**	2004 (unaudited)	**2005 (unaudited)**	2004 (unaudited)	**2005 (unaudited)**	2,004 (unaudited)
Amounts in RMB'000										
Segment revenue:										
Sales to external customers	**114,169**	82,052	**10,832**	6,098	**7,884**	5,047	**106**	148	**132,991**	93,345
Segment results	**36,159**	22,631	**3,089**	184	**359**	185	**18**	(33)	**39,625**	22,967
Corporate and other unallocated expenses									**(5,348)** *(Note)*	–
Profit from operating activities									**34,277**	22,967
Finance costs									**(426)**	(381)
Share of profit and losses of associates	**(17)**	(250)							**(17)**	(250)
Profit before tax									**33,834**	22,336
Tax									**(6,331)**	(1,996)
Profit before minority interests									**27,503**	20,340
Minority interests									**(1,048)**	(868)
Net profit from ordinary activities attributable to shareholders									**26,455**	19,472

Note: Corporate and other unallocated expenses include general and administrative expenses, research and development costs and advertising and promotion fees etc. of the Company.

4. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30 June,	
	2005	2004
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Cost of goods sold	**62,795**	49,446
Depreciation	**3,694**	2,617
Amortisation of goodwill	**104**	99

5. Tax

The Company and its subsidiaries located in the Shenzhen Special Economic Zone are subject to the People's Republic of China ("PRC") corporate income tax at a rate of 15% (2004: 15%) of the estimated assessable income for the six months ended 30 June, 2005 determined in accordance with the relevant income tax rules and regulations of the PRC. Subsidiaries located in other cities are subject to the PRC corporate income tax at a rate of 33% (2004: 33%).

In accordance with the relevant income tax rules and regulations in the PRC, the Company and Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan"), a subsidiary of the Company, are exempted from corporate income tax for two years commencing from their first year with assessable profits after deducting tax losses brought forward, and are entitled to a 50% tax exemption for the next three years. However, if the companies' revenue generated from their manufacturing operations falls below 50% of the companies' total revenue for either one of the years during the tax holidays, the Companies are not entitled to any tax benefits for that year.

The six months ended 30 June, 2005 fell into the Company's fifth 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 for six months ended 30 June, 2005. Lishan was exempt from corporate income tax, as the six months ended 30 June, 2005 fell into its second year with assessable profits.

6. Dividends

The Board does not recommend the payment of any dividend for the six months ended 30 June, 2005 (2004: RMB0.01 per share).

7. Earnings per share

The calculation of the basic earnings per share ("EPS") is based on the unaudited net profit attributable to shareholders for the six months ended 30 June, 2005 of RMB26,455,000 (2004: RMB19,472,000) and the weighted average number of 627,381,872 (2004: 627,381,872) ordinary shares in issue during the half year.

No diluted earnings per share was presented as no diluting events existed for each of the six months ended 30 June, 2004 and 2005.

8. Fixed assets

	Group								
Amounts in RMB'000	Investment properties	Land and building	Plant and machinery	Leasehold improvements	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
Cost:									
At 1 January, 2005	2,914	51,130	36,958	1,869	2,407	11,278	5,792	1,505	113,853
Additions	–	970	1,747	200	499	1,490	827	3,772	9,505
Transfer	–	162	–	–	–	–	–	(162)	–
Disposals	–	(145)	(5)	–	(5)	–	–	–	(155)
Reclassification	(45)	–	–	–	–	–	–	–	(45)
At 30 June, 2005	2,869	52,117	38,700	2,069	2,901	12,768	6,619	5,115	123,158
Accumulated depreciation:									
At 1 January, 2005	–	1,673	4,397	1,631	1,243	2,961	2,626	–	14,531
Provided during the year	–	583	1,554	39	366	805	347	–	3,694
Written back on disposal	–	–	–	–	(3)	–	–	–	(3)
At 30 June, 2005	–	2,256	5,951	1,670	1,606	3,766	2,973	–	18,222
Net book value:									
At 30 June, 2005	2,869	49,861	32,749	399	1,295	9,002	3,646	5,115	104,936
At 1 January, 2005	2,914	49,457	32,561	238	1,164	8,317	3,166	1,505	99,322

9. Goodwill

	Group (unaudited) *RMB'000*
Cost:	
At beginning and end of period	1,040
Added during the period	–
Accumulated amortisation:	
At beginning of period	503
Amortisation provided during the period	104
At 30 June, 2005	**607**
Net book value:	
At 30 June, 2005	**433**
At 31 December, 2004	537

10. Trade receivables

The general credit terms of the Group range from 30 days to 90 days.

An aged analysis of trade receivables, based on invoice date, is as follows:

	30 June, 2005 (Unaudited) *RMB'000*	31 December, 2004 (Audited) *RMB'000*
Current to 90 days	**18,121**	15,265
91 to 180 days	**1,971**	1,409
181 to 365 days	**724**	3,258
Over 365 days	**3,100**	720
	23,916	20,652
Bad debts provision	**(1,359)**	(114)
	22,557	20,538

11. Trade payables

An aged analysis of trade payables is as follows:

	30 June, 2005 (Unaudited) *RMB'000*	31 December, 2004 (Audited) *RMB'000*
Current to 90 days	**7,785**	8,685
91 to 180 days	**772**	521
181 to 365 days	**1,033**	1,150
Over 365 days	**1,252**	199
	10,842	10,555

12. Issued capital

	30 June, 2005 (Unaudited) *RMB'000*	31 December, 2004 (Audited) *RMB'000*
Authorized, issued and fully paid:		
449,481,872 domestic shares of RMB0.10 each	**44,948**	44,948
177,900,000 H shares of RMB0.10 each	**17,790**	17,790
	62,738	62,738

13. Capital commitment

	30 June, 2005 (Unaudited) *RMB'000*	31 December, 2004 (Audited) *RMB'000*
Contracted, but not provided for:		
Fixed Assets	**78,726** *(Note 1)*	1,200
The establishment of the new limited companies	**7,140** *(Note 2)*	22,440
	85,866	23,640

Notes:

1 The amount includes RMB78,376,000 contracted by Huizhou Dongjiang Onyx Solid Wastes Treatment Company Limited ("Dongjiang-Onyx"), a 51%-owned subsidiary of the Company, for constructing facilities, and RMB350,000 contracted by Hui Zhou Dongjiang Environmental Company Limited ("Hui Zhou Dongjiang"), a 59.8% owned subsidiary of the Company for purchasing fixed assets.

2 Pursuant to the joint venture agreement entered by the Company and Onyx (Hong Kong) Company Limited ("ONYX"), the Company will contribute RMB22,440,000 in cash for a 51% equity interest of Dongjiang-Onyx, and as at 30 June, 2005, the Company has contributed RMB15,300,000.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

During the period under review, the Group further strengthened the integration of existing resources and endeavored to build an integrated waste collection system in the Pearl River Delta Region. As a result, the operation performance has been greatly improved.

Waste Collection, Treatment and Recycling business

A new system of licensing for hazardous waste operation has been implemented in Guangdong Province, and the Company has obtained the license to collect wastes in the whole Guangdong Province. Facing the rapid growing market, the Group has been planning to map out an integrated waste collection system since last year to accommodate to large scale and cross-regional operation. With the new wastes collection system being overall implemented, the Group has successfully expanded its operational territory to Dongguan, Zhuhai, Guangzhou, Huidong, Shaoguan and Foshan, etc., and has entered into contracts with over 40 new clients, including Emerson Electricity, Huawei Technologies and CNOOC-SHELL Petrochemical, etc. As a result, the volume and variety of the wastes collected by the Group, especially non-resource wastes like industrial impurity water, sludge and solid wastes, etc. increased substantially to yield well economic benefits.

With the scaling up the waste-collection operation, the recycling business of the Group increased greatly and more opportunities were available for the Group to develop new recycled products. Except for continuously developing high quality copper salt series, many other recycled products, such as tin salt, organic solvent, fatty acid series and iron salt series, have been improved steadily. In addition, through long-term research and feasibility demonstration, the commercialization of the project for "nickel-containing sludge treatment and recycling" ("Nickel Recycling Project") has been carried out successfully, and the construction of the facilities was completed in June 2005.

Waste Water Operation Business

Waste water operation business is a new area that the Group has been devoted to developing, and its business model is to operate and manage waste water treatment facilities based on the client's consignment, and win operation fee. With steady development, the business gained a satisfactory result in the first half year of 2005, and the total clients are up to seven, and the income increased to RMB5,310,000. In addition, the operation cost has been effectively decreased resulting in improvement of profitability through technology innovations.

Research and Development

In order to consolidate the leading position in technology, the Group continuously increased the investments for research and development ("R&D") during the period under review. The R&D center successively conducted sixteen projects, and completed three exploring tests. Among which, two projects namely the "treatment and utilization technology for copper filtering sludge of circuit board factories" (線路板廠銅濾泥處理及利用工藝) and "treatment and utilization technology for grease-contained clay waste" (含油脂廢白土處理及利用工藝) were filed for national patent. In addition, according to the strategy of the Group to promote the hazardous waste treatment business, the R&D center paid particular attention to the research of high economic value and hard-to-handle hazardous waste, such as cobalt and molybdenum contained wastes.

Obtaining the Concession Rights for Guangdong Hazardous Waste Comprehensive Treatment Demonstration Center Project (phase I)

In accordance with the National Plan for Construction of Hazardous Waste and Medical Waste Disposal Facilities (the "Plan") approved by the State Council of China last year, governments at all levels will make more investments and attract social investments to prevent the hazardous wastes pollution. In the future three years, approximately RMB15 billion will be invested, and 31 multi-functional comprehensive disposal centers of hazardous waste will be planned and established nationwide.

Guangdong Hazardous Waste Comprehensive Treatment Demonstration Center Project (the "Demonstration Center Project") is listed in the Plan, and also one of the ten key projects in Guangdong Province. As the enterprise for implementation of the phase I of the Demonstration Center Project ("DCP Phase I"), the Company has obtained a thirty-year concession rights granted by Guangdong Environmental Protection Bureau for the collection and treatment of hazardous waste in five cities in the Guangdong Province, namely Huizhou, Dongguan, Foshan, Heyuan and Shanwei as well as the medical waste in Huizhou. Dongjiang-Onyx, a project company jointly incorporated by the Company and ONYX will be responsible for the implementation of DCP Phase I.

DCP Phase I is located in Huizhou with an annual designed treatment capacity of 50,000 tonnes through incineration and secured landfilling. Currently, DCP Phase I is undergoing design and construction smoothly, and it is expected that the treatment facilities can be completed by the end of next year.

Financial Review

Turnover

For the six months ended 30 June, 2005, the Group achieved a 42.5% growth in turnover to RMB132,991,000 (2004: RMB93,345,000) as compared to that of the same period in last year. The growth was mainly contributed by the sale of recycled products and the provision of waste treatment services, which recorded a 39.1% rise in turnover to RMB114,169,000. In particular, copper salt series demonstrated a growth of approximately 60.0% to RMB70,455,000 in turnover as compared to that of the same period in last year. Furthermore, the waste treatment services received remarkable growth with turnover increased by 110.0% to RMB4,875,000 as compared with the same period in last year. At the same time, recycled products such as tin salt, organic solvent, fatty acid series and iron salt series of the Group developed steadily, which recorded arise of 9.3% to RMB39,024,000 as compared with last year.

For the supporting business, revenue generated from construction and operation of EP Systems increased by 77.6% to RMB10,832,000 while trading of chemical products amounted to RMB7,884,000 with arise of 56.2% as compared with last year.

Net Profit

During the period under review, the Group's net profit increased by 35.9% to RMB26,455,000 (2004: RMB19,472,000). Compared with the same period of last year, the gross profit margin remained the same lever as 43.2% (2004: 43.2%). The net profit margin was 19.9% (2004: 20.9%).

During the period under review, the Group's selling and distribution costs was approximately RMB9,220,000 (2004: RMB3,438,000). Due to the separate operation of waste collecting and wastes treatment, the further expansion of the chemical trade business, the ratio of selling and distribution costs to turnover increased to 6.9% (2004: 3.7%).

The increase in administrative expenses, which amounted to approximately RMB18,626,000 (2004: RMB13,522,000) for the first half year of 2005, accounts for 14.0% of the total turnover (2004: 14.5%), was mainly due to the increased number of subsidiaries and the expansion in business scale.

During the period under review, the Group increased its investment in R&D to approximately RMB1,156,000 (2004: RMB577,000).

Financial Resources, Liquidity and Treasury Policies

As at 30 June, 2005, the Group has current assets of RMB173,508,000 (31 December, 2004: RMB144,924,000) and current liabilities of RMB54,022,000 (31 December, 2004: RMB57,662,000). Included in the current assets, cash and cash equivalents amounted to RMB101,723,000 (31 December, 2004: RMB87,568,000).

The Group had financed its operations with two short-term bank loans of RMB10,000,000 and RMB3,000,000 which were granted at interest rates at 5.30% and 5.58% per annum respectively (31 December, 2004: RMB10,200,000). The Group's gearing ratio, which is defined as the quotient of interest-bearing bank borrowings and shareholders' equity was 0.075 (31 December, 2004: 0.067). The Group's current ratio was approximately 3.21 times (31 December, 2004: 2.51 times). The Group was granted a guarantee amounting to RMB30,000,000 from China Merchants Bank Co., Ltd (Shenzhen Jingtian Branch), and RMB10,000,000 from Bank of Communications Co., Ltd (Shenzhen Jiabing Branch). In view of the stable financial and liquidity position, the Group will have sufficient resources to meet the needs of its operations and research and development requirements in the future.

Material Acquisition and Disposals

In March 2005, the Group invested RMB1,530,000 to establish a 51%-owned subsidiary namely Shenzhen AIC Technology Limited (深圳市東迪塗屬技術有限公司) in the PRC. This Company is principally engaged in promotion and application of new environmental paint coating technology.

In May 2005, the Group established a 51%-owned subsidiary, Dongjiang-Onyx with registered capital of RMB44,000,000. Dongjiang-Onyx is responsible for the implementation of the Demonstration Centre Project (phase I).

Pledge of Assets

As at 30 June, 2005, the Group had no pledged assets.

Interest Rate and Exchange Rate Risk

During the period under review, the Group was granted two short-term bank loans at fixed interest rates of 5.30% and 5.58% respectively, 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 RMB.

Information on Employees

At 30 June, 2005, the number of full-time employees stood at 843 (2004: 401) with a total staff cost for the six months ended 30 June, 2005 of approximately RMB8,934,000 (2004: RMB5,020,000). The Group offered continuing training, remuneration package and a range of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June, 2005 and as at 31 December, 2004.

Shajing Treatment Centre

The independent non-executive directors of the Company convened a board meeting on 10 August, 2005 to review the progress and status in relation to the obtaining of land use rights of the Shajing Treatment Center. It was concluded in the board meeting, which was chaired by an independent non-executive director, that:

(i) the land use rights and building ownership rights could be obtained on or before 31 December, 2005 at a further cost not exceeding RMB700,000; and

(ii) Shenzhen Baoan District Shajing Town Gong He Economic Development Corporation ("ED Corporation") had not breached any part of the agreements between them, and therefore no compensation should be sought from ED Corporation.

As at 30 June, 2005, the Company had paid ED Corporation a construction fee of approximately RMB5.9 million (31 December, 2004: RMB5.9 million), a portion of land resumption fee of approximately RMB10.3 million (31 December, 2004: RMB10.3 million) and other costs of approximately RMB13.7 million (31 December, 2004: RMB13.7 million).

FUTURE PROSPECTS

In the future, the Group will further enhance its capability of waste collection and treatment through expansion of the wastes collection and transport team as well as treatment facilities. For the development of waste collection market, the Group will continue to focus on the Pearl River Delta and Yangtze River Delta to strive for wider geographic coverage and solid clients' foundation. With constant expansion of waste collection business within Guangdong, the Group is considering the construction of new waste treatment bases in the areas where waste is densely gathered besides Shenzhen and Huizhou. In the Yangtze River Delta, the management are planning to enlarge the local treatment bases to win more market shares.

In addition, the Group will put efforts to accelerate the trial run progress of the Nickel Recycling Project facility and to launch new products of nickel salt series in market as early as possible. At the same time, based on the market status, the Group will advance the industrialized process of projects of iron oxide red, fumaric acid and fresh etch in order to tap new sources of profit growth.

In the second half of 2005, another important task is to ensure the successful implementation of the Demonstration Center Project. While building up the project facilities, the Group will also commence to establish a set of efficient systems for management of hazardous waste, and actively carry out customer relationship and waste collection in the operation territory.

Based on the successful experience in the Demonstration Center Project, the Group will positively participate in projects of disposing of hazardous waste and medical waste in other cities and provinces. Furthermore, the Group will continuously pay attention to and investigate into the areas with respect to the treatment and utilization of electronic waste, food waste, and industrial and civil sewage.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 23 January, 2003	Actual business progress up to 30 June, 2005
Increase waste treatment capacity and expand geographical coverage	
i) Pearl River Delta	
• Construction of a new treatment center in Shajing Town of the Baoan District in Shenzhen.	• Treatment volume of certain wastes reached planned level.
• Expansion with a base in Huizhou, Huizhou Dongjiang.	• In progress.
ii) Western China region	
• Expansion with a base in Chengdu, Chengdu Treatment Centre.	• Facility is in the progress of trial run.
iii) Changjiang River Delta	
• Expansion with a base in Shanghai Xin Yu.	• Disposed in 2004 as a result of changing economic and market conditions.

Business objectives as stated in the prospectus dated 23 January, 2003	Actual business progress up to 30 June, 2005
Development of new recycled products and EP-related services	
Expand the variety of wastes that can be treated and recycled and further promote other EP-related services.	
i) *Waste treatment and recycled variety*	
• Treatment volume of organic solvent and waste oil treatment facility reaches planned level.	• Treatment volume reached approximately 1,650 tons for the first half of 2005.
• tin-contained wastes treatment facility.	• Treatment volume reached planned volume in 2004.
• Commence operation of zinc-contained wastes treatment facility.	• Temporarily postponed as the collection and treatment markets were developing and not mature enough for industrialization.
• Commence operation of arsenic-contained wastes treatment facility.	• Suspended since the market was not favorable.
• Complete construction of treatment facility for cupric sewage sludge.	• A half-industrialization facility was launched and trial run was commenced.
• Treatment volume of waste mineral oil treatment facility reaches planned level.	• Not reach planned level since the trial run period lasted longer than expected.
• Trial run of chromium-contained wastes treatment facility.	• Suspended since the market was not favorable.
ii) *EP construction and consultation services*	• Both the numbers and the size of the turnkey solution projects increased.

Business objectives as stated in the prospectus dated 23 January, 2003	Actual business progress up to 30 June, 2005
Continue its commitment to R&D	
• Commence R&D on waste treatment and recycle technology on: nickel-contained wastes, lead-contained wastes, waste acid, waste alkaline and waste inorganic cyanide.	• Completed in 2004.
• Develop the waste treatment and recycle technology on: waste emulsion, dyes, paints and heavy metal swage sludge.	• Completed.
Further enhance its management system	
• To establish an information management system.	• Consulting on implementation of a computerized system.
Strengthen its sales and market team	
• Continue to develop the market around treatment centers.	• In progress.

USE OF PROCEEDS

	Up to 30 June, 2005		
	Actual business progress *(HK$ million)*	**As per Prospectus** *(HK$ million)*	**Difference** *(HK$ million)*
Increase wastes treatment capacity (new treatment center in Shenzhen)	9.9	8.6	1.3
Enlarge geographical coverage (treatment centers in Chengdu, Huizhou and Shanghai)	21.3	25.4	(4.1)
Expand waste treatment capability and wider scope of services	0.9	0.9	–
Continue its commitment in R&D	5.4	2.2	3.2
Further enhance its management system	0.8	0.8	–
Strengthen its sales and marketing team	0.5	0.5	–
Total	38.8	38.4	0.4

Note: As stated in the Prospectus, any additional net proceeds more than HK$37.1 million will be applied to finance the Business Objectives for the 12 months ending 31 December, 2004 on a proportional basis. As the Company raised approximately HK$43.4 million form the listing of H Shares, the Directors intend to apply (i) the net proceeds as to the amount of HK$37.1 million to the Business Objectives on a proportional basis up to 31 December, 2005; and (ii) the net proceeds as to the amount of HK$6.3 million to the Business Objectives for the 12 months ending 31 December, 2004 on a proportional basis. The amount of net proceeds to be utilized for the Business Objectives as per the Prospectus as shown herein has been adjusted to take into account for the aforesaid factors.

For the six months ended 30 June 2005, no proceeds from the listing of H Shares of the Company was used.

The Director consider that the actual application of proceeds from the listing of H Shares of the Company was in line with the Business Objectives.

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

As at 30 June, 2005, the interests or 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 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 Rule 5.46 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	Total	Percentage of shareholding in this class
Mr. Zhang Wei Yang	261,884,150	35,389,750 *(Note 1)*	–	–	297,273,900	66.14%
Mr. Li Yong Peng	–	–	35,389,750 *(Note 2)*	–	35,389,750	7.87%

Notes:

(1) These shares (representing approximately 7.87% 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 June, 2005, 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 taken 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 Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, as at 30 June, 2005, 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	shareholding in its class
Shanghai New Margin Venture Capital Co., Ltd *(Note 1)*	Beneficial	61,566,558 domestic shares	13.70%
I. G. Investment Management (Hong Kong) Limited *(Note 2)*	Investment manager	16,000,000 H shares	8.99%
China Environmental Fund 2002, LP *(Note 3)*	Beneficial	11,500,000 H shares	6.46%
Leading Environmental Solutions and Services *(Note 3)*	Interest of a controlled corporation	11,500,000 H shares	6.46%

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 76.92% 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 June, 2005, 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.

DIRECTORS' RIGHTS TO ACQUIRE H SHARES

As at 30 June, 2005, 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, 2005, none of the Directors, supervisors and chief executives 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 INTEREST

The Directors are not aware of, as at 30 June, 2005, any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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.

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 June, 2005.

AUDIT COMMITTEE

The Company has an audit committee which has formulated its written terms of reference to compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, 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, Wang Ji Wu and Yang Zhi Feng. The audit committee has reviewed the draft of this interim report and has provided advice and comments thereon.

PRACTICES AND PROCEDURES OF THE BOARD

Throughout the six months period, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which were in force prior to 1 January, 2005. Except that from 1 July, 2005, actions were taken to comply with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules ("CG Code"), which has become effective for accounting periods commencing on or after 1 January, 2005 to replace the Board Practices and Procedures as set in Rules 5.34 to 5.45 of the GEM Listing Rules.

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 the Stock Exchange's required standard of dealings. The Company had made specific enquiry of all 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.

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, the Company has not purchased, sold or redeemed any of its listed securities.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the code provisions set out in the code on the CG Code throughout the period, except that (i) the roles of the chairman and chief executive of the Company are performed by the same person namely, Mr. Zhang Wei Yang; (ii) the Company has not disclose the terms or reference of audit committee and remuneration committee by including such information on the Company's website. The Company will take appropriate actions to comply with the CG Code, including reviewing the need to appoint a new general manager to replace Mr. Zhang Wei Yang and ensuring the information in relation to the terms of reference of board committees will be published on the Company's website as soon as practicable.

By order of the Board
Shenzhen Dongjiang Environmental Company Limited*
ZHANG WEI YANG
Chairman

10 August, 2005
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. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng.

* *For identification purpose only*