



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)



Third Quarterly 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 nine months ended 30 September, 2005, the Group realized a sustainable growth in its core business – sale of recycled products and waste treatment.
- Turnover increased by approximately 33.9% to RMB211,224,000 for the nine months ended 30 September, 2005, as compared to that of the same period in 2004 (2004: RMB157,727,000).
- Net profit increased by approximately 22.4% to RMB39,507,000 for the nine months ended 30 September, 2005, as compared to that of the same period in 2004 (2004: RMB32,289,000).
- Earnings per share was RMB0.0630 (2004: RMB0.0515) for the nine months ended 30 September, 2005.

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, 2005, together with the comparative figures of the corresponding period of 2004 as follows:

	Notes	Nine months ended 30 September,		Three months ended 30 September,	
		2005 (unaudited) RMB'000	2004 (unaudited) RMB'000	2005 (unaudited) RMB'000	2004 (unaudited) RMB'000
TURNOVER	2	211,224	157,727	78,233	64,382
Cost of sales		(115,348)	(88,830)	(39,843)	(35,785)
Gross Profit		95,876	68,897	38,390	28,597
Other revenue and gains		13,043	895	4,285	1
Selling and distribution costs		(15,842)	(6,149)	(6,622)	(2,711)
Administrative expenses		(35,094)	(20,886)	(16,468)	(7,364)
Other operating expenses		(6,726)	(3,992)	(2,605)	(2,725)
PROFIT FROM OPERATING ACTIVITIES		51,257	38,765	16,980	15,798
Finance costs		(713)	(714)	(287)	(333)
Share of losses of associates		(34)	(666)	(17)	(416)
PROFIT BEFORE TAX		50,510	37,385	16,676	15,049
Tax	3	(9,173)	(3,461)	(2,842)	(1,465)
PROFIT BEFORE MINORITY INTERESTS		41,337	33,924	13,834	13,584
Minority interests		(1,830)	(1,635)	(782)	(767)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>39,507</u>	<u>32,289</u>	<u>13,052</u>	<u>12,817</u>
DIVIDENDS	4	<u>–</u>	<u>6,274</u>	<u>–</u>	<u>–</u>
EARNINGS PER SHARE – BASIC	5	<u>0.0630</u>	<u>0.0515</u>	<u>0.0208</u>	<u>0.0204</u>

Notes:

1. **Basis of preparation and principal accounting policies**

The unaudited consolidated third quarterly results 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 (“HKICPA”) and Chapter 18 of the GEM Listing Rules. The 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.

The accounting policies and methods of computation used in the preparation of the third quarterly financial results are consistent with those adopted in the annual financial statements for the year ended 31 December, 2004.

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:

	Nine months ended 30 September,		Three months ended 30 September,	
	2005 RMB’000 (unaudited)	2004 RMB’000 (unaudited)	2005 RMB’000 (unaudited)	2004 RMB’000 (unaudited)
Sale of recycled products and waste treatment	181,433	137,014	67,264	54,962
Trading of chemical products	13,745	9,981	5,861	4,934
Revenue from construction and operation of environmental protection systems	15,872	10,567	5,040	4,469
Others	174	165	68	17
	211,224	157,727	78,233	64,382

3. 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 nine months ended 30 September, 2005 determined in accordance with the relevant income tax rules and regulations of the PRC. Subsidiaries located in other cities except for Huizhou Dongjiang Environmental Co., Ltd ("Huizhou Dongjiang") are subject to the PRC corporate income tax at a rate of 33% (2004: 33%). Huizhou Dongjiang, a subsidiary of the Company, are exempted from corporate income tax for one year from 1 January, 2005 to 31 December, 2005, as it is an "Integrated Resources Application Enterprise".

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 nine months ended 30 September, 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 nine months ended 30 September, 2005. Lishan was exempt from corporate income tax, as the nine months ended 30 September, 2005 fell into its second year with assessable profits.

4. Dividends

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

5. Earnings per share

The calculation of the basic earnings per share is based on the unaudited net profit attributable to shareholders for the nine months ended 30 September, 2005 of RMB39,507,000 (2004: RMB32,289,000) and the weighted average number of 627,381,872 (2004: 627,381,872) 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, 2004 and 2005.

6. Reserves

Other than the net profit for the nine months ended 30 September, 2005 and 2004 annual dividend declared, there were no movements to or from reserves of the Group and the Company during the nine months (2004: none).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the third quarter in 2005, the Group continued to implement the positive market development strategy and exert the resource integration effect to promote the development of all businesses. As a result, the Group maintained steady growth both in turnover and net profit.

During the period under review, the Group achieved a stable growth in business scale of waste treatment and recycling, and the market was further consolidated. Business for solid waste treatment maintained a strong growth momentum, which achieved approximately 132.1% increase in turnover during the third quarter as compared to the same period in last year, and also had a high growth as compared to the first two quarters of this year. With regard to other recycling businesses, they had a steady growth as compared to the first two quarters of this year, which was mainly contributed by the increase in production scale. Furthermore, the "Nickel Recycling Project", which was newly launched in this year, has achieved a smooth commissioning, and also successfully trial produced nickel salt products. With the continuous improvement in technique process and facilities during the trial run period, it is expected that this project will be put into commercial operation soon.

Through continuous technology improvement and optimization in operation process respectively, the construction & operation of environmental protection ("EP") systems ("EP Projects") and the trading of chemical products had achieved a stable growth in the third quarter, and there has been a considerable increase in the gross profit rate for both segments as compared to the same period in last year.

Regarding the market development of wastes collection and treatment, the Group is planning to build a new waste treatment base in Shaoguan (韶關), Guangdong, and had successfully entered into a cooperation agreement with the biggest circuit board plant in the local area for supplying waste treatment services. This base will be established as our strategic business point in North Guangdong to expand the waste treatment and relevant EP businesses.

During the period under review, all projects in our research and development ("R&D") center ran smoothly; especially the research on recycling technology for various nickel-containing wastes had made great progresses, which provides solid foundation for the future development of "Nickel Recycling Project".

In management, the Group continued to strengthen the respective fundamental management work and system building, and enhance the recruitment and training of qualified personnel to ensure the sustainable development of the Group.

Financial Review

For the nine months ended 30 September, 2005, the Group achieved a 33.9% growth in turnover to RMB211,224,000 (2004: RMB157,727,000) and a 22.4% growth in net profit to RMB39,507,000 (2004: RMB32,289,000) as compared to that of the same period in last year.

The growth was mainly contributed by the sale of recycled products and waste treatment, which recorded a 32.4% rise in turnover to RMB181,433,000 (2004: RMB137,014,000). For the solid waste treatment business, the turnover increased approximately 111.9% to RMB8,692,000 (2004: RMB4,102,000).

As the Group is extending its EP Projects, this segment recorded an outstanding increase in turnover to RMB15,872,000 (2004: RMB10,567,000). The Trading Branch of the Company demonstrated a turnover of RMB13,745,000 as compared to RMB9,981,000 in 2004.

During the period under review, the Group's gross profit margin was 45.4% (2004: 43.7%). 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. However, trading of chemical products and EP projects recorded a considerable increase in gross profit margin this year which leads to the slight increase in overall profit margin.

For the nine months ended 30 September, 2005, the Group's selling and distribution costs amounted to approximately RMB15,842,000 (2004: RMB6,149,000) which represents 7.5% (2004: 3.9%) of the Group's turnover. The increase is mainly attributed to the independent operation of waste collection and the rapid expansion of its business network, the increasing business scale of the Trading Branch and Huizhou Dongjiang, and shipping costs incurred for export of recycled products.

For the nine months ended 30 September, 2005, the administrative expenses incurred by the Group amounted to approximately RMB35,094,000 (2004: RMB20,886,000). The ratio between administrative expenses and turnover increased slightly to 16.6% (2004: 13.2%). This was mainly due to the increasing number of subsidiaries and the expansion in business scale. Also the Group had focused more on internal management control and human resources.

For the nine months ended 30 September, 2005, the other operating expenses incurred by the Group amounted to approximately RMB6,726,000 (2004: RMB3,992,000) inclusive approximately RMB1,556,000 for R&D (2004: RMB3,471,000), and approximately RMB4,140,000 for provision made for the impairment of fixed assets, and expenses incurred for the sale of excess raw materials.

FUTURE PROSPECTS

For the fourth quarter, the Group will take up the good momentum of growth in the first three quarters in this year, and capture the market opportunities to further expand market share and maintain the stable development in all businesses.

Based on the consolidation of existing businesses, the Group will promote the implementation of new projects proactively and steadily, continue to strengthen the R&D and focus on the commercialization of R&D results to improve the overall competitiveness of the Group.

To ensure the realization of business objectives, in the fourth quarter in this year, in addition to strengthening the internal control and budget management, the Group will try to layout the business plan and financial budget for fiscal year 2006.

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

As at 30 September, 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 by the Company) 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, supervisors or chief executive of the Company had, as at 30 September, 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 September, 2005, the following persons (other than the Directors, supervisors 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	13.70%
I. G. Investment Management (Hong Kong) Limited (<i>Note 2</i>)	Investment manager	16,000,000 H shares	8.99%
China Environmental Fund 2002, LP (<i>Note 3</i>)	Beneficial	11,500,000 H shares	6.46%
Leading Environmental Solutions and Services (<i>Note 3</i>)	Interest of a controlled corporation	11,500,000 H shares	6.46%

Notes:

1. Shanghai New Margin Venture Capital Co., Ltd is owned as to 25% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, as to 25% by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 50% equally held by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowth Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the directors, 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 shareholders 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 shareholders or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 September, 2005, the Directors are not aware of any other person (other than the Directors, supervisors and chief executive of the Company) who has interests or short positions in the shares 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 September, 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 September, 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 September, 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 September, 2005.

AUDIT COMMITTEE

The Company has established an audit committee which has formulated its written terms of reference to compliance with Rule 5.29 of the GEM Listing Rules. New terms of reference were adopted by the Company on 2 June, 2005 in compliance with code provision C.3.3 of the Code on Corporate Governance Practices, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control system. The audit committee comprises the three independent non-executive directors of the Company, namely Messrs. Meng Chun, Wang Ji Wu and Yang Zhi Feng. Mr. Meng Chun has been appointed as the chairman of the audit committee. The audit committee has reviewed the draft of this third quarterly results report and has provided advice and comments thereon.

PRACTICES AND PROCEDURES OF THE BOARD

Throughout the nine 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, 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 5.35 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 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.

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

Shenzhen, Guangdong Province, the PRC
10 November, 2005

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.

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