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)

(Stock Code: 8230)

First Quarterly Report 2006

* 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 three months ended 31 March, 2006, the Group realised a sustainable growth in its core business – sale of recycled products and the provision of waste treatment services.
- Turnover was increased by approximately 31.2% to RMB85,645,000 for the three months ended 31 March, 2006, as compared to that of the same period in 2005 (2005: RMB65,278,000).
- Net profit attributable to equity holders of the parent was increased by approximately 32.5% to RMB15,917,000 for the three months ended 31 March, 2006, as compared to that of the same period in 2005 (2005: RMB12,012,000).
- Earnings per share was RMB0.0254 (2005: RMB0.0191) for the three months ended 31 March, 2006.

FIRST QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March, 2006, together with the comparative figures of the corresponding period of 2005 as follows:

		Three months ended 31 March,	
		2006	2005
		(unaudited)	(unaudited)
	Notes	***RMB'000***	*RMB'000*
TURNOVER	*2*	**85,645**	65,278
Cost of sales		**(50,989)**	(38,883)
Gross profit		**34,656**	26,395
Other income		**5,014**	3,873
Selling and distribution costs		**(5,633)**	(4,622)
Administrative expenses		**(9,507)**	(7,490)
Other operating expenses		**(4,392)**	(2,095)
PROFIT FROM OPERATING ACTIVITIES		**20,138**	16,061
Finance costs		**(7)**	(202)
Share of results from associates		**–**	(6)
PROFIT BEFORE TAX		**20,131**	15,853
Income tax expenses	*3*	**(3,945)**	(3,601)
PROFIT FOR THE PERIOD		**16,186**	12,252
Attributable to:			
Equity holders of the parent		**15,917**	12,012
Minority interests		**269**	240
		16,186	12,252
DIVIDENDS	*4*	**–**	–
EARNINGS PER SHARE – BASIC	*5*	**RMB0.0254**	RMB0.0191

Notes:

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

The unaudited consolidated first 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 first quarterly financial results are consistent with those adopted in the annual financial statements for the year ended 31 December, 2005.

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:

	Three months ended 31 March,	
	2006	2005
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Sale of recycled products and the provision of waste treatment services	**77,941**	56,797
Trading of chemical products	**4,059**	3,773
Revenue from construction and operation of environmental protection systems	**3,617**	4,697
Consultation service income/Others	**28**	11
	85,645	65,278

3. Income tax expenses

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% (2005: 15%) of the estimated assessable income for the three months ended 31 March, 2006 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% (2005: 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 three months ended 31 March, 2006 fell into the Company's sixth year of operations with assessable profits and accordingly the Company made provision for PRC corporate income tax at 15% on its estimated assessable profits for three months ended 31 March, 2006. Lishan has made provision for PRC corporate income tax at 7.5% on its estimated assessable profits for three months ended 31 March, 2006, as the three months ended 31 March, 2006 fell into its third year with assessable profits.

The Company is undergoing the application procedures for extension of the tax holiday in respect of the 50% tax exemption to a further of five years.

4. Dividends

The Board does not recommend the payment of any dividend for the three months ended 31 March, 2006 (2005: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit attributable to equity holders of the parent for the three months ended 31 March, 2006 of RMB15,917,000 (2005: RMB12,012,000) and the weighted average number of 627,381,872 (2005: 627,381,872) ordinary shares in issue during the three months.

No diluted earnings per share was presented as no diluting events existed for each of the three months ended 31 March, 2005 and 2006.

6. Reserves

Other than the net profit for the three months ended 31 March, 2006, there were no movements to or from reserves of the Group and the Company during the three months (2005: none).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

During the period under review, riding on our good business growth momentum in previous periods, and the favourable conditions shown by the PRC economy, the Group endeavored to develop its principal business in full force and was able to maintain growth in operating results, with turnover and net profit attributable to equity holders of the parent increased by 31.2% and 32.5% as compared to the corresponding period in last year, to approximately RMB85,645,000 and approximately RMB15,917,000 respectively.

The remarkable growth in the first quarter was mainly attributable to the continued expansion of the waste treatment and recycling businesses. The new "Nickel Recycling Project" commissioned by the Group last year has delivered satisfactory operating performance. Not only had the recycling rate of nickel kept rising, the Group also successfully produced nickel salt products up to the accepted standard and realized sales revenue from this operation. The Group also succeeded in recycling of high quality tri-basic copper chloride ("TBCC") which meets the general standard, with the output volume had increased twice as much as that were produced during the trial run last year. Meanwhile the Group successfully expanded the solid waste treatment business during the period through more aggressive customer development strategy. As a result, the related treatment service generated revenue of approximately RMB4,764,000, representing 155.3% increased as compared with the corresponding period last year. Furthermore, the Group's treatment facility for heavy metal-contained wastes in Shaoguan, Guangdong has commenced its construction work and is currently expected to start operating at certain point of time during the second half of 2006.

With the capacity of the Group in waste treatment keeps expanding, it has also taken steps to actively seeking for further development of the waste collection market. During the period under review, through the installation of GPS (global positioning system) in the Group's trucks for wastes transportation, the Group achieved higher efficiency in the logistics of wastes collection and transportation, and therefore improved quality of customer service. At the same time, the Group had put extra effort in developing its wastes collection business in such places like Zhaoqing, Dongguan and Guangzhou with a view to build a solid foundation for increasing the market shares in those cities.

To cope with the relevant business development, the Group had set up two wholly-owned subsidiaries during the period under review. One of them is Shenzhen Dongjiang Environmental Recycled Power Limited Company (深圳市東江環保再生能源有限公司), a company chiefly focuses in the implementation of power generation through utilization of landfill menthane, which is in line with the Group's plan of entering into the new business segment of recycled power development and application. On the other hand, Dongjiang Environmental (Hong Kong) Limited (東江環保（香港）有限公司), the other newly formed subsidiary, is principally responsible for the development of environmental protection services, wastes collection and international trade in Hong Kong. It acts as a major window company of the Group to develop environmental business in Hong Kong and to seek for opportunities in overseas markets.

Following the Group's being selected by the State into the first group of pilot units for recycling economic activities, launching of recycling economic activities has become one of the key objectives of the Group. During the period under review, in accordance with the requirements of the pilot scheme, the Group has introduced various measures to promote the "pollution-free production" and "power saving" initiatives, and has continued to enhance the resources recycling rate through the development and application of new technologies and techniques.

During the period under review, the Group's gross profit increased by 31.3% to approximately RMB34,656,000 (2005: RMB26,395,000). Gross profit margin remained stable at 40.5% (2005: 40.4).

During the period under review, the Group's selling and distribution costs increased by 21.9% from the corresponding period last year, to approximately RMB5,633,000 (2005: RMB4,622,000). Such increase was mainly attributable to the expansion of the Group's business volume contracted as well as its scale of operation. Selling and distribution costs amounting to 6.6% of the total turnover, 0.5% lower than that of the corresponding period of last year, as a result of the cost control measures implemented by the Group. The Group's administrative expenses increased 26.9% from the corresponding period of last year, to approximately RMB9,507,000 (2005: RMB7,490,000). The main reason for the increase was that the Group has improved its staff benefits and upgraded its management system.

FUTURE PROSPECTS

The Group will capitalize on the historical opportunities of being selected into the first group of pilot units for recycling economic activities by excreting its advantages in technology, scale and operation, and dedicating itself to the detoxification, reduction and recycling of various kinds of wastes.

The Group will continue to strengthen the R&D, innovation and development of original techniques, particularly in the research of recycling of industrial wastes, both in width and in depth; and to increase the variety of wastes recycling as well as recycled products' added values. Also, the Group will focus on its strategic planning in relation to the market landscape, industry structure and product mix, to further expand the boundaries of environmental protection business.

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

At 31 March, 2006, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary 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 7.9% 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, as at 31 March, 2006, none of the directors or chief executive 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 the Model Code for Securities Transactions by Directors of Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

At 31 March, 2006, the following interests of 5% or more of the issued share capital of the Company were 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 and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital in its class
Shanghai New Margin Venture Capital Co., Ltd *(Note 1)*	Beneficial	61,566,558 domestic shares	13.70%
Leading Environmental Solutions and Services *(Note 2)*	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environmental Fund 2002, LP *(Note 2)*	Beneficial	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. 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 31 March, 2006, 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 31 March, 2006, none of the Directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company or had any rights to acquire H shares in the Company.

SHARE OPTION SCHEME

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

COMPETING INTEREST

The Directors are not aware of, as at 31 March, 2006, 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.

COMPLIANCE ADVISER'S INTERESTS

Pursuant to the agreement dated 23 January 2003 and its supplementary agreement entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has received a fee for acting as the Company's compliance adviser (formerly known as a retained sponsor) for the period from 29 January 2003, the date on which the H shares of the Company were listed, to the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the Company's financial results for the financial year ended 31 December, 2005.

First Shanghai nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) has any interests 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 31 March, 2006.

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 first quarterly results 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 Rule 5.34 of the GEM Listing Rules throughout the three months period ended 31 March, 2006.

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

11 May, 2006
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.

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