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)
(Stock code : 8230)

Interim Report 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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, 2006, the Group realized a sustainable growth in its core business-sale of recycled products and waste treatment.
- Turnover was increased by approximately 38.3% to RMB183,974,000 for the six months ended 30 June, 2006 as compared to that of the same period in 2005 (2005: RMB132,991,000).
- Profit attributable to equity holders of the parent was increased by approximately 35.1% to RMB35,736,000 for the six months ended 30 June, 2006 as compared to that of the same period in 2005 (2005: RMB26,455,000).
- Earnings per share was RMB0.0570 (2005: RMB0.0422) for the six months ended 30 June, 2006.
- The Board does not recommend the payment of any dividend for the six months ended 30 June, 2006 (2005: Nil).

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 and three months ended 30 June, 2006, together with the comparative figures of the corresponding periods of 2005, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Six months ended 30 June,		**Three months ended 30 June,**	
		2006	2005	**2006**	2005
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
TURNOVER	*3*	**183,974**	132,991	**98,329**	67,713
Cost of sales		**(97,574)**	(75,505)	**(46,585)**	(36,622)
Gross Profit		**86,400**	57,486	**51,744**	31,091
Other income		**4,086**	8,758	**–**	4,885
Selling and distribution costs		**(10,290)**	(9,220)	**(4,657)**	(4,598)
Administrative expenses		**(17,949)**	(18,626)	**(8,442)**	(11,136)
Other operating expenses		**(20,041)**	(4,121)	**(16,577)**	(2,026)
Finance costs		**(121)**	(426)	**(114)**	(224)
Share of losses of associates		**–**	(17)	**–**	(11)
PROFIT BEFORE TAX	*5*	**42,085**	33,834	**21,954**	17,981
Income tax expenses	*6*	**(8,380)**	(6,331)	**(4,435)**	(2,730)
PROFIT FOR THE PERIOD		**33,705**	27,503	**17,519**	15,251
Attributable to:					
Equity holders of the parent		**35,736**	26,455	**19,819**	14,443
Minority interests		**(2,031)**	1,048	**(2,300)**	808
		33,705	27,503	**17,519**	15,251
EARNINGS PER SHARE – BASIC	*7*	**RMB0.0570**	RMB0.0422	**RMB0.0316**	RMB0.0231
DIVIDEND	*8*	**–**	–	**–**	–

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**At 30 June, 2006 (Unaudited) *RMB'000***	At 31 December, 2005 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**128,176**	105,138
Investment properties		**3,015**	3,015
Prepaid lease payments		**17,369**	17,582
Intangible assets		**178**	195
Interests in associates		**400**	400
Deferred tax assets		**–**	86
		149,138	126,416
CURRENT ASSETS			
Inventories		**21,016**	18,522
Amounts due from customers for construction work		**383**	2,868
Trade receivables	*10*	**47,573**	35,727
Bills receivables		**5,200**	13,771
Prepaid lease payments		**365**	365
Prepayments, deposits and other receivables		**16,385**	18,601
Investments held for trading	*11*	**50,000**	5,000
Cash and cash equivalents		**95,929**	82,109
		236,851	176,963

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

	Notes	**At 30 June, 2006 (Unaudited) *RMB'000***	At 31 December, 2005 (Audited) *RMB'000*
CURRENT LIABILITIES			
Trade payables	*12*	**28,417**	14,530
Tax liabilities		**3,973**	760
Other payables and accruals		**37,466**	25,414
Amounts due to minority shareholders of subsidiaries		**4,400**	5,994
Interest-bearing bank borrowings		**15,000**	3,000
		89,256	49,698
NET CURRENT ASSETS		**147,595**	127,265
TOTAL ASSETS LESS CURRENT LIABILITIES		**296,733**	253,681
CAPITAL AND RESERVES			
Capital	*13*	**62,738**	62,738
Reserves		**157,636**	121,912
Proposed final dividend		**12,548**	12,548
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**232,922**	197,198
MINORITY INTERESTS		**51,045**	53,942
TOTAL EQUITY		**283,967**	251,140
NON-CURRENT LIABILITIES			
Deferred revenue		**12,541**	2,541
Deferred tax liabilities		**225**	–
		12,766	2,541
		296,733	253,681

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the parent								
	Share capital *RMB'000*	Share premium *RMB'000*	Reserve funds *RMB'000*	Exchange reserves *RMB'000*	Retained earnings *RMB'000*	Dividend reserve *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 1 January, 2005	62,738	30,309	14,063	–	39,273	6,274	152,657	35,115	187,772
Profit for the period	–	–	–	–	26,455	–	26,455	1,048	27,503
Dividend for 2004 paid	–	–	–	–	–	(6,274)	(6,274)	–	(6,274)
At 30 June, 2005	62,738	30,309	14,063	–	65,728	–	172,838	36,163	209,001
At 1 January, 2006	62,738	30,309	27,285	–	64,318	12,548	197,198	53,942	251,140
Profit for the period	–	–	–	–	35,736	–	35,736	(2,031)	33,705
Transfer from retained earnings	–	–	1,748	–	(1,748)	–	–	–	–
Exchange adjustment	–	–	–	(12)	–	–	(12)	–	(12)
Contribution from minority shareholders	–	–	–	–	–	–	–	6,860	6,860
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(7,726)	(7,726)
As 30 June, 2006	**62,738**	**30,309**	**29,033**	**(12)**	**98,306**	**12,548**	**232,922**	**51,045**	**283,967**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June,	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Net cash inflow from operating activities	**84,427**	10,488
Net cash (used in)/from investing activities	**(81,608)**	7,567
Net cash from/(used in) from financing activities	**11,001**	(3,900)
Increase in cash and cash equivalents	**13,820**	14,155
Cash and cash equivalents at beginning of the period	**82,109**	87,568
Cash and cash equivalents at end of the period, represented by bank balances and cash	**95,929**	101,723

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS:

1. Basis of preparation and principal accounting polices

The unaudited condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" of Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial statements are prepared on historical cost convention except for certain investment properties and financial instruments, which are measured at fair value (where applicable).

The accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December, 2005.

In the current period, the Group has applied, for the first time, the following new HKFRSs issued by HKICPA that are effective for accounting periods beginning on or after 1 January, 2006. The adoption of the new HKFRSs does not have any material effect on how the results for the current or prior accounting years are prepared and presented.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	The fair value option

2. Summary of the effect of the changes in accounting policies

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK (IFRIC) – Int 8	Scope of HKFRS 2[3]
HK (IFRIC) – Int 9	Reassessment of embedded Derivatives[4]

2. Summary of the effect of the changes in accounting policies *(Continued)*

[1] Effective for annual periods beginning on or after 1 January, 2007.

[2] Effective for annual periods beginning on or after 1 March, 2006.

[3] Effective for annual periods beginning on or after 1 May, 2006.

[4] Effective for annual periods beginning on or after 1 June, 2006.

3. Turnover

Turnover represents the net amounts received and receivables for recycled products sold, provision of waste treatment services and trading of chemical products by the Group to outsiders, less returns and trade discounts, revenue arising on construction contracts and consultation services.

An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June,		**Three months ended 30 June,**	
	2006	2005	**2006**	2005
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Sale of recycled products and the provision of waste treatment	**163,205**	114,169	**85,264**	57,372
Trading of chemical products	**9,131**	7,884	**5,072**	4,111
Revenue from construction and operation of environmental protection systems	**11,610**	10,832	**7,993**	6,135
Consultation service income	**28**	106	**–**	95
	183,974	132,991	**98,329**	67,713

4. Segment information

For management purposes, the Group is currently organised into four operating divisions – production and sale of recycled products and provision of waste treatment services, construction and operation of environmental protection systems, trading of chemical products and provision of consultation service. These divisions are the basis on which the Group reports its primary segment information.

(a) Production and sale of recycled products and the provision of waste treatment services segment engages in production and sales of recycled products, waste collection and treatment services;

(b) Construction and operation of environmental protection systems segment engages in construction contract work as a main contractor or subcontractor, primarily in respect of environmental protection systems;

(c) Trading of chemical products segment engages in the sale of chemical products to customers in the Mainland China; and

(d) Consultation service segment mainly engages the provision of consultation services.

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 the provision of 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,		Consultation service Six months ended 30 June,		Total Six months ended 30 June,	
	2006 (unaudited)	2005 (unaudited)	**2006 (unaudited)**	2005 (unaudited)	**2006 (unaudited)**	2005 (unaudited)	**2006 (unaudited)**	2005 (unaudited)	**2006 (unaudited)**	2005 (unaudited)
Amounts in RMB'000										
Segment revenue:										
Sales to external customers	**163,205**	114,169	**11,610**	10,832	**9,131**	7,884	**28**	106	**183,974**	132,991
Segment results	**41,366**	36,159	**2,078**	3,089	**261**	359	**1**	18	**43,706**	39,625
Corporate and other unallocated expenses *(Note)*									**(1,500)**	(5,348)
Finance costs									**(121)**	(426)
Share of losses of associates	**–**	(17)							**–**	(17)
Profit before tax									**42,085**	33,834
Income tax expenses									**(8,380)**	(6,331)
Profit for the period									**33,705**	27,503
OTHER INFORMATION:										
Capital expenditure of property, plant and equipment	**36,058**	9,429	**830**	64	**18**	12	**–**	–	**36,906**	9,505
Depreciation of property, plant and equipment	**4,895**	3,175	**230**	366	**146**	123	**5**	30	**5,276**	3,694
Impairment losses on property, plant and equipment	**9,045**	–	**–**	–	**–**	–	**–**	–	**9,045**	–

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

No further geographical segment information is presented as the Group's customers and operations are all located in the PRC.

5. Profit before tax

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June,	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of goods sold	**83,882**	62,795
Depreciation	**5,276**	3,694
Amortisation of prepaid lease payments	**213**	161
Amortisation of goodwill	**–**	104
Amortisation of intangible assets	**17**	18
Impairment losses on property, plant and equipment	**9,045**	–

6. 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 six months ended 30 June, 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 six months ended 30 June, 2006 was the sixth year of the Company's operations with assessable profits and accordingly the Company made provision for PRC corporate income tax at 15% on its estimated assessable profits for the period. Lishan has made provision for PRC corporate income tax at 7.5% on its estimated assessable profits for the period, as the six months ended 30 June, 2006 was the third year of Lishan's operations with assessable profits.

Subsequent to the balance sheet date, the Company has undergone the application procedures for extension of the tax holiday in respect of the 50% tax exemption to a further of five years.

7. Earnings per share

The calculation of the basic earnings per share ("EPS") is based on the unaudited profit attributable to the equity holders of the parent for the six months ended 30 June, 2006 of RMB35,736,000 (2005: RMB26,455,000) and the weighted average number of 627,381,872 (2005: 627,381,872) ordinary shares in issue during the six months period.

No diluted earnings per share was presented as no diluting events existed for each of the six months ended 30 June, 2005 and 2006.

8. Dividends

The Board does not recommend the payment of any dividend for the six months ended 30 June, 2006 (2005: Nil).

9. Property, plant and equipment

During the six months period, the Group acquired approximately RMB36,906,000 property, plant and equipment for group expansion. The Group charged approximately RMB5,276,000 depreciation and recognised impairment losses of approximately RMB9,045,000 in respect of those idle plant and machinery for the period.

10. Trade receivables

The general credit terms of the Group range from 30 days to 90 days, except for new customers, where payment in advance is normally required.

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

	30 June, 2006 (Unaudited) *RMB'000*	31 December, 2005 (Audited) *RMB'000*
Current to 90 days	**39,233**	31,658
91 to 180 days	**3,657**	3,154
181 to 365 days	**4,352**	58
Over 365 days	**331**	857
	47,573	35,727

11. Investments held for trading

Investments held for trading represent the investment funds in foreign currency that offer the Group the opportunity for returns through dividend income and fair value gains. During the six months ended 30 June, 2006, the Group acquired certain investments at consideration of approximately RMB45,000,000. There have no fixed maturity or coupon rate.

12. Trade payables

An aged analysis of trade payables is as follows:

	30 June, 2006 (Unaudited) *RMB'000*	31 December, 2005 (Audited) *RMB'000*
Current to 90 days	**26,191**	12,924
91 to 180 days	**1,981**	58
181 to 365 days	**63**	42
Over 365 days	**182**	1,506
	28,417	14,530

13. Capital

	30 June, 2006 (Unaudited) *RMB'000*	31 December, 2005 (Audited) *RMB'000*
Par value of RMB0.10 each		
Authorized, issued and fully paid:		
449,481,872 domestic shares	**44,948**	44,948
177,900,000 H shares	**17,790**	17,790
	62,738	62,738

14. Capital commitment

	30 June, 2006 (Unaudited) *RMB'000*	31 December, 2005 (Audited) *RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**352**	678
Land use rights	**174**	870
Construction in progress *(Note 1)*	**67,666**	67,085
The establishment of a new subsidiary	**–**	7,140
Acquisition of additional interests in a subsidiary *(Note 2)*	**2,010**	–
	70,202	75,773
Authorised, but not contracted for:		
Property, plant and equipment	**2,704**	5,008

Notes:

1. The amount included: RMB66,166,000 under a contract entered into by the Company's 51%-owned subsidiary Huizhou Dongjiang-Onyx Solid Waste Treatment Co., Ltd. (惠州東江奧綠思固體廢物處理有限公司) for facilities construction and RMB1,500,000 under a contract entered into by the Company's 95.98%-owned subsidiary Shaoguan Dongjiang Environmental Technology Limited Company (韶關市東江環保技術有限公司) for facilities construction.

2. Pursuant to a equity interest transfer agreement entered into between the Company and the minority shareholder of Huizhou Dongjiang Environmental Co., Ltd., the Company would increase its shareholdings in Huizhou Dongjiang Environmental Co., Ltd. to 100% at a cash consideration of RMB2,010,000.

15. Related party transactions

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

	Six months ended 30 June,	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Sales of finished goods to a minority shareholder of Shenzhen Dongjiang Heritage Technologies Co., Ltd.	**–**	5,869
Rental income received from Shenzhen Fang Yuan Petrochemical Industrial Co., Ltd., which is the shareholder of the Company	**250**	300
Rental expense in respect of motor vehicle paid to Shenzhen Wen Ying Trading Limited, in which a director's spouse is a shareholder	**60**	–
Rental expense in respect of the technology use right paid to a minority shareholder of 深圳市龍崗區環保技術服務中心	**676**	867
Rental income received from a company in which a director of the Company is a shareholder	**71**	71

16. Contingent liabilities

Due to the existing collection and processing of industrial waste method adopted by the Group, the Group has not incurred any significant expenditure on environmental rehabilitation since its establishment. There is, however, no assurance that stringent environmental policies and/or standards on environmental rehabilitation will not be implemented by the relevant authorities in the PRC in the future which require the Group to undertake the environmental measures. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental policies and/or standards.

Other than as disclosed above, the Group had no significant contingent liabilities at 30 June, 2006.

17. Post balance sheet events

In August 2006, the Board has resolved that the Company would apply to the China Securities Regulatory Commission for the issue of A Shares to the PRC public and to the Shenzhen Stock Exchange for the listing of the A Shares on the Shenzhen Stock Exchange.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

During the period under review, the Group maintained good business growth momentum. By actively capitalizing on and transforming the favourable market conditions through viable marketing strategies and application of advanced processes and skills, the Group was able to maintain growth in operating results.

The continued growth of the Group's operating results during the period under review was mainly attributable to the continued expansion of the waste treatment and recycling businesses, as well as the increase in the type of recycled products. The nickel-containing sludge treatment and integrated recycling operation ("nickel recycling") commissioned by the Group last year has delivered satisfactory operating performance, with level of nickel processing kept rising and good sale performance registered from nickel salt products. Meanwhile, the Group continued to expand the solid wastes treatment business during the period. As a result, both customers and wastes collection volume had increased more than 20%.

During the period under review, the Group's collection volume of heavy metal-contained liquid wastes managed to exceed the level of the corresponding period of last year through re-adjusting marketing strategy and effective expansion of market scope. The Group secured over 100 new customers, included such major enterprises like Shekou Container Terminals Ltd. (SCT), ITT Company etc.

During the period under review, the design and construction work of the power generation through utilization of landfill gases project had progressed well and was expected to commence full scale operation some time during the second half of the year. In addition, the main design work of Guangdong Province Hazardous Waste Comprehensive Treatment Demonstration Centre Project ("Demonstration Centre Project") had been substantially completed, and the construction and building work had proceeded at full force. Since May of this year. Huizhou had been hit by two typhoons with heavy rain in the location of this project's construction site, making it difficult to proceed with the construction as normal and progress of the construction work had been delayed. However, by the effort of the whole working team of construction and design, the major part of the construction work is still targeted to complete not later than the second half of this year as originally scheduled, and testing and adjustment could begin once the construction work is completed.

During the period under review, the Group had been actively launching training programs for staff with multi-level of comprehensive training being provided to marketing and technical personnel in order to upgrade its marketing and technological competitiveness.

Research and Development

Expenditure on research and development ("R&D") during the period under review amounted to approximately RMB6,080,000 (2005: RMB1,156,000), with research work mainly focused on new techniques for wastes treatment and disposal which included treatment and comprehensive usage of food and beverage wastes and wasted construction materials. Further effort had also been made on R&D of recycling and utilization of hazardous wastes and particularly on modification of recycling techniques of wasted metals like copper, nickel and manganese etc., thereby increasing the variety in recyclable wastes and enhancing their added values.

Financial review

Turnover

For the six months ended 30 June, 2006, the Group's turnover was increased by approximately 38.3% to RMB183,974,000 as compared to the corresponding period of last year (2005: RMB132,991,000). The increase of turnover was mainly attributable to the expansion in scale of the wastes treatment and recycling business. The revenue generated from this business segment was approximately RMB163,205,000 (2005: RMB114,169,000), representing an increase of 43.3% as compared to the corresponding period of last year. Charges for wastes treatment grew significantly as wastes collection volume had increased. The turnover of this segment increased 98.9% from the corresponding period of last year to RMB9,700,000.

Of the complementary businesses, turnovers of the construction and operation of environmental protection systems and the trading of chemical products grew 7.2% and 15.8% respectively, to RMB11,610,000 and RMB9,131,000.

Profit attributable to equity holders of the parent

During the period under review, the Group's profit attributable to equity holder of the parent increased by approximately 35.1% to RMB35,736,000 (2005: RMB26,455,000). Compared with the corresponding period of last year, the Group's gross profit margin was 46.9% (2005: 43.2%). The increase in gross profit margin was mainly attributable to enhanced gross profit margins of the wastes treatment and recycling and the construction and operation of environmental protection systems businesses.

During the period under review, the Group's selling and distribution costs was approximately RMB10,290,000 (2005: RMB9,220,000). The selling and distribution costs to turnover ratio was 1.3% lower from a year ago and stood at 5.6% (2005: 6.9%).

The Group's administrative expenses during the period under review decreased 3.6% to approximately RMB17,949,000 (2005: RMB18,626,000). The main reason for the decrease was that the budget and internal control measures actively implemented by the Group during the period under review had started to show some effects. The administrative expenses to turnover ratio has been dropped by 4.3% from the corresponding period of the last year to 9.7% this year (2005: 14.0%).

Financial Resources, Liquidity and Treasury Policies

As at 30 June, 2006, the Group had current assets of RMB236,851,000 (31 December, 2005: RMB176,963,000) and current liabilities of RMB89,256,000 (31 December, 2005: RMB49,698,000). Current assets include cash and cash equivalents of RMB95,929,000 (31 December, 2005: RMB82,109,000).

As at 30 June, 2006, the Group had total liabilities of RMB102,022,000 (31 December, 2005: RMB52,239,000). The Group's gearing ratio was 26.43% (31 December, 2005: 17.2%) which is calculated based on the Group's total liabilities and total assets. The Group's current ratio was 2.65 times (31 December, 2005: 3.56 times). As at 30 June, 2006, the Group had bank loans of RMB15,000,000 at interest rate of 4.96% per annum (31 December, 2005: RMB3,000,000). In view of the good financial resources and liquidity conditions of the Group, it will be able to meet the needs of future expansion and research and development.

Material Investment

In January 2006, the Group invested RMB1,042,900 to establish a 100%-owned subsidiary namely Dongjiang Environmental (Hong Kong) Limited (東江環保（香港）有限公司) in the PRC. This company is principally responsible for the development of environmental protection services, waste 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.

In March 2006, the Group invested RMB10,000,000 to establish a 100%-owned subsidiary namely Shenzhen Dongjiang Environmental Recycled Power Limited (深圳市東江環保再生能源有限公司) in the PRC. This company is 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.

In May 2006, the Group continually invested RMB7,140,000 to a 51%-owned subsidiary named Huizhou Dongjiang-Onyx Solid Waste Treatment Company Limited, reached the register capital required by this company.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June, 2006, the Group had no material acquisitions or disposals of subsidiaries and affiliated companies.

Pledge of Assets

As at 30 June, 2006, the Group had no pledged assets.

Interest Rate and Exchange Rate Risk

During the period under review, the Group was granted a short-term bank loan at the fixed interest rate of 4.96% per annum, which would not expose to interest rate risk.

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

Information on Employees

At 30 June, 2006, the number of full-time employees stood at 917 (2005: 843) with a total staff cost for the six months ended 30 June, 2006 of approximately RMB10,096,000 (2005: RMB8,934,000). 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, 2006 and as at 31 December, 2005.

Future Prospects

The Group will actively leverage on the ever improving market and economic environments, keep strengthening and developing our core business following our principle of developing a recurrent economic, and seek new profit growing point when practicable.

In the second half of the year, many of the Group's projects will commence operation, and bring new development opportunities for the Group. As the trail run of nickel recycling project go steady, and with the commencement of the trail run of the Zhaoqing Project, together with the Demonstration Centre Project comes into operation, the principle business of the Group can have further development.

The Group will put more effort in research and development and build up a stronger research and development team, and to enhance the integrated technology ability and the advantage in technology, providing momentum for the development of the Group and build up a strong technology base for the Group. Besides, the Group will focus more on internal control and corporate management, optimizing the operating efficiency, and bring satisfactory returns for the shareholders.

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

As at 30 June, 2006, 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, 2006, 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, 2006, 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 *(Note 1)*	Beneficial	61,566,558 domestic shares	13.70%
China Environmental Fund 2002, LP *(Note 2)*	Beneficial	11,500,000 H shares	6.46%
Leading Environmental Solutions and Services *(Note 2)*	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. 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, 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 30 June, 2006, 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, 2006, 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, 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.

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 Mr. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng. The audit committee has reviewed the financial statements for the six months ended 30 June, 2006 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 six months ended 30 June, 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 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

During the period under review, the Board continuously ensured high standards of corporate governance with the objectives of the achieving steady development and the shareholder value promotion. In addition to complying with the Articles of Association of the Company and applicable statutory requirements, the Company aims to continually review and enhance its corporate governance in light of best practices applicable.

The Company has complied with all the Code on Corporate Governance Practice stated in Appendix 15 of the GEM Listing Rules (the "Code") provisions throughout the six months under review, except for the deviation mentioned below.

Under the Code provision A.2.1, the roles of chairman and chief executive officer should not be performed by the same individual. The chairman and chief executive officer of the Company are currently performed by Mr. Zhang Wei Yang ("Mr. Zhang"). Taking into account that Mr. Zhang's strong expertise and excellent insight of the environmental industry, the Board deems that chairman and chief executive officer being performed by Mr. Zhang will lead to more effective implementation of the overall strategy and ensure smooth operation of the Company. In order to maintain the good corporate governance and completely comply with Code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

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

10 August, 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.

* *For identification purpose only*