



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)

Third Quarterly Report

2006

** For identification purpose only*

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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, 2006, the Group realized a sustainable growth in its core business – sale of recycled products and waste treatment.
- Turnover was increased by approximately 50.8% to RMB318,573,000 for the nine months ended 30 September, 2006, as compared to that of the same period in 2005 (2005: RMB211,224,000).
- Profit attributable to equity holders of the parent was increased by approximately 23.6% to RMB48,816,000 for the nine months ended 30 September, 2006, as compared to that of the same period in 2005 (2005: RMB39,507,000).
- Earnings per share was RMB0.0778 (2005: RMB0.0630) for the nine months ended 30 September, 2006.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September, 2006 (2005: Nil).

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, 2006, together with the comparative figures of the corresponding period of 2005 as follows:

	Notes	Nine months ended 30 September,		Three months ended 30 September,	
		2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
		RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	2	318,573	211,224	134,599	78,233
Cost of sales		(179,354)	(115,348)	(81,780)	(39,843)
Gross Profit		139,219	95,876	52,819	38,390
Other income		17,133	13,043	13,047	4,285
Selling and distribution costs		(17,312)	(15,842)	(7,022)	(6,622)
Administrative expenses		(37,601)	(35,094)	(19,652)	(16,468)
Other operating expenses	3	(40,895)	(6,726)	(20,854)	(2,605)
Finance costs		(310)	(713)	(189)	(287)
Share of losses of associates		–	(34)	–	(17)
PROFIT BEFORE TAX		60,234	50,510	18,149	16,676
Income tax expenses	4	(10,722)	(9,173)	(2,342)	(2,842)
PROFIT FOR THE PERIOD		49,512	41,337	15,807	13,834
Attributable to:					
Equity holders of the parent		48,816	39,507	13,080	13,052
Minority interests		696	1,830	2,727	782
		49,512	41,337	15,807	13,834
DIVIDENDS	5	–	–	–	–
EARNINGS PER SHARE – BASIC	6	0.0778	0.0630	0.0208	0.0208

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 consolidated 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 and methods of computation used in the preparation of the unaudited consolidated third quarterly financial results are consistent with those adopted in the annual financial statements for the year ended 31 December, 2005. The consolidated results are unaudited but have been reviewed by the audit committee of the Board.

2. 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 contracts and consultation services.

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

	Nine months ended		Three months ended	
	30 September,		30 September,	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Sale of recycled products and provision of waste treatment	286,460	181,433	123,255	67,264
Trading of chemical products	14,729	13,745	5,598	5,861
Revenue from construction and operation of environmental protection systems	17,356	15,872	5,746	5,040
Consultation service income	28	174	-	68
	318,573	211,224	134,599	78,233

3. Other operating expenses

Analysis of other operating expenses is as follows:

	Nine months ended		Three months ended	
	30 September,		30 September,	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment loss	18,546	788	9,500	788
Research and development expenses	10,274	1,556	4,194	399
Cost of sale of other businesses	9,283	4,096	5,200	1,320
Other expenses	2,792	286	1,960	98
	40,895	6,726	20,854	2,605

4. 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 nine months ended 30 September, 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 nine months ended 30 September, 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 nine months ended 30 September, 2006. Lishan has made provision for PRC corporate income tax at 7.5% on its estimated assessable profits for the nine months ended 30 September, 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.

5. Dividends

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

6. Earnings per share

The calculation of the basic earnings per share is based on the unaudited profit attributable to equity holders of the parent for the nine months ended 30 September, 2006 of RMB48,816,000 (2005: RMB39,507,000) and the weighted average number of 627,381,872 (2005: 627,381,872) ordinary shares in issue during the nine months period.

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

7. Reserves

Other than the profit attributable to equity holders of parent, minority interests and annual dividend paid for the nine months ended 30 September, 2006 and 2005, there were no movements to or from reserves of the Group during the nine months period (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the principal businesses of the Group continued to grow steadily. Market expansion, research and development (“R&D”) and construction of new projects were all undergoing smoothly representing a good sign in the overall development.

During the period under review, the Group kept expanding the waste collection treatment market, as a result, the waste treatment and recycling business grew significantly. With the effort of the technical and marketing personnel, the Group had successfully expanded the waste collection territories to other areas in Zhujiang Delta, such as Qingyuan, Shunde, Jiangmen and Zhuhai. As the waste collection volume increased substantially, the solid waste treatment business represented satisfactory performance. The turnover of this business segment for the third quarter has increased by approximately 103.9% as compared to the corresponding period of last year. Meanwhile, the production and sales of the Group’s recycled products still showed a strong growing momentum.

During the period under review, all of the Group’s new projects have undergone smoothly. The construction work of the Guangdong Province Hazardous Waste Comprehensive Treatment Demonstration Centre Project were undergoing steadily and the number of contracted customers are increasing. It is expected that this project will produce stable revenue once it has duly commenced operation. In addition, the project of utilizing landfill methane to generate power has reached the stage of installing equipments and is expected to commence operation during the forthcoming year.

Given that the operation of the Huizhou Dongjiang Environmental Co., Ltd. (“Huizhou Dongjiang”) treatment base became stable and start to attain remarkable performance, the Company invested RMB2,010,000 to acquire 40.2% shareholdings in Huizhou Dongjiang and making it becomes the Group’s wholly-owned subsidiary.

The Group had invested approximately RMB10,274,000 during the period under review to enhance the R&D and also its own innovation ability. According to the overall development plan of the Group, the R&D centre further refined the heavy metal industry waste treatment and recycling technology and started the development of high value-added recycled products; and continue to conduct the industry research for the following projects, namely treatment and recycling of waste printed circuit base board, precious metal contained waste catalyst and food and beverage waste treatment. Besides, the proposal of the EP Scientific Research and Project Technology Development Centre, the symbol for the Group's advancement in R&D, had been approved and has now reached into the planning and construction stage.

During the period under review, the Group continued to strengthen its corporate governance, and had standardized the assets and business management of its subsidiaries. The Group had also enlarged the talents pool and organized a more comprehensive on-the-job training and career development plan for the staff.

Financial Review

For the nine months ended 30 September, 2006, the Group's turnover was increased by approximately 50.8% to RMB318,573,000 (2005: RMB211,224,000) as compared to the corresponding period of last year. The profit attributable to equity holders of the parent was increased by approximately 23.6% to RMB48,816,000 (2005: RMB39,507,000).

The increase in turnover was mainly attributable to the sales of recycled products and wastes treatment business. The turnover generated from this business segment was approximately RMB286,460,000 (2005: RMB181,433,000), representing an increase of 57.9%. The turnover of solid waste treatment business increased by approximately 103.9% to RMB17,724,000 (2005: RMB8,692,000).

During the period under review, the Group's gross profit margin was 43.7% (2005: 45.4%). Owing to the increasing costs of raw materials and transportation, the gross profit margin of selling recycled products and wastes treatment dipped causing the Group's overall gross profit margin to drop slightly. The gross profit margin of trading of chemical products and operation of environmental protection systems were basically the same as the corresponding period of last year.

For the nine months ended 30 September, 2006, the Group's selling and distribution costs was approximately RMB17,312,000 (2005: RMB15,842,000), representing 5.4% of the Group's turnover (2005: 7.5%). The drop in selling and distribution costs to turnover was mainly attributable to the expansion of sales scale, as well as the Group's sound management over the sales and marketing system.

For the nine months ended 30 September, 2006, the Group's administrative expenses were approximately RMB37,601,000 (2005: RMB35,094,000), representing 11.8% of the Group's turnover (2005: 16.6%). The significant drop of administrative expenses to turnover had evidenced the achievement for the Group in improving the process management and cost control.

For the nine months ended 30 September, 2006, the Group's other operating expenses increased to RMB40,895,000 (2005: RMB6,726,000). The increase in operating expenses was mainly attributable to the equipments in various subsidiaries, such as Shajing Treatment Center and Lishan, had reached their life limit. Therefore, the Group has made an impairment provisions of approximately RMB18,546,000 during the period. In addition, the Group has invested RMB10,274,000 in R&D.

Future Prospect

With the PRC economy continues its strong growth momentum and the environmental protection industry is an up-and-coming business segment of great potential, the Group believes there will be ample space of development for its business. To capture the opportunities and meet the challenges ahead, the Group is gearing up to make adjustment as well as to deploy its short-term and medium-term development plans.

Looking forward, the Group shall remain focusing on its principal business namely the detoxification and recycling of industrial wastes. In addition to this principal business, it will also actively look at opportunities that may help expand its business scope. Geographically, the Group will put greater emphasis in Guangdong Province. Nevertheless, it will pay attention to other opportunities that may arise from other regions. As to business development, leveraging on its strengths in having a well-established brand and leading technological know-how, the Group intends to expand its business to such areas like domestic wastes treatment, power generation through recycling as well as domestic sewage and industrial waste water treatments. In addition, the Group will devote more effort in R&D as well as various forms of co-operation, and consider ways to strengthen its competency including acquisition to maintain its leading position in the industry.

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

As at 30 September, 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	Percentage of shareholding	
					Total	in this class
Mr. Zhang Wei Yang	233,651,966	–	–	–	233,651,966	51.98%
Mr. Li Yong Peng	–	–	35,389,750 (Note 1)	–	35,389,750	7.87%
Mr. Chen Shu Sheng	–	–	35,389,750 (Note 2)	–	35,389,750	7.87%

Notes:

- (1) These shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd., 90% of which is owned by Mr. Li Yong Peng.
- (2) These shares are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Mr. Chen Shu Sheng.

Save as disclosed above, none of the Directors, supervisors or chief executive of the Company had, as at 30 September, 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 September, 2006, 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 owner	61,566,558 domestic shares	13.70%
China Environmental Fund 2002, LP (<i>Note 2</i>)	Beneficial owner	11,500,000 H shares	6.46%
Leading Environmental Solutions and Services (<i>Note 2</i>)	Interest of a controlled corporation	11,500,000 H shares	6.46%
Ms. Cai Hong	Beneficial owner	28,232,184 domestic shares	6.28%

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. 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, 2006, 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, 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 September, 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 September, 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. Mr. Meng Chun has been appointed as the Chairman of the audit committee. The audit committee has reviewed the financial statements for the nine months ended 30 September, 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 nine months ended 30 September, 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

9 November, 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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