



First Quarterly Report
2007



深圳市東江環保股份有限公司
Shenzhen Dongjiang Environmental Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)

*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

- Revenue was increased by approximately 57.7% to RMB135,049,000 for the three months ended 31 March, 2007, as compared to that of the same period in 2006 (2006: RMB85,645,000).
- Profit attributable to equity holders of the parent was increased by approximately 42.8% to RMB22,734,000 for the three months ended 31 March, 2007, as compared to that of the same period in 2006 (2006: RMB15,917,000).
- Earnings per share was RMB0.0362 (2006: RMB0.0254) for the three months ended 31 March, 2007.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2007 (2006: Nil).

FIRST QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)

The board of Directors (the "Board") of 深圳市東江環保股份有限公司 (Shenzhen Dongjiang Environmental Company Limited) (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March, 2007 (the "Period"), together with the comparative figures of the corresponding period of 2006 as follows:

		Three months ended 31 March,	
	<i>Notes</i>	2007 (unaudited) RMB'000	2006 (unaudited) RMB'000
REVENUE	2	135,049	85,645
Cost of sales		(79,747)	(50,989)
Gross profit		55,302	34,656
Other income		2,701	5,014
Selling and distribution costs		(8,338)	(5,633)
Administrative expenses		(13,859)	(9,507)
Other operating expenses		(4,585)	(4,392)
PROFIT FROM OPERATING ACTIVITIES		31,221	20,138
Finance costs		(284)	(7)
Share of results of associates		–	–
PROFIT BEFORE TAX		30,937	20,131
Income tax expenses	3	(6,766)	(3,945)
PROFIT FOR THE PERIOD		24,171	16,186
Attributable to:			
Equity holders of the parent		22,734	15,917
Minority interests		1,437	269
		24,171	16,186
DIVIDENDS	4	–	–
EARNINGS PER SHARE – BASIC	5	RMB0.0362	RMB0.0254

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 and Chapter 18 of the GEM Listing Rules. The consolidated financial statements are prepared on historical cost basis 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 first quarterly financial results are consistent with those adopted in the annual financial statements for the year ended 31 December, 2006. The consolidated results are unaudited and have been reviewed by the audit committee of the Company.

2. Revenue

Revenue 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 income.

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

	Three months ended	
	31 March,	
	2007	2006
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Sale of recycled products and the provision of waste treatment services	127,260	77,941
Revenue from construction and operation of environmental protection systems	5,674	3,617
Trading of chemical products	2,115	4,059
Consultation service income	-	28
	135,049	85,645

3. Income tax expenses

The Company is located in the Shenzhen Special Economic Zone and subject to the PRC corporate income tax at a rate of 15% (2006: 15%) of the estimated assessable income determined in accordance with the relevant income tax rules and regulations of the PRC. In 2006, the Company was eligible to a preferential tax rate of 7.5% for three years since 2006 as an Advanced New Technology Enterprise (2006: 7.5%).

The subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC corporate income tax at a rate of 15% (2006: 15%). Subsidiaries located in other cities are subject to the PRC corporate income tax at a rate of 33% (2006: 33%).

In accordance with the relevant income tax rules and regulations of the PRC, the Company's subsidiaries, Shenzhen Lishan Environmental Protection Materials Co., Ltd. and Shenzhen Dongjiang Heritage Technologies Co., Ltd. are exempt from PRC corporate income tax for two years commencing from their first profit-making year, following by a 50% tax reduction for the next three years.

Subsidiary established in Hong Kong in 2006 is subject to Hong Kong Profits Tax at the rate of 17.5%. No Hong Kong Profits Tax has been provided for the Period because the subsidiary did not have assessable profit for the Period.

4. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2007 (2006: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the unaudited profit attributable to equity holders of the parent for the three months ended 31 March, 2007 of RMB22,734,000 (2006: RMB15,917,000) and the weighted average number of 627,381,872 (2006: 627,381,872) ordinary shares in issue during the Period.

No diluted earnings per share was presented as no diluting events existed for each of the three months ended 31 March, 2006 and 2007.

6. Reserves

Other than the profit attributable to equity holders of parent, minority interests for the three months ended 31 March, 2007, there were no movements to or from reserves of the Group and the Company during the Period (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period under review, the Group has seized the advantages of a good development trend and continued to carry out strategic plans actively, put great effort to expand the principal business and developed the new projects. Revenue and profit attributable to equity holders of the parent increased by 57.7% and 42.8% to approximately RMB135,049,000 and RMB22,734,000 respectively as compared with those in the corresponding period of last year.

The growth in the results mainly benefited from the Group's consistently enlarging the business scale of the wastes treatment and recycling while establishing the effective marketing and market-expanding strategies in order to match the expanding opportunities in the market. Considering the volatile market prices of metals, the Group had adopted a pricing model for the metal series recycled products which would have higher correlation with the market status and the sales performance was satisfactory. In addition, the Group had been striving to expand the business of the solid wastes treatment during the Period under review and was able to maintain the strong development trend of the business segment which recorded a 70.6% growth in the first quarter.

During the Period under review, the project of utilizing landfill methane to generate power (phase one) has entered the stage of facilities' trial run and some electricity generating units has started to generate and transmit the electric power. It is expected that the remaining electricity generating units will finish their trial run and commence operation in the second quarter.

In human resources management, the Group formally implemented a talent team-up plan. According to the first stage of the working plan, the Group finished analyses of the current distribution of talent group in the Group in the first quarter and drew a preliminary picture on the list of talents of the Company and its main subsidiaries. Promoting that plan will ensure the sufficient supply of human resources for the development of the Group.

During the Period under review, the Group continued its in-depth research in respect of the utilization of the wastes recycling and the new sources of energy. Following the results and directions of the researches in 2006, R&D (Research and Development) centre has made progress in its research in bio-diesel oil technology and the disposal and recycling of the precious metal contained waste and used batteries.

Financial Review

For the three months ended 31 March, 2007, the Group's revenue was increased by approximately 57.7% to RMB135,049,000 (2006: RMB85,645,000) as compared to the corresponding period of last year. The profit attributable to equity holders of the parent was increased by approximately 42.8% to RMB22,734,000 (2006: RMB15,917,000).

The increase in revenue was mainly attributable to the business of wastes treatment and recycling. The revenue generated from this business segment was approximately RMB127,260,000 (2006: RMB77,941,000), representing an increase of 63.3%. The Group further developed the business of environmental protection system construction and operation during the Period under review. This business segment recorded a 56.9% increase in revenue to RMB5,674,000 (2006: RMB3,617,000).

During the Period under review, the Group's gross profit had increased by 59.6% to approximately RMB55,302,000 (2006: RMB34,656,000), the gross profit margin was 40.9% (2006: 40.5%).

For the three months ended 31 March, 2007, the Group's selling and distribution costs were approximately RMB8,338,000 (2006: RMB5,633,000), representing 6.2% of the Group's revenue (2006: 6.6%). The increase in selling and distribution costs was mainly attributable to the expansion of scale of waste treatment business which gave rise to the increased expenses of wastes collection and transportation.

For the three months ended 31 March, 2007, the Group's administrative expenses were approximately RMB13,859,000 (2006: RMB9,507,000), representing 10.3% of the Group's revenue (2006: 11.1%). The rise in administrative expenses was mainly attributable to the expansion of business scale of the Group which caused the increase in salary and office expenses.

Future Prospects

During the first quarter in 2007, good prospect had emerged in business development of the Group and various strategic plans of the Group will be carried out gradually. Our future working objectives will be focused on consistent reinforcement in the core business, general R&D and cooperation in technologies, and efficient improvement in internal management.

With initial formation of business chains of the solid wastes disposal and recycling, the Group will set up more comprehensive solid wastes treatment, disposal and recycling systems, striving for breakthrough in hazardous wastes disposal, food and beverage wastes treatment, construction wastes and the disposal of the ashes from domestic wastes incineration. Besides, the Group will also focus on the development on detoxification and recycle of special hazardous wastes such as electronic wastes and medical wastes.

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

At 31 March, 2007, the interests and short positions of the directors, supervisors and chief executive of the Company in the share capital, 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 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	Capacity	Number and class of shares	Percentage of shareholding in this class
Mr. Zhang Wei Yang	Beneficial owner	233,651,966 domestic shares	51.98%
Mr. Li Yong Peng	Interest of a controlled corporation	35,389,750 domestic shares (Note 1)	7.87%
Mr. Chen Shu Sheng	Interest of a controlled corporation	35,389,750 domestic shares (Note 2)	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, as at 31 March, 2007, none of the Directors, supervisors 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

So far as is known to the directors or chief executive of the Company, as at 31 March, 2007, the following persons (other than directors, supervisors and chief executive of the Company) had their interests or short position in shares and underlying shares of the Company as 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 <i>(Note 1)</i>	Beneficial Owner	61,566,558 domestic shares	13.70%
Shenzhen Fang Yuan Petrochemical Industries Co., Ltd	Beneficial Owner	35,389,750 domestic shares <i>(Note 2)</i>	7.87%
Shenzhen Wen Ying Trading Limited	Beneficial Owner	35,389,750 domestic shares <i>(Note 3)</i>	7.87%
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services <i>(Note 4)</i>	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environmental Fund 2002, LP	Beneficial Owner	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. The shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. 90% of which is owned by Mr. Li Yong Peng.
3. The shares are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Mr. Chen Shu Sheng.
4. 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, 2007, 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, 2007, none of the directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 31 March, 2007, none of the directors, supervisors and chief executive 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 INTERESTS

During the three months ended 31 March, 2007, none of the directors or the management shareholders of the Company and their respective associates are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in GEM listing Rules.

AUDIT COMMITTEE

The Company has set up an audit committee on 14 January 2003 with written terms of reference, for the purpose of reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, formulating and implementing policies in relation to the non-audit services provided by auditors, reviewing the Company's financial information and its disclosure, monitoring the Company's internal control system and its implementation, reviewing and providing supervision over the Group's financial reporting process and internal controls of the Company.

The audit committee comprises three independent non-executive Directors, namely Messrs. Meng Chun, Wang Ji Wu and Yang Zhi Feng. The audit committee has reviewed the Company's financial statements for the three months ended 31 March, 2007 and has provided advice and comments thereon.

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 rules 5.48 to 5.67 of the GEM Listing Rules. 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 throughout the three months ended 31 March, 2007.

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

10 May, 2007

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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