

DONGJIANG ENVIRONMENTAL

Third 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)
(Stock Code: 8230)

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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 GEM 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, 2007 (the “Period”), revenue was increased by approximately 48.2% to RMB472,236,000, as compared to that of the same period in 2006 (2006: RMB318,573,000).
- Net profit attributable to equity holders of the parent was increased by approximately 104.2% to RMB99,689,000 for the Period, as compared to that of the same period in 2006 (2006: RMB48,816,000).
- Earnings per share was RMB0.1589 (2006: RMB0.0778) for the Period.
- The Board does not recommend the payment of any dividend for the Period (2006: Nil).

THIRD QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)

The board of directors (the "Board") of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the nine months and three months ended 30 September, 2007, together with the comparative figures of the corresponding periods of 2006 as follows:

	Notes	Nine months ended 30 September,		Three months ended 30 September,	
		2007 (unaudited) RMB'000	2006 (unaudited) RMB'000	2007 (unaudited) RMB'000	2006 (unaudited) RMB'000
REVENUE	2	472,236	318,573	161,898	134,599
Cost of sales		(254,992)	(179,354)	(94,419)	(81,780)
Gross Profit		217,244	139,219	67,479	52,819
Other income		10,629	17,133	7,882	13,047
Selling and distribution costs		(22,712)	(17,312)	(10,286)	(7,022)
Administrative expenses		(48,560)	(37,601)	(13,934)	(19,652)
Other operating expenses		(35,895)	(40,895)	(6,942)	(20,854)
Finance costs		(1,646)	(310)	(899)	(189)
PROFIT BEFORE TAX		119,060	60,234	43,300	18,149
Income tax expenses	3	(13,954)	(10,722)	(41)	(2,342)
PROFIT FOR THE PERIOD		105,106	49,512	43,259	15,807
Attributable to:					
Equity holders of the parent		99,689	48,816	39,817	13,080
Minority interests		5,417	696	3,442	2,727
		105,106	49,512	43,259	15,807
DIVIDENDS	4	—	—	—	—
EARNINGS PER SHARE					
— BASIC	5	RMB0.1589	RMB0.0778	RMB0.0635	RMB0.0208

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 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 third quarterly results are consistent with those adopted in the annual financial statements for the year ended 31 December, 2006. The consolidated results are unaudited but have been reviewed by the audit committee of the Company.

2. Revenue

Revenue represents the net amounts received and receivables for sale of recycled products, provision of waste treatment services, trading of chemical products and provision of construction contracts and consultation services by the Group to outsiders, less value added tax, sales tax, returns and trade discounts.

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

	Nine months ended 30 September,		Three months ended 30 September,	
	2007 (unaudited) RMB'000	2006 (unaudited) RMB'000	2007 (unaudited) RMB'000	2006 (unaudited) RMB'000
Sale of recycled products and the provision of waste treatment services	436,066	286,460	140,939	123,255
Construction and operation of environmental protection systems	25,447	17,356	17,033	5,746
Trading of chemical products	10,723	14,729	3,926	5,598
Consultation service	—	28	—	—
	472,236	318,573	161,898	134,599

3. Income tax expenses

The Company is located in the Shenzhen Special Economic Zone and subject to the People's Republic of China (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. During the Period, 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 exempted from the 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.

4. Dividends

The Board does not recommend the payment of any dividend for the Period (2006: Nil).

5. Earnings per share

The calculation of the basic earnings per share is based on the unaudited net profit attributable to equity holders of the parent for the Period of RMB99,689,000 (2006: RMB48,816,000) and the weighted average number of 627,381,872 (2006: 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, 2006 and 2007.

6. Reserves

Other than the net profit attributable to equity holders of parent and minority interests for the nine months ended 30 September, 2007, there was no movement to or from reserves of the Group during the Period (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period, the Group's operation environment as a whole remained favourable as we saw great momentum in the development of its principal business which recorded excellent operating results. For the nine months ended 30 September, 2007, the Group's revenue increased by approximately 48.2% to RMB472,236,000 as compared with the corresponding period last year. Net profit attributable to equity holders of the parent grew 104.2% to RMB99,689,000.

The significant growth in results was mainly attributable to the expansion in the scale of waste treatment and recycling businesses, as well as the increase in sales volume and prices of the recycled products as compared to the corresponding period of last year. During the Period, the Group has taken initiative in expanding waste collection network through strategic settings in major cities in Guangdong Province, thus contributing to sustainable growth in solid waste treatment business. During the first three quarters, the solid waste treatment business recorded revenue of RMB42,526,000, of which RMB11,419,000 came from Demonstration Centre Project (phase one), which was put into trial operation in the first half of the year. The various tasks under this project have been proceeding smoothly during the Period, with growth in both business volume and number of customers being recorded. Besides, another new project of the Group – methane power generation project has had its initial set of electricity generating units put into operation and generated revenue of approximately RMB3,400,000 since generating electricity in the first half of this year.

During the Period, production of the Group's major recycled products like copper salts and nickel salts grew steadily. The market environment was prosperous and the sales were maintained at a good level. All the above formed another driving force for the Group's results to rise.

In addition to consolidating its existing business, during the Period, the Group boosted itself in launching new business and achieved good progress in developing the fields of renewable energy, municipal solid waste treatment and comprehensive utilization:

- **successful bidding for the Lao Hu Keng Project**

During the Period, the Group took the lead in forming a bidding group and has successfully bid for Shenzhen Baoan Lao Hu Keng Landfill Methane Utilization Clean Development Mechanism ("CDM") Project ("Lao Hu Keng Project"). When the formal agreement is officially signed, the Group will be granted the franchise of the project and be responsible for its investment, establishment and operation. The Lao Hu Keng Project is the Group's second project for methane gas utilization and is also the first CDM project. Its implementation can help the Group in raising its competitiveness in the renewable energy business and can also provide an advantage for the Group for obtaining similar projects in the future.

- **kitchen waste management project**

Since 1 October, 2007, “Temporary Measures on Kitchen Waste Management of Shenzhen” (《深圳市餐廚垃圾管理暫行辦法》) was implemented and put into effect. The regulation stipulates that kitchen waste must be collected and processed by authorized operating entity. As one of the three authorized trial operating entities in Shenzhen, the Company is working for all preparatory work for the kitchen waste management project, including purchase of trucks and equipment and also design and establishment of demonstration treatment facilities. The Group will seize this opportunity to further develop the market of municipal solid waste treatment.

During the Period, the Group fostered various research and development (“R & D”) work. Total input into R & D expenses was approximately RMB10,416,000. To cope with strategic development, the Group has, during the Period, focused on R & D of precious metal contained waste treatment and recycling, including utilization of mineral resources, and has entered the design stage for relevant pilot projects.

As the national pilot entity of the recycling economy, the Group has, as early as 2005, started cleaner production audit work in its main treatment bases. During the audit period, over 20 solutions were proposed including substitute for energy, improvement of technology and process and renewal of facilities. Through the solutions implemented, the Group’s treatment cost was effectively under control, contributing to a remarkable result in reducing residual use of energy and achieving a historical optimal level for all environmental benchmark. To reward the Group’s achievement in cleaner production, the Company was honored as “Cleaner Production Unit of Guangdong Province” (廣東省清潔生產單位) by the government.

Financial Review

For the nine months ended 30 September, 2007, the Group’s revenue was increased by approximately 48.2% to RMB472,236,000 (2006: RMB318,573,000) as compared to the corresponding period of last year. The net profit attributable to equity holders of the parent was increased by approximately 104.2% to RMB99,689,000 (2006: RMB48,816,000).

The growth in revenue was mainly attributable to the business of waste treatment and sales of recycled products. The revenue generated from this business segment was approximately RMB436,066,000 (2006: RMB286,460,000), representing an increase of 52.2%. In addition, construction and operation of environmental protection systems increased steadily during the Period, with an increase of 46.6% in revenue to RMB25,447,000 (2006: RMB17,356,000).

During the Period, the Group's gross profit was approximately RMB217,244,000 (2006: RMB139,219,000), representing an increase of 56.0% as compared to the same period last year. The gross margin increased by 2.3 percentage points to 46.0% (2006: 43.7%). As both of the sales volume and selling prices of the Group's main recycled products increased compared with the last corresponding period, along with a better control on the manufacturing costs, the Group's gross profit margin for the Period rose slightly. During the Period, the Group had insisted on its prudent financial policy and continued to reinforce the costs and expenses control, which resulted in a modest increase in selling and distribution costs and administrative expenses.

The increasing trend of the Group's revenue, the improved gross profit margin and tighter control on costs and expenses, were the main reasons for the strong growth of the Group's net profit attributable to equity holders of the parent.

Future Prospect

In the coming fourth quarter, the Group's main business is expected to maintain stable growth and new business opportunities will keep emerging unceasingly.

Sticking to its strategic policy, the Group will make arduous efforts to search for innovation on its technologies, operational management and business model while expanding business scope and extending business chain, for better exertion of the synergy and the advantage of an integrated industry chain. To achieve this objective, the Group will seek the opportunities to invest or acquire companies with potential in the vertical chain of the industry. Meanwhile, based on the existing businesses, the Group will actively explore market expansion in the horizontal chain of the industry, such as the renewable energy field and the treatment, disposal and utilization of municipal solid wastes including domestic waste, kitchen waste, construction waste and municipal sludge and so on, to provide constant impetus for future's sustainable development.

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

As at 30 September, 2007, 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 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 required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long position 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	15,389,750 domestic shares (Note 2)	3.42%

Notes:

- (1) These shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. ("Shenzhen Fang Yuan"), 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 registered, as at 30 September, 2007, 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 required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, supervisors or chief executive of the Company, as at 30 September, 2007, the following persons (other than the Directors, supervisors and chief executive of the Company) had their interests or short position in the shares and underlying shares of the Company as recorded in the register 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	Beneficial Owner	35,389,750 domestic shares (<i>Note 2</i>)	7.87%
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services (<i>Note 3</i>)	Interest of a controlled corporation	11,500,000 H shares	6.46%
China Environment Fund 2002, LP	Beneficial Owner	11,500,000 H shares	6.46%

Notes:

- 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, supervisors, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.
- The shares are held by Shenzhen Fang Yuan, 90% of which is owned by Mr. Li Yong Peng.

3. Leading Environmental Solutions and Services owns approximately 76.92% of China Environment Fund 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the Directors, supervisors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 September, 2007, 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 Divisions 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, 2007, 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 INTERESTS

During the Period, none of the Directors, supervisors or the management shareholders of the Company and their respective associates was 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 the 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 Mr. Meng Chun, Mr. Wang Ji Wu and Mr. Yang Zhi Feng. The audit committee has reviewed the Company's financial statements for the nine months ended 30 September, 2007 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 Period.

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 and 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 Period.

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

8 November, 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.

* For identification purpose only