* For identification purposes only

8230

FIRST QUARTERLY REPORT 2008

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 Peoples's Republic of China)

(Stock Code: 8230)

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

- Revenue was increased by approximately 24.8% to RMB168,521,000 for the three months ended 31 March, 2008, as compared to that of the corresponding period in 2007 (2007: RMB135,049,000).
- Profit attributable to equity holders of the parent was increased by approximately 45.6% to RMB33,104,000 for the three months ended 31 March, 2008, as compared to that of the corresponding period in 2007 (2007: RMB22,734,000).
- Earnings per share was RMB0.0528 (2007: RMB0.0362) for the three months ended 31 March, 2008.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2008 (2007: 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, 2008 (the "Period"), together with the comparative figures of the corresponding period of 2007 as follows:

	Notes	**Three months ended 31 March, 2008 (unaudited)** ***RMB'000***	**Three months ended 31 March,** 2007 (unaudited) *RMB'000*
REVENUE	2	**168,521**	135,049
Cost of sales		**(88,039)**	(79,747)
Gross profit		**80,482**	55,302
Other income		**1,486**	2,701
Selling and distribution costs		**(10,041)**	(8,338)
Administrative expenses		**(26,973)**	(13,859)
Other operating expenses		**(2,118)**	(4,585)
PROFIT FROM OPERATING ACTIVITIES		**42,836**	31,221
Finance costs		**(2,319)**	(284)
PROFIT BEFORE TAX		**40,517**	30,937
Income tax expenses	3	**(5,717)**	(6,766)
PROFIT FOR THE PERIOD		**34,800**	24,171
Attributable to:			
Equity holders of the parent		**33,104**	22,734
Minority interests		**1,696**	1,437
		34,800	24,171
DIVIDENDS	4	**–**	–
EARNINGS PER SHARE – BASIC	5	**RMB0.0528**	RMB0.0362

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, 2007. 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, 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.

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

	Three months ended 31 March,	
	2008 (unaudited) *RMB'000*	2007 (unaudited) *RMB'000*
Sale of recycled products and the provision of waste treatment services	**153,986**	127,260
Construction and operation of environmental protection systems and consultation service	**9,224**	5,674
Trading of chemical products	**5,311**	2,115
	168,521	135,049

3. Income tax expenses

The Company is entitled to a preferential PRC corporate income tax rate of 9.0% (2007: 7.5%) as an Advanced Technology Enterprise.

The subsidiaries located in the Shenzhen Special Economic Zone ("SSEZ") are subject to the PRC corporate income tax at a rate of 18% (2007: 15%). Subsidiaries located out of SSEZ are subject to the PRC corporate income tax at a rate of 25% (2007: 33%).

In accordance with the relevant income tax rules and regulations of the PRC, the Company's subsidiary, Shenzhen Dongjiang Heritage Technologies Co., Ltd. is entitled to a 50% reduction of PRC corporate income tax at a rate of 12.5%.

Subsidiary established in Hong Kong 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, 2008 (2007: 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, 2008 of RMB33,104,000 (2007: RMB22,734,000) and the weighted average number of 627,381,872 (2007: 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, 2007 and 2008.

6. Reserves

Other than the profit attributable to equity holders of parent, minority interests for the three months ended 31 March, 2008, there were no movements to or from reserves of the Group and the Company during the Period (2007: Nil).

Management Discussion and Analysis

Business Review

During the Period under review, the Group operated smoothly and achieved stable growth in its principal businesses. For the three months ended 31 March, 2008, the Group's revenue increased by approximately 24.8% to RMB168,521,000 as compared with the corresponding period last year. Profit attributable to equity holders of the parent grew 45.6% to RMB33,104,000.

The growth was mainly attributable to the waste treatment and recycling business. During the Period under review, the Group continued its strategy of expanding the industrial solid waste treatment and developed such market actively through the existing and newly added operation sites. For the three months ended 31 March, 2008, the solid waste treatment and disposal business recorded RMB21,271,000 in revenue, representing an increase of approximately 120.5% comparing with the corresponding period in 2007. In the aspect of recycling business, the Group expanded the production and sales of new product TBCC in order to attract more clients and cultivate the market. For the three months ended 31 March, 2008, TBCC recorded RMB19,002,000 in revenue with an increase of 33.8% as compared with the corresponding period in 2007.

Moreover, some newly-invested projects also made contribution to the revenue, which included 1) Xiaping Landfill Gas Power Generation Project which generated a revenue of RMB3,153,000, had been implemented and operated steadily. For the three months ended 31 March, 2008, the other two new power generators were undergoing installation and debugging, and will be put into operation in the second half of 2008; 2) the Demonstration Center Project also achieved satisfactory development in view of the expansion of customer base and waste collected, and that a revenue of RMB8,569,000 had been generated; 3) the recycling base located in Guangdong Shaoguan which started to sell its trial electrode copper products also realized satisfactory economic results.

During the Period under review, the Group went smoothly in various new projects. The contract relating to the Lao Hu Keng Project had been signed and its design and planning work had also been commenced. The North Guangdong Treatment Center had accomplished several works including the Feasibility Research Report, Environment Influence Evaluation and Detailed Planning. To cope with the development of new businesses, the Group had newly set up the Business Division of Municipal Waste, and had basically completed formulating its organization structure and recruitment of its employees. This new business department is responsible for the implementation of the newly secured projects such as the Lao Hu Keng Project, Hunan Shaoyang Domestic Waste Landfill, Kitchen Waste Treatment, etc. It also responsible for following up more potential projects and participating in some biddings.

To promote the specialization of wastes management, the Group launched the project of specialization of management at the end of 2007, and took Shajing Treatment Center as an experimental unit. During the Period under review, the Group had finished the planning of the specialization management system and started to implement it. Most important aspects of wastes management such as client services, transportation and logistics, business development, safety and environmental protection, overall planning of factory area, skill training, etc. had been covered by this system and it will play a positive role in optimizing wastes management process, reducing running risks, and strengthening the concepts of market and services.

Financial Review

For the three months ended 31 March, 2008, the Group's revenue was increased by approximately 24.8% to RMB168,521,000 (2007: RMB135,049,000) as compared to the corresponding period in 2007. The profit attributable to equity holders of the parent was increased by approximately 45.6% to RMB33,104,000 (2007: RMB22,734,000).

The growth in revenue was mainly attributable to the business of waste treatment and recycling. The revenue generated from this business segment was approximately RMB153,986,000 (2007: RMB127,260,000), representing an increase of 21.0%. Among which, the solid waste treatment realized a 120.5% increase in revenue to RMB21,271,000 as compared to the corresponding period in 2007 (2007: RMB9,649,000).

During the Period under review, the Group's gross profit had increased by 45.5% to approximately RMB80,482,000 (2007: RMB55,302,000), the gross profit margin was 47.8% (2007:40.9%). The reason for the increase in the gross profit margin was that the waste treatment and recycling business recorded a higher gross profit margin than that of the corresponding period in 2007 due to the increased market price and better control of the manufacturing and treatment costs.

For the three months ended 31 March, 2008, the Group's administrative expenses were approximately RMB26,973,000 (2007: RMB13,859,000), representing approximately 16.0% (2007:10.3%) of the Group's revenue. There are three main reasons of the increase in administrative expenses. Firstly, there were additional administrative expenses of RMB 4,421,000 caused by four new subsidiaries of the Group; Secondly, the Group set up a new business division, which incurred market development expenses of RMB2,800,000; Thirdly, the employment costs and relevant management expenses were increased due to the expanded business scale of the Group. The Group has taken a series of measures in order to improve the management efficiency and control the administrative expenses at a reasonable level.

Future Prospects

We believe that the market of China's environment protection will develop prosperously and become more regulated and healthy. The Group will focus on its affirmed orientation and objectives, and develop according to the thought of "Becoming Large & Strong, Being Specialized & Comprehensive". In order to grasp the opportunities in the environmental protection market, the Group will maintain the steady expansion of its existing businesses while enlarging the investment in the fields of treatment and disposal for the industrial and municipal solid wastes. During the process of development, the Group will inevitably meet with challenges such as heated industry competition, increasing costs, capital, talent demand, etc. To this end, we will invest those projects which can promote our core competence and try to take good balance between the need of coping with the Group's overall strategies and the profitability. At the same time, the Group will emphasis on costs control, better financial planning, and enhance human resource management continuously to ensure its fast and steady development.

Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

At 31 March, 2008, 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	15,389,750 domestic shares *(Note 2)*	3.42%

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, 2008, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Rule 5.46 of the GEM Listing Rules.

Substantial Shareholders

So far as is known to the directors or chief executive of the Company, as at 31 March, 2008, 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 shareholding in its class
Shanghai New Margin Venture Capital Co., Ltd *(Note 1)*	Beneficial owner	61,566,558 domestic shares	13.70%
Shenzhen Fang Yuan Petrochemical Industries Co., Ltd	Beneficial owner	35,389,750 domestic shares *(Note 2)*	7.87%
Cai Hong	Beneficial owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services *(Note 3)*	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. 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, 2008, 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, 2008, 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, 2008, 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, 2008, 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, as appropriate, 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, 2008 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, 2008.

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 May, 2008
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*