



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 ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER, 2008**

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The Exchange takes no responsibility for the contents of this announcement, 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 announcement.

This announcement, 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 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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, 2008 (the “Period”), revenue was increased by approximately 24.59% to approximately RMB588,380,000, as compared to the corresponding period in 2007 (2007: approximately RMB472,236,000).
- Profit attributable to equity holders of the parent was increased by approximately 25.69% to approximately RMB125,302,000 for the Period, as compared to the corresponding period in 2007 (2007: approximately RMB99,689,000).
- Earnings per share was RMB0.1997 (2007: RMB0.1589) for the Period.
- The Board does not recommend the payment of an dividend for the Period (2007: Nil).

THIRD QUARTERLY 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 (collectively the “Group”) for the nine months and three months ended 30 September, 2008, together with the comparative figures of the corresponding periods of 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Nine months ended 30 September,		Three months ended 30 September,	
		2008 (unaudited) RMB'000	2007 (unaudited) RMB'000	2008 (unaudited) RMB'000	2007 (unaudited) RMB'000
REVENUE	2	588,380	472,236	211,695	161,898
Cost of sales		(297,052)	(254,992)	(109,849)	(94,419)
Gross Profit		291,328	217,244	101,846	67,479
Other income		5,616	10,629	524	7,882
Selling and distribution costs		(30,788)	(22,712)	(11,444)	(10,286)
Administrative expenses		(80,355)	(48,560)	(31,355)	(13,934)
Other operating expenses		(11,601)	(35,895)	(2,870)	(6,942)
Finance costs		(11,940)	(1,646)	(4,876)	(899)
PROFIT BEFORE TAX		162,260	119,060	51,825	43,300
Income tax expenses	3	(33,266)	(13,954)	(11,800)	(41)
PROFIT FOR THE PERIOD		<u>128,994</u>	<u>105,106</u>	<u>40,025</u>	<u>43,259</u>
Attributable to:					
Equity holders of the parent		125,302	99,689	38,707	39,817
Minority interests		3,692	5,417	1,318	3,442
		<u>128,994</u>	<u>105,106</u>	<u>40,025</u>	<u>43,259</u>
DIVIDENDS	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
EARNINGS PER SHARE – BASIC	5	<u>RMB0.1997</u>	<u>RMB0.1589</u>	<u>RMB0.0617</u>	<u>RMB0.0635</u>

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICES

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, 2007. 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, 2008 (unaudited) RMB'000		Three months ended 30 September, 2008 (unaudited) RMB'000	
	2007 (unaudited) RMB'000	2007 (unaudited) RMB'000	2007 (unaudited) RMB'000	2007 (unaudited) RMB'000
Sale of recycled products and the provision of waste treatment services	510,614	436,066	181,362	140,939
Construction and operation of environmental protection systems and consultation service	52,735	25,447	22,706	17,033
Trading of chemical products	25,031	10,723	7,627	3,926
	<u>588,380</u>	<u>472,236</u>	<u>211,695</u>	<u>161,898</u>

3. INCOME TAX EXPENSES

In accordance with the relevant income tax rules and regulations of the PRC, the subsidiaries located in Shenzhen are subject to the PRC enterprise income tax at a rate of 18% (2007: 15%). Subsidiaries located in other cities are subject to the PRC enterprise income tax at a rate of 25% (2007: 33%).

The Company's subsidiaries, Shenzhen Dongjiang Environmental Recycled Power Co., Ltd and Huizhou Dongjiang Veolia Environmental Services Co., Ltd, are exempt from PRC enterprise income tax for two years commencing from 2008, followed by a 50% tax reduction for the next three years. The Company's another subsidiary, Shenzhen Dongjiang Heritage Technologies Co., Ltd. is entitled to a 50% reduction of PRC enterprise income tax at a rate of 9%.

The subsidiaries established in Hong Kong are subject to Hong Kong Profits Tax at the rate of 17.50%.

4. DIVIDENDS

The Board does not recommend the payment of a dividend for the Period (2007: 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 approximately RMB125,302,000 (2007: approximately RMB99,689,000) and the weighted average number of 627,381,872 (2007: 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, 2007 and 2008.

6. RESERVES

Other than the net profit attributable to equity holders of parent and minority interests for the nine months ended 30 September, 2008, there was no movement to or from reserves of the Group during the Period (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the third quarter of 2008, the U.S. sub-prime loans risk continued to spread and led to deceleration of the global economy. In light of the slump of the international economy, the Group had timely adjusted its operation strategies and investment plans, tightened and slowed investments while strengthening its cost control. In respect of business expansion, the Group had intensified the efforts in the development of the industrial solid waste treatment and disposal business and the environmental engineering business in order to maintain a stable growth of operating results.

Industrial Waste Treatment and Disposal

During the Period, the Group had further expanded its industrial solid waste treatment business. On one hand, it had broadened its market share aggressively by deploying advantageous resources to key customers and new market districts, building up a new business team and employing professional personnel for solid waste collection; and on the other hand, it had strengthened industrial solid waste storage and treatment capability at each waste treatment base simultaneously. Through efforts in these two aspects, the industrial solid waste treatment business had sustained a strong growth. For the nine months ended 30 September, 2008, the Group recorded revenue of approximately RMB81,445,000, representing an increase of approximately 91.52% as compared to the corresponding period in 2007.

Meantime, the Group had continued to carry out energy saving and various measures on cost control at each treatment base and had achieved a positive outcome. In addition, according to the market condition, the Group had continued to integrate its resources, adjust the structure of recycled products, and focus on tin product. For the nine months ended 30 September, 2008, the revenue generated by tin product was increased by approximately 424.84% to approximately RMB37,494,000, as compared to the corresponding period in 2007.

Municipal Waste Treatment and Disposal

During the Period, the municipal waste treatment and disposal business had presented a steady development as the new projects were progressing smoothly as expected: (1) Xiaping Landfill Gas Power Generation Project was operating well overall and recorded revenue of approximately RMB6,289,000 for the nine months ended 30 September, 2008; (2) all early-stage tasks of Lao Hu Keng Project had started with the purchase of generating units, equipment for methane pre-treatment and torch incinerating completed; (3) Municipal sludge project had entered the trial run stage and started to receive and treat municipal sludge; and (4) During the Period, Lik Shun Services Limited, a wholly-owned subsidiary of the Company, had successfully secured a 5-year government contract to provide waste collection services in Shatin, Hong Kong. The contract sum of which amounted to HK\$36,900,000 in total.

Environmental Engineering and Consultancy

In line with the goal for strategic transformation of businesses, the Group had been focusing on the development of the environmental engineering and consultancy business during the Period. To integrate the environmental engineering business and to realize a professional and sizeable development, the Group had established an environmental services branch company, and made considerable progress in business expansion during the Period. The accumulative contract sum for environmental engineering construction amounted to approximately RMB41,500,000 for the nine months ended 30 September, 2008, representing an increase of approximately 291.50% as compared to the corresponding period in 2007. In respect of the environmental engineering operation, the number of operation clients had increased by 3 to 22 in the third quarter of 2008. In addition, the Group had been expanding its environmental engineering construction and operation business within the Yangtze River Delta Region with various projects under negotiation.

Financial Review

For the nine months ended 30 September, 2008, the Group's revenue was increased by approximately 24.59% to approximately RMB588,380,000 (2007: approximately RMB472,236,000) as compared to the corresponding period in 2007. The profit attributable to equity holders of the parent was increased by approximately 25.69% to approximately RMB125,302,000 (2007: approximately RMB99,689,000).

The growth was mainly driven by the industrial solid waste treatment business, which recorded an increase of approximately 91.52% in revenue to approximately RMB 81,445,000 (2007: approximately RMB42,526,000). Besides, the construction and operation of environmental protection systems and consultation service recorded an increase of approximately 107.23% in revenue to approximately RMB52,735,000 (2007: approximately RMB25,447,000). The above two businesses have become the Group's new revenue growth generators, and are expected to maintain high growth in the future.

During the Period, the Group's gross profit margin was approximately 49.51% (2007: approximately 46.00%). The increase in gross profit margin was mainly due to a better control on the costs of wastes treatment and recycling business, and that the industrial solid waste treatment business maintained a relatively high gross margin.

For the nine months ended 30 September, 2008, the Group's selling and distribution costs was approximately RMB30,788,000 (2007: approximately RMB22,712,000), representing approximately 5.23% (2007: approximately 4.81%) of the Group's revenue. The increase in selling and distribution costs was mainly attributable to the expansion of sales scale.

For the nine months ended 30 September, 2008, the Group's administrative expenses was approximately RMB80,355,000 (2007: approximately RMB48,560,000), representing approximately 13.66% (2007: approximately 10.28%) of the Group's revenue. The increase in administrative expenses was mainly attributable to more resources invested in the municipal waste treatment division and the expansion of administrative scale.

For the nine months ended 30 September, 2008, finance cost of the Group was approximately RMB11,940,000 (2007: approximately RMB1,646,000), representing approximately 2.03% (2007: approximately 0.35%) of the Group's revenue. The increase in finance cost was attributable to the increased bank loans that the Group acquired to finance its projects.

Financial Resources and Liquidity

As at 30 September, 2008, the Group had current assets of approximately RMB186,358,000 (31 December, 2007: approximately RMB182,224,000). Current assets include cash and cash equivalents of approximately RMB213,237,000 (31 December, 2007: approximately RMB250,996,000).

As at 30 September, 2008, the Group had total liabilities of approximately RMB527,469,000 (31 December, 2007: approximately RMB360,653,000). the Group's gearing ratio was approximately 45.13% (31 December, 2007: approximately 43.37%), which is calculated based on the Group's total liabilities over total assets. The Group had current liabilities of approximately RMB415,947,000 (31 December, 2007: approximately RMB276,903,000). As at 30 September, 2008, the Group had bank loans of approximately RMB273,700,000 (31 December, 2007: approximately RMB134,800,000) at interest rates from 6.48% to 7.47% per annum.

Future Prospects

The financial crisis triggered by the U.S. sub-prime loans is expected to extend its scope of influence in the fourth quarter, which will adversely affect China's economy and worsen the operating environment for enterprises. Confronted with such unfavorable situation, the Group will decisively carry out various strategic adjustments to its business structure, selling mode, pricing mechanism, investment and financing, and human resources, so as to maintain a steady business growth. Besides, the Group will comprehensively pursue the policy of "maximizing income and minimizing expenses", implementing strict cost control and capital budget arrangements, stepping up risk management along with in-depth exploration to identify and cultivate new sources of profits. Relying on our anticipation of the future market development and adoption of appropriate addressing strategies, we believe that the Group will be able to survive the economic downturn, to strengthen and maintain shareholders' value and to reserve energy for long-term growth in the future.

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

As at 30 September, 2008, 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 Exchange pursuant to the Model Code for Securities Transactions by Directors of Rule 5.46 of the GEM Listing Rules (the "Model Code"), 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	30,781,384 domestic shares (Note 2)	6.85%

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 registered, as at 30 September, 2008, 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 Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, as at 30 September, 2008, the following persons (other than the Directors, supervisors and chief executive of the Company) had their interests or short position in the shares, underlying shares and debentures 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	Number of ordinary shares held	Percentage of shareholding in its class
上海聯創創業投資有限公司 (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%
Shenzhen Wen Ying Trading Limited	Beneficial Owner	30,781,384 domestic shares (Note 3)	6.85%
Cai Hong	Beneficial Owner	28,232,184 domestic shares	6.28%
Leading Environmental Solutions and Services (Note 4)	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:

1. 上海聯創創業投資有限公司 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.
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, 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, 2008, 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, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the 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.

CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF INTEREST

The Company entered into a share transfer agreement with Mr. Luo Xiao Hong (駱曉紅), pursuant to which the Company agreed to acquire from Mr. Luo Xiao Hong 50% equity interest in Shenzhen Resource Environmental Technology Company Limited (深圳市萊索思環境技術有限公司) (“Shenzhen Resource”) for a cash consideration of RMB4,247,000.

Since the final dividend of RMB5,000,000 proposed by the then shareholders of Shenzhen Resource on 20 August 2007 will not be paid, the original consideration of RMB4,247,000 to be paid by the Company to acquire the 50% equity interest in Shenzhen Resource will be adjusted to RMB6,747,000 according to the adjusted book value of the net assets of Shenzhen Resource as at 31 August 2007. Details have been published in the Company’s announcement dated 6 June 2008.

DIRECTORS’ RIGHTS TO ACQUIRE H SHARES

As at 30 September, 2008, 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. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng. The audit committee has reviewed the Company's financial statements for the nine months ended 30 September, 2008 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 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

7 November, 2008
Shenzhen, Guangdong Province, the PRC

As at the date of this announcement, 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. Ye Ru Tang, Mr. Hao Ji Ming and Mr. Liu Xue Sheng.

* *For identification purpose only*