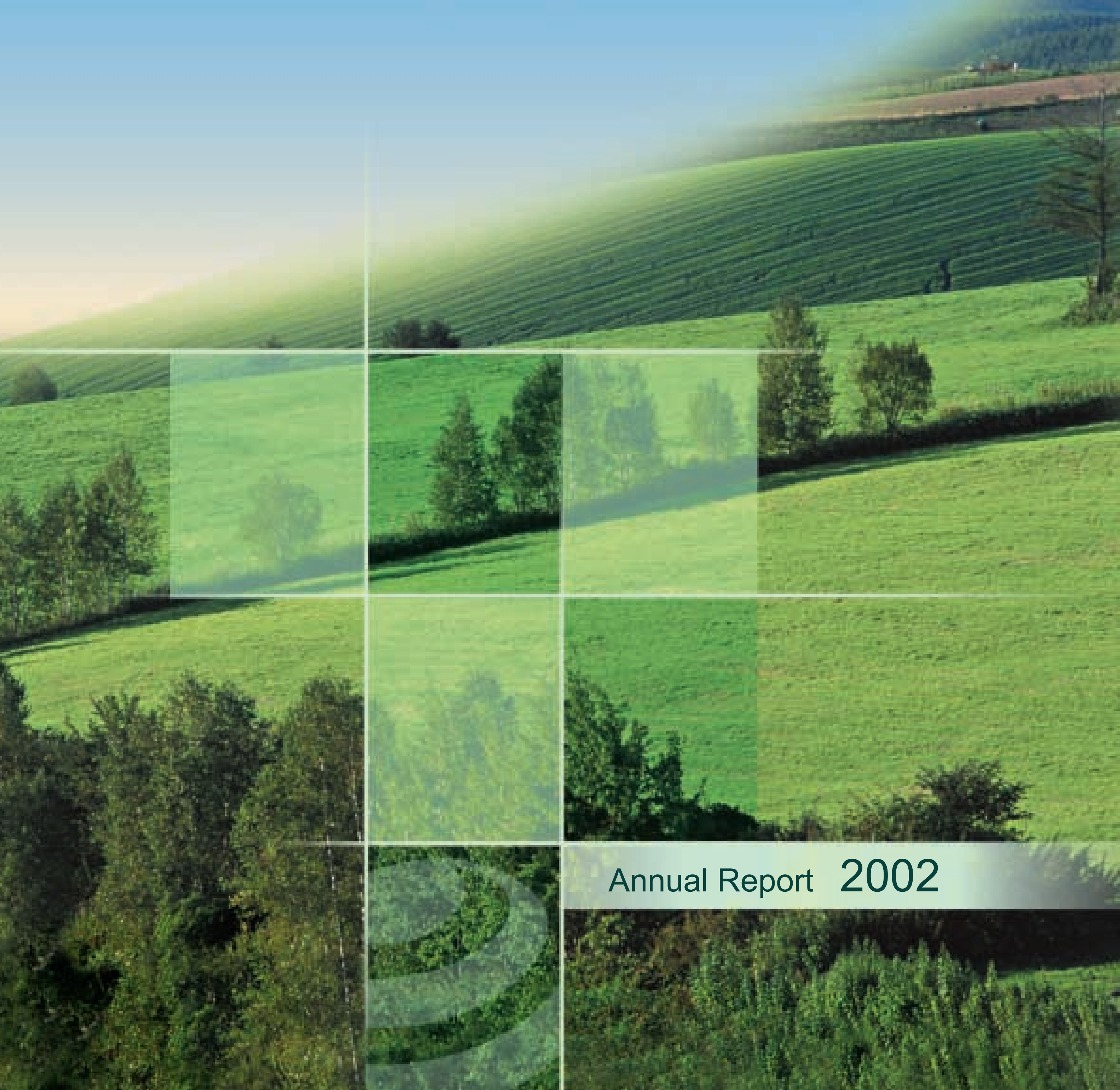
东江环保
DONG JIANG

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)



Annual Report 2002

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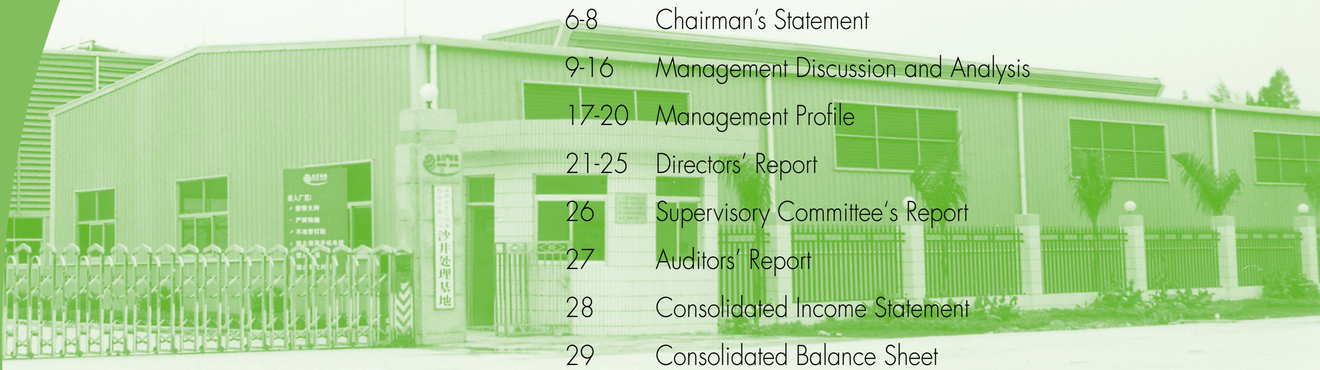
This report, for which the directors (the "Directors") of Shenzhen Dongjiang Environmental Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("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.

Contents



Corporate Information

Executive Directors

ZHANG Wei Yang
HE Qi Hu
LIU Gui Hua
LI Yong Peng

Non-executive Directors

FENG Tao
WU Shui Qing
SUN Ji Ping

Independent non-executive Directors

MENG Chun
LIU Hong Liang
WANG Ji Wu

Supervisors

YUAN Wei
LIANG Rui Chi
CAI Ping

Qualified accountant

HU Chiu Lun, Alan, FCCA, AHKSA

Company secretary

HU Chiu Lun, Alan, FCCA, AHKSA

Audit committee

MENG Chun
LIU Hong Liang
WANG Ji Wu

Compliance officer

ZHANG Wei Yang

Authorized representatives

HU Chiu Lun, Alan
ZHANG Wei Yang

GEM Stock Code

8230

Authorized representative to accept service of process and notices

Kwok & Yih

Auditors

Ernst & Young

Sponsor

First Shanghai Capital Limited

Legal advisors

Kwok & Yih

Principal banker

China Merchant Bank

Hong Kong branch share registration and transfer office

Tengis Limited
Ground Floor
Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Registered office

Office Units A, B, C, D and H
16th Floor, Shenmao Commercial Building
59 Xinwen Road
Futian District, Shenzhen
Guangdong Province
The PRC

Company homepage

http://www.szdongjiang.com

Principal place of business in Hong Kong

37th Floor Gloucester Tower
The Landmark, Central
Hong Kong

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting ("AGM") of Shenzhen Dongjiang Environmental Company Limited (the "Company") will be held at Shanshui Hotel, 61 Xinwen Road, Futian District, Shenzhen, Guangdong Province, the People's Republic of China on 9 May, 2003 at 1:00 p.m. for the following purposes:

1. To consider and approve the report of the board of directors of the Company (the "Board") for the year 2002;

2. To consider and approve the report of the Supervisory Committee of the Company for the year 2002;

3. To consider and approve the audited financial statements for the year ended 31 December, 2002;

4. To consider and approve the resignation of Mr. Liu Gui Hua as executive director and deputy general manager of the Company;

5. To consider and approve the proposal of appointing Ernst & Young as the Company's auditors for the year 2003 and to authorize the Board to fix their remuneration;

6. As special business for considering and, if thought fit, passing the following special resolution of the Company:

SPECIAL RESOLUTION

"THAT Article 87 of the Articles of Association of the Company be and is hereby deleted in its entirety and replaced by the following paragraph:

The board of directors of the Company shall comprise 9 to 19 directors. External director (referring to the directors who do not hold any other position in the Company) shall account for more than 50% of the Board members, in which two shall be independent (non-executive) directors (referring to the directors who are not shareholders of the Company and do not hold any position in the Company). The Board shall have one chairman and one vice-chairman."

7. To consider and approve any proposal put forward by any shareholder holding 5% or more of the shares with voting rights at such meeting.

By order of the Board of
Shenzhen Dongjiang Environmental Company Limited
Zhang Wei Yang
Chairman

Hong Kong, 20 March, 2003

Notice of Annual General Meeting

Principal place of business in Hong Kong:–
37th Floor
Gloucester Tower
The Landmark
Central
Hong Kong

Notes:–

1. The register of the members of the Company will be closed from Wednesday, 9 April, 2003 to Thursday, 8 May, 2003 (both days inclusive). No transfer of shares will be registered during this period. Holders of domestic shares and H shares whose names appear on the register of the Company before 4:00 p.m. Thursday, 8 May, 2003 are entitled to attend and vote at the meeting mentioned above and may appoint one or more proxies to attend and, in the event of a poll, vote on their behalf. A proxy need not be a member of shareholders of the Company.

2. A proxy form applicable to the AGM is hereinwith enclosed. In order to be valid, the proxy form, under which it is signed, must be deposited by hand or post, for holders of H shares of the Company to Mr. Tong at the H shares registrar of the Company at Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and, for holders of domestic shares, to the registered address of the Company not less than 24 hours before the time for holding the AGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.

3. Shareholders or their proxies shall produce their identity documents when attending the meeting.

4. Shareholders who intend to attend the meeting should complete and return the enclosed reply slip and return it by hand or post to the share registrar of the Company (for holders of H shares) or to the registered address of the Company (for holders of domestic shares) before 4:00 p.m. Thursday, 17 April, 2003.

5. The AGM is expected to take half a day. Shareholders attending the meeting shall be responsible for their own travel and accommodation expenses.

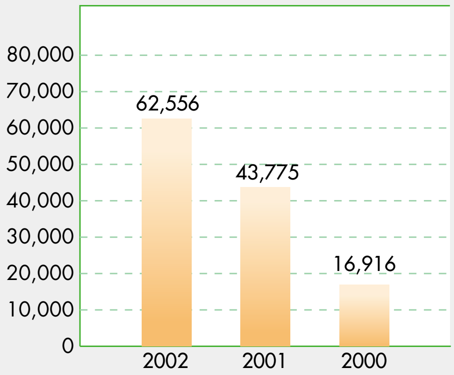
6. The registered address of the Company and the details of the secretarial office of the Board are as follows:

   Office Units A, B, C, D and H
   16th Floor, Shenmao Commercial Center
   59 Xinwen Road
   Futian District, Shenzhen
   Guangdong Province
   The PRC
   Tel: (86755) 8350 2081
   Fax: (86755) 8390 0115
   Post Code: 518034

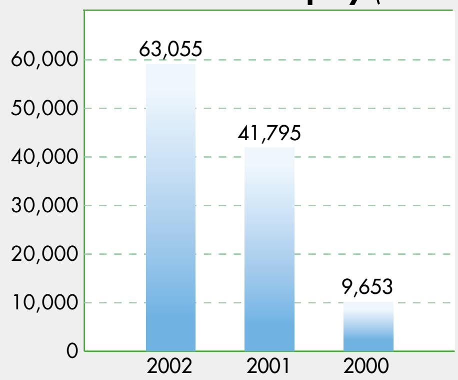
Financial Highlights

	2002 RMB'000	2001 RMB'000	2000 RMB'000
Result			
Turnover	**62,556**	43,775	16,916
Gross profit	**30,524**	20,108	4,305
Gross profit rate	**48.79%**	45.93%	25.45%
Net profit from ordinary activities attributable to shareholders	**21,260**	15,222	901
Financial position			
Total assets	**74,954**	49,209	22,104
Total liabilites	**7,920**	7,201	12,001
Minority interests	**3,979**	213	450
Shareholders' equity	**63,055**	41,795	9,653

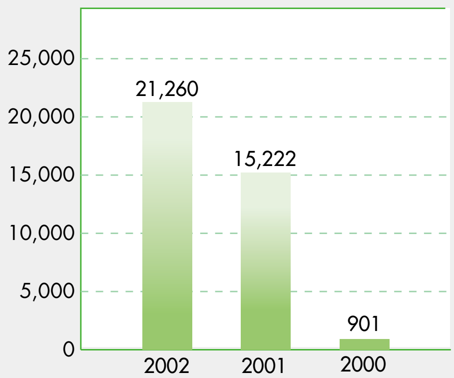
Turnover (RMB'000)



Shareholders' equity (RMB'000)



Net profit from ordinary activities attributable to shareholders (RMB'000)



Chairman's Statement

The year 2002 was a challenging year for Shenzhen Dongjiang Environmental Company Limited ("Dong Jiang" or the "Company") and its subsidiaries (together, the "Group"). With the efforts of all the staff and the support given by various parties, Dong Jiang showed a significant improvement in all business segments. I am pleased to report the operating results of the Group for the year ended 31 December, 2002.

Business Review

As an integrated industrial environmental protection ("EP") enterprise, the Company is committed to provide clients with integrated industrial EP solutions, with an emphasis on detoxification and recycle of industrial wastes. In 2002, the Company served more than 150 industrial enterprises, collected and processed over 40,000 tonnes of industrial wastes, and 13,000 tonnes of recycled products have been produced. Apart from creating substantial economic benefits for the Company, our business have also brought about social benefits.

Protecting the Environment
Recycling Useful
Resources

We promote a business model that sustains development and environmental protection and hence, contributes to a balanced development of the economy, environment and resources.

In terms of technological development, the highly efficient belt-type pressurised filtration machine developed by the Company has been awarded as the High Technology Project in Shenzhen and the Company has identified strategic partners to jointly manufacture and market the product. The Company has filed an application for the patent rights of the jointly-developed electric floating sewage treatment technology which has already been applied in its projects. I am also pleased to see the Company's achievements in the industrial wastes treatment technologies. The unremittent studies in technologies has perfected the technologies of processing cupric wastes while the technological development in the recycling of waste organic solvent and waste industrial oil has come to a mature stage ready for commercial production. In addition, the research and development on the recycling of tin-contained waste was successfully completed and the trial operation commenced in last November. The above achievements enhanced the Group's capability in wastes treatment and broadened the scope of services to be provided to our clients, all of which have contributed to the Company's long-term development.

Chairman's Statement

As for business expansion, the Group has formulated medium and long-term development strategies in 2002, including further consolidation of its business foundation in Shenzhen, building up of operation bases in Huizhou in the Pearl River Delta, Shanghai in the Changjiang River Delta and Chengdu in the Western China Region to provide different types of services according to the requirements of the respective regions. All our efforts aim at promoting Dong Jiang's well-developed and proven business model and in turn foster new areas of revenue for the Group.

With our unceasing hard work, Dong Jiang is now widely-recognized and has received numerous commendations from the government departments at the state, provincial and municipal levels, which include (1) the status of Backbone Enterprise in Environmental Protection Industry of Guangdong awarded by Guangdong Provincial Environmental Protection Bureau; (2) the status of High Technology Enterprise awarded by Shenzhen Science and Technology Bureau; and (3) one of the first 40 enterprises recognized by the State's Economic and Trade Commission as the "Model of resources saving and significant achievements protection projects".

The Group has long adhered to a stable financial policy, with healthy cashflow and sufficient funding to meet the requirements of the Company's future business development.

Outlook

The brilliant future of EP industry in the People's Republic of China ("PRC") unfolds a huge development potential and provides a new arena of growth for the Group. Under such favourable conditions, we will endeavor to increase the Group's competitiveness, strengthen the capability of both the research and development team and the management team as well as to accelerate the establishment of the four business bases in Shenzhen, Chengdu, Shanghai and Huizhou with an aim to generate new streams of revenue. In only four years, Dong Jiang has developed from a small private enterprise to a large EP group and was successfully listed on GEM. This is a great achievement and I firmly believe that the Group can keep up with its present strength to attain another stage of business growth. With our strong commitment of being "responsible to the environment, our clients, shareholders and staff", we strive to achieve the target of "becoming PRC leading enterprise in EP industry".

Finally, on behalf of the Board, I would like to express my deepest gratitude to our shareholders and business associates for their support. In addition, I would also like to thank all the staff for their hardship and contribution in attaining such outstanding results for Dong Jiang in the year.

Shenzhen Dongjiang Environmental Company Limited
ZHANG Wei Yang
Chairman
Shenzhen, Guangdong Province,
the PRC

20 March, 2003

Management Discussion and Analysis

Review of operation

The Group recorded a turnover of RMB62,556,000 (2001: RMB43,775,000) for the year ended 31 December, 2002, a 42.9% increase as compared with the previous year. The audited net profit from operating activities attributable to shareholders increased by approximately 39.7% to approximately RMB21,260,000 (2001: RMB15,222,000).

As the Group's turnover and profit contribution from operating activities are all originated from the PRC, the Directors are of the opinion that business segments analysis should be presented as primary reporting format. The Group is principally engaged in (1) sale of recycled products and waste treatment; (2) construction and implementation of EP projects; and (3) provision of related consultation services.

	Year 2002		Year 2001	
	RMB'000	**Percentage of turnover**	RMB'000	Percentage of turnover
Sale of recycled products and waste treatment	**56,226**	**89.9**	34,946	79.8
Construction and implementation of EP projects	**5,587**	**8.9**	8,368	19.1
Provision of related consultation services	**743**	**1.2**	461	1.1
Total	**62,556**	**100.0**	43,775	100.0

During the year, sale of recycled products and waste treatment accounted for the Group's main source of revenue, of which the sales of copper sulphate increased by approximately 51.0% from RMB32,426,000 to RMB48,973,000, accounted for approximately 78.3% of the Group's turnover. During the year, the Group produced 13,300 tonnes and sold 13,500 tonnes of copper sulphate, representing a growth of approximately 51.6% and approximately 57.5% as compared with the previous year. The Directors believe that with the persistent growth of market demand of copper sulphate, the Group's sales of copper sulphate will grow with the improvement of quality of its products.

The second largest business segment of the Group is construction and implementation of EP projects and provision of related consultation services. As less EP projects were undertaken during the year, revenue derived from this segment decreased by approximately 33.2% to RMB5,587,000.

The Group has been developing EP related products. The Group, through Shenzhen Fugeri Environmental Protection Equipment Co., Ltd. (深圳市福格瑞環保設備有限公司) ("FGR Equipment"), successfully developed a range of products including belt-type pressurized filtration machine, water treatment automatic control system and water treatment integrated system.

The gross profit margin of the Group also increased from 45.9% in year 2001 to 48.8% in year 2002, mainly due to the improvement of the overall operating efficiency.

As a result of the Group launching a variety of marketing and brand building activities in the year, the sales and distribution cost was approximately RMB1,339,000, accounting for 2.1% of the Group's turnover, 1.2% higher than that of last year.

Administrative expenses increased along with the development of the Group's business, which amounted to RMB8,516,000, 122% higher than the RMB3,829,000 recorded last year.

Subsidiaries and Associated Companies

The Group has commenced and transferred the following subsidiaries and associated companies during the year:

On 3 May, 2002, the Company and Ms. Cai Ping, a supervisor of the Company, jointly established FGR Equipment which is engaged in the research and development of environmental equipment and related electrical products, with capital contribution of RMB4,500,000 (90%) and RMB500,000 (10%) from the Company and Ms. Cai Ping respectively. On 19 September, 2002, the Company introduced strategic investors and transferred 40% and 10% interest in FGR Equipment to Beijing National Pharmaceutical Long Li Technology Co., Ltd. (北京國藥龍立科技有限公司) ("Beijing Long Li") and Mr. Zhang Hai Liang respectively, both being independent third parties prior to such transaction, for a consideration of RMB2,000,000 and RMB500,000 respectively. The Directors confirm that the consideration was arrived at after arm's length negotiation between the parties with reference to the registered capital of FGR Equipment of RMB5,000,000. On the same day, Ms.Cai Ping transferred her 10% interest in FGR Equipment to Mr. Zhang Hai Liang for a consideration of RMB500,000. Upon completion of the transfer, FGR Equipment is owned as to 40% by the Company, as to 40% by Beijing Long Li and as to 20% by Mr. Zhang Hai Liang.

To further consolidate the business in the Pearl River Delta area, on 22 May, 2002, the Company and two independent third parties jointly established Huizhou Dongjiang Environmental Co., Ltd. (惠州市東江環保技術有限公司) ("Huizhou Dongjiang") which is engaged in the treatment and re-cycling of industrial wastes, the development of EP products and the treatment of sewage, polluted air and noise.

On 30 July, 2002, the Company acquired from an independent third party 51% equity interest in Chengdu Dangerous Wastes Treatment Center Co.,

Management Discussion and Analysis

Ltd. (成都市危險廢物處理中心有限公司) ("Chengdu Treatment Center") for a consideration of RMB5,100,000 (the remaining 49% is owned by independent third party), so as to geographically expand to western China region. The Directors were of the opinion that the consideration for the equity interest is based on arm's length negotiation between the parties by reference to the registered capital of Chengdu Treatment Center.

In order to focus the Company's resources on developing its business, the entire 90% interest in Shenzhen Resources Environmental Technology Co., Ltd. (深圳市萊索思環境技術有限公司) ("Shenzhen Resources") was sold to Mr. Luo Xiao Hong on 19 September, 2002 for a consideration of RMB1,350,000, representing the initial investment cost of the Company. The Directors were of the opinion that the consideration is based on arm's length negotiation between the parties. The Directors also considered that the disposal did not have any material adverse effect on the business of the Group.

On 14 November, 2002, the registered capital of Shanghai Xin Yu Environmental Protection Technology Co. (上海新禹環保技術有限公司) ("Shanghai Xin Yu") was increased from RMB3,000,000 to RMB5,000,000. The Company contributed an additional capital of RMB920,000 to Shanghai Xin Yu in accordance with its 46% shareholding.

Material Investment

Other than those disclosed in the Company's Prospectus dated 23 January, 2003 under the section headed "Business Objectives", the Company did not have any other plan for material investments.

Technological Cooperation

In order to strengthen its research and development capability, the Company entered into a cooperation agreement with Zhong Nan University (中南大學) for the commercialization of arsenicic treatment technology. The Company and Zhong Nan University may, according to market conditions, establish a joint venture company to be held as to 82% by the Company and 18% by Zhong Nan University. However, the Directors considered that the existing market for arsenic has not been well developed and the plan for the establishment of joint venture is suspended until the market for arsenic turns better. The Group has a capital commitment in respect of a joint venture of RMB4,100,000.

Besides, the Company entered into a cooperation agreement with Tianjin University (天津大學) on filtration and segregation technology and the research and development on relevant operation conditions.

Financial Review

Financial Resources and Liquidity

As at 31 December, 2002, the Group's total net assets was approximately RMB63,055,000 (2001: RMB41,795,000); current assets approximately RMB40,841,000 (2001: RMB31,948,000), in which cash and bank deposits amounted to approximately RMB23,372,000 (2001: RMB23,528,000).

Gearing

As at 31 December, 2002, the Group's current liabilities was approximately RMB7,120,000 (2001: RMB7,201,000) and there was no outstanding borrowings (2001: RMB8,000) and the Group's non-current liabilities was approximately RMB 800,000 (2001: nil). The ratio between current assets and current liabilities was approximately 5.74 times (2001: 4.44 times).

As at 31 December, 2002, the Group has no bank borrowings (2001: nil).

The Directors considered that the Group has sufficient financial resources and liquid fund for working capital purposes and for future development.

Disposal of Major Assets

Save for the sale of the entire 90% interest in Shenzhen Resources and the 50% interest in FGR Equipment as disclosed above, the Group did not dispose of any major assets or subsidiaries and associated companies.

Remuneration of Directors and Senior Executives

(a) Details of Directors' remuneration are as follows:

	2002 RMB'000	2001 RMB'000
Remuneration of executive Directors		
– Salaries, allowances and benefits in kind	**309**	119
– Retirement benefits scheme contributions	**14**	6
Remuneration of non-executive Directors		
– Salaries, allowances and benefits in kind	**0**	0
– Retirement benefits scheme contributions	**0**	0
Total	**323**	125

The number of Directors whose remuneration fell within the following band is as follows:

	2002 number	2001 number
Nil to HKD1,000,000	**4**	3

Management Discussion and Analysis

For the year ended 31 December, 2002, these four Directors (2001: three) received emoluments of approximately RMB184,000, RMB58,000, RMB42,000 and RMB39,000 (2001: RMB39,000, RMB46,000, RMB40,000).

For the year ended 31 December, 2002, no Directors waived any remuneration.

(b) Particulars of the Company's five highest paid individuals (including Directors and employees) are as follows:

	2002	2001
Number of Directors	**3**	3
Number of employees	**2**	2
Total	**5**	5

Details of the five highest paid individuals (including Directors and employees) mentioned in (b) above are as follows:

	2002 **RMB'000**	2001 RMB'000
Salaries, allowances and benefits in kind	**393**	195
Retirement benefits	**22**	12
Total	**415**	207

The above five highest paid individuals whose remuneration fell within the following band:

	2002 **number**	2001 number
Nil to HKD1,000,000	**5**	5

For the two years ended 31 December, 2002, no emoluments were paid by the Company to any of the five highest paid individuals (including Directors and employees) or any other Directors as an inducement to join the Company or as compensation for loss of office.

As at 31 December, 2002, the Company employed a total of 236 employees (2001: 217 employees). Total amount of staff costs for the year ended 31 December, 2002 was approximately RMB5,318,000 (2001: RMB4,356,000). The increase in staff cost was primarily due to the increase in the number of staff. Employees are remunerated on the basis of their job nature and of their individual performances.

Management Discussion and Analysis

Pledge of Assets

As at 31 December, 2002, the Group had no pledged assets.

Interest Rate and Exchange Risk

There is no interest rate risk as the Group did not have any bank borrowings and other loans during the year. The Group did not expose to any major exchange risk as most of the income and expenses were settled in Renminbi.

Contingent Liabilities

As at 31 December, 2002, the Group had no contingent liabilities.

Purchase, Sale or Redemption of Listed Securities

Since 29 January, 2003, the date the Company's H shares were listed on the GEM, the Company has not purchased, sold or redeemed any of its listed securities.

Dividend

On 14 January, 2003, the Company declared the payment of dividend of RMB8,000,000 for the year ended 31 December, 2002 and the payment was made on 22 January, 2003 to its shareholders prior to listing. Save for the above, the Board does not recommend the payment of any other dividend for the year ended 31 December, 2002 (2001: nil). The Directors confirmed that the Company has made the dividend payment from internal resources.

Capital Commitment

As at 31 December, 2002, the Group had the following capital commitments:

	RMB'000
Contracted for fixed assets	1,858
Contracted for the establishment of a new limited company	4,100
Total	5,958

Future Prospects

The Group will continue to increase its waste treatment capability and extend the geographical coverage of its services and products. As part of the overall development plan, the Group established its operation bases in Pearl River Delta, the Western China region and Changjiang River Delta.

Management Discussion and Analysis

Operation base	Establishment	Work Progress
Pearl River Delta	Huizhou Dongjiang	Design of the production facilities is underway.
Western China region	Chengdu Treatment Center	Renovation of the production plant is in progress.
Changjiang River Delta	Shanghai Xin Yu	Treatment facility for copper-contained waste has been installed.

In order to strengthen the operation in Pearl River Delta, the Group is building a waste treatment center in Gonghe Village, Shajing Town, Baoan District, Shenzhen for the treatment of organic and inorganic industrial waste. The Directors estimate that the waste treatment center will have a maximum treatment capacity of 9,000 tonnes of organic industrial waste and 51,000 tonnes of inorganic industrial waste. Construction of the new factory has now completed and approximately RMB10,900,000 has been invested in the project as at the date hereof.

The Group will further increase its waste treatment capacity, raising the refinery rate and expand recycled products variety. The Group will first focus on those waste treatments and recycled products which command a stable or growing market.

In the meantime, the Group continues to conduct research and development in the EP area, with focus on waste treatment, recycling technology and its commercial application, so that the Group will stay ahead in the industry in terms of technological expertise and achieve business growth. In addition to the increase of investment in its own research and development, the Group will form strategic alliance with major domestic EP institutions, including research institutions, associated with universities, government agencies and international EP companies. As long as there are adequate funding, the Group will also identify investment projects yielding high returns for shareholders.

In order to further consolidate internal management, the Group will establish an information management system which provides a common platform for effective communication and coordination among various departments and treatment centers. The system will incorporate management information on procurement, waste treatment and recycle facilities, sales, quality control, safety control, logistics and accounting and finance. To our delight, the Group has been granted ISO9001 certification.

The Group also plans to strengthen its sales and marketing team in a bid to expand its customer base and build up its brand in the EP industry in the PRC.

The Board as a whole will continue to lead the staff of the Group to move forward, in order to achieve steady growth in business and to achieve all business plans and objectives.

Review of Business Objectives

As this report only cover the year ended 31 December, 2002, all of the business objectives as set out in the paragraph "Business Plan" under the section headed "Business Objectives" in the Company's prospectus dated 23 January, 2003 cover periods later than the year end date. There is no other additional business objectives required to be disclosed.

Management Profile

Directors

Executive Directors

ZHANG Wei Yang (張維仰), aged 37, is the chairman of the Company and founder of the Group. Mr. Zhang is responsible for the overall strategic development and policy of the Group. He has particular expertise in manufacture and sale of EP products, operation and management of EP engineering and recyclng. He has over 10 years of experience in the field of EP and chemical technology, including approximately five years in Shenzhen EP authorities and six years in Shenzhen Fang Yuan Petrochemical Industries Co., Ltd. (深圳市方元化工實業有限公司) ("Shenzhen Fang Yuan"). Mr. Zhang is currently a committee member of the China Association of Environmental Protection Institution (中國環境保護產業協會), a committee member of the Association for High and New Technology Industry of Shenzhen City (深圳市高新技術產業協會) and a committee member of the Association for Environmental Protection Industry of Shenzhen City (深圳市環保產業協會).

HE Qi Hu (何其虎), aged 52, is a Director and a deputy general manager and chief technical officer of the Company. Mr. He joined the Group in September 1999 and is responsible for the engineering and technology related matters of the Group. He graduated from the Xian Institute of Gold Mining and Construction (西安冶金建築學院) (currently known as Xian University of Construction Technology (西安建築科技大學), with a bachelor degree majoring in water management in 1978. Mr. He worked as an associate professor of Xian University of Construction Technology for 16 years.

LIU Gui Hua (劉桂華), aged 37, is a Director and a deputy general manager of the Company. Mr. Liu joined the Group in July 2001 and is responsible for the research and development and administration activities of the Group. He graduated from Tsinghua University (清華大學) majoring in electrical engineering in 1986 and obtained his diploma in industrial engineering from Huazhong University of Science & Technology (華中理工大學) in 1988. Mr. Liu worked with the Eighth Design and Research Institute of Changsha of Mechanical Industry Department for over 8 years and held the designations of engineer-in-charge and the officer of development office.

LI Yong Peng (李永鵬), aged 28, is a Director and the general manager of Shenzhen Isoway Corporate Management Consulting Co. Ltd. (深圳市愛索威企業管理顧問有限公司) ("Isoway Consulting"). Mr. Li joined the Group in October 2000 and is responsible for the management and daily operations of IsoWay Consulting. He graduated from Zhong Nan Finance University (中南財經大學) (currently known as Zhong Nan Finance & Law University (武漢中南財經政法大學) with a bachelor degree in state-owned assets management and valuation in 1998. Mr. Li worked in the finance department of Shenzhen Fang Yuan for one year, and also worked as a valuer in Shenzhen Guo Ce Real Estate Valuation Co. (深圳市國策房地產評估公司) for over one year.

Non-executive Directors

FENG Tao (馮濤), aged 35, is a Director and the vice-chairman of the Company. He was appointed as a non-executive Director in November 2001. Mr. Feng obtained a master degree in science from the Department of Statistics and Applied Probability from the University of Alberta in 1992. Since 1999, he has been serving as the vice president officer (副主任) of The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission of the PRC (中華人民共和國國家經濟貿易委員會) and China Science Academy. Mr. Feng is a director of Shanghai New Margin Venture Capital Co., Ltd (上海聯創投資有限公司) ("New Margin").

Management Profile

WU Shui Qing (吳水清), aged 36, is a Director and an investment manager of Shenzhen High-Tech Investment Co., Ltd. (深圳市高新技術產業投資服務有限公司). He was appointed as a non-executive Director in November 2001. Dr. Wu graduated from Huanan Polytechnic University (華南理工大學) with a doctorate degree in bio-technology in 1995. He has over three years of experience in the field of bio-technology and worked with Shenzhen University in the field of research and development of bio-technology projects. Dr. Wu also has over three years of experience in the field of investment.

SUN Ji Ping (孫集平), aged 46, is a Director and an investment manager of China Venture Capital Inc. (中國風險投資有限公司) ("China Venture Capital"). She was appointed as a non-executive Director in November 2001. Ms. Sun graduated from the Beijing Television Broadcast University specializing in Chinese and obtained a Diploma in economics from the Capital University of Economics & Trade (首都經貿大學) in 2002. She worked with China Petroleum and Chemical Group Limited (中國石油化學工業部) for about three years and with Petrochina Group Limited (中國石油天然氣集團公司) for over 20 years.

Independent non-executive Directors

MENG Chun (孟春), aged 45, was appointed as an independent non-executive Director in September 2002. Dr. Meng obtained a doctorate degree in Economics in 1999 from Research Institute of China Social Science Academy (中國社會科學院研究生院). Dr. Meng is now the general manager of the audit department at China Great Wall Asset Management Company (中國長城資產管理公司), a researcher at Finance and Trade School of China Science Academy (中國社會科學院財貿經濟研究所). He has held various senior positions at Ministry of Finance from March 1991 to October 1998 and at Finance Department at Guangxi Zhuang Zhu Autonomous Region (廣西壯族自治區財政廳) from October 1998 to December 1999.

LIU Hong Liang (劉鴻亮), aged 70, was appointed as an independent non-executive Director in September 2002. Professor Liu is now a professor at Hunan University, a mentor for doctorate students at Tsinghua University, a scholar at China Engineering Academy (中國工程學院) and an associate officer at Commission of Science and Technology Consultancy at National Bureau of Environmental Protection (中國國家環保局科技顧問委員會). Professor Liu has been teaching in Tsinghua University and China Environmental Science Academy for over 40 years, during which he had obtained a number of prizes in environmental protection including the First Class National Technology Advancement Award (國家科技進步獎一等獎) of the Research of China Environmental Technology Policy (中國環保技術政策研究) in 1988 and Second Class Ministry Level Technology Advancement Award (部級科技進步獎) of the Oxidization Treatment Technology of Chinese Cities Waste Water (我國城市污水用氧化塘技術處理) in 1992.

WANG Ji Wu (王濟武), aged 32, was appointed as an independent non-executive Director in January 2003. Mr. Wang graduated from Tsinghua University in 1993 with a bachelor degree in economics. He has worked with Beijing Enterprises Holdings Limited (北京控股有限公司), Beijing Holdings Ltd. (京泰實業(集團)有限公司) and Beijing Holdings Securities Investment Limited (京泰證券投資有限公司) during the period from 1993 to 2002. Mr. Wang has over nine years of experience in the field of investment and restructuring.

Management Profile

Supervisors

YUAN Wei (袁桅), aged 32, is a Supervisor and an investment manager of New Margin. Ms. Yuan joined the Group in November 2001. She graduated from Tsinghua University in 1993 majoring in environmental engineering and obtained a master degree in technology management from Tsinghua University in 1995. Ms. Yuan worked in the Science and Technology Department of the PRC for about four years and since August 2000, she has been an investment manager of New Margin.

LIANG Rui Chi (梁瑞池), aged 31, is a Supervisor and an assistant to the general manager of the Company. Mr. Liang joined the Group in February 2001 and is responsible for the marketing and transportation activities of the Group. He graduated from the Central Institute of Finance (中央財政金融學院) (currently known as Central University of Finance (中央財經大學)) in 1994 majoring in finance and credit management. Mr. Liang has over eight years of experience in the field of banking and finance.

CAI Ping (蔡萍), aged 32, is a Supervisor. Ms. Cai joined the Group in September 1999 and is responsible for the accounting functions of the Group. Before joining the Group in September 1999, she worked in Shenzhen Fang Yuan since September 1994. Ms. Cai has over eight years of experience in the field of accounting.

Company Secretary and Qualified Accountant

HU Chiu Lun, Alan (胡超倫), aged 33, is the company secretary and qualified accountant of the Company. Mr. Hu joined the Group in December 2002. He graduated with a bachelor degree in accountancy from the Hong Kong Polytechnic University in 1991 and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He has worked with KPMG for three years.

Senior Management

CHEN Jia Suo (陳加鎖), aged 49, is the general manager of the Company. Mr. Chen joined the Group in July 2002 and is responsible for the supervision of the daily operations of the Group. He graduated from Peking University in 1982 majoring in philosophy. Mr. Chen taught in Xian Institute of Mining (西安礦業學院) for about ten years. Mr. Chen worked as assistant to the general manager of China Venture Capital during the period from April 2000 to July 2002.

LIU Wen Bin (劉文斌), aged 45, is the head of marketing department of the Company. Mr. Liu joined the Group in July 2002 and is responsible for sale and marketing of the Group's products and services. He graduated from Zhong Nan Institute of Mining (中南礦冶學院) in 1982 majoring in mechanical engineering. After graduation, Mr. Liu worked in Zhong Nan Institute of Mining for over five years. He has about 15 years of experience in trade and management.

Management Profile

CAO Lian Lian (曹璉璉), aged 58, is the financial controller of the Company. Ms. Cao joined the Group in January 2002 and is responsible for the accounting and financial activities of the Group. She graduated from the Zhongshan University of Guangzhou (廣州中山大學) in 1968 majoring in economics and geography. Ms. Cao is a certified public accountant of the PRC and has been a committee member of Second Committee of the Association for Chief Accountants of the PRC. She has 34 years of finance and enterprise accounting experience.

WANG Xue Zhi (王學智), aged 42, is the head of administration department of the Company. Mr. Wang joined the Group in February 2001 and is responsible for the administration and human resources activities of the Group. He graduated from the Automobile Management Institute of the Liberation Army (解放軍汽車管理學院) in 1980 majoring in transportation management and obtained a bachelor degree in mechanical engineering from Northwest Industrial University (西北工業大學) in 1991. Mr. Wang has taught in the Automobile Management Institute of the Liberation Army for about 10 years before joining the Group.

CHEN Shu Sheng (陳曙生), aged 36, is the head of Shajing treatment center. Mr. Chen joined the Group in July 2001 and is responsible for the management of daily operations of Shenzhen Dongjiang Environmental Protection Company Limited Treatment Plant (深圳市東江環保股份有限公司處理站). He obtained a bachelor degree from the chemistry department of Jiangxi University (江西大學) in 1988 majoring in organic chemistry. Mr. Chen worked in Jiangxi Provincial Research Institute of Rare Earth (江西省稀土研究所) for about 13 years. One of his research products was awarded with Major Outstanding New Product of Jiangxi Province (江西省重點優秀新產品) in 2000.

WANG Tian (王恬), aged 26, is the secretary of the Board. Ms. Wang joined the Group in March 2002. She graduated from Zhongshan University in 1999 majoring in international finance and obtained a master degree in economics from University of Birmingham of United Kingdom. Ms. Wang worked in Zhong Tou Shi Ji Investment Co., Ltd. (中投世紀投資有限公司) as project investment manager for over one year.

Directors' Report

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December, 2002.

Principal activities

The Company's principal activity is the processing and sale of recycled products, waste treatment, the construction of environmental protection system and the provision of consultation services. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December, 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 70.

Pursuant to the shareholders' resolution of an extraordinary general meeting dated 14 January, 2003, the Company declared a dividend of RMB8,000,000 to its shareholders and the payment was made on 22 January, 2003. The recommendation has been incorporated in the financial statements as an allocation of retained earnings with capital and reserves in the balance sheet (note 26).

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

Capital commitments

Details of the capital commitments of the Company and the Group as at 31 December, 2002 are set out in note 28(i) to the financial statements.

Share capital

Details of the Company's share capital are set out in note 25 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China (the "PRC"), being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Directors' Report

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

Distributable reserves

At 31 December, 2002, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB5,487,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 48% of the total sales for the year and sales to the largest customer included therein amounted to 17%. Purchases from the Group's five largest suppliers accounted for 74% of the total purchases for the year and purchases from the largest supplier included therein amounted to 33%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Zhang Wei Yang
Mr. He Qi Hu
Mr. Liu Gui Hua
Mr. Li Yong Peng

Non-executive directors:

Mr. Feng Tao
Mr. Wu Shui Qing
Ms. Sun Ji Ping

Independent non-executive directors:

Mr. Meng Chun
Mr. Liu Hong Liang
Mr. Wang Ji Wu

In accordance with article 87 of the Company's articles of association, executive directors, non-executive directors and independent non-executive directors shall be elected at the shareholders' general meeting for a term of three years. A director may serve consecutive terms if re-elected upon the expiration of the term.

Directors' remuneration and the five highest paid individuals

Details of the directors' remuneration and that of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which are not determinable by the Group within one year without payment of compensation other than statutory compensation.

Directors' interests in contracts

No director had a material interest in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the year.

Directors' interests in shares

At 31 December, 2002, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the GEM or the Company as required by Chapter 5.40 of the GEM Listing Rules were as follows:–

	Number of issued shares held and nature of interests		
Directors	**Personal**	**Company**	**Total**
Mr. Zhang Wei Yang	261,884,150	35,389,750(1)	297,273,900
Mr. Li Yong Peng	–	35,389,750(2)	35,389,750
	261,884,150	70,779,500	332,663,650

Note:

(1) These shares are held by Shenzhen Wen Ying Trading Limited ("Shenzhen Wen Ying"), which is owned as to 90% by Ms. Zhou Wen Ying and as to 10% by Ms. Cai Ping. Ms. Zhou Wen Ying is the spouse of Mr. Zhang Wei Yang.

(2) These shares are held by Shenzhen Fang Yuan Petrochemical Industrial Co., Ltd., which is owned as to 90% by Mr. Li Yong Peng.

Save as disclosed above, at 31 December, 2002, none of the Directors of the Company or their associates had any personal, family, corporate or other interest in the equity of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Directors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debtentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders

At 31 December, 2002, the following interest of 10% or more of the share capital of the Company were recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	%
Mr. Zhang Wei Yang*		
– Personal	261,884,150	56.24
– Company-Shenzhen Wen Ying	35,389,750	7.60

* Refer to the note (1) set out in the section "Directors' interest in shares" above.

Save as disclosed above, no persons, other than the Directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Connected transactions

Details of the connected transactions of the Group are set out in note 31 to the financial statements.

Sponsor's interests

First Shanghai Capital Limited, its directors, employees or associates, did not have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31 December, 2002 and 20 March, 2003 respectively.

Directors' Report

Pursuant to the sponsor's agreement entered into between First Shanghai Capital Limited and the Company dated 23 January, 2003. First Shanghai Capital Limited has been appointed as a sponsor of the Company for a period up to 31 December, 2005 and the Company shall pay an agreed amount of fee to First Shanghai Capital Limited for its provision of services.

Closure of H share register

The H shares register of the Company will be closed from 9 April, 2003 to 8 May, 2003 (both days inclusive); during which no transfer of H shares will be effected.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 30 to the financial statements.

Code of best practice

In the opinion of the directors, the Company complied with the board practices and procedures requirements in GEM Listing Rules 5.28 to 5.39 throughout the accounting period covered by the annual report.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes 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.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Shenzhen Dongjiang Environmental Company Limited

ZHANG Wei Yang
Chairman

Shenzhen, Guangdong Province, the PRC
20 March, 2003

Supervisory Committee's Report

To: The Shareholders of
Shenzhen Dongjiang Environmental Company Limited (the "Company")

The Supervisory Committee of the Company, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and articles of association of the Company (the "relevant rules and regulations"), exercised conscientiously its authority, safeguarded the interests of the shareholders of the Company and the Company, during the year ended 31 December, 2002 followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year, we provided reasonable suggestions and advice on the operations and development plans to the Directors and strictly and effectively monitored whether the policies of the Company had conformed with the relevant rules and regulations or safeguarded the interests of the shareholders of the Company.

After investigation, we consider that the audited financial statements of the Company truly and sufficiently reflect the operating results and asset position of the Company. We also consider that the Report of the Directors and the profit distribution proposal meet the relevant rules and regulations. We have attended the meeting of the Board. We are of the opinion that the meeting was convened in accordance with the relevant rules and regulations. We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. None of the Directors, general manager nor the officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the Company end its staff, nor have they violated the relevant rules and regulations.

We are satisfied with the various accomplishments and the cost-effectiveness of the Company. We are confident that the Company will have a good prospect of future development.

By order of the Supervisory Committee
Shenzhen Dongjiang Environmental Company Limited
YUAN Wei
Chairman
Shenzhen, Guangdong Province, the PRC

20 March, 2003

Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the members
Shenzhen Dongjiang Environmental Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 28 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
20 March, 2003

Consolidated Income Statement

Year ended 31 December, 2002

	Notes	Year ended 31 December 2002 RMB'000	Year ended 31 December 2001 RMB'000
TURNOVER	4	**62,556**	43,775
Cost of sales		**(32,032)**	(23,667)
Gross profit		**30,524**	20,108
Other revenue and gains	4	**1,576**	279
Selling and distribution costs		**(1,339)**	(409)
Administrative expenses		**(8,516)**	(3,829)
Other operating expenses		**(2,230)**	(1,164)
PROFIT FROM OPERATING ACTIVITIES	6	**20,015**	14,985
Share of profits of associates		**201**	–
PROFIT BEFORE TAX		**20,216**	14,985
Tax	10	**–**	–
PROFIT BEFORE MINORITY INTERESTS		**20,216**	14,985
Minority interests		**1,044**	237
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**21,260**	15,222
DIVIDENDS			
Proposed final	12	**8,000**	–
EARNINGS PER SHARE – BASIC	13	**RMB0.69**	RMB1.11

Consolidated Balance Sheet

31 December, 2002

	Notes	Group 31 December 2002 RMB'000	Group 31 December 2001 RMB'000	Company 31 December 2002 RMB'000	Company 31 December 2001 RMB'000
NON-CURRENT ASSETS					
Fixed assets	14	**15,563**	11,840	**14,674**	9,726
Goodwill	15	**953**	–	**-**	–
Interests in subsidiaries	16	**-**	–	**5,800**	2,050
Interests in associates	17	**5,597**	1,380	**5,396**	1,380
Prepayments for fixed assets	18	**12,000**	2,364	**10,900**	2,364
Prepayments for rental expenses		**-**	677	**-**	–
Due from a shareholder	22	**-**	1,000	**-**	1,000
		34,113	17,261	**36,770**	16,520
CURRENT ASSETS					
Inventories	19	**988**	1,192	**906**	906
Trade receivables	20	**819**	429	**819**	–
Prepayments, deposits and other receivables		**14,088**	3,374	**13,876**	2,864
Amounts due from customers for contract work	21	**527**	2,970	**527**	2,970
Due from a shareholder	22	**1,047**	455	**1,047**	442
Due from subsidiaries	16	**-**	–	**-**	889
Cash and cash equivalents		**23,372**	23,528	**16,845**	23,294
		40,841	31,948	**34,020**	31,365
CURRENT LIABILITIES					
Trade payables	23	**2,201**	1,478	**2,201**	1,250
Other payables and accruals		**4,519**	4,971	**3,913**	3,133
Amounts due to customers for contract work	21	**400**	744	**400**	744
Due to a shareholder	22	**-**	8	**-**	8
		7,120	7,201	**6,514**	5,135
NET CURRENT ASSETS		**33,721**	24,747	**27,506**	26,230
TOTAL ASSETS LESS CURRENT LIABILITIES		**67,834**	42,008	**64,276**	42,750
NON-CURRENT LIABILITIES					
Deferred revenue	24	**800**	–	**800**	–
MINORITY INTERESTS		**3,979**	213	**-**	–
		63,055	41,795	**63,476**	42,750
CAPITAL AND RESERVES					
Issued capital	25	**46,565**	19,737	**46,565**	19,737
Reserves	26	**8,490**	22,058	**8,911**	23,013
Proposed final dividend	26	**8,000**	–	**8,000**	–
		63,055	41,795	**63,476**	42,750

ZHANG Wei Yang
Director

HE Qi Hu
Director

Consolidated Summary Statement of Changes in Equity

31 December, 2002

	Notes	2002 RMB'000	2001 RMB'000
TOTAL EQUITY			
Balance at beginning of year		**41,795**	9,653
Additional capital contribution	25(1)	**–**	16,920
Profit for the year		**21,260**	15,222
Balance at end of year		**63,055**	41,795

Consolidated Cash Flow Statement

Year ended 31 December, 2002

	Notes	2002 RMB'000	2001 RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	27(a)	**17,915**	11,007
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	14	**(7,636)**	(6,536)
Acquisition of a subsidiary	27(b)	**2,067**	–
Disposal of subsidiaries	27(c)	**(1,767)**	–
Investments in associates		**(1,520)**	(1,380)
Advances of loans to associates		**(730)**	–
Interest-free loan to a shareholder		**–**	(1,000)
Prepayments for fixed assets		**(9,636)**	(2,364)
Interest received		**132**	129
Contributions by minority interests		**1,019**	–
Net cash outflow from investing activities		**(18,071)**	(11,151)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares		**–**	16,920
Net cash inflow from financing activities		**–**	16,920
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(156)**	16,776
Cash and cash equivalents at beginning of year		**23,528**	6,752
CASH AND CASH EQUIVALENTS AT END OF YEAR		**23,372**	23,528
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents		**23,372**	23,528

1. Corporate Information

During the year, the Group's principal activities were the processing and sale of recycled products, waste treatment, the construction of environmental protection systems and the provision of consultation services. There were no significant changes in the nature of the Group's principal activities during the year.

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements:

- SSAP 1 (Revised) : Presentation of financial statements
- SSAP 11 (Revised) : Foreign currency translation
- SSAP 15 (Revised) : Cash flow statements
- SSAP 33 : Discontinuing operations
- SSAP 34 : Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 30 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 (Revised) prescribes the format for the consolidated cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on page 31 of the financial statements and the notes thereto have been revised in accordance with the new requirements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	3.23%
Plant and machinery	9.7%
Leasehold improvements	Over the lease terms
Office equipment, furniture and fixtures	19.4%
Motor vehicles	9.7% to 13.86%
Other equipment	19.4%

3. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation (continued)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds on disposal and the carrying amount of the relevant asset.

Construction in progress represents the costs incurred for machinery under construction. Cost comprises the direct costs incurred during the period of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Government grants and subsidies

Grants and subsidies from the government are recognised at their fair values when there is reasonable assurance that the grant or subsidy will be received and all attached conditions are complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy, on a systematic basis, to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted in arriving at the carrying amount of the relevant asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

3. Summary of Significant Accounting Policies (continued)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders and claims. Contract costs incurred comprises direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Accounts receivable

Accounts receivable are recognised and carried at the original invoiced amount, less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. When the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits costs

The Company and the subsidiaries comprising the Group operating in the People's Republic of China (the "PRC") participate in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. The Company and its PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the profit and loss account as they become payable in accordance with the rules of the CPS.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. Summary of Significant Accounting Policies (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi ("RMB") at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable with three months from the date of the advance, in addition to bank overdrafts.

For the purpose of balance sheet, cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

3. Summary of Significant Accounting Policies (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of recycled products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) waste treatment income, when such service is rendered;

(c) from the construction of environmental protection systems, on the percentage of completion basis as further explained in the accounting policy for "Construction contracts" above;

(d) consultation service income, when such services are rendered; and

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. Turnover and Revenue

Turnover represents the aggregate value of construction services performed, recycled products sold, waste treatment and consultation services rendered, net of value-added tax and business tax, and after allowances for goods returned and trade discounts.

Revenue and gains from the following activities have been included in the Group's turnover:

	2002 **RMB'000**	2001 RMB'000
Turnover:		
Sale of recycled products, and waste treatment	**56,226**	34,946
Revenue from construction of environmental protection systems	**5,587**	8,368
Consultation service income	**743**	461
	62,556	43,775
Other revenue:		
Interest income	**132**	129
Government grant income	**400**	–
Others	**430**	150
	962	279
Gains:		
Gains on disposal of subsidiaries (notes 9 and 27(c))	**614**	–
	1,576	279

5. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) The production and sale of recycled products, and waste treatment segment produces and sells recycled products;

(b) The construction of environmental protection systems segment engages in construction contract work as a main contractor or subcontractor, primarily in respect of environmental protection systems; and

(c) The others segment mainly comprises the provision of consultation services.

Substantially, all of the Group's operating business is conducted with customers based in the PRC. Accordingly, no further segment analysis by geographical area of operations is provided.

5. Segment Information (continued)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	**Production and sale of recycled products, and waste treatment**		**Construction of environmental protection systems**		**Others**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Amounts in RMB'000								
Segment revenue:								
Sales to external customers	**56,226**	34,946	**5,587**	8,368	**743**	461	**62,556**	43,775
Segment results	**20,430**	16,361	**293**	(787)	**(507)**	(589)	**20,216**	14,985
Profit before tax							**20,216**	14,985
Tax							**-**	–
Profit before minority interests							**20,216**	14,985
Minority interests							**1,044**	237
Net profit from ordinary activities attributable to shareholders							**21,260**	15,222

5. Segment Information (continued)

Group	Production and sale of recycled products, and waste treatment		Construction of environmental protection systems		Others		Total	
Amounts in RMB'000	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
Current assets	**15,714**	7,254	**24,576**	24,363	**551**	331	**40,841**	31,948
Fixed assets	**14,214**	9,395	**7,497**	6,689	**320**	455	**22,031**	16,539
Accumulated depreciation	**(4,993)**	(3,544)	**(1,156)**	(888)	**(319)**	(267)	**(6,468)**	(4,699)
Other non-current assets	**12,000**	3,041	**-**	1,000	**-**	–	**12,000**	4,041
Segment assets	**36,935**	16,146	**30,917**	31,164	**552**	519	**68,404**	47,829
Goodwill	**953**	–	**-**	–	**-**	–	**953**	–
Interests in associates	**5,597**	1,380	**-**	–	**-**	–	**5,597**	1,380
Total assets	**43,485**	17,526	**30,917**	31,164	**552**	519	**74,954**	49,209
Segment liabilities								
Total liabilities	**6,122**	4,525	**1,359**	2,568	**439**	108	**7,920**	7,201
Other segment information:								
Depreciation	**1,193**	1,231	**896**	455	**52**	267	**2,141**	1,953
Amortisation of goodwill	**87**	–	**-**	–	**-**	–	**87**	–
Loss on disposal of fixed assets	**529**	–	**-**	–	**-**	–	**529**	–
Capital expenditure	**15,213**	3,086	**1,978**	3,430	**81**	20	**17,272**	6,536
Provision for doubtful debts	**107**	31	**-**	–	**-**	–	**107**	31

6. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging:

	Notes	**2002** **RMB'000**	2001 RMB'000
Cost of inventories sold		**23,154**	14,586
Depreciation	14	**2,141**	1,953
Amortisation of goodwill*	15	**87**	–
Minimum lease payments under operating leases in respect of office premises, plant and supervisors and staff quarters		**976**	1,361
Provision for doubtful debts*		**107**	31
Staff costs (including remuneration of directors and senior employees – notes 7 and 8):			
Wages and salaries		**5,214**	4,255
Retirement benefits scheme contributions		**104**	101
		5,318	4,356
Research and development costs*		**1,504**	1,097
Auditors' remuneration		**400**	8
Loss on disposal of fixed assets*		**529**	–

* These amounts are included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. Directors' Remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	2001
	RMB'000	RMB'000
Other emoluments:		
Salaries, allowances and benefits in kind	**309**	119
Pension scheme contributions	**14**	6
	323	125

There were no other emoluments payable to the independent non-executive directors during the year.

The number of directors whose remuneration fell within the following band is as follows:

	2002 Number of directors	2001 Number of directors
Nil – HK$1,000,000	**4**	3

In the year ended 31 December, 2002, there were four directors who received emoluments of approximately RMB184,000, RMB58,000, RMB42,000 and RMB39,000.

8. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2001: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2001: two) non-director, highest paid individuals are as follows:

	Group	
	2002 RMB'000	2001 RMB'000
Salaries, allowances and benefits in kind	**84**	76
Retirement benefits scheme contributions	**8**	6
	92	82

The number of non-director, highest paid individuals whose remuneration fell within the following band is set out below:

	Year ended 31 December	
	2002 Number of individuals	2001 Number of individuals
Nil – HK$1,000,000	**2**	2

9. Gains on Disposal of Subsidiaries

(1) On 19 September, 2002, the Company entered into a sale and purchase agreement to dispose of its 90% equity interest in Shenzhen Resources Environmental Technology Co., Ltd. ("Shenzhen Resources") to an independent third party for a consideration of RMB1,350,000, resulting in a gain on disposal of a subsidiary amounting to RMB323,000.

The results of operations of Shenzhen Resources for the year ended 31 December, 2001 and for the period from 1 January, 2002 to 19 September, 2002 are as follows:

	Period from 1 January, 2002 to 19 September, 2002 RMB'000	Year ended 31 December, 2001 RMB'000
Results of operations		
Turnover	**4,875**	1,181
Cost of sales and services rendered	**(3,975)**	(829)
Gross profit	**900**	352
Profit/(loss) from operating activities	**219**	(603)
Tax	**–**	–
Profit/(loss) after tax	**219**	(603)

The net assets of Shenzhen Resources as at 19 September, 2002 were as follows:

	19 September, 2002 RMB'000
Net assets	
Fixed assets	**1,927**
Other non-current assets	**677**
Current assets	**5,812**
Current liabilities	**(7,300)**
	1,116

9. Gains on Disposal of Subsidiaries (continued)

(1) (continued)

The net cash inflows/(outflows) attributable to Shenzhen Resources for the year ended 31 December, 2001 and the period from 1 January, 2002 to 19 September, 2002 were as follows:

	Period from 1 January, 2002 to 19 September, 2002 RMB'000	Year ended 31 December, 2001 RMB'000
Operating activities	**567**	(1,273)
Investing activities	**(556)**	(92)
Net cash inflows/(outflows)	**11**	(1,365)

(2) On 19 September, 2002, the Company transferred 40% and 10% interests in Shenzhen Fugeri Environmental Protection Equipment Co., Ltd. ("FGR Equipment") to Beijing National Pharmaceutical Long Li Technology Co., Ltd. and Mr. Zhang Hai Liang, respectively, both being independent third parties, for consideration of RMB2 million and RMB500,000, respectively, resulting in gains on disposal of the subsidiary amounting to RMB233,000 and RMB58,000, respectively. Thereafter, FGR Equipment became a 40%-owned associate of the Company.

9. Gains on Disposal of Subsidiaries (continued)

(2) (continued)

The results of operations of FGR Equipment for the period from 3 May, 2002 (date of incorporation) to 19 September, 2002 were as follows:

	Period from 3 May, 2002 (date of incorporation) to 19 September, 2002 RMB'000
Results of operations	
Turnover	–
Cost of sales and services rendered	–
Gross profit	–
Loss from operating activities	(1,025)
Tax	–
Loss after tax	(1,025)

The net assets of FGR Equipment as at 19 September, 2002 were as follows:

	19 September, 2002 RMB'000
Net assets	
Current assets	4,209
Current liabilities	(234)
	3,975

10. Tax

The Company and a subsidiary, Shenzhen Isoway Corporate Management Consulting Co., Ltd., are located in the Shenzhen Special Economic Zone and as a result, are subject to the PRC corporate income tax at a rate of 15% on their assessable profits.

10. Tax (continued)

Chengdu Dangerous Waste Treatment Centre Co., Ltd. is located in Chengdu and is subject to the PRC corporate income tax at a rate of 33% on its assessable profits.

In accordance with the relevant income tax laws and regulations in the PRC, the Company is exempt from corporate income tax for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and is entitled to a 50% tax exemption for the next three years. However, if the Company's revenue generated from its manufacturing operations falls below 50% of the Company's total revenue for either one of the years during the tax holidays, the Company is not entitled to any tax benefits for that year.

The year ended 31 December, 2002 was the Company's second year of operations with assessable profits and accordingly, the Company was exempt from corporate income tax for the year ended 31 December, 2002. No provision for corporate income tax has been made for the Group during the year as the Company was within its two-year corporate income tax exemption period and the subsidiaries did not earn any assessable profits.

The Group did not have significant unprovided deferred tax for the year ended 31 December, 2002.

11. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December, 2002 dealt with in the financial statements of the Company was RMB20,726,000 (2001: RMB16,177,000).

12. Dividends

Pursuant to the shareholders' resolution of an extraordinary general meeting dated 14 January, 2003, the Company declared a dividend of RMB8,000,000 to its shareholders and the payment was made on 22 January, 2003.

13. Earnings per Share

The calculation of basic earnings per share ("EPS") is based on the net profit attributable to shareholders for the year of RMB21,260,000 (2001: RMB15,222,000) and the weighted average number of 30,864,000 (2001: 13,702,000) ordinary shares in issue during the year.

No diluted earnings per share amounts have been presented for the two years ended 31 December, 2002 and 2001 as no diluting events existed during those years.

13. Earnings per Share (continued)

The pro forma EPS presented below had been computed by dividing net profit attributable to shareholders by 465,654,600 domestic shares in issue by the two years ended 31 December, 2002 as if the sub-division of the Company's shares from one domestic share of nominal value of RMB1.00 each into 10 domestic shares of RMB0.10 each had taken place since 1 January, 2001:

	2002	2001
Pro forma EPS	**RMB0.0456**	RMB0.0327

14. Fixed Assets

	Group							
	Land and buildings	**Plant and machinery**	**Leasehold improvements**	**Office equipment, furniture and fixtures**	**Motor vehicles**	**Other equipment**	**Construction in progress**	**Total**
Amounts in RMB'000								
Cost:								
At 1 January, 2002	2,800	2,655	1,627	1,324	4,397	3,294	442	16,539
Additions	–	16	363	508	2,537	408	3,804	7,636
Acquisition of a subsidiary	–	573	–	28	207	19	–	827
Disposals	–	–	–	(119)	(717)	(48)	–	(884)
Disposal of a subsidiary	–	(1,395)	(100)	(73)	(159)	–	(360)	(2,087)
At 31 December, 2002	**2,800**	**1,849**	**1,890**	**1,668**	**6,265**	**3,673**	**3,886**	**22,031**
Accumulated depreciation:								
At 1 January, 2002	23	397	694	258	1,581	1,746	–	4,699
Provided during the year	90	202	392	340	755	362	–	2,141
Acquisition of a subsidiary	–	95	–	7	36	5		143
Disposals	–	–	–	(35)	(290)	(30)	–	(355)
Disposal of a subsidiary	–	(34)	(100)	(8)	(18)	–	–	(160)
At 31 December, 2002	**113**	**660**	**986**	**562**	**2,064**	**2,083**	**-**	**6,468**
Net book value:								
At 31 December, 2002	**2,687**	**1,189**	**904**	**1,106**	**4,201**	**1,590**	**3,886**	**15,563**
At 31 December, 2001	2,777	2,258	933	1,066	2,816	1,548	442	11,840

14. Fixed Assets (continued)

	Company							
	Land and buildings	Plant and machinery	Leasehold improvements	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
Amounts in RMB'000								
Cost:								
At 1 January, 2002	2,800	1,261	1,307	1,178	4,071	3,294	82	13,993
Additions	–	13	363	428	2,410	408	3,804	7,426
Disposals	–	–	–	(119)	(591)	(48)	–	(758)
At 31 December, 2002	**2,800**	**1,274**	**1,670**	**1,487**	**5,890**	**3,654**	**3,886**	**20,661**
Accumulated depreciation:								
At 1 January, 2002	22	363	374	234	1,528	1,746	–	4,267
Provided during the year	91	193	392	320	702	361	–	2,059
Disposals	–	–	–	(34)	(275)	(30)	–	(339)
At 31 December, 2002	**113**	**556**	**766**	**520**	**1,955**	**2,077**	**-**	**5,987**
Net book value:								
At 31 December, 2002	**2,687**	**718**	**904**	**967**	**3,935**	**1,577**	**3,886**	**14,674**
At 31 December, 2001	2,778	898	933	944	2,543	1,548	82	9,726

The buildings of the Company and the Group are located in the PRC. The related building ownership certificates were obtained by the Company with the land use rights for a term of 50 years commencing from 18 June, 1993.

The balance of fixed assets as at 31 December, 2002 included motor vehicles with net book values of RMB281,000 (2001: RMB320,000) and RMB146,000 (2001: RMB184,000), which were registered under the names of the Company's shareholders, Mr. Zhang Wei Yang and Shenzhen Fang Yuan Petrochemical Industrial Co., Ltd. ("Fang Yuan"), respectively. The registration procedure for changes of title is currently in process and the management of the Company expects that the procedure will be completed by June 2003.

15. Goodwill

The amounts of goodwill capitalised as an asset, arising from the acquisition of a subsidiary (note 27(b)), are as follows:

	Group
	RMB'000
Cost:	
At beginning of year	–
Acquisition of a subsidiary	1,040
At 31 December, 2002	**1,040**
Accumulated amortisation:	
At beginning of year	–
Amortisation provided during the year	87
At 31 December, 2002	**87**
Net book value:	
At 31 December, 2002	**953**
At 31 December, 2001	–

16. Interests in Subsidiaries

	Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Unlisted shares, at cost	**5,800**	2,050
Due from subsidiaries	**–**	889
	5,800	2,939

16. Interests in Subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Registered capital	Percentage of equity attributable to the Company	Principal activities
	RMB'000	Direct	
Shenzhen Isoway Corporate Management Consulting Co., Ltd. ("Isoway")	1,000	70	Provision of consultation services for the construction of environmental protection systems
Chengdu Dangerous Waste Treatment Centre Co., Ltd. ("Chengdu Co.")	10,000	51	Processing and sale of chemical materials

Both of the subsidiaries are incorporated in and operate in the PRC and have substantially similar characteristics to a private company incorporated in Hong Kong.

17. Interests in Associates

	Group	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Share of net assets	**4,867**	1,380
Due from associates*	**730**	–
	5,597	1,380

17. Interests in Associates (continued)

	Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Unlisted shares, at cost	**4,666**	1,380
Due from associates*	**730**	–
	5,396	1,380

* The amounts due from the associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group 2002	2001	Principal activities
Shanghai Xinyu Environmental Co., Ltd. ("Shanghai Xinyu")	Corporate	PRC	**46**	46	Waste treatment
Huizhou Dongjiang Environmental Co., Ltd. ("Huizhou Dongjiang")*	Corporate	PRC	**20**	–	Waste treatment
Shenzhen Fugeri Environmental Protection Equipment Co., Ltd. ("FGR Equipment")* (note 9(2))	Corporate	PRC	**40**	–	Development and sale for environmental equipment

* FGR Equipment and Huizhou Dongjiang have not commenced operations as at 31 December, 2002. The management of the Company expects that these associates will commence operations in July 2003.

18. Prepayments for Fixed Assets

The Company entered into agreements with Shenzhen Baoan District Shajing Town Gonghe Economic Development Corporation (深圳市寶安區沙井鎮共和經濟發展公司) ("ED Corporation") and Shenzhen Baoan District Shajing Town Gonghe Village Committee (深圳市寶安區沙井鎮共和村村民委員會) ("SBSGV") for constructing and establishing a new treatment and recycling plant (the "New Plant") on a piece of land with an approximate area of 39,000 square metres (the "Land") in Gonghe Village, Shajing Town, Baoan District, Shenzhen, the PRC. On 25 October, 2001, the Company and ED Corporation entered into an agreement (the "Agreement") pursuant to which ED Corporation agreed to (i) assist the Company in acquiring the Land; (ii) construct on the Land five steel-structured industrial buildings; (iii) handle all related approval and procedural matters; and (iv) assist the Company in obtaining transferable land use rights in respect of the Land and the building ownership of the buildings erected thereon. The Company agreed to advance to ED Corporation an amount of RMB400,000 as initial fees for the construction and land resumption expenses.

The Agreement was modified by a supplemental agreement dated 20 January, 2003 (the "Supplemental Agreement") entered into between the Company, ED Corporation and SBSGV, whereby (i) the Company agreed to pay on behalf of ED Corporation a construction fee of not more than RMB5.9 million ("total construction fees") for the New Plant to the building contractors directly; (ii) the Company agreed to pay on behalf of ED Corporation the land grant premium in respect of the Land, with the total land grant premium to be advanced by the Company and all fees, tax and other expenses payable by the Company for acquiring the land use rights of the Land and building ownership of the New Plant not being more than an aggregate of RMB11 million ("total land fees"); (iii) ED Corporation warranted that the construction work of the New Plant should be completed by 31 March, 2003 and the governmental completion inspection should be completed before 31 December, 2003.

The Company had paid construction fees and land fees of in aggregate, RMB10,900,000 as at 31 December, 2002 (2001: RMB2,364,000).

19. Inventories

	Group	
	31 December 2002 RMB'000	31 December 2001 RMB'000
At cost:		
Raw materials	**782**	624
Finished goods	**206**	568
	988	1,192

19. Inventories (continued)

	Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000
At cost:		
Raw materials	**700**	581
Finished goods	**206**	325
	906	906

There were no inventories carried at net realisable value included in the above balance at the balance sheet date.

20. Trade Receivables

The general credit terms of the Group range from 30 days to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of trade receivables, based on invoice date, is as follows:

	Group	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Trade receivables	**933**	460
Less: Provision for doubtful debts	**(114)**	(31)
	819	429
Current to 90 days	**834**	376
91 to 180 days	**9**	84
181 to 365 days	**90**	–
	933	460

20. Trade Receivables (continued)

	Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Trade receivables	**933**	–
Less: Provision for doubtful debts	**(114)**	–
	819	–

21. Construction Contracts

	Group and Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Amounts due from customers for contract work	**527**	2,970
Amounts due to customers for contract work	**(400)**	(744)
	127	2,226
Contract costs incurred plus recognised profits less recognised losses to date	**5,927**	11,859
Less: Progress billings received and receivable	**(5,800)**	(9,633)
	127	2,226

At 31 December, 2002, there were no retentions held by customers for contract work included in trade receivables (2001: Nil).

22. Due from/(to) a Shareholder

Particulars of the balances due from/(to) a shareholder are as follows:

	Group	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Due from Fang Yuan, net:		
Balance at end of year	**1,047***	1,455
Less: Portion classified as non-current	**-**	(1,000)
Current portion	**1,047**	455
Maximum amount outstanding due from Fang Yuan during the year	**1,700**	1,982
Due to Mr. Zhang Wei Yang:		
Balance at end of year	**-**	(8)
Maximum amount outstanding due from Mr. Zhang Wei Yang during the year	**-**	405

22. Due from/(to) a Shareholder (continued)

	Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Due from Fang Yuan, net:		
Balance at end of year	**1,047***	1,442
Less: Portion classified as non-current	**-**	(1,000)
Current portion	**1,047**	442
Maximum amount outstanding due from Fang Yuan during the year	**1,700**	1,982
Due to Mr. Zhang Wei Yang:		
Balance at end of year	**-**	(8)
Maximum amount outstanding due from Mr. Zhang Wei Yang during the year	**-**	405

* Included in the above is an unsecured loan amounting to RMB1.7 million provided to Fang Yuan which was interest-free and was repayable in August 2003 according to the original loan agreement entered into by the Company and Fang Yuan on 30 August, 2001. Pursuant to a termination agreement entered into by the Company and Fang Yuan on 20 June, 2002, the loan agreement was terminated on 20 June, 2002. The remaining balance of RMB1,540,000 after deduction of the repayment of RMB160,000 by Fang Yuan in 2002 was classified under current assets and was fully settled in January 2003.

The remaining balance due from/(to) a shareholder is unsecured, interest-free and has no fixed terms of repayment.

23. Trade Payables

An aged analysis of trade payables is as follows:

	Group	
	31 December 2002 RMB'000	31 December 2001 RMB'000
Current to 90 days	**1,281**	1,282
91 to 180 days	**669**	9
181 to 365 days	**144**	135
Over 1 year	**107**	52
	2,201	1,478

24. Deferred Revenue

The balance as at 31 December, 2002 represented a subsidy of RMB800,000 jointly granted by the Shenzhen Ministry of Finance and the Shenzhen Science and Technology Bureau for financing the research and development of a new environmental project. The subsidy is not required to be repaid to the Ministry of Finance and the Shenzhen Science and Technology Bureau once the project is approved and certified by the Shenzhen Science and Technology Bureau upon its completion.

25. Issued Capital

	Group and Company	
	2002 RMB'000	2001 RMB'000
Issued capital	**46,565**	19,737

25. Issued Capital (continued)

(1) On 10 May, 2001, the Company passed the shareholders' resolution to enlarge its registered capital from RMB10,080,000 to RMB15,000,000 whereby the increased registered capital was satisfied by way of cash injection as to RMB4,470,000 by Mr. Zhang Wei Yang and as to RMB450,000 by Mr. He Jian Jun.

On 26 November, 2001, the Company obtained an aggregate of RMB12,000,000 cash from three venture capital companies, namely Shanghai New Margin Venture Capital Co., Ltd., China Venture Capital Inc. and Shenzhen High Tech Investment Co., Ltd.. Upon completion, the registered capital of the Company increased to RMB19,737,000 and the surplus amount of RMB7,263,000 was recorded in capital reserve.

(2) Under the reorganisation on 18 July, 2002, the predecessor of the Company, known as Shenzhen Dongjiang Environmental Technology Co., Ltd. transferred all of its reserves of approximately RMB26,828,000 as at 31 March, 2002, as determined by the audited financial statements prepared by Ernst & Young Hua Ming Certified Public Accountants, to the share capital of the Company. The transfer of the reserves was approved by the relevant PRC government authorities and verified by Ernst & Young Hua Ming Certified Public Accountants.

26. Reserves

	Group			
	Capital reserve RMB'000	**Statutory funds*** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
Balance as at 1 January, 2001	–	–	(427)	(427)
Additional capital contribution (note 25(1))	7,263	–	–	7,263
Profit for the year	–	–	15,222	15,222
Transfer from retained earnings to statutory funds	–	2,250	(2,250)	–
Balance as at 31 December, 2001 and beginning of year	7,263	2,250	12,545	22,058
Transfer to capital (note 25(2))	(7,263)	(2,250)	(17,315)	(26,828)
Profit for the year	–	–	21,260	21,260
Transfer from retained earnings to statutory funds	–	3,424	(3,424)	–
Proposed final dividend (note 30(1))	–	–	(8,000)	(8,000)
Balance as at 31 December, 2002	–	3,424	5,066	8,490

26. Reserves (continued)

	Company			
	Capital reserve RMB'000	**Statutory funds*** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
Balance as at 1 January, 2001	–	–	(427)	(427)
Additional capital contribution (note 25(1))	7,263	–	–	7,263
Profit for the year	–	–	16,177	16,177
Transfer from retained earnings to statutory funds	–	2,250	(2,250)	–
Balance as at 31 December, 2001 and beginning of year	7,263	2,250	13,500	23,013
Transfer to capital (note 25(2))	(7,263)	(2,250)	(17,315)	(26,828)
Profit for the year	–	–	20,726	20,726
Transfer from retained earnings to statutory funds	–	3,424	(3,424)	–
Proposed final dividend (note 30(1))	–	–	(8,000)	(8,000)
Balance as at 31 December, 2002	–	3,424	5,487	8,911

* The Company and its subsidiaries are required to follow the laws and regulations of the PRC and their articles of association to provide for certain statutory funds, namely, the statutory reserve fund and the statutory welfare fund (together as the "statutory funds"). The statutory funds are appropriated from the net profit after tax but before dividend distribution at the discretion of their board of directors on at least 10% and 5% of the net profit, respectively. The statutory reserve fund is provided for each entity until the balance of such fund has reached 50% of the entity's registered capital. The statutory reserve fund may only be used upon approval by the relevant authority to offset accumulated losses or to increase capital. The statutory welfare fund may only be used for special bonuses or for the collective welfare of the employees, and assets acquired through this fund are not treated as assets of the Group.

If the Group's statutory reserve fund is not sufficient to compensate for any previous years' losses, its current year's net profit is used to make good the losses before allocations are set aside for the statutory funds.

In accordance with the PRC rules and regulations, the Company's profit available for distribution is determined based on the lower of the amounts reported in accordance with the PRC accounting standards and regulations and those reported in accordance with accounting principles generally accepted in Hong Kong.

27. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of profit before tax to net cash inflow from operating activities

	Notes	**2002 RMB'000**	2001 RMB'000
Profit before tax		**20,216**	14,985
Adjustments for:			
Interest income	4	**(132)**	(129)
Depreciation	6	**2,141**	1,953
Loss on disposal of fixed assets	6	**529**	–
Provision for doubtful debts	6	**107**	31
Amortisation of goodwill	6	**87**	–
Share of profits of associates		**(201)**	–
Gains on disposal of subsidiaries	4	**(614)**	–
Operating profit before working capital changes		**22,133**	16,840
Increase in inventories		**(668)**	(755)
Decrease/(increase) in amounts due from customers for contract work		**2,443**	(1,886)
Increase in trade receivables		**(2,833)**	(467)
Increase in prepayments, deposits and other receivables		**(11,643)**	(1,667)
Decrease in amounts due from a shareholder		**408**	4,419
Increase/(decrease) in trade payables		**2,951**	(530)
Increase/(decrease) in other payables and accruals		**4,676**	(409)
Decrease in amounts due to customers for contract work		**(344)**	(507)
Decrease in amount due to a shareholder		**(8)**	(3,354)
Increase in prepayments for rental expenses		**–**	(677)
Increase in deferred revenue		**800**	–
Net cash inflow from operating activities		**17,915**	11,007

27. Notes to the Consolidated Cash Flow Statement (continued)

(b) Acquisition of a subsidiary

	2002 RMB'000
Net assets acquired:	
Fixed assets, net	**684**
Cash and cash equivalents	**7,167**
Prepayments, deposits and other receivables	**169**
Inventories	**98**
Other payables and accruals	**(178)**
Minority interests	**(3,880)**
	4,060
Goodwill on acquisition (note 15)	**1,040**
	5,100
Satisfied by:	
Cash	**5,100**

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2002 RMB'000
Cash consideration	**(5,100)**
Cash and bank balances acquired	**7,167**
	2,067

According to the directors' resolution of the Company passed on 16 July, 2002 and the share transfer agreement dated 30 July, 2002 entered into between the Company and Mr. Su Chun Lin, the Company acquired a 51% equity interest in Chengdu Co. held by Mr. Su Chun Lin for a cash consideration of RMB5.1 million. Chengdu Co. is engaged in processing and sale of chemical materials. The consideration for the acquisition was fully paid at the acquisition date.

27. Notes to the Consolidated Cash Flow Statement (continued)

(b) Acquisition of a subsidiary (continued)

Since Chengdu Co. has not commenced business operations, there was no contribution to the Group's turnover for the year ended 31 December, 2002. However, Chengdu Co. incurred expenses amounting to RMB2,080,000 for the year 31 December, 2002.

For the year ended 31 December, 2002, Chengdu Co. contributed an outflow of RMB2,080,000 to the Group's net operating cash flows, paid RMB1,100,000 in respect of the cash flows from investing activities, but had no significant impact in respect of the Group's cash flows from financing activities.

(c) Disposal of subsidiaries

	2002 RMB'000
Net assets disposed of:	
Fixed assets, net	1,927
Prepayments for rental expenses	677
Cash and cash equivalents	4,267
Trade receivables, net	2,336
Prepayments, deposits and other receivables	2,448
Inventories	970
Trade payables	(2,228)
Other payables and accruals	(5,306)
Minority interests	(89)
	5,002
Gains on disposal of subsidiaries (note 4)	614
	5,616
Satisfied by:	
Cash	2,500
Prepayments, deposits and other receivables	1,350
Reclassification to interests in associates	1,766
	5,616

27. Notes to the Consolidated Cash Flow Statement (continued)

(c) Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 RMB'000
Cash consideration	2,500
Cash and bank balances disposed of	(4,267)
	(1,767)

Further details concerning the disposal of subsidiaries are included in note 9(1) and (2) to the financial statements.

28. Commitments

(i) Capital commitments

	Group		Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000	31 December 2002 RMB'000	31 December 2001 RMB'000
Contracted for fixed assets	1,858	2,582	474	2,582
Contracted for the establishment of a new limited company	4,100	–	4,100	–
	5,958	2,582	4,574	2,582

28. Commitments (continued)

(ii) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years.

As at the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	31 December 2002 RMB'000	31 December 2001 RMB'000	**31 December 2002 RMB'000**	31 December 2001 RMB'000
Within one year	**690**	255	**632**	81
In the second to fifth years, inclusive	**1,649**	695	**1,649**	–
After five years	**588**	1,620	**588**	–
	2,927	2,570	**2,869**	81

29. Contingent Liabilities

At 31 December, 2002, the Group and the Company did not have any significant contingent liabilities.

30. Post Balance Sheet Events

Subsequent to 31 December, 2002, the following events occurred:

(1) Pursuant to the shareholders' resolution of an extraordinary general meeting dated 14 January, 2003, the Company declared a dividend of RMB8,000,000 to its shareholders and the payment was made on 22 January, 2003.

(2) On 28 January, 2003, the Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, generating net share issue proceeds of approximately HK$46,481,000.

(3) A condensed pro forma adjusted combined balance sheet of the Group as at 31 December, 2002, which is based on the audited net assets of the Group as at 31 December, 2002 and adjusted as if the public listing of the Company's shares as set out in note 30(2) and the proposed final dividend as set out in note 30(1) had taken place on 31 December, 2002, is presented below:

	Audited combined net assets at 31 December 2002 RMB'000	Pro forma adjustments		Pro forma combined net assets 31 December 2002 RMB'000
		Proposed dividend RMB'000	New issue and placing of shares RMB'000	
Non-current assets	**34,113**	**-**	**-**	**34,113**
Current assets	**40,841**	**-**	**46,481**	**87,322**
Current liabilities	**(7,120)**	**(8,000)**	**-**	**(15,120)**
Net current assets	**33,721**	**(8,000)**	**46,481**	**72,202**
Non-current liabilities	**(800)**	**-**	**-**	**(800)**
Minority interests	**(3,979)**	**-**	**-**	**(3,979)**
Net assets	**63,055**	**(8,000)**	**46,481**	**101,536**
Issue capital	**46,565**	**-**	**16,173**	**62,738**
Reserves	**16,490**	**(8,000)**	**30,308**	**38,798**
	63,055	**(8,000)**	**46,481**	**101,536**

Save as aforesaid, no other significant events took place subsequent to 31 December, 2002.

31. Related Party Transactions

During the year, the Group had the following transactions with a shareholder:

	Notes	**Year ended 31 December 2002 RMB'000**	Year ended 31 December 2001 RMB'000
Raw materials purchased from:			
Fang Yuan, a shareholder	(i)	**5,058**	3,686
Goods sold to:			
Fang Yuan, a shareholder	(ii)	**2**	90
Repayment of debts with fixed assets by:			
Fang Yuan, a shareholder	(iii)	**-**	427
Fixed assets transferred from:			
Fang Yuan, a shareholder	(iv)	**-**	3,400
Rental expenses paid to:			
Fang Yuan, a shareholder	(v)	**-**	155
Non-interest-bearing loan lent to:			
Fang Yuan, a shareholder	(vi)	**1,540**	1,000

Notes:

(i) These transactions were conducted on the basis of rates mutually agreed between the Group and Fang Yuan, which were arrived at according to the published prices and conditions similar to those offered by other suppliers.

(ii) These transactions were conducted on the basis of rates mutually agreed between the Group and Fang Yuan, which were arrived at according to the published prices and conditions similar to those offered to the Group's major customers.

(iii) Pursuant to an agreement entered into by the Company and Fang Yuan on 30 May, 2001, certain motor vehicles were transferred from Fang Yuan to the Company at their net book value amounts to settle his liabilities due to the Company.

(iv) The fixed assets, including office buildings and related leasehold improvements, and certain motor vehicles were transferred at their net book value amounts.

31. Related Party Transactions (continued)

Notes: (continued)

(v) The transactions were determined at rates mutually agreed between the Group and Fang Yuan.

In the opinion of the directors, the above transactions (notes (i)-(v)) were conducted in the normal course of the Group's business.

(vi) According to the loan agreement entered into by the Company and Fang Yuan on 30 August, 2001, an unsecured loan of RMB1.7 million was provided by the Company to Fang Yuan, which was interest-free and was repayable in August 2003. Had interest been charged on the interest-free portion of the outstanding balance during the year with reference to the prevailing market interest rates in the PRC on bank borrowings, Fang Yuan would have paid interest of approximately RMB102,000 for the year ended 31 December, 2002 (2001: RMB20,000).

Pursuant to a termination agreement entered into by the Company and Fang Yuan on 20 June, 2002, the loan agreement was terminated on 20 June, 2002. The remaining amount due from Fang Yuan of RMB1,540,000 as at 30 June, 2002, after deduction of the repayment of RMB160,000 by Fang Yuan in 2002, was classified under current assets and was fully settled in January 2003.

(vii) The shareholders prior to the Company's listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (note 30(2)) have given a deed of tax indemnity dated 23 January, 2003 to the Group.

32. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

33. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 March, 2003.