

First Quarterly Report **2003**

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)

**For identification purposes only*

DONGJIANG

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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.

HIGHLIGHTS

For the three months ended 31 March, 2003, the Group realized a sustainable growth in its core business – sale of recycled products.

For the three months ended 31 March, 2003, the Group's turnover was increased by approximately 3.1% to RMB14,381,000 and the net profit was decreased by 8.1% to RMB4,386,000 as compared to that of the first quarter in 2002.

For the three months ended 31 March, 2003, the Company's turnover was increased by approximately 11.0% to RMB13,966,000 as compared to that of the first quarter in 2002. After making the profits tax provision of approximately RMB361,000 for the first time after the tax holidays, the Company recorded a net profit of approximately RMB4,674,000 which represents a 0.1% growth as compared to the same period in last year.

The H shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 29 January, 2003, generating net proceeds of approximately RMB46,481,000.

FIRST QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the "Board") of Shenzhen Dongjiang Environmental Company Limited (the "Company") is pleased to announce the unaudited quarterly results of the Company and its subsidiaries (the "Group") and the Company for the three months ended 31 March, 2003, together with the comparative figures of the corresponding period of 2002 as follows:

The Group:	Notes	Three months ended 31 March,	
		2003 RMB'000	2002 RMB'000
TURNOVER	2	14,381	13,943
Cost of sales		(7,559)	(7,022)
Gross profit		6,822	6,921
Other revenue and gains		68	143
Selling and distribution costs		(172)	(137)
Administrative expenses		(1,566)	(1,776)
Other operating expenses		(357)	(364)
PROFIT FROM OPERATING ACTIVITIES		4,795	4,787
Share of loss of associates		(98)	-
PROFIT BEFORE TAX		4,697	4,787
Tax	3	(361)	-
PROFIT BEFORE MINORITY INTERESTS		4,336	4,787
Minority interests		50	(17)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		4,386	4,770
DIVIDENDS	4	-	-
EARNINGS PER SHARE – BASIC	5	RMBO.0098	RMBO.2417

		Three months ended 31 March,	
The Company:		2003	2002
	<i>Notes</i>	RMB'000	RMB'000
TURNOVER	2	13,966	12,581
Cost of sales		(6,904)	(6,025)
Gross profit		7,062	6,556
Other revenue and gains		68	77
Selling and distribution costs		(172)	(78)
Administrative expenses		(1,566)	(1,527)
Other operating expenses		(357)	(360)
PROFIT FROM OPERATING ACTIVITIES		5,035	4,668
Tax	3	(361)	-
PROFIT AFTER TAX		4,674	4,668
DIVIDENDS	4	-	-

Notes:

1. 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.

The accounting policies have been consistently applied by the Group and are consistent with those used in the 2002 annual financial statements.

2. Turnover

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.

	Three months ended 31 March,	
	2003 RMB'000	2002 RMB'000
The Group:		
Sale of recycled products, and waste treatment	13,448	10,107
Revenue from construction of environmental protection systems	518	3,616
Other	415	220
	<u>14,381</u>	<u>13,943</u>
The Company:		
Sale of recycled products, and waste treatment	13,448	8,965
Revenue from construction of environmental protection systems	518	3,616
	<u>13,966</u>	<u>12,581</u>

3. 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% (2002: 15%) of the estimated assessable income for the quarter determined in accordance with the relevant income tax rules and regulations of the PRC.

In accordance with the relevant income tax laws and regulations in the PRC, the Company is exempted from corporate income tax for two years commencing from its first year with assessable profits after deducting tax losses brought forward up to 31 December, 2002. Thereafter, the Company is entitled to a 50% tax exemption for the next three years.

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% (2002: 33%) of the estimated assessable income for the quarter determined in accordance with the relevant income tax rules and regulations of the PRC.

The Group did not have significant unprovided deferred tax for the three months ended 31 March, 2003 (2002: none).

4. Dividends

The Board did not recommend the payment of dividend for the three months ended 31 March, 2003 (2002: none).

5. Earnings per share

The calculation of basic earnings per share ("EPS") is based on the unaudited net profit attributable to shareholders for the three months ended 31 March, 2003 of RMB4,386,000 (2002: RMB4,770,000) and the weighted average number of 446,683,000 (2002: 19,737,000) shares in issue during the quarter.

No diluted earnings per share was presented as no diluting events existed for each of the three months ended 31 March, 2002 and 2003.

The pro forma EPS presented below had been computed by dividing net profit attributable to shareholders by 627,381,872 shares (the aggregate of 449,481,872 domestic shares and 177,900,000 H shares) for each of the three months ended 31 March, 2002 and 2003 as if the sub-division of the Company's shares from one domestic share of RMB1.00 each into 10 domestic shares of RMB0.10 each and the placement of 161,727,272 new H shares and 16,172,728 sale H shares had taken place since 1 January, 2002:

	Three months ended 31 March,	
	2003	2002
	RMB	RMB
Pro forma EPS	<u>0.0070</u>	<u>0.0076</u>

6. Reserves

Other than the net profit for the three months ended 31 March, 2003, there were no movements to or from reserves of the Group and the Company during the quarter (2002: none).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group recorded a turnover of approximately RMB14,381,000 for the three months ended 31 March, 2003, representing an increase of approximately 3.1% as compared to that of the corresponding period in 2002.

The increase in revenue was mainly due to the sale of recycled products and waste treatment. The Company has captured the growing market demand in copper sulphate by enhancing the production and sales activities in such product. As a result, the sales of copper sulphate increased.

The Group's unaudited net profit from operating activities attributable to shareholders reached approximately RMB4,386,000 (2002: RMB4,770,000), representing a decrease of approximately 8.1% as compared to the corresponding period in 2002.

The drop in net profit is mainly attributable to the provision of PRC profits tax of RMB361,000 (2002: none) after the tax holidays which end on 31 December, 2002.

In addition, the subsidiaries of the Company are at their initial stage and have not contributed any profit to the Group.

For the Company, the turnover and net profit for the first quarter ended 31 March, 2003 was increased by 11.0% and 0.1% to approximately RMB13,966,000 and RMB4,674,000 respectively as compared to the same period in last year.

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.

During the three months ended 31 March, 2003, the Group was actively consolidating its business foundation in Shenzhen and building up 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.

Our effort was recognized by the State’s Economic and Trade Commission. We were one of the first 40 enterprises recognized as the “Model of resources saving and significant environmental protection projects”.

The Company was also awarded as one of the 100 excellent small to medium sized enterprises in Shenzhen by Shenzhen Economic and Trade Commission.

FUTURE PROSPECTS

The Group will use its best endeavor to increase its 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 so that the Group will stay ahead in the industry.

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 consider investment projects yielding high returns for shareholders.

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

DIRECTORS' INTERESTS IN SHARES

As at 31 March, 2003, 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 Stock Exchange or the Company as required by Chapter 5 of the GEM Listing Rules were as follows:

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

Notes:

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

Save as disclosed above, as at 31 March, 2003, 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 three months ended 31 March, 2003 were rights to acquire benefits by means of the acquisition of shares in or debentures 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

As at 31 March, 2003, the following interests of 10% or more of domestic shares in 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 domestic shares held	%
Mr. Zhang Wei Yang*		
– Personal	261,884,150	58.26
– Company – Shenzhen Wen Ying	35,389,750	7.87
Shanghai New Margin Venture Capital Co., Ltd.	61,566,558	13.70

* 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.

SPONSOR'S INTERESTS

As at 31 March, 2003, CT Prime Assets Limited, a fellow subsidiary of First Shanghai Capital Limited, had an interest of 280,000 H shares of the Company.

Save as disclosed herein, 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 March, 2003.

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.

AUDIT COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

By order of the Board
Shenzhen Dongjiang Environmental Company Limited
ZHANG WEI YANG
Chairman

13 May, 2003
Shenzhen, Guangdong Province, the PRC