

Preserving the  
Environment  
Recycling  
Resource



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)*

Third Quarterly Report  
2003

*\*For identification purposes only*

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

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*This report, for which the directors of Shenzhen Dongjiang Environmental Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Shenzhen Dongjiang Environmental Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

**HIGHLIGHTS**

- For the nine months ended 30 September, 2003, the Group realized a sustainable growth in its core business – sale of recycled products.
- Turnover was increased by approximately 29.3% to RMB57,697,000 for the nine months ended 30 September, 2003, as compared to that of the same period in 2002 (2002: RMB44,618,000).
- Net profit was increased by approximately 13.6% to RMB17,145,000 for the nine months ended 30 September, 2003, as compared to that of the same period in 2002 (2002: RMB15,086,000).
- Earnings per share for the nine months ended 30 September, 2003 was RMB0.0302.

**THE THIRD QUARTERLY RESULTS (UNAUDITED)**

The board of directors (the "Board") of Shenzhen Dongjiang Environmental Company Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the nine months ended 30 September, 2003, together with the comparative figures of the corresponding period of 2002 as follows:

		Nine months ended 30 September, 2003 (unaudited) RMB'000		Three months ended 30 September, 2003 (unaudited) RMB'000	
	Notes	2003 (unaudited) RMB'000	2002 (unaudited) RMB'000	2003 (unaudited) RMB'000	2002 (unaudited) RMB'000
TURNOVER	2	<b>57,697</b>	44,618	<b>24,689</b>	17,159
Cost of sales		<b>(31,046)</b>	(22,360)	<b>(14,393)</b>	(8,611)
Gross profit		<b>26,651</b>	22,258	<b>10,296</b>	8,548
Other revenue and gains		<b>154</b>	288	<b>55</b>	15
Selling and distribution costs		<b>(628)</b>	(729)	<b>(304)</b>	(259)
Administrative expenses		<b>(6,808)</b>	(5,396)	<b>(2,442)</b>	(849)
Finance costs		<b>(127)</b>	—	<b>(127)</b>	—
Other operating expenses		<b>(815)</b>	(1,296)	<b>(363)</b>	(617)
PROFIT FROM OPERATING ACTIVITIES		<b>18,427</b>	15,125	<b>7,115</b>	6,838
Share of profit/(loss) of associates		<b>4</b>	—	<b>(92)</b>	—
PROFIT BEFORE TAX		<b>18,431</b>	15,125	<b>7,023</b>	6,838
Tax	3	<b>(1,454)</b>	(15)	<b>(511)</b>	(15)
PROFIT BEFORE MINORITY INTERESTS		<b>16,977</b>	15,110	<b>6,512</b>	6,823
Minority interests		<b>168</b>	(24)	<b>159</b>	(116)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>17,145</b>	15,086	<b>6,671</b>	6,707
DIVIDENDS	4	<b>5,019</b>	—	<b>—</b>	—
EARNINGS PER SHARE — BASIC	5	<b>0.0302</b>	0.5565	<b>0.0106</b>	0.1612

Notes:

### 1. Basis of preparation and principal accounting policies

The unaudited consolidated results have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Listing Rules of the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the third quarterly financial report are consistent with those adopted in the annual financial statements for the year ended 31 December, 2002, except that the Group has adopted the revised Statements of Standard Accounting Practice ("SSAPs") which became effective on 1 January, 2003. The adoption of the revised SSAPs has no material effect on the Group results.

### 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.

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

	Nine months ended 30 September, 2003 (unaudited) RMB'000		Three months ended 30 September, 2003 (unaudited) RMB'000	
	2002 (unaudited) RMB'000	2002 (unaudited) RMB'000	2002 (unaudited) RMB'000	2002 (unaudited) RMB'000
Sale of recycled products, and waste treatment	<b>54,838</b>	39,287	<b>23,632</b>	16,344
Revenue from construction of environmental protection systems	<b>1,675</b>	4,771	<b>925</b>	654
Others	<b>1,184</b>	560	<b>132</b>	161
	<b><u>57,697</u></b>	<u>44,618</u>	<b><u>24,689</u></b>	<u>17,159</u>

### 3. Tax

The Company and three of its subsidiaries, namely Shenzhen Isoway Corporate Management Consulting Co., Ltd., Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan") and Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited 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 nine months determined in accordance with the relevant income tax rules and regulations of the PRC.

Chengdu Dangerous Waste Treatment Centre Co., Ltd., another subsidiary of the Company, 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 nine months 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 and is entitled to a 50% tax exemption for the next three years. Provision for PRC corporate income tax has been made at a rate of 7.5% for the Company during the period as the Company was within its three-year corporate income tax deduction period. Provision for PRC corporate income tax of Lishan has been made at a rate of 15% on its assessable profits; while no provision was made for the other subsidiaries as they did not earn any assessable profits during the period.

### 4. Dividends

	Nine months ended 30 September, 2003 (unaudited) RMB'000		Three months ended 30 September, 2003 (unaudited) RMB'000	
	2002 (unaudited) RMB'000	2003 (unaudited) RMB'000	2002 (unaudited) RMB'000	2003 (unaudited) RMB'000
Interim dividend		<u>5,019</u>	<u>-</u>	<u>-</u>

At an extraordinary general meeting held on 29 September, 2003, the Company declared an interim dividend of RMB0.008 per share (inclusive of applicable tax) in cash for the first six months ended 30 June, 2003 amounting to approximately RMB5,019,000, which shall be distributed to the holders of H shares of the Company on or before 15 November, 2003.

## 5. Earnings per share

The calculation of basic earnings per share ("EPS") is based on the unaudited net profit attributable to shareholders for the nine months ended 30 September, 2003 of RMB17,145,000 (2002: RMB15,086,000) and the weighted average number of 567,811,000 (2002: 27,107,000) ordinary shares in issue during the nine months.

No diluted earnings per share was presented as no diluting events existed for each of the nine months ended 30 September, 2002 and 2003.

The pro forma EPS presented below had been computed by dividing net profit attributable to shareholders by 627,381,872 shares (aggregate of 449,481,872 domestic shares and 177,900,000 H shares) for each of the nine months ended 30 September, 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:

	<b>Nine months ended</b>	
	<b>30 September,</b>	
	<b>2003</b>	2002
	<b>(unaudited)</b>	(unaudited)
	<b>RMB</b>	RMB
Pro forma EPS	<b><u>0.0273</u></b>	<u>0.0240</u>

## 6. Reserves

Other than the net profit for the nine months ended 30 September, 2003, there were no movements to or from reserves of the Group and the Company during the nine months (2002: none).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

The Group achieved a 29.3% growth in turnover to RMB57,697,000 and a 13.6% growth in net profit to RMB17,145,000 as compared to those of the first nine months in 2002.

The growth was mainly contributed by the sale of recycled products and waste treatment, as well as the establishment of Lishan. Since commencement of operation in August 2003, Lishan had contributed RMB3,900,000 and RMB330,000 to the Group's turnover and net profit respectively.

The slowing down of growth in net profit of the Group as compared to the first nine months of 2002 is primarily attributable to the provision for corporate income tax of RMB1,454,000 (2002: RMB15,000) and the relatively low profit margin of Lishan, which is at its initial start-up stage.

### **BUSINESS REVIEW**

During the quarter under review, the Group recorded a strong performance with waste treatment capability and collection capacity of waste which was then converted to products for sale. The waste treatment capacity as well as the production of copper sulphate achieved a substantial growth as compared to the first two quarters of 2003. The total amount of industrial waste treated increased by 24%, while the production of copper sulphate increased by 22% as compared to the same period in 2002.

The Group made good progress in the provision and implementation of environmental protection ("EP") construction and EP consultation services by undertaking medium and large-scale EP construction projects. The projects will probably enhance the Group's ability to generate income from the provision of EP construction and consultation services in the first quarter of 2004.

The establishment of the business bases in Huizhou, Chengdu and Shenzhen was accelerated throughout the period, in order to further consolidate the business in the Pearl River Delta and Western China region.



## FUTURE PROSPECTS

With the persistent growth of EP industry in mainland China, the Group will make every effort to seize opportunities in the market to strengthen the waste and recycled products treatment capability, enlarge the customer base, enhance the involvement in research and development, as well as to accelerate the establishment of business bases in Huizhou, Chengdu and Shanghai.

Establishing Lishan is our first step in horizontal expansion in the industry. The Group will continue to access new growth prospects in the EP industry. The management team will continue to explore investment opportunities in different regions and to pursue growth via horizontal or vertical expansion as well as strategic alliance with other EP institutions.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September, 2003, the interests or short positions of the Directors and chief executive of the Company, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as required under Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

### Long position in domestic shares of the Company

Name	Personal interests	Family interests	Corporate interests	Other interests	Percentage of shareholding	
					Total	in this class
Mr. Zhang Wei Yang	261,884,150	35,389,750 (Note 1)	-	-	297,273,900	66.1%
Mr. Li Yong Peng	-	-	35,389,750 (Note 2)	-	35,389,750	7.9%

Notes:

- (1) These shares (representing approximately 7.9% of domestic shares issued) are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Ms. Zhou Wen Ying, the spouse of Mr. Zhong Wei Yang.
- (2) These shares are held by Shenzhen Fang Yuan Petrochemical Industries Co., Ltd., 90% of which is owned by Mr. Li Yong Peng.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30 September, 2003, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, as at 30 September, 2003, the following persons (other than the Directors and chief executive of the Company) had their interests or short positions in shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long position in the shares of the Company

Name of shareholder	Capacity	Number and class of shares	Percentage of shareholding in its class
Shanghai New Margin Venture Capital Co., Ltd (Note 1)	Beneficial owner	61,566,558 domestic shares	13.7%
The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy (Note 1)	Interest of a controlled corporation	61,566,558 domestic shares	13.7%
Shanghai Alliance Investment Ltd. (Note 1)	Interest of a controlled corporation	61,566,558 domestic shares	13.7%
I. G. Investment Management (Hong Kong) Limited (Note 2)	Investment manager	17,000,000 H shares	9.6%

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number and class of shares</b>	<b>Percentage of shareholding in its class</b>
Fidelity International Limited (Note 2)	Investment manager	9,850,000 H shares	5.5%
J.P. Morgan Chase & Co. (Note 3)	Interest of a controlled corporation	20,250,000 H shares	11.4%
J.P. Morgan Fleming Asset Management Holdings Inc. (Note 3)	Interest of a controlled corporation	14,350,000 H shares	8.1%
J.P. Morgan Fleming Asset Management (Asia) Inc. (Note 3)	Interest of a controlled corporation	14,350,000 H shares	8.1%
JF Asset Management Limited (Note 3)	Investment manager	11,200,000 H shares	6.3%
China Environmental Fund 2002, LP (Note 4)	Beneficial owner	11,500,000 H shares	6.5%
Leading Environmental Solutions and Services (Note 4)	Interest of a controlled corporation	11,500,000 H shares	6.5%

## Notes:

1. Shanghai News Margin Venture Capital Co., Ltd is owned as to 50% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, and as to 50% by Shanghai Alliance Investment Ltd., a state-owned enterprise.
2. To the best knowledge of the Directors, this party is independent of and not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or an associate of any of them.

3. J.P. Morgan Chase & Co., a company listed on the New York Stock Exchange, owns 100% of J.P. Morgan Chase Bank, which holds 5,900,000 H shares (representing 3.3% of the total issued H shares of the Company as at 30 September, 2003) of the Company in its lending pool. In addition, J.P. Morgan Chase & Co. owns 100% of the equity interest in J.P. Morgan Fleming Asset Management Holdings Inc. which in turn owns 100% of the equity interest in J.P. Morgan Fleming Asset Management (Asia) Inc.. J.P. Morgan Fleming Asset Management (Asia) Inc. owns 99.9% of JF Asset Management Limited and holds 100% of JF International Management Inc.. As at 30 September, 2003, JF Asset Management Limited holds, as an investment manager, 11,200,000 H shares (representing 6.3% of the total issued H shares of the Company as at 30 September, 2003) of the Company and JF International Management Inc. holds 3,150,000 H shares (representing 1.8% of the total issued H shares of the Company as at 30 September, 2003) of the Company.
4. Leading Environmental Solutions and Services owns approximately 76.9% of China Environment Fund 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 September, 2003, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **SPONSOR'S INTERESTS**

Pursuant to the agreement dated 23 January, 2003 entered into between the Company and First Shanghai Capital Limited, 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.

Save as disclosed above, neither First Shanghai Capital Limited, its directors, employees or associates, 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 30 September, 2003.

**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, namely Messrs. Meng Chun, Liu Hong Liang and Wang Ji Wu. The audit committee has reviewed the draft of this third quarterly report and has provided advice and comments thereon.

**PRACTICES AND PROCEDURES OF THE BOARD**

The Directors considered that the Company has complied with the requirement of Board practices and procedures of Rules 5.28 to 5.39 of the GEM Listing Rules throughout the nine months period.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the period ended 30 September 2003, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

By order of the Board

**Shenzhen Dongjiang Environmental Company Limited**  
**ZHANG WEI YANG**

*Chairman*

12 November, 2003

Shenzhen, Guangdong Province, the PRC