Preserving the Environment Recycling Resources

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 年報 2003

*For identification purposes only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website http://www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

Contents

Corporate Information

EXECUTIVE DIRECTORS
ZHANG Wei Yang
HE Qi Hu
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
Cheng, Wong & Lam

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 16th Floor, Shenmao Commercial Centre, 59 Xinwen Road, Futian District, Shenzhen, Guangdong Province, the People's Republic of China on 6 May, 2004 at 2:00 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 2003;

2. To consider and approve the report of the Supervisory Committee of the Company for the year 2003;

3. To consider and approve the audited financial statements for the year ended 31 December, 2003;

4. To consider and approve the resignation of Mr. Liang Ruichi as supervisors of the Company;

5. To consider and approve the proposal of appointing Mr. Chen Shusheng as supervisors of the Company;

6. To consider and approve the proposal of appointing Ernst & Young as the Company's auditors for the year 2004 and to authorize the Board to fix their remuneration; and

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
Shenzhen Dongjiang Environmental Company Limited
ZHANG WEI YANG
Chairman

Hong Kong, 19 March, 2004

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 Tuesday, 6 April, 2004 to Wednesday, 5 May, 2004 (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. Wednesday, 5 May, 2004 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. Wednesday, 14 April, 2004.

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:

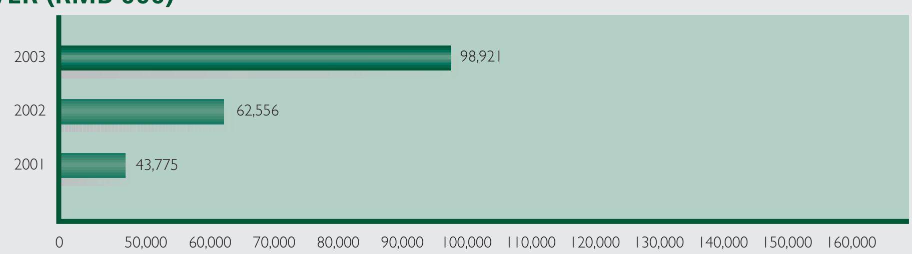
Office Units A, B, C, D and H
16th Floor, Shenmao Commercial Centre
59 Xinwen Road
Futian District, Shenzhen
Guangdong Province
The PRC

Tel:	(86755) 8294 9169
Fax:	(86755) 8294 9115
Post Code:	518034

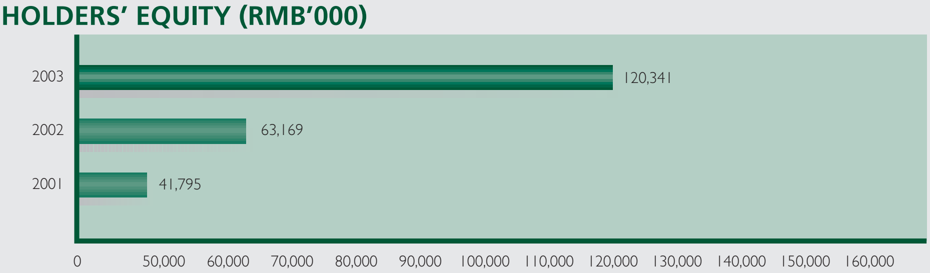
Financial Highlights

	2003 *RMB'000*	2002 *RMB'000* *(Restated)*	2001 *RMB'000*
Result			
Turnover	**98,921**	62,556	43,775
Gross profit	**41,238**	30,524	20,108
Gross profit rate	**41.69%**	48.79%	45.93%
Net profit from ordinary activities attributable to shareholders	**23,709**	21,286	15,222
Financial position			
Total assets	**167,452**	75,068	49,209
Total liabilities	**31,020**	7,920	7,201
Minority interests	**16,091**	3,979	213
Shareholders' equity	**120,341**	63,169	41,795

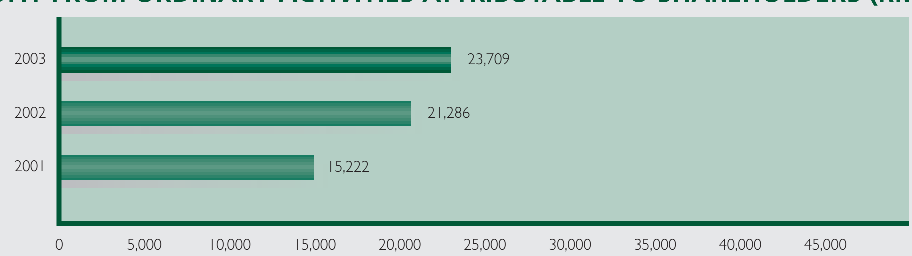
TURNOVER (RMB'000)



SHAREHOLDERS' EQUITY (RMB'000)



NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS (RMB'000)



Chairman's Statement

On behalf of Shenzhen Dongjiang Environmental Company Limited ("Dongjiang"/the "Company"), I am pleased to present the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2003.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2003, turnover of the Group was approximately RMB98,921,000 (2002: RMB62,556,000). The audited profit attributable to shareholders reached approximately RMB23,709,000 (2002 (Restated): RMB21,286,000), representing an increase of approximately 58.1% and 11.4% as compared to the same period last year. Basic earnings per share amounted to approximately RMB0.0386 (2002 (Restated): RMB0.0457).

BUSINESS REVIEW

2003 was a year full of opportunities while at the same time challenging for Dongjiang. The Company turned a new leaf by listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited at the beginning of the year.

The overall business development for this year was notable. Although the Group experienced the outbreak of Severe Acute Respiratory Syndrome ("SARS") and the non-peak season for the first six months of 2003, the joined endeavor of the management and staff by responding rapidly and effectively to the market during the period has led to satisfactory growth in annual turnover and profit attributable to shareholders. The growth was mainly attributable to the core business, sale of recycled products and wastes treatment, which increased by approximately 66.6% and 29.6% in turnover and operating profit respectively as compared to the same period last year.

During the period under review, the Group was committed to integrate the resources, and further enhancing its capability by expanding the variety of the wastes that can be treated and recycled and the geographical market coverage. Apart from consolidating the core business, the Group actively explored into new businesses during the year, such as commencing the operations in treatment and recycling of nickel-contained waste water, waste organic solvent and waste oil. Moreover, through establishing Shenzhen Lishan Environmental Protection Materials Co., Ltd., the Group entered the area of the waste grease treatment and integrated utilization. The situation of monotype of waste utilization was hence altered. The commencement of the Environmental Protection project (the "EP project") running and management during the year also generated a new income source for the Group.

In addition, apart from further consolidating the foundation in Shenzhen, the Group mapped out the territory covering the Southwestern and Southern parts, as well as the Yangtze River Delta of the PRC, which formed a solid foundation for its cross-region development. Affected by the spread of SARS and the regional protection policy, the construction of the Group's waste treatment centers in Shenzhen, Shanghai, Huizhou and Chengdu was delayed. However, with persistent endeavor, the new treatment centre in Shenzhen commenced trial production in the second half of the year while those in Chengdu and Huizhou also started trial production by the end of the year. The production commencement of the above centres will greatly improve the overall capacity and scale of the Group.

Regarding the research and development ("R&D") of products, the Group continuously enhanced the technical levels of the detoxification and recycle of wastes, including technologies of recycling of nickel-contained wastes, the treatment and recover of copper from copper sludge, the recycle of industrial wastes water and the treatment of infiltration produced by landfills, etc. In addition, the R&D on aspects such as chemistry, environmental protection machineries and facilities also obtained encouraging results.

Besides, the Group kept strengthening the international cooperation and exchange and achieved encouraging progress during the year by establishing strategic alliance with Heritage Group, a famous industrial giant in the U.S., and marked the first step in the exploration of international market.

OUTLOOK

Recently, the PRC Government proposed a new road to industrialization, emphasizing on the importance of sustainable development and environmental protection as a major strategic development plan for the country. Tremendous development opportunities are opened up in the environmental protection industry. Dongjiang will follow the trend, respond to market demand and uphold the mission of "Protecting the environment, recycling useful resources". Leveraging on the focused yet comprehensive business ability, the Group is dedicated to provide quality and integrated environmental protection services to customers in various industries.

Looking forward, the Group will continue to strengthen its vertical and horizontal developments. Apart from increasing the waste treatment capacity and enlarging the business scopes, the Group is also committed to expand geographically based on its existing coverage. New profit growth point is to be attained by the implementation of the Group's effective and efficient business model.

The Group will also strengthen the sales and market development team, and is devoted to increase the market share in the PRC and explore new overseas markets. Moreover, the Group will actively enhance the internal management and corporate governance level and further integrate its subsidiaries. Leveraging on the aggressive attitude and profound understanding and insight towards the industry, the Board believes that the Group could grasp the opportunities ahead, achieve sustainable development and bring forth satisfactory returns for its shareholders.

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 the Group in the past year.

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

19 March, 2004

INDUSTRY OVERVIEW

Environmental protection ("EP") industry is one of the fast-growing industries in the PRC. In accordance with the Tenth Five-Year Plan, the EP industry in the PRC will grow at approximately 15% annually in the coming decade and attain RMB200 billion in 2005. With the rapid growth in living standard, the demand for EP services has been increasing substantially. The outbreak of the SARS crisis has further aroused the concern of waste treatment and EP. The trend that more rules and regulations have been imposed by the PRC Government provides the EP industry with great impetus for development.

Pursuant to the " Announcement regarding the Industrialization of Hazardous Waste Disposal by Implementation of a Charging System" and "National Plan on Establishing Hazardous and Iatric Wastes Treatment Facilities" issued by central government of the PRC, the management of hazardous waste has been strengthened. Besides, Guangdong Environmental Protection Bureau has imposed "Provisions on the Resources Utilization of Guangdong Province", "Iatric Wastes Management Ordinance" and "Shenzhen Economic Special Zone Environment Protection Ordinance". The implementation of the abovementioned regulations gives an impulse to our core business, i.e. collection and recycle of industrial waste.

PRINCIPLE BUSINESSES AND BUSINESS MODEL

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. The Group generates income by providing comprehensive EP solutions to the customers and selling recycled products and waste treatment. During the year, sale of recycled products and waste treatment accounted for the Group's main source of revenue.

	Year 2003		Year 2002	
	RMB'000	**Percentage of turnover**	*RMB'000*	Percentage of turnover
Sale of recycled products and waste treatment	**93,677**	**94.7**	56,226	89.9
Construction and implementation of EP projects	**4,086**	**4.1**	5,587	8.9
Provision of related consultation services	**1,158**	**1.2**	743	1.2
Total	**98,921**	**100.0**	62,556	100.0

BUSINESS REVIEW

With continued enhancement in the production capacity and enlargement in the scope of core business, the Group achieved a 58.1% growth in turnover to RMB98,921,000 and a 11.4% growth in net profit to RMB23,709,000 as compared with the previous year's.

Sale of recycled products and waste treatment

The growth of the Group in this year was mainly contributed by the sale of recycled products and waste treatment, which recorded a 66.6% rise in turnover and 29.6% rise in operating profit as compared with last year.

As a result of market development and increase in waste treatment capacity, the Group produced approximately 16,300 tonnes and sold 15,700 tones of copper-related recycled products, representing a growth of approximately 22.6% and 16.3% respectively as compared with the previous year.

Moreover, the construction of the new treatment facilities of the Company in Shajing for tin-contained waste water, waste organic solvent and waste oil had completed and was brought into operation in this year. This not only increases the capacity in waste treatment, but also expands the variety of recycled products of the Group by recycling tin, organic solvent and basic industrial oil.

The Group allocated more resources in the provision of management services in waste water treatment. During the year, the Group was engaged in three trial projects, accounted for a turnover of approximately RMB3,205,000 and net profit of RMB376,000.

In order to expand horizontally in the EP industry, the Group entered into an agreement with Dencan Development Limited ("Dencan") on 19 June, 2003 ("Lishan Agreement") to set up a 51%-owned subsidiary, Shenzhen Lishan Environmental Protection Materials Co., Ltd. 深圳立山環保材料有限公司("Lishan"). Through which, the Group commenced the business of converting waste grease to fatty acid products, such as polyamide resin, plasticizing agent and paint activating agent. Lishan contributed a turnover of approximately RMB18,771,000 and a net profit of RMB1,314,000 to the Group.

The construction of the waste treatment centres in Huizhou and Chengdu was completed at the end of 2003 and will commence operation in the first half of 2004.

The core business of the Group gained a remarkable growth this year and will continue to be a growth engine of the Group.

Construction and implementation of EP projects and provision of related consultation services

Construction and implementation of EP projects and provision of related consultation services is the supporting business of the Group. Owing to business restructuring and resources optimization, this segment shrinked relatively as compared with last year. In 2003, six EP projects amounted to a sum of RMB1,630,000 were engaged.

For the same reason, the EP technology consultation services provided by the Group's subsidiary, Shenzhen Isoway Corporate Management Consulting Co., Ltd., gradually turned to play a secondary role to facilitate the development of the Group's core business.

SUBSIDIARIES AND ASSOCIATED COMPANIES

On 19 June, 2003, the Company entered into the Lishan Agreement with Dencan, pursuant to which the Company agreed to invest RMB9,180,000 in the registered capital of Lishan for its 51% equity interest. Lishan was established on 10 July, 2003 as a limited liability company in the PRC and is principally involved in the manufacture and sale of polyamide resin, plasticizing agent and paint activating agent from collected wastes.

On 2 July, 2003, the Company established a 51%-owned subsidiary Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited (深圳市龍崗區東江工業廢物處置有限公司), at RMB2,550,000 in PRC with two independent third parties, not connected with the Directors, chief executive, substantial shareholder or management shareholder of the Company or any associate of any of them, to expand the collection capacity of waste and the market coverage of the Group.

MATERIAL INVESTMENT

To coordinate with the Group's development strategies, the Company invested RMB950,000 to establish a 95%-owned subsidiary namely, Shenzhen Dongjiang EP Resources Collection Recycling Company Limited 深圳市東江環保再生資源有限公司 ("Dongjiang Recycling") to manage the collection, transportation and sale of industrial wastes in Shenzhen region.

TECHNOLOGY AND COOPERATION

In order to strengthen its research and development ("R&D") capability, the Company invested RMB1,438,000 in nine R&D projects in this year. Four of them had been completed, in which the "Research on Recycling Copper from Copper-contained Sludge" was granted a subsidy from the government as a planned science and technology project of Shenzhen and was awarded Baoan District Technology Innovation Prize for 2003. Besides, the research project "Recycling and Reuse of Tin-contained Waste Water" was supported by the National Technical Innovation Fund for Science and Technology Enterprises.

Furthermore, the Company entered into two contracts with Heritage Technologies, LLC on 16 December, 2003 to invest RMB15,500,000 and RMB 760,000 in the registered capital of Shenzhen Dongjiang Heritage Technologies Co., Ltd (深圳東江華瑞科技有限公司) and Shenzhen Micronutrients Co., Ltd. (深圳邁科能添加劑有限公司) respectively for the R&D, production and sale of tri-basic copper chloride and fresh etchant. On 3 December, 2003, the Company also entered into two cooperation agreements with Zhong Nan University on two projects, namely the "Detoxification and Recycling of Nickel-contained Waste" and the "Testing Technology for Recycling Copper from Copper-contained Sludge".

FINANCIAL REVIEW

Turnover and Contribution

Turnover was increased by approximately 58.1% to RMB 98,921,000 in 2003 (2002: RMB62,556,000). The increase of turnover mainly came from the sale of recycled products and waste treatment and the establishment of Lishan.

In the year, gross profit was increased by approximately 35.1% to RMB41,238,000 (2002: RMB30,524,000). In order to enhance the production and treatment capacity in core business, the Group had to develop new products which have lower gross profit rates but have been widely accepted by the market. This is the major reason for the drop of gross profit rate from 48.8% to 41.7%.

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. The Company made provision for corporate income tax of RMB1,724,000 for the year ended 31 December, 2003.

FINANCIAL RESOURCES, LIQUIDITY AND TREASURY POLICIES

As at 31 December, 2003, the Group had current assets of RMB111,559,000 (31 December, 2002: RMB40,841,000) and current liabilities of RMB29,920,000 (31 December, 2002: RMB7,120,000). Included in the current assets, cash and bank balances amounted to RMB73,392,000 (31 December, 2002; RMB23,372,000). The Group had financed its operations and research and development activities with internal financial resources until the end of December, 2003, when a short-term bank loan of RMB10,000,000 (31 December, 2002: nil) was granted by a PRC bank at a fixed interest rate of 5.31% per annum.

The Group's gearing ratio, which is defined as the quotient of total borrowings and shareholders' equity, was 0.083 (31 December, 2002: nil). The Group's current ratio was approximately 3.73 times (31 December, 2002: 5.74 times). In view of the strong financial and liquidity positions, the Group will have sufficient resources to meet the needs of its operations and research and development requirements in the future.

MATERIAL ACQUISITION AND DISPOSALS

During the year, the Company entered into the Lishan Agreement with Dencan by investing RMB9,180,000 in the Lishan for its 51% equity interest to manufacture and sell polyamide resin, plasticizing agent and paint activating agent from collected wastes.

Besides, the Company established a 51%-owned subsidiary Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited at RMB2,550,000 in the PRC to expand the collection capacity of wastes.

SHAJING TREATMENT CENTRE

The independent non-executive directors of the Company convened a board meeting on 19 March, 2004 to review the progress and status in relation to the construction and the obtaining of land use rights of the Shajing Treatment Centre. It was concluded in the board meeting which was chaired by an independent non-executive director, that:

(i) the land use rights and building ownership rights could be obtained on or before 31 December, 2005 at a further cost not exceeding RMB10.6 million; and

(ii) Shenzhen Baoan District Shajing Town Gong He Economic Development Corporation（深圳市寶安區沙井鎮共和經濟發展公司）("ED Corporation") had not breached any part of the agreements between them, and therefore no compensation should be sought from ED Corporation and no indemnity should be claimed against Mr. Zhang Wei Yang.

As at 31 December, 2003, the Company had paid ED Corporation a construction fee of approximately RMB5.9 million (2002: RMB5.9 million), a portion of land resumption fee of approximately RMB0.4 million (2002: RMB0.4 million) and other costs of approximately RMB7,592,000 (2002: RMB4,600,000) for the purchases and installation of equipment and fixtures and purchase of materials relating to the installation in the treatment and recycling plant.

PLEDGE OF ASSETS

As at 31 December, 2002 and 2003, the Group had no pledged assets.

INTEREST RATE AND EXCHANGE RISK

There is no interest rate risk as the short-term bank loan granted by the PRC bank during the year is at a fixed interest rate of 5.31% per annum. The Group did not expose to any major exchange risk as most of the income and expenses were settled in Renminbi.

INFORMATION ON EMPLOYEES

As at 31 December, 2003, the number of full-time employees stood at 250 (2002: 236) with a total staff cost for the year ended 31 December, 2003 of approximately RMB7,982,000 (2002: RMB5,318,000). The Group offers a remuneration package and a range of additional benefits to its employees, including pension and retirement benefits.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December, 2002 and 2003.

DIVIDEND

Pursuant to the shareholders' resolution of an extraordinary general meeting dated 29 September, 2003, the Company declared an interim dividend of RMB0.008 per share to its shareholders and the payment was made on 15 November, 2003.

The Board did not recommend the payment of a final dividend for the year ended 31 December, 2003.

CAPITAL COMMITMENT

As at 31 December, 2003, the Group had the following capital commitments:

	Year ended 31 December,	
	2003	2002
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Fixed assets	**–**	1,858
The establishment of new limited companies	**16,260**	4,100
Total	**16,260**	5,958

FUTURE PROSPECTS

For the coming year, the fundamentals of PRC's economy are expected to be strong. With the great emphasis placed by PRC government on the EP industry and the increasingly high demand on EP services among the society, the EP market in PRC will be further fostered. Under such favourable conditions, the Board believes that the Group will have good development potential and business opportunities.

In 2004, the Group will strive to achieve the goal of business expansion combined with profit making. By sustaining the growth in net profit, the Group will continue to explore investment opportunities in different areas as well as to pursue geographical expansion, thereby further enhancing business diversification and overall capability.

To assure the sustaining growth in collection, treatment and recycle of industrial wastes, the Group will harmonize the collaboration of various business segments, facilitate the effectiveness and further integrate internal resources. The Group will continue to stimulate the production and improvement of copper salt products in Shenzhen and Huizhou.

As the new facilities of treatment centre of the Company in Shajing will be brought into operation in 2004, the Group will focus on the treatment and recycle of organic industrial waste. Moreover, waste water facility operation and management, a newly developing business which will be emphasised in future, is expected to generate steady profit for the Group.

To maintain sustainable growth, the Group will dedicate more effort to facilitate the strategic development in Pearl River Delta, Western China and Chang Jiang River Delta regions. The treatment centre in Huizhou will bring into operation within the first half of 2004. Besides, the Group will proactively pursue to develop the treatment centres in Shanghai and Chengdu in 2004. In addition, with the gradual roll-up in the production and sale, Lishan is expected to have better contribution to the Group's profit in 2004.

To maintain its technological advantages and future development impetus, the Group will continue to commit in R&D in the coming year and to emphasize on the treatment and recycle technology. In addition, more attention will be paid in treatment for various wastes from restaurants, electronics factories and hospitals.

As the Group keeps on expanding its operation scale and geographical coverage, the Group will further enhance its management system. To this end, the Group will establish an effective internal control system to facilitate the coordination and communication among different business units and further integrate the internal resources. Besides, the Group will continue to strengthen its management and operation teams by implementing effective performance appraisal and incentive programs.

To conclude, the Group will not only focus on the core business in the coming year, but also devote to exploring new segments in the EP industry. With provision of better and more comprehensive products and services, we will try our best to increase shareholders' wealth.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 23 January, 2003	Actual business progress from the Latest Practicable Date to 31 December, 2003
Increase waste treatment capacity and expand geographical coverage	
i) Pearl River Delta	
• Construction of a new treatment centre in Shajing Town of the Baoan District in Shenzhen.	• Trial run has commenced.
• Expansion with a base in Huizhou, Huizhou Dongjiang.	• Construction of treatment facilities has completed and trial run has commenced.
ii) Western China region	
Expansion with a base in Chengdu, Chengdu Treatment Centre.	• Construction of treatment facilities has completed and the trial run has commenced.
iii) Changjiang River Delta	
Expansion with a base in Shanghai Xin Yu.	• Construction of copper waste treatment facility has completed. The initial annual treatment capacity of the treatment facility is 10,000 tonnes. Trial run has commenced.

Business objectives as stated in the prospectus dated 23 January, 2003	Actual business progress from the Latest Practicable Date to 31 December, 2003
Expand the variety of wastes that can be treated and recycled and further promote other EP-related services.	
i) Waste treatment and recycled variety	• Construction of organic solvent and waste oil and tin-contained wastes treatment facilities have completed and trial run has commenced. • Construction of zinc-contained wastes and arsenic-contained waste treatment facilities has temporarily postponed. • Final tests on cupric sewage sludge and chromium-contained waste treatment technology have completed. • Construction of waste mineral oil treatment facility has completed.
ii) EP construction and consultation services	• The number of turnkey solution projects has increased and the scope of operation has enlarged.
iii) EP products	• Won the bid of a belt-type pressurized filtration machine. • Participated in the bids of two construction projects. • Electric floating sewage treatment system has licensed the patent right in the PRC and applied in a project.

Business objectives as stated in the prospectus dated 23 January, 2003	**Actual business progress from the Latest Practicable Date to 31 December, 2003**
Continue its commitment to R&D	
1. Commence R&D on waste treatment and recycle technology on: nickel-contained wastes, lead-contained wastes, waste acid, waste alkaline and waste inorganic cyanide.	• The projects are in the process of trial.
2. Forming strategic alliance with major EP organization in the PRC.	• The Company entered into a cooperation agreement with Zhong Nan University and has completed the final test on recycling copper from copper-contained sludge.
Further enhance its management system	
1. To establish an information management system.	• Enhancement of internal control system is in progress.
2. Plan to divide the target markets into three regions, each of which will have its own management system and will report directly to the head office.	• Planning is in progress.
3. Application for ISO9001 certification.	• Awarded ISO9001 certification. Application for ISO14000 certification has lodged.
Strengthen its sales and marketing team	
To recruit an additional 6 professionals in sales and marketing team.	• Already recruited. • Enhanced after-sale services by modifying relevant internal procedures and establishing sales networks around treatment centres.

USE OF PROCEEDS

The proceeds from the listing of the H Shares of the Company on GEM in January 2003, after deduction of related expenses, amounted to approximately HK$43.4 million. However, the total amount as estimated by the Directors to finance the business objectives (the "Business Objectives") as set out in the prospectus of the Company dated 23 January, 2003 (the "Prospectus") is HK$66.0 million. As stated in the Prospectus, the Directors intend to finance the shortfall by operating cashflows and, where necessary, bank financing. During the period from 22 January, 2003 (the latest practicable date prior to the printing of the Prospectus for the purpose of ascertaining certain information contained in the Prospectus) (the "Latest Practicable Date") to 31 December, 2003 (the "Period"), approximately HK$22.5 million of the listing proceeds were applied to the Business Objectives. Details of the comparison of the application of the HK$22.5 million to the Business Objectives are as follows:

	From the Latest Practicable Date to 31 December, 2003		
	Actual Figure *(HK$ million)*	**As per Prospectus** *(HK$ million)*	**Difference** *(HK$ million)*
Increase waste treatment capacity (new treatment centres in Shenzhen)	8.9	6.9	2.0
Enlarge geographical coverage (treatment centres in Chengdu, Huizhou and Shanghai)	10.8	15.3	(4.5)
Expand waste treatment capability and wider scope of services	0.7	0.3	0.4
Continue its commitment in R&D	1.4	0.4	1.0
Further enhance its management system	0.4	0.4	–
Strengthen its sales and marketing team	0.3	0.1	0.2
Total	22.5	23.4	(0.9)

Note: As stated in the Prospectus, any additional net proceeds more than HK$37.1 million will be applied to finance the Business Objectives for the 12 months ending 31 December, 2004 on a proportional basis. As the Company raised approximately HK$43.4 million from the listing of H Shares, the Directors intend to apply (i) the net proceeds as to the amount of HK$37.1 million to the Business Objectives on a proportional basis up to 31 December, 2005; and (ii) the net proceeds as to the amount of HK$6.3 million to the Business Objectives for the 12 months ending 31 December, 2004 on a proportional basis. The amount of net proceeds to be utilized for the Business Objectives as per the Prospectus as shown herein has been adjusted to take into account for the aforesaid factors.

The above amount of approximately HK$0.9 million, not yet applied to the business plan as stated under the section "Business Objectives" in the Prospectus, was placed on short-term interest bearing deposits with licensed banks in the PRC.

The Directors consider that the actual application of proceeds from the listing of H Shares of the Company was in line with the Business Objectives. The unutilized net proceeds of HK$0.9 million are primarily attributable to:

- change of market conditions after the outbreak of SARS; and

- timing difference in application of fund.

INTEREST OF SPONSOR

Neither First Shanghai Capital Limited (the "Sponsor") nor their directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) has any interests in the share capital of the Company as at 31 December, 2003.

Pursuant to the agreement dated 23 January, 2003 entered into between the Company and the Sponsor, the Sponsor would receive a fee for acting as the Company's retained sponsor for the period from 29 January, 2003, the date on which the H shares of the Company were listed, to 31 December, 2005.

Save for disclosed above, the Sponsor has no other interest in the Company as at 31 December, 2003.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

Since the H Shares of the Company commenced trading on GEM on 29 January, 2003, the Company has not purchased, sold or redeemed any of its listed securities.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the standard of the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year.

The Company set up an audit committee (the "Committee") on 14 January, 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the company. The Committee comprises three independent non-executive Directors, Mr. Meng Chun, Mr. Liu Hong Liang and Mr. Wang Ji Wu. The Company's financial statements for the year ended 31 December, 2003 have been reviewed by the Committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and other legal requirements, and that adequate disclosure had been made. The Committee had held four meetings during the year ended 31 December, 2003.

Management Profile

DIRECTORS

Executive Directors

ZHANG Wei Yang (張維仰), aged 38, 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 recycling. 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 53, 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.

LI Yong Peng (李永鵬), aged 29, 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 36, 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").

WU Shui Qing (吳水清), aged 37, 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 47, 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 46, 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 71, 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 33, 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.

Supervisors

YUAN Wei (袁桅), aged 33, 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 32 is a Supervisor and an assistant to the general manager of the Company. Mr. Liang joined the Group in February 2001 and left in December 2003 and was responsible for the marketing and transportation activities of the Group. He graduated from the Central University of Finance and Banking (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 33 is a Supervisor. Ms. Cai joined the Group in September 1999 and left in August 2003 and was responsible for the accounting function of the Group. Before joining the Group, she worked in Shenzhen Fang Yuan since September 1994. Ms. Cai has over eight years experience in the field of accounting.

Company Secretary and Qualified Accountant

HU Chiu Lun, Alan (胡超倫), aged 34 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 Shu Sheng (陳曙生), aged 37 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 Donjiang 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 Xue Mei (王雪梅), aged 32, is the chief financial officer of the Company. Ms. Wang joined the Group in November 2003 and is responsible for the accounting and financial activities of the Group. She graduated from the Central University of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance (中央財經大學)), in 1994 majored in finance and obtained an MBA degree from Fordham University of USA (BiMBA) in 2003. She is an associate member of CICPA. She has 10 years of accounting and corporate finance experience.

WANG Xue Zhi (王學智), aged 43 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.

Management Profile

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.

WANG Tian (王恬), aged 27 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 has over three years of experience in the field of investment and management.

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company's principal activity is the processing and sale of recycled products, waste treatment, the construction of environmental protection systems and the provision of consultation services. Details of the principal activities of the subsidiaries are set out in note 17 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 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 76.

The board proposed a distribution of an interim dividend of RMB0.008 per share on 12 August 2003, which has been approved by an extraordinary general meeting on 29 September 2003 and paid on 15 November 2003.

The board did not recommend the payment of a final dividend for the year ended 31 December, 2003.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange in January 2003, after deduction of related issuance expenses, amounted to approximately HK$43.4 million. The application of these proceeds during the year ended 31 December 2003 in accordance with the proposed applications set out in the Company's listing prospectus (the "Prospectus"), was as follows:

– approximately HK$8.9 million was used for the new treatment centre in Shenzhen;

– approximately HK$10.8 million was used for the new treatment centres in Chengdu, Huizhou and Shanghai;

– approximately HK$0.7 million was used for the expansion of waste treatment capability;

– approximately HK$1.4 million was used for the research and development;

– approximately HK$0.4 million was used for the enhancement of the Company's management system; and

– approximately HK$0.3 million was used for the strengthening of the sales and marketing team of the Group.

The unused proceeds of approximately HK$20.9 million was placed on short-term interest bearing deposits with licensed banks in the PRC for future applications as set out in the Prospectus.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital are set out in note 28 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB20,626,000. In addition, the Company's share premium account, in the amount of HK$30,309,000, is available for distribution by way of capitalisation issues.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 22% of the total sales for the year and sales to the largest customer included therein amounted to 6%. Purchases from the Group's five largest suppliers accounted for 35% of the total purchases for the year and purchases from the largest supplier, Shenzhen Fang Yuan Petrochemical Industrial Co., Ltd. ("Fang Yuan") included therein amounted to 15%. Fang Yuan is also a shareholder of the Company and is owned as to 90% by Mr. Li Yong Peng.

Save as disclosed above, 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 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 (Resigned on 9 May 2003)
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' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographies details of the directors of the company and the senior management of the Group are set out on page 19 to 22 of the annual report.

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 8 and 9 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

Mr. Li Yong Peng, who owns 90% of the equity interest in Fang Yuan, was interested in a contract for the supply of raw materials to the Group. Further details of the transactions undertaken in connection therewith are included in note 34 to the financial statements. Save as disclosed above, no director had a material interest, either directly or indirectly, 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, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2003, the interests or short positions of the Directors, Supervisors, and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register 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 the shares of the Company

	Number of domestic shares held, capacity and nature of interest			Percentage of the Company's issued share capital in that class
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	
Mr. Zhang Wei Yang	261,884,150	35,389,750[1]	297,273,900	47.38
Mr. Li Yong Peng	–	35,389,750[2]	35,389,750	5.64
	261,884,150	70,779,500	332,663,650	53.02

Notes:

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

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

Save as disclosed above, as at 31 December, 2003, none of the Directors, Supervisors or chief executive of the Company had 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 taken 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.

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 debentures of the Company granted to any director or their respective spouse or minor children, 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' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors, Supervisors or chief executive of the Company, as at 31 December, 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 and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital in its class
Shanghai New Margin Venture Capital Co., Ltd. *(Note 1)*	Directly beneficially owned	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)*	Through of a controlled corporation	61,566,558 domestic shares	13.7
Shanghai Alliance Investment Ltd. *(Note 1)*	Through of a controlled corporation	61,566,558 domestic shares	13.7
I.G. Investment Management (Hong Kong) Limited	Investment manager	17,000,000 H shares	9.6
Fidelity International Limited	Investment manager	9,850,000 H shares	5.5
J.P. Morgan Chase & Co. *(Note 2)*	Through of a controlled corporation	20,250,000 H shares	11.4
J.P. Morgan Fleming Asset Management Holdings Inc. *(Note 2)*	Through of a controlled corporation	14,350,000 H shares	8.1
J.P. Morgan Fleming Asset Management (Asia) Inc. *(Note 2)*	Through of a controlled corporation	14,350,000 H shares	8.1
JF Asset Management Limited *(Note 2)*	Investment manager	11,200,000 H shares	6.3

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital in its class
China Environmental Fund 2002, LP *(Note 3)*	Directly beneficially owned	11,500,000 H shares	6.5
Leading Environmental Solutions and Services *(Note 3)*	Through 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. 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 in its lending pool.

   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 31 December 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 and JF International Management Inc. holds 3,150,000 H shares (representing 1.8% of the total issued H shares) of the Company.

3. Leading Environmental Solutions and Services owns approximately 76.9% of China Environmental Fund 2002, LP, which holds 11,500,000 H shares of the Company.

Save as disclosed above, as at 31 December, 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 provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group had purchased raw materials of approximately RMB6,596,000 from Fang Yuan (the "transactions").

In accordance with the Prospectus, the independent non-executive directors had examined the transactions under a raw material supply agreement dated 9 November 2001 between Fang Yuan and the Company (the "Agreement") and confirmed the following matters:

(i) the transactions were executed in the ordinary and usual course of business of the Group;

(ii) the transactions were executed on normal commercial terms or on terms not less favourable than those given to independent third parties;

(iii) the transactions were executed in accordance with the Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) the aggregate amount of the transactions had not exceeded RMB6.6 million.

Details of the connected transactions of the Group are set out in note 34 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company complied with the board practices and procedures requirements in the 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 Rules 5.23 and 5.24 of the GEM Listing Rules 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, had met four times during the year.

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

19 March, 2004

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, 2003 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 and 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

19 March, 2004

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 33 to 76 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
19 March, 2004

Consolidated Income Statement

Year ended 31 December 2003

	Notes	**2003** **RMB'000**	2002 RMB'000 (Restated)
TURNOVER	4	**98,921**	62,556
Cost of sales		**(57,683)**	(32,032)
Gross profit		**41,238**	30,524
Other revenue and gains	4	**1,187**	1,576
Selling and distribution costs		**(1,760)**	(1,339)
Administrative expenses		**(12,582)**	(8,516)
Other operating expenses		**(2,500)**	(2,230)
PROFIT FROM OPERATING ACTIVITIES	6	**25,583**	20,015
Finance costs	7	**(261)**	–
Share of profits and losses of associates		**(47)**	201
PROFIT BEFORE TAX		**25,275**	20,216
Tax	10	**(1,724)**	26
PROFIT BEFORE MINORITY INTERESTS		**23,551**	20,242
Minority interests		**158**	1,044
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**23,709**	21,286
DIVIDENDS	12		
Interim		**5,019**	–
Proposed final		**–**	8,000
		5,019	8,000
EARNINGS PER SHARE			
Basic	13	**RMB0.0386**	RMB0.0457

Consolidated Balance Sheet

31 December 2003

	Notes	Group 2003 RMB'000	2002 RMB'000 (Restated)
NON-CURRENT ASSETS			
Prepayments for fixed assets	14	**13,358**	12,000
Fixed assets	15	**30,386**	15,563
Goodwill	16	**745**	953
Interests in associates	18	**10,775**	5,597
Deferred tax assets	27	**629**	114
		55,893	34,227
CURRENT ASSETS			
Inventories	19	**8,397**	988
Construction contracts	20	**661**	527
Trade receivables	21	**10,599**	819
Prepayments, deposits and other receivables		**18,510**	14,088
Due from a shareholder	22	**–**	1,047
Cash and cash equivalents		**73,392**	23,372
		111,559	40,841
CURRENT LIABILITIES			
Trade payables	23	**6,545**	2,201
Tax payable		**680**	–
Other payables and accruals		**8,295**	4,919
Interest-bearing bank borrowings	24	**10,000**	–
Due to a minority shareholder of a subsidiary	25	**4,400**	–
		29,920	7,120
NET CURRENT ASSETS		**81,639**	33,721
TOTAL ASSETS LESS CURRENT LIABILITIES		**137,532**	67,948
NON-CURRENT LIABILITIES			
Deferred revenue	26	**1,100**	800
MINORITY INTERESTS		**16,091**	3,979
		120,341	63,169
CAPITAL AND RESERVES			
Issued capital	28	**62,738**	46,565
Reserves	29(a)	**57,603**	8,604
Proposed final dividend	12	**–**	8,000
		120,341	63,169

ZHANG Wei Yang
Director

HE Qi Hu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Issued share capital *RMB'000*	Share premium account *RMB'000*	Capital reserve *RMB'000*	Statutory funds *RMB'000* *(Note 29)*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
Balance as at 1 January 2002							
As previously reported	19,737	–	7,263	2,250	12,545	–	41,795
Prior year adjustment: SSAP 12-restatement of deferred tax	–	–	–	–	88	–	88
As restated	19,737	–	7,263	2,250	12,633	–	41,883
Transfer to capital *(note 28(1))*	26,828	–	(7,263)	(2,250)	(17,315)	–	–
Net profit for the year (as restated)	–	–	–	–	21,286	–	21,286
Transfer from retained earnings to statutory funds	–	–	–	3,424	(3,424)	–	–
Proposed final 2002 dividend *(note 12)*	–	–	–	–	(8,000)	8,000	–
Balance as at 31 December 2002	46,565	–	–	3,424	5,180	8,000	63,169
Balance as at 1 January 2003							
As previously reported	46,565	–	–	3,424	5,066	8,000	63,055
Prior year adjustment: SSAP 12-restatement of deferred tax	–	–	–	–	114	–	114
As restated	46,565	–	–	3,424	5,180	8,000	63,169
Final 2002 dividend declared	–	–	–	–	–	(8,000)	(8,000)
Issue of shares *(note 28(4))*	16,173	41,825	–	–	–	–	57,998
Share issue expenses *(note 28(4))*	–	(11,516)	–	–	–	–	(11,516)
Net profit for the year	–	–	–	–	23,709	–	23,709
Transfer from retained earnings to statutory funds	–	–	–	3,592	(3,592)	–	–
Interim 2003 dividend *(note 12)*	–	–	–	–	(5,019)	–	(5,019)
Balance as at 31 December 2003	**62,738**	**30,309**	**–**	**7,016**	**20,278**	**–**	**120,341**

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Issued share capital *RMB'000*	Share premium account *RMB'000*	Capital reserve *RMB'000*	Statutory funds *RMB'000* *(Note 29)*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
Reserve retained by:							
Company and subsidiaries	62,738	30,309	–	7,016	20,213	–	120,276
Associates	–	–	–	–	65	–	65
31 December 2003	**62,738**	**30,309**	**–**	**7,016**	**20,278**	**–**	**120,341**
Company and subsidiaries	46,565	–	–	3,424	4,979	8,000	62,968
Associates	–	–	–	–	201	–	201
31 December 2002	46,565	–	–	3,424	5,180	8,000	63,169

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
CASHFLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**25,275**	20,216
Adjustments for:			
Share of profits and losses of associates		**47**	(201)
Interest income	4	**(1,009)**	(132)
Loss on disposal of fixed assets	6	**95**	529
Depreciation	6	**2,848**	2,141
Provision for doubtful debts	6	**–**	107
Goodwill amortisation	6	**208**	87
Gain on disposal of subsidiaries	4	**–**	(614)
Operating profit before working capital changes		**27,464**	22,133
Increase in inventories		**(7,409)**	(668)
Decrease/(increase) in construction contracts		**(134)**	2,443
Increase in trade receivables		**(9,780)**	(2,833)
Increase in prepayment, deposits and other receivables		**(4,422)**	(11,643)
Decrease in an amount due from a shareholder		**1,047**	408
Increase in trade payables		**4,344**	2,951
Increase in other payables and accruals		**3,376**	4,332
Decrease in an amount due to a shareholder		**–**	(8)
Increase in an amount due to a minority shareholder of a subsidiary		**4,400**	–
Increase in deferred revenue		**300**	800
Cash generated from operations		**19,186**	17,915
Interest paid		**261**	–
Profits tax paid		**(1,470)**	–
Net cash inflow from operating activities		**17,977**	17,915

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		**17,977**	17,915
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,009**	132
Purchases of fixed assets	*15*	**(3,874)**	(7,636)
Acquisition of a subsidiary	*30(a)*	**–**	2,067
Disposal of subsidiaries	*30(b)*	**–**	(1,767)
Investments in associates		**–**	(1,520)
Advances of loans to associates		**(5,314)**	(730)
Prepayments for fixed assets		**(15,250)**	(9,636)
Contributions by minority interests		**12,270**	1,019
Net cash outflow from investing activities		**(11,159)**	(18,071)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	*28(4)*	**57,998**	–
Share issue expenses	*28(4)*	**(11,516)**	–
New bank loans		**10,000**	–
Interest paid		**(261)**	–
Dividend paid		**(13,019)**	–
Net cash inflow from financing activities		**43,202**	–
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**50,020**	(156)
Cash and cash equivalents at beginning of year		**23,372**	23,528
CASH AND CASH EQUIVALENTS AT END OF YEAR		**73,392**	23,372
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents		**73,392**	23,372

Balance Sheet

31 December 2003

		Company	
		2003	2002
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Prepayments for fixed assets	*14*	**879**	10,900
Fixed assets	*15*	**28,750**	14,674
Interests in subsidiaries	*17*	**18,430**	5,800
Interests in associates	*18*	**10,710**	5,396
		58,769	36,770
CURRENT ASSETS			
Inventories	*19*	**3,514**	906
Construction contracts	*20*	**661**	527
Trade receivables	*21*	**2,351**	819
Prepayments, deposits and other receivables		**9,358**	13,876
Due from a shareholder	*22*	**–**	1,047
Due from a subsidiary	*17*	**4,600**	–
Cash and cash equivalents		**62,608**	16,845
		83,092	34,020
CURRENT LIABILITIES			
Trade payables		**3,403**	2,201
Tax payable		**615**	–
Other payables and accruals		**6,154**	4,313
Interest-bearing bank borrowings	*24*	**10,000**	–
		20,172	6,514
NET CURRENT ASSETS		**62,920**	27,506
TOTAL ASSETS LESS CURRENT LIABILITIES		**121,689**	64,276
NON-CURRENT LIABILITIES			
Deferred revenue	*26*	**1,100**	800
		120,589	63,476
CAPITAL AND RESERVES			
Issued capital	*28*	**62,738**	46,565
Reserves	*29*	**57,851**	8,911
Proposed final dividend	*12*	**–**	8,000
		120,589	63,476

ZHANG Wei Yang
Director

HE Qi Hu
Director

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 new and revised SSAPs are effective for the first time for the current year's financial statements and have had a significant impact thereon:

SSAP 12 (Revised)	:	"Income taxes"
SSAP 35	:	"Accounting for government grants and disclosure of government assistance"

The 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 adopting these SSAPs, which have had a significant effect on the financial statements, are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 27 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 27 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants.

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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. 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 jointly-controlled entity, 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.

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.

Fixed assets and depreciation

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

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	9.70%
Leasehold improvements	Over the lease terms
Office equipment, furniture and fixtures	19.40%
Motor vehicles	9.70% to 13.86%
Other equipment	19.40%

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, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs incurred during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders and claims. Contract costs incurred comprise 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

For the purpose of the 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 Mainland China'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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

The Company and the subsidiaries comprising the Group operating in the Mainland China participate in the central pension scheme (the "CPS") operated by the Mainland China government for all of their staff. The Company and its Mainland China 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.

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 will be 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of 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.

Foreign currency transactions

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.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of recycled product sold and waste treatment, after allowances for goods returned and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of consultation services rendered during the year.

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

	2003	2002
	RMB'000	*RMB'000*
Turnover		
Sale of recycled products, and waste treatment	**93,677**	56,226
Revenue from construction of environmental protection systems	**4,086**	5,587
Consultation service income	**1,158**	743
	98,921	62,556
Other revenue		
Interest income	**1,009**	132
Government grant income	**–**	400
Others	**178**	430
	1,187	962
Gain		
Gain on disposal of subsidiaries	**–**	614
	1,187	1,576

5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the Group's customers and operations are located in the Mainland China.

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.

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	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Amounts in RMB'000		*(Restated)*						*(Restated)*
Segment revenue:								
Sales to external customers	**93,677**	56,226	**4,086**	5,587	**1,158**	743	**98,921**	62,556
Segment results	**26,219**	20,229	**(178)**	293	**(458)**	(507)	**25,583**	20,015
Profit from operating activities							**25,583**	20,015
Finance costs							**(261)**	–
Share of profit and losses of associates	**(47)**	201	**–**	–	**–**	–	**(47)**	201
Profit before tax							**25,275**	20,216
Tax							**(1,724)**	26
Profit before minority interests							**23,551**	20,242
Minority interests							**158**	1,044
Net profit from ordinary activities attributable to shareholders							**23,709**	21,286

5. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group	Production and sale of recycled products, and waste treatment		Construction of environmental protection systems		Others		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Amounts in RMB'000		*(Restated)*				*(Restated)*		*(Restated)*
Segment assets	**75,990**	36,948	**79,333**	30,917	**609**	653	**155,932**	68,518
Goodwill	**745**	953	**–**	–	**–**	–	**745**	953
Interests in associates	**10,775**	5,597	**–**	–	**–**	–	**10,775**	5,597
Total assets	**87,510**	43,498	**79,333**	30,917	**609**	653	**167,452**	75,068
Segment liabilities	**18,012**	6,122	**12,603**	1,359	**405**	439	**31,020**	7,920
Total liabilities	**18,012**	6,122	**12,603**	1,359	**405**	439	**31,020**	7,920
Other segment information:								
Depreciation	**1,682**	1,193	**1,133**	896	**33**	52	**2,848**	2,141
Amortisation of goodwill	**208**	87	**–**	–	**–**	–	**208**	87
Provision for doubtful debts	**–**	107	**–**	–	**–**	–	**–**	107
Loss on disposal of fixed assets	**95**	529	**–**	–	**–**	–	**95**	529
Capital expenditure	**19,124**	15,213	**–**	1,978	**–**	81	**19,124**	17,272

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2003 *RMB'000*	2002 *RMB'000*
Cost of inventories sold		**53,282**	23,154
Research and development costs		**1,438**	1,504
Depreciation	*15*	**2,848**	2,141
Amortisation of goodwill*	*16*	**208**	87
Minimum lease payments under operating leases: office premises, plant and supervisors and staff quarters		**1,567**	976
Auditors' remuneration		**530**	400
Staff costs (including remuneration of directors and senior employees – *notes 8 and 9)*:			
Wages and salaries		**7,779**	5,214
Retirement benefits scheme contributions		**203**	104
		7,982	5,318
Provision for doubtful debts		**–**	107
Loss on disposal of fixed assets		**95**	529

* *Amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.*

7. FINANCE COSTS

	Group 2003 *RMB'000*	Group 2002 *RMB'000*
Interest on bank loans	**261**	–

8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	RMB'000	*RMB'000*
Other emoluments:		
Salaries, allowances and benefits in kind	**566**	309
Retirement benefits scheme contributions	**10**	14
	576	323

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:

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**6**	4

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**196**	84
Retirement benefits scheme contributions	**4**	8
	200	92

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2003	2002
Nil – HK$1,000,000	**3**	2

10. TAX

The Company and four of its subsidiaries, namely Shenzhen Isoway Corporate Management Consulting Co., Ltd., Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan"), Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited and Shenzhen Dongjiang Environmental Recycled Resources Co., Ltd. are located in the Shenzhen Special Economic Zone and as a result, are subject to the Mainland China corporate income tax at a rate of 15% (2002: 15%) of the estimated assessable income for the year ended 31 December 2003 determined in accordance with the relevant income tax rules and regulations of the Mainland China.

Another subsidiary of the Company – Chengdu Dangerous Waste Treatment Centre Co., Ltd. ("Chengdu Co.,"), and the subsidiary of Chengdu Co., – Sichuan Xingli Environmental Protection Project Co., Ltd. are located in Chengdu and are subject to the Mainland China corporate income tax at a rate of 33% (2002: 33%) of the estimated assessable income for the year ended 31 December 2003 determined in accordance with the relevant income tax rules and regulations of the Mainland China.

In accordance with the relevant income tax laws and regulations in the Mainland China, 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 2003 was the Company's third year of operations with assessable profits and accordingly, the Company made provision of corporate income tax at 7.5% on its assessable profits for the year ended 31 December 2003. Except for Lishan, which made provision of corporate income tax at 15% on its assessable profit, no provision was made for other subsidiaries as they did not earn any assessable profits during the year.

	Group	
	2003	2002
	RMB'000	*RMB'000*
Current – Mainland China	**2,150**	–
Deferred *(note 27)*	**(515)**	(26)
	1,635	(26)
Share of tax attributable to associates	**89**	–
Total tax charge for the year	**1,724**	(26)

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group

	2003		2002	
	Tax rate	**Total**	Tax rate	Total
	%	***RMB'000***	%	*RMB'000*
Profit before tax		**25,275**		20,216
Tax at the statutory tax rate	**15/33**	**3,520**	15/33	3,032
Expenses not deductible for tax	**0.5**	**129**	–	–
Lower applicable tax rate for the tax benefits enjoyed by the Company	**(7.61)**	**(1,925)**	(15)	(3,058)
Tax charge at the Group's effective rate	**6.8**	**1,724**	(0.13)	(26)

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was RMB23,650,000 (2002: RMB20,726,000).

12. DIVIDENDS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Interim – RMB0.008 per ordinary share	**5,019**	–
Proposed final	**–**	8,000
	5,019	8,000

At an extraordinary general meeting held on 29 September 2003, the Company declared an interim dividend of RMB0.008 per share in cash for the six months ended 30 June 2003 amounting to approximately RMB5,019,000.

The directors did not recommend the payment of a final dividend in respect of the year.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of RMB23,709,000 (2002 (restated): RMB21,286,000) and the weighted average number of 614,975,000 (2002 (restated) : 465,654,000) ordinary shares in issue during the year. The weighted average number of 465,654,000 shares for the year ended 31 December 2002 had been adjusted for the sub-division of each domestic share of nominal value of RMB1.00 each into ten domestic shares of nominal value of RMB0.10 each (note 28) as if the sub-division of domestic shares had taken place since 1 January 2002.

No diluted earnings per share amounts have been presented for the two years ended 31 December 2003 and 2002 as no diluting events existed during those years.

14. 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 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; and (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 has incurred a total amount of RMB13,892,000 as at 31 December 2003 (2002: RMB 10,900,000) for constructing and establishing the New Plant on the Land. The amount included the initial fees for the construction and land resumption expenses of RMB400,000 and construction fee of RMB5.9 million paid pursuant to the Agreement and Supplemental Agreement, and other costs for the purchases and installation of equipment and fixtures and purchase of materials relating to the installation in the New Plant. As the construction of the New Plant has been completed and put into use from 1 July 2003, the total amount of RMB 13,892,000 was transferred to fixed assets during the year (note 15).

14. PREPAYMENTS FOR FIXED ASSETS *(continued)*

The Directors expected the land use right certificate of the Land and the building ownership certificate of the New Plant to be obtained by the end of 2005. Pursuant to the Supplemental Agreement, ED Corporation agreed to bear all costs and loss in relation to the Group's failure to obtain the land use right certificate of the Land and the building ownership certificate of the New Plant. In addition, Mr. Zhang Wei Yang, the Chairman has agreed and undertaken to indemnify the Group against all relocation, expenses, losses, damages, costs, claims, proceedings, fees and action (including any legal costs) which any member of the Group may suffer, sustain or incur, arising from or in connection with the failure of the Company to obtain the relevant land use right certificate and building ownership certificate of the New Plant by 31 December 2005 up to a maximum amount of RMB15 million. The independent non-executive directors of the Company will convene a board meeting on a semi-annual basis to review the progress and status of the outstanding matters as mentioned in the Supplemental Agreement.

On 12 August 2003, the independent non-executive directors of the Company convened a board meeting to review the progress of status in relation to the obtaining of land and building ownership certificate of the New Plant. It was concluded in the board meeting that the land and building ownership rights could be obtained on or before 31 December 2005.

15. FIXED ASSETS

Group

Amounts in RMB'000	Land and buildings	Plant and machinery	Leasehold improve-ments	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Con-struction in progress	Total
Cost:								
At 1 January 2003	2,800	1,849	1,890	1,668	6,265	3,673	3,886	22,031
Additions	9,630	4,262	–	219	2,171	1,050	434	17,766
Transfers	3,369	951	–	–	–	–	(4,320)	–
Disposals	–	–	(221)	(4)	(282)	(7)	–	(514)
At 31 December 2003	**15,799**	**7,062**	**1,669**	**1,883**	**8,154**	**4,716**	**–**	**39,283**
Accumulated depreciation:								
At 1 January 2003	113	660	986	562	2,064	2,083	–	6,468
Provided during the year	302	389	548	304	654	651	–	2,848
Disposals	–	–	(221)	(1)	(197)	–	–	(419)
At 31 December 2003	**415**	**1,049**	**1,313**	**865**	**2,521**	**2,734**	**–**	**8,897**
Net book value:								
At 31 December 2003	**15,384**	**6,013**	**356**	**1,018**	**5,633**	**1,982**	**–**	**30,386**
At 31 December 2002	2,687	1,189	904	1,106	4,201	1,590	3,886	15,563

Company

	Land and buildings	Plant and machinery	Leasehold improve-ments	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Con-struction in progress	Total
Cost:								
At 1 January 2003	2,800	1,274	1,670	1,487	5,890	3,654	3,886	20,661
Additions	9,630	4,262	–	56	1,393	1,033	434	16,808
Transfers	3,369	951	–	–	–	–	(4,320)	–
Disposals	–	–	–	(4)	(282)	(7)	–	(293)
At 31 December 2003	**15,799**	**6,487**	**1,670**	**1,539**	**7,001**	**4,680**	**–**	**37,176**
Accumulated depreciation:								
At 1 January 2003	113	556	766	520	1,955	2,077	–	5,987
Provided during the year	302	333	548	258	549	647	–	2,637
Disposals	–	–	–	(1)	(197)	–	–	(198)
At 31 December 2003	**415**	**889**	**1,314**	**777**	**2,307**	**2,724**	**–**	**8,426**
Net book value:								
At 31 December 2003	**15,384**	**5,598**	**356**	**762**	**4,694**	**1,956**	**–**	**28,750**
At 31 December 2002	2,687	718	904	967	3,935	1,577	3,886	14,674

15. FIXED ASSETS *(continued)*

The buildings of the Company and the Group are located in the PRC.

The building ownership certificates for the buildings with original cost of RMB2,800,000 were obtained by the Company with the land use rights for a term of 50 years commencing from 18 June 1993.

The obtaining of the relevant land use rights and building ownership certificates in respect of other land and buildings with original cost of RMB12,999,000, comprising the initial fees for the construction and land resumption expenses of RMB400,000 and construction fee of RMB5,900,000 paid in accordance with the Agreement and the Supplemental Agreement and other costs of RMB6,699,000 related to the construction and installation in the New Plant, is in progress (note 14).

16. GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary, are as follows:

	Group
	RMB'000
Cost:	
At beginning of year and 31 December 2003	**1,040**
Accumulated amortisation:	
At beginning of year	87
Amortisation provided during the year	208
At 31 December 2003	**295**
Net book value:	
At 31 December 2003	**745**
At 31 December 2002	953

17. INTERESTS IN SUBSIDIARIES

	Company 31 December 2003 RMB'000	Company 31 December 2002 RMB'000
Unlisted shares, at cost	**18,430**	5,800
Due from a subsidiary*	**4,600**	–
	23,030	5,800

* *The amount due from a subsidiary included in the Company's current assets is unsecured, interest free and has no fixed terms of repayment.*

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of registration and operations	Nominal value of registered capital RMB	Equity attributable to the Company Direct	Equity attributable to the Company Indirect	Principal activities
Shenzhen Isoway Corporate Management Consulting Co., Ltd. ("Isoway")	Shenzhen, PRC 29 April 2000	1,000,000	70%	–	Provision of consulting services for the construction of environmental protection systems
Chengdu Dangerous Waste Treatment Centre Co., Ltd. ("Chengdu Co.")*	Chengdu, PRC 25 June 2001	10,000,000	51%	–	Production and sale of recycled products and waste treatment
Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan")	Shenzhen, PRC 10 July 2003	18,000,000	51%	–	Production and sale of polyamide resin, plasticising agent and paint activating agent from collected waste

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place and date of registration and operations	Nominal value of registered capital *RMB*	Equity attributable to the Company Direct	Equity attributable to the Company Indirect	Principal activities
Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited ("Longgang DJ")	Shenzhen PRC 2 July 2003	5,000,000	51%	–	Collection, processing and treatment of industrial waste
Shenzhen Dongjiang Environmental Recycled Resources Co., Ltd. ("DJ Recycled")	Shenzhen PRC 19 November 2003	1,000,000	90%	–	Collection and treatment of industrial waste
Sichuan Xingli Environmental Protection Project Co., Ltd. (" Xingli") *	Chengdu PRC 1 August 2003	2,000,000	–	28%	Construction of environmental protection systems and development and sale of environmental equipment

* *Xingli is a subsidiary of Chengdu Co., and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.*

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

18. INTERESTS IN ASSOCIATES

	Group	
	31 December 2003 **RMB'000**	31 December 2002 RMB'000
Share of net assets	**4,731**	4,867
Due from associates*	**6,044**	730
	10,775	5,597

	Company	
	31 December 2003 **RMB'000**	31 December 2002 RMB'000
Unlisted shares, at cost	**4,666**	4,666
Due from associates*	**6,044**	730
	10,710	5,396

* *The amounts due from 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 2003	2002	Principal activities
Shanghai Xinyu Environmental Co., Ltd.	Corporate	PRC	**46**	46	Waste treatment
Huizhou Dongjiang Environmental Co., Ltd. ("Huizhou Dongjiang")*	Corporate	PRC	**20**	20	Production and sale of recycled products and waste treatment
Shenzhen Fugeri Environmental Protection Equipment Co., Ltd.	Corporate	PRC	**40**	40	Development and sale for environmental equipment

* *Huizhou Dongjiang has not commenced operation as at 31 December 2003.*

19. INVENTORIES

	Group	
	31 December 2003 *RMB'000*	31 December 2002 *RMB'000*
At cost:		
Raw materials	**6,170**	782
Finished goods	**2,227**	206
	8,397	988

	Company	
	31 December 2003 *RMB'000*	31 December 2002 *RMB'000*
At cost:		
Raw materials	**1,829**	700
Finished goods	**1,685**	206
	3,514	906

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

20. CONSTRUCTION CONTRACTS

	Group and Company	
	31 December 2003 *RMB'000*	31 December 2002 *RMB'000*
Gross amounts due from contract customers	**661**	527
Gross amounts due to contract customers included in other payables	**(190)**	(400)
	471	127
Contract costs incurred plus recognised profits less recognised losses to date	**4,702**	5,927
Less: Progress billings	**(4,231)**	(5,800)
	471	127

At 31 December 2003, there were no retentions held by customers for contract work included in trade receivables (2002: Nil).

21. 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 the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	31 December 2003	31 December 2002
	RMB'000	*RMB'000*
Trade receivables	**10,713**	933
Less: Provision for doubtful debts	**(114)**	(114)
	10,599	819
Current to 90 days	**10,578**	834
91 to 180 days	**53**	9
181 to 365 days	**–**	90
Over 365 days	**82**	–
	10,713	933

	Company	
	31 December 2003	31 December 2002
	RMB'000	*RMB'000*
Trade receivables	**2,465**	933
Less: Provision for doubtful debts	**(114)**	(114)
	2,351	819

22. DUE FROM A SHAREHOLDER

Particulars of the balance due from a shareholder are as follows:

	Group and Company	
	31 December 2003	31 December 2002
	RMB'000	*RMB'000*
Due from Fang Yuan:		
Balance at end of year	**–**	1,047
Maximum amount outstanding due from Fang Yuan during the year	**–**	1,700

23. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	Group	
	31 December 2003	31 December 2002
	RMB'000	*RMB'000*
Current to 90 days	**6,367**	1,281
91 to 180 days	**69**	669
181 to 365 days	**–**	144
Over 1 year	**109**	107
	6,545	2,201

24. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	31 December 2003	31 December 2002	**31 December 2003**	31 December 2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loan:				
Secured	**10,000**	–	**10,000**	–
Bank loan repayable:				
Within one year	**10,000**	–	**10,000**	–

The bank loan was secured by Fang Yuan.

25. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

	Group	
	31 December 2003	31 December 2002
	RMB'000	*RMB'000*
Due to Chengdu Xingli Tyre Co., Ltd. ("Xingli Tyre"):		
Balance at end of year	**4,400**	–

According to the shareholders' resolutions of Chengdu Co., dated 14 May 2003 and 1 September 2003, Xingli Tyre provided the unsecured, interest-free loans of RMB2,400,000 and RMB2,000,000, respectively, to Chengdu Co., with repayment terms of six months. The amounts have not been repaid by the Company as of the date of this report.

26. DEFERRED REVENUE

The balance as at 31 December 2003 represented a subsidy of RMB1,100,000 (2002: 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 Shenzhen 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.

27. DEFERRED TAX

The movement in deferred tax assets during the year is as follows:

Deferred tax assets

Group

	Losses available for offset against future taxable profit *RMB'000*
At 1 January 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax assets	114
As restated	114
Deferred tax credited to the profit and loss account during the year	515
Deferred tax assets at 31 December 2003	629
At 1 January 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax assets	88
As restated	88
Deferred tax credited to the profit and loss account during the year	26
Deferred tax assets at 31 December 2002	114

The Group has tax losses arising in the PRC of RMB2,340,000 (2002: RMB713,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have been recognised in respect of these losses.

28. SHARE CAPITAL

	Group and Company	
	31 December 2003	31 December 2002
	RMB'000	*RMB'000*
Authorised, issued and fully paid:		
449,481,872 domestic shares of RMB0.10 each (2002: 46,565,460 domestic shares of RMB1.00 each)	**44,948**	46,565
177,900,000 H shares of RMB0.10 each (2002: nil)	**17,790**	–
	62,738	46,565

(1) 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.

(2) Pursuant to a shareholders' resolution passed on 18 September 2002 and an approval issued by the China Securities Regulatory Commission ("CSRC") on 29 November 2002, each domestic share in the Company of nominal value of RMB1.00 each was sub-divided into ten domestic shares of nominal value of RMB0.10 each.

(3) Pursuant to the "Provisional Administrative Measures for the Reduction of State-owned Shares in Raising the Social Security Fund" (《減持國有股籌集社會保障基金管理暫行辦法》), 16,172,728 domestic shares of Shanghai New Margin Venture Capital Co., Ltd. and Shenzhen High Tech Investment Co., Ltd., two shareholders of the Company, were converted into 16,172,728 sale H shares.

(4) The Company was listed on the Growth Enterprise Market of the Stock Exchange on 28 January 2003 and 177,900,000 H shares, consisting of 161,727,272 new shares and 16,172,728 sale H shares (note(3)), respectively, with a par value of RMB0.10 each were issued to the public by way of placement at HK$0.338 each. The net share issue proceeds after deducting share issue expenses was approximately RMB46,482,000, of which paid-up share capital amounted to RMB16,173,000 and share premium amounted to RMB30,309,000.

28. SHARE CAPITAL *(continued)*

A summary of the transactions during the year with reference to the above movements of the Company's issued capital is as follows:

	Carrying amount *RMB'000*	Number of shares issued
At beginning of year	46,565	46,565,460
Sub-division of each domestic share of nominal value of RMB1.00 each into ten domestic shares of nominal value of RMB0.10 each *(note (2))*	–	419,089,140
Sales of state legal person shares and conversion into H shares *(note (3) and note (4))*	(1,617)	(16,172,728)
New issue of shares on public listing *(note (3) and note (4))*	17,790	177,900,000
At 31 December 2003	62,738	627,381,872

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 35 and 36.

29. RESERVES *(continued)*

(b) Company

	Share premium account RMB'000	Capital reserve RMB'000	Statutory funds* RMB'000	Retained profits RMB'000	Total RMB'000
Balance as at 1 January 2002	–	7,263	2,250	13,500	23,013
Transfer to capital *(note 28(1))*	–	(7,263)	(2,250)	(17,315)	(26,828)
Net profit for the year	–	–	–	20,726	20,726
Transfer from retained earnings to statutory funds	–	–	3,424	(3,424)	–
Proposed final 2002 dividend *(note 12)*	–	–	–	(8,000)	(8,000)
Balance as at 31 December 2002 and beginning of year	–	–	3,424	5,487	8,911
Issue of shares *(note 28(4))*	41,825	—	—	—	41,825
Share issue expenses *(note 28(4))*	(11,516)	–	–	–	(11,516)
Net profit for the year	–	–	–	23,650	23,650
Transfer from retained earnings to statutory funds	–	–	3,492	(3,492)	–
Interim 2003 dividend *(note 12)*	–	–	–	(5,019)	(5,019)
Balance as at 31 December 2003	30,309	–	6,916	20,626	57,851

* 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.

29. RESERVES *(continued)*

(b) Company *(continued)*

In accordance with 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.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2003	2002
	RMB'000	*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 16)*	–	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:

	2003	2002
	RMB'000	*RMB'000*
Cash consideration	–	(5,100)
Cash and bank balances acquired	–	7,167
	–	2,067

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of a subsidiary *(continued)*

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 the production and sale of recycled products and waste treatment. The consideration for the acquisition was fully paid at the acquisition date.

Since Chengdu Co., has not commenced business operations in 2002, 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 ended 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.

(b) Disposal of subsidiaries

	2003	2002
	RMB'000	*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
Gain 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

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) 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:

	2003	2002
	RMB'000	*RMB'000*
Cash consideration	**–**	2,500
Cash and bank balances disposed of	**–**	(4,267)
	–	(1,767)

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. 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.

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.

31. COMMITMENTS

(i) Capital commitments

	Group		**Company**	
	31 December 2003	31 December 2002	**31 December 2003**	31 December 2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Fixed assets	**–**	1,858	**–**	474
The establishment of the new limited companies	**16,260**	4,100	**16,260**	4,100
	16,260	5,958	**16,260**	4,574

31. COMMITMENTS *(continued)*

(i) Capital commitments *(continued)*

a) on 16 December 2003, the Company and Heritage Technologies, LLC ("Heritage Technologies"), an independent third party, entered into an agreement, pursuant to which the Company and Heritage Technologies agreed to establish Shenzhen Dongjiang Heritage Technologies Co., Ltd., and the Company will contribute RMB15,500,000 in cash for 62% equity interest.

b) on 16 December 2003, the Company and Heritage entered into an agreement, pursuant to which the Company and Heritage Technologies agreed to establish Shenzhen Micronutrients Co., Ltd., and the Company will contribute RMB760,000 in cash for 38% equity interest.

(il) 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 2003	31 December 2002	**31 December 2003**	31 December 2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**653**	690	**333**	632
In the second to fifth years, inclusive	**1,765**	1,649	**846**	1,649
After five years	**–**	588	**–**	588
	2,418	2,927	**1,179**	2,869

32. CONTINGENT LIABILITIES

At 31 December 2003, the Group and the Company did not have any significant contingent liabilities.

33. POST BALANCE SHEET EVENTS

(a) On 8 January 2004, the Company entered into an agreement with Mr. Liu Jian Wei, Mr. Chen Zhi Chuan, Mr. Zeng Tao and Mr. Zheng Jia Hui, all being independent third parties, pursuant to which the Company acquired a 51% equity interest in Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng") for a cash consideration of RMB1,530,000.

33. POST BALANCE SHEET EVENTS *(continued)*

(b) On 9 February 2004, the Company entered into an agreement with Mr. Lu Guo Zhou, an independent third party, pursuant to which the Company acquired a 13% equity interest in Huizhou Dongjiang for a cash consideration of RMB390,000. As a result, the equity interest of Huizhou Dongjiang held by the Company increased from 20% to 33%. Pursuant to the shareholders' resolution of Huizhou Dongjiang on 23 February 2004, the Company increased its capital injection in Huizhou Dongjiang from RMB 990,000 to RMB 2,990,000. As a result, the paid-in capital of Huizhou Dongjiang increased from RMB 3,000,000 to RMB 5,000,000 while the equity interest of Huizhou Dongjiang held by the Company increased to 59.8%.

Save as aforesaid, no other significant events took place subsequent to 31 December 2003.

34. RELATED PARTY TRANSACTIONS

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

	Notes	**Year ended 31 December 2003** ***RMB'000***	Year ended 31 December 2002 *RMB'000*
Raw materials purchased from:			
Fang Yuan, a shareholder	*(i)*	6,596	5,058
Goods sold to:			
Fang Yuan, a shareholder	*(ii)*	–	2
Non-interest-bearing loan lent to:			
Fang Yuan, a shareholder	*(iii)*	–	1,540

Notes:

(i) Fang Yuan is a shareholder and in which a director of the Company is a controlling shareholder. 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.

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

34. RELATED PARTY TRANSACTIONS *(continued)*

(iii) 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.

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 repaid in January 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 RMB7,700 for the year ended 31 December 2003 (2002: RMB102,000).

(iv) The shareholders prior to the Company's listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (note 28(2)) have given a deed of tax indemnity dated 23 January 2003 to the Group.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2004.