

2004

FIRST QUARTERLY REPORT



Shenzhen Dongjiang Environmental Company Limited*

深圳市東江環保股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

* For identification purposes only

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

HIGHLIGHTS

- For the three months ended 31 March, 2004, the Group realized a significant growth in its core business – sale of recycled products.
- Turnover was increased by approximately 137.8% to RMB34,204,000 for the three months ended 31 March, 2004, as compared to that of the same period in 2003 (2003: RMB14,381,000).
- Net profit was increased by approximately 25.5% to RMB5,505,000 for the three months ended 31 March, 2004, as compared to that of the same period in 2003 (2003: RMB4,386,000).
- Earnings per share was RMB0.0088 (2003: RMB0.0098) for the three months ended 31 March, 2004.
- The Board does not recommend the payment of any dividend for the three months ended 31 March, 2004

FIRST QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)

The board of directors (the “Board”) of Shenzhen Dongjiang Environmental Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively as referred to as the “Group”) for the three months ended 31 March, 2004, together with the comparative unaudited figures of the corresponding period of 2003 as follows:

	<i>Notes</i>	Three months ended	
		2004	2003
		(unaudited)	(unaudited)
		RMB'000	RMB'000
TURNOVER	2	34,204	14,381
Cost of sales		(19,858)	(7,559)
Gross profit		14,346	6,822
Other revenue and gains		445	68
Selling and distribution costs		(1,559)	(172)
Administrative expenses		(5,567)	(1,566)
Other operating expenses		(405)	(357)
PROFIT FROM OPERATING ACTIVITIES		7,260	4,795
Finance costs		(137)	–
Share of loss of associates		(194)	(98)
PROFIT BEFORE TAX		6,929	4,697
Tax	3	(507)	(361)
PROFIT BEFORE MINORITY INTERESTS		6,422	4,336
Minority interests		(917)	50
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>5,505</u>	<u>4,386</u>
DIVIDENDS	4	<u>–</u>	<u>–</u>
EARNINGS PER SHARE – BASIC	5	<u>0.0088</u>	<u>0.0098</u>

Notes:

1. Basis of preparation and principal accounting policies

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

The accounting policies and methods of computation used in the preparation of the first quarterly financial reports are consistent with those adopted in the annual financial statements for the year ended 31 December, 2003.

2. Turnover

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

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

	Three months ended	
	31 March,	
	2004	2003
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Sale of recycled products, and waste treatment	30,756	13,448
Revenue from construction of environmental protection systems	2,043	518
Others	1,405	415
	<u>34,204</u>	<u>14,381</u>

3. Tax

The Company and five 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 ("Longgang Dongjiang"), Shenzhen Dongjiang Environmental Recycled Resources Co., Ltd. and Shenzhen Dongjiang Heritage Technologies, Co., Ltd. are located in the Shenzhen Special Economic Zone and as a result, are subject to the People's Republic of China ("PRC") corporate income tax at a rate of 15% (2003: 15%) of the estimated assessable income for the three months ended 31 March, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC.

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 PRC corporate income tax at a rate of 33% (2003: 33%) of the estimated assessable income for the three months ended 31 March, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC.

Another two subsidiaries of the Company, namely Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng") and Huizhou Dongjiang Environmental Co., Ltd. ("Huizhou Dongjiang") are located in Kunshan and Huizhou respectively and are subject to the PRC corporate income tax at a rate of 33% (2003: 33%) of the estimated assessable income for the three months ended 31 March, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC.

In accordance with the relevant income tax laws and regulations in the PRC, the Company is exempted from corporate income tax for two years commencing from its first year with assessable profits after deducting tax losses brought forward and is entitled to a 50% tax exemption for the next three years. 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 three months ended 31 March, 2004 fall into the Company's fourth year of operations with assessable profits and accordingly the Company made provision for PRC corporate income tax at 7.5% on its assessable profits. No provision was made for other subsidiaries as they either did not earn any assessable profits during the period or were exempted from corporate income tax.

4. Dividends

The Board does not recommend the payment of any dividend for the three months ended 31 March, 2004 (2003: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the three months ended 31 March, 2004 of RMB5,505,000 (2003: RMB4,386,000) and the weighted average number of 627,381,872 (2003: 446,683,000) ordinary shares in issue during the three months.

No diluted earnings per share was presented as no diluting events existed for each of the three months ended 31 March, 2003 and 2004.

6. Reserves

Other than the net profit for the three months ended 31 March, 2004, there were no movements to or from reserves of the Group during the quarter (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the period under review, the Group achieved a 137.8% growth in turnover to RMB34,204,000 and a 25.5% growth in net profit to RMB5,505,000 as compared to those of the first three months in 2003.

Following the establishment of Lishan, the acquisition of KunPeng and the commencement of Chengdu Co., the Group enlarged its market share in sale of recycled products and waste treatment. During the first quarter this year, the Group provided more comprehensive recycled products: copper salt series, tin salt series, organic solvent series, mineral oil, fatty acid series and other recycled products to cope with different market needs.

As the new products, such as tin salt series, organic solvent series, mineral oil and fatty acid series have lower profit margins, the increase in turnover leads to a drop in overall gross margin of the Group. In the first three months this year, the overall gross margin decreased from 47.4% to 41.9% as compared to that of the same period in 2003.

BUSINESS REVIEW

As an integrated industrial environmental protection (“EP”) enterprise, the Group is committed to provide clients with integrated industrial EP solutions. To cope with the changes in the EP market, the Group not only strengthens its own research and development (“R&D”) ability but also applies its R&D advantages to other potential business affiliates in the industry.

The synergy created from the establishment of Lishan and the acquisition of KunPeng accelerates the Group’s growth in this quarter. By further expanding geographically in Shenzhen, Huizhou, Shanghai and Chengdu, the Group may maintain a persistent growth in the coming quarters.

On the other hand, the Group continued its enhancement on the technical levels of detoxification and recycle of various industrial wastes, including but not limiting to the recycling of nickel-contained wastes, treatment and extract of copper from copper sludge, recycling of industrial waste water and treatment of infiltration from landfills during the three months ended 31 March, 2004.

During the three months ended 31 March, 2004, the Group kept on enlarging its business foundation in Shenzhen and setting up operation bases in Huizhou in the Pearl River Delta, Shanghai in the Changjiang River Delta and Chengdu in the Western China Region to provide different types of services according to the different local requirements.

FUTURE PROSPECTS

In light of the continued support from the PRC Government in the EP industry, the Group will continue to grasp every opportunity to expand both horizontally and vertically. In particular, the Group will consolidate its base in Shenzhen and expand to the other parts in Mainland China. According to clients’ needs, the Group will effectively provide more quality and diversified EP products and services in these different geographic regions.

In addition, the Group will further strengthen its internal management and R&D teams by streamlining management information systems and internal control procedures. Resources will be allocated more efficiently and effectively and the Group may increase the production scale and grasp a larger market so as to bring a higher return for the shareholders.

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

As at 31 March, 2004, 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 domestic shares of the Company

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

Notes:

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

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31 March, 2004, 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.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, as at 31 March, 2004, the following persons (other than the Directors and chief executive of the Company) had their interests or short positions in shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in the shares of the Company

Name of shareholder	Capacity	Number and class of shares	Percentage of shareholding in its class
Shanghai New Margin Venture Capital Co., Ltd (<i>Note 1</i>)	Beneficial	61,566,558 domestic shares	13.7%
I.G. Investment Management (Hong Kong) Limited (<i>Note 2</i>)	Investment manager	17,000,000 H shares	9.6%
Fidelity International Limited (<i>Note 2</i>)	Investment manager	9,850,000 H shares	5.5%
J.P. Morgan Chase & Co. (<i>Note 3</i>)	Interest of a controlled corporations	14,950,000 H shares	8.4%
J.P. Morgan Fleming Asset Management Holdings Inc. (<i>Note 3</i>)	Interest of a controlled corporation	9,050,000 H shares	5.1%
J.P. Morgan Fleming Asset Management (Asia) Inc. (<i>Note 3</i>)	Interest of a controlled corporation	9,050,000 H shares	5.1%
China Environmental Fund 2003, LP (<i>Note 4</i>)	Beneficial	11,500,000 H shares	6.5%
Leading Environmental Solutions and Services (<i>Note 4</i>)	Interest of a controlled corporation	11,500,000 H shares	6.5%

Notes:

1. Shanghai News Margin Venture Capital Co., Ltd is owned as to 25% by The Foundation of Science and Technology for Development of the State Planning Committee, State Economic and Trade Commission and China Science Academy, a state-owned entity, as to 25 % by Shanghai Alliance Investment Ltd., a state-owned enterprise and as to 50% equally held by Motorola (China) Investments Limited, Kingland Overseas Development Inc. and Asiagrowth Investments Limited. To the best knowledge of the Directors, these five companies are independent of and not connected with the directors, chief executive, substantial shareholder or management shareholder of the Company or an associate of any of them.
2. To the best knowledge of the Directors, this party is independent of and not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.
3. J.P. Morgan Chase & Co., a company listed on the New York Stock Exchange, owns 100% of J.P. Morgan Chase Bank, which holds 5,900,000 H shares (3.3% of the total issued H shares of the Company as at 31 March, 2004) of the Company in its lending pool. In addition, J.P. Morgan Chase & Co. owns 100% of the equity interest in J.P. Morgan Fleming Asset Management Holdings Inc. which in turn owns 100% of the equity interest in J.P. Morgan Fleming Asset Management (Asia) Inc.. J.P. Morgan Fleming Asset Management (Asia) Inc. owns 99.9% of JF Asset Management Limited and holds 100% of JF International Management Inc.. As at 31 March, 2004, JF Asset Management Limited holds 5,900,000 H shares (3.3% of the total issued H shares of the Company as at 31 March, 2004) of the Company and JF International Management Inc. holds 3,150,000 H shares (1.8% of the total issued H shares of the Company as at the 31 March, 2004) of the Company.
4. Leading Environmental Solutions and Services owns approximately 76.9% of China Environment Fund 2003, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 31 March, 2004, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SPONSOR'S INTERESTS

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

As at 31 March, 2004, China Alpha Fund, a mutual fund managed by First Shanghai Fund Management Ltd which is an associate of First Shanghai Capital Limited, held 1,300,000 H shares of the Company.

Save as disclosed above, neither First Shanghai Capital Limited, its directors, employees or associates, have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31 March, 2004.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of the Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company, namely Messrs. Meng Chun, Liu Hong Liang and Wang Ji Wu. The audit committee has reviewed the draft of this first quarterly report and has provided advice and comments thereon.

PRACTICES AND PROCEDURES OF THE BOARD

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

13 May, 2004
Shenzhen, Guangdong Province, the PRC