

Preserving the
Environment
Recycling
Resources



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)

Interim Report
中期報告 2004

**For identification purposes only*

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

HIGHLIGHTS

- For the six months ended 30 June, 2004, the Group realized a significant growth in its core business – sale of recycled products and waste treatment.
- Turnover was increased by approximately 183% to RMB93,345,000 for the six months ended 30 June, 2004 as compared to that of the same period in 2003 (2003: RMB33,008,000).
- Net profit was increased by approximately 86% to RMB19,472,000 for the six months ended 30 June, 2004 as compared to that of the same period in 2003 (2003: RMB10,474,000).
- Earnings per share was RMB0.0310 (2003: 0.0195) for the six months ended 30 June, 2004.
- The Board recommends a distribution of an interim dividend of RMB0.01 per share for the first half of 2004.
- An extraordinary general meeting will be convened on 28 September, 2004 to consider and, if thought fit, to approve the distribution of an interim dividend of RMB0.01 per share.
- The proposed dividend will be payable on or before 15 November, 2004 to shareholders whose names appear in the register of members of the Company on 28 September, 2004. The register of members of the Company will be closed from Monday, 30 August, 2004 to Tuesday, 28 September, 2004 (both days inclusive). No transfer of shares will be registered during the period.

INTERIM RESULTS

The board of directors (the “Board”) of Shenzhen Dongjiang Environmental Company Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June, 2004, together with the comparative figures of the corresponding periods of 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	<i>Notes</i>	Six months ended		Three months ended	
		30 June, 2004	2003	30 June, 2004	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TURNOVER	2	93,345	33,008	59,141	18,627
Cost of sales		(53,045)	(16,653)	(33,187)	(9,094)
Gross profit		40,300	16,355	25,954	9,533
Other revenue and gains		894	99	449	31
Selling and distribution costs		(3,438)	(324)	(1,879)	(152)
Administrative expenses		(13,522)	(4,366)	(7,955)	(2,800)
Other operating expenses		(1,267)	(452)	(862)	(95)
PROFIT FROM OPERATING ACTIVITIES	4	22,967	11,312	15,707	6,517
Finance costs		(381)	–	(244)	–
Share of profits/(losses) of associates		(250)	96	(56)	194
PROFIT BEFORE TAX		22,336	11,408	15,407	6,711
Tax	5	(1,996)	(943)	(1,489)	(582)
PROFIT BEFORE MINORITY INTERESTS		20,340	10,465	13,918	6,129
Minority interests		(868)	9	49	(41)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		19,472	10,474	13,967	6,088
PROPOSED DIVIDEND	6	6,274	5,019	6,274	5,019
EARNINGS PER SHARE – BASIC	7	0.0310	0.0195	0.0222	0.0097

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June, 2004 (unaudited) RMB'000	At 31 December, 2003 (audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	8	63,646	30,386
Goodwill	9	573	745
Interests in associates		4,932	10,775
Prepayments for fixed assets		14,047	13,358
Deferred tax assets		626	629
		<u>83,824</u>	<u>55,893</u>
CURRENT ASSETS			
Inventories		10,320	8,397
Trade receivables	10	20,666	10,599
Prepayments, deposits and other receivables		21,309	18,510
Amounts due from customers for contract work		753	661
Notes receivable		1,100	-
Cash and cash equivalents		88,175	73,392
		<u>142,323</u>	<u>111,559</u>
CURRENT LIABILITIES			
Short term loans		25,200	10,000
Trade payables	11	6,812	6,545
Tax payables		1,679	680
Other payables and accruals		14,797	8,295
Due to a shareholder		4,400	4,400
		<u>52,888</u>	<u>29,920</u>
NET CURRENT ASSETS		<u>89,435</u>	<u>81,639</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		173,259	137,532
NON-CURRENT LIABILITIES			
Deferred revenue		1,700	1,100
MINORITY INTERESTS		<u>31,746</u>	<u>16,091</u>
		<u>139,813</u>	<u>120,341</u>
CAPITAL AND RESERVES			
Issued capital	12	62,738	62,738
Reserves		70,801	57,603
Proposed dividend	6	6,274	-
		<u>139,813</u>	<u>120,341</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Paid-in capital	Share premium account	Statutory funds	Retained earnings	Proposed dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2003	46,565	–	3,424	5,066	8,000	63,055
Issue of new shares	16,173	30,309	–	–	–	46,482
Profit for the period	–	–	–	10,474	–	10,474
Dividend declared	–	–	–	–	(8,000)	(8,000)
Proposed dividend	–	–	–	(5,019)	5,019	–
At 30 June, 2003	62,738	30,309	3,424	10,521	5,019	112,011
At 1 January, 2004	62,738	30,309	7,016	20,278	–	120,341
Profit for the period	–	–	–	19,472	–	19,472
Proposed dividend	–	–	–	(6,274)	6,274	–
At 30 June, 2004	62,738	30,309	7,016	33,476	6,274	139,813

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended	
	30 June,	
	2004	2003
	RMB'000	RMB'000
Net cash inflow from operating activities	9,027	8,169
Net cash outflow from investing activities	(9,866)	(9,710)
Net cash outflow before financing	(839)	(1,541)
Net cash inflow from financing	15,622	48,482
Increase in cash and cash equivalents	14,783	46,941
Cash and cash equivalents at beginning of the period	73,392	23,372
Cash and cash equivalents at end of the period	<u>88,175</u>	<u>70,313</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<u>88,175</u>	<u>70,313</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS:

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements 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 and with SSAP No. 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and methods of computation used in the preparation of the interim 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, trading of chemical products, 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:

	Six months ended		Three months ended	
	30 June,		30 June,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sale of recycled products and waste treatment	82,052	31,206	52,582	17,758
Trading of chemical products	5,047	–	3,669	–
Revenue from construction and operation of environmental protection systems	6,098	750	2,769	230
Others	148	1,052	121	639
	<u>93,345</u>	<u>33,008</u>	<u>59,141</u>	<u>18,627</u>

3. Segment information

The Group adopted business segments as the primary basis of segment reporting and the analysis of the Group's revenue and contribution to results by business segment during the period are as follows:

	Production and sale of recycled products, and waste treatment		Construction and operation of environmental protection systems		Trading of chemical products		Others		Total	
	Six months ended 30 June, 2004	2003	Six months ended 30 June, 2004	2003	Six months ended 30 June, 2004	2003	Six months ended 30 June, 2004	2003	Six months ended 30 June, 2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)

Amounts in RMB'000

Segment revenue:

Sales to external customers

	<u>82,052</u>	<u>31,206</u>	<u>6,098</u>	<u>750</u>	<u>5,047</u>	<u>-</u>	<u>148</u>	<u>1,052</u>	<u>93,345</u>	<u>33,008</u>
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Segment results

	<u>22,631</u>	<u>11,287</u>	<u>184</u>	<u>18</u>	<u>185</u>	<u>-</u>	<u>(33)</u>	<u>7</u>	<u>22,967</u>	<u>11,312</u>
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Profit from

operating activities

22,967 11,312

Finance costs

(381) -

Share of profit and losses of associates

(250) 96 (250) 96

Profit before tax

22,336 11,408

Tax

(1,996) (943)

Profit before

minority interests

20,340 10,465

Minority interests

(868) 9

Net profit from ordinary activities attributable to shareholders

19,472 10,474

4. Profit from operating activities

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

	Six months ended	
	30 June,	
	2004	2003
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Cost of goods sold	49,446	15,192
Depreciation	2,617	978
Amortisation of goodwill	99	104
	<u> </u>	<u> </u>

5. 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 Dongjiang Environmental Recycled Resources Co., Ltd. ("Dongjiang Recycled Resources") and Shenzhen Dongjiang Heritage Technologies, Co., Ltd. ("Dongjiang Heritage") 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 six months ended 30 June, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC. Another subsidiary of the Company – Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited ("Longgang Dongjiang") is also located in the Shenzhen Special Economic Zone. It is exempted from corporate income tax for one year from 1 January, 2004 to 31 December, 2004, as it is an Integrated Resources Application Enterprise.

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 six months ended 30 June, 2004 determined in accordance with the relevant income tax rules and regulations of the PRC.

Another three subsidiaries of the Company, namely Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng") and Kunshan Qian Deng Three Wastes Treatment Co., Ltd. ("Qian Deng") which are located in Kunshan and Huizhou Dongjiang Environmental Co., Ltd. ("Huizhou Dongjiang"), which is located in Huizhou, are subject to the PRC corporate income tax at a rate of 33% (2003: 33%) of the estimated assessable income for the six months ended 30 June, 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 six months ended 30 June, 2004 fall into the Company's fourth year of operations with assessable profits and accordingly the Company made provision for the PRC corporate income tax at 7.5% on its estimated assessable profits. Except for KunPeng and Huizhou Dongjiang, which made provision of the PRC corporate income tax at 33% on its estimated assessable profits, no provision was made for other subsidiaries as they did not earn any assessable profits or they were exempted from corporate income tax during the period.

6. Dividends

The Board proposed a distribution of an interim dividend of RMB0.01 per share on 12 August, 2004 for the six months ended 30 June, 2004 (2003: RHB0.008 per share).

7. Earnings per share

The calculation of basic earnings per share ("EPS") is based on the unaudited net profit attributable to shareholders for the six months ended 30 June, 2004 of RMB19,472,000 (2003: RMB10,474,000) and the weighted average number of 627,381,872 (2003: 537,532,000) ordinary shares in issue during the half year.

No diluted earnings per share was presented as no diluting events existed for each of the six months ended 30 June, 2003 and 2004.

8. Fixed assets

	Group							Total
	Land and building	Plant and machinery	Leasehold improvements	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	
<i>Amounts in RMB'000</i>								
Cost:								
At 1 January, 2004	15,799	7,062	1,669	1,883	8,154	4,716	-	39,283
Additions	13,020	4,145	-	742	2,259	848	16,972	37,986
Disposals	(67)	(324)	-	(3)	(1,299)	-	(977)	(2,670)
At 30 June, 2004	28,752	10,883	1,669	2,622	9,114	5,564	15,995	74,599
Accumulated depreciation:								
At 1 January, 2004	415	1,049	1,313	865	2,521	2,734	-	8,897
Provided during the year	497	818	163	243	527	369	-	2,617
Written back on disposal	-	(18)	-	-	(543)	-	-	(561)
At 30 June, 2004	912	1,849	1,476	1,108	2,505	3,103	-	10,953
Net book value:								
At 30 June, 2004	27,840	9,034	193	1,514	6,609	2,461	15,995	63,646
At 31 December, 2003	15,384	6,013	356	1,018	5,633	1,982	-	30,386

9. Goodwill

	Group (unaudited) RMB'000
Cost:	
At beginning and end of period	1,040
Added during the period	(73)
Accumulated amortisation:	
At beginning of period	295
Amortisation provided during the period	99
At 30 June, 2004	394
Net book value:	
At 30 June, 2004	573
At 31 December, 2003	745

10. Trade receivables

The general credit terms of the Group range from 30 days to 90 days.

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

	30 June, 2004 (unaudited) RMB'000	31 December, 2003 (audited) RMB'000
Current to 90 days	16,692	10,578
91 to 180 days	3,073	53
181 to 365 days	1,088	-
Over 365 days	45	82
	20,898	10,713
Less: Provision for doubtful debts	(232)	(114)
	20,666	10,599

11. Trade payables

An aged analysis of trade payables is as follows:

	30 June, 2004 (unaudited) RMB'000	31 December, 2003 (audited) RMB'000
Current to 90 days	4,763	6,367
91 to 180 days	611	69
181 to 365 days	1,235	–
Over 365 days	203	109
	<u>6,812</u>	<u>6,545</u>

12. Issued capital

	30 June, 2004 (unaudited) RMB'000	31 December, 2003 (audited) RMB'000
Authorized, issued and fully paid:		
449,481,872 domestic shares of RMB0.10 each	44,948	44,948
177,900,000 H shares of RMB0.10 each	17,790	17,790
	<u>62,738</u>	<u>62,738</u>

13. Capital commitment

	30 June, 2004 (unaudited) RMB'000	31 December, 2003 (audited) RMB'000
Contracted, but not provided for:		
Fixed assets	12,370	–
The establishment of the new limited companies	4,250	16,260
	<u>16,620</u>	<u>16,260</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

After continued horizontal and vertical expansion, the Group recorded a significant growth in both turnover and net profit during the first half this year. For the six months ended 30 June, 2004, turnover and net profit increased by 183% and 86% to approximately RMB93,345,000 and RMB19,472,000 respectively as compared to those of the same period in last year.

The remarkable growth of the Group in this half year was mainly contributed by the sale of recycled products and waste treatment, which recorded a 163% rise in turnover and 101% rise in operating profit as compared to those of the same period in last year.

As a result of effective resources optimization and market development, not only the waste treatment capacity of the Group was increased, but the variety of recycled products was also increased. With the enlargement on the scale of operation, the new product series like tin salt, organic solvent and fatty acid became a new source of income for the Group. The introduction of these new products, which contributed to 48% of the revenue from recycled products, lowered the importance of the existing copper salt series. On the other hand, the main recycled product – copper salt series maintained a persistent growth in market share.

The Trading Branch of Shenzhen Dongjiang Environmental Company Limited (the “Trading Branch”), which commenced operation this year, is responsible for the procurement and supply of chemical materials for the Group and is engaged in trading of chemicals. The branch generated income from the first half year under review and successfully assisted the Group in exploring potential customers.

Construction and implementation of EP projects is the supporting business of the Group. As a result of business restructuring, this segment not only facilitates the development of the Group’s core business, but also encourages its individual expansion, which achieved a turnover of RMB6,098,000 during the period under review.

Regarding the R&D, the Company has successfully consolidated its techniques in recycling of nickel by completing the research project on “Recycling Nickel from Nickel-contained Sludge” with Zhong Nan University.

As the Group keeps on expanding its operation scale and enlarging its geographical coverage, the internal control system has been further enhanced. The performance appraisal and incentive programs adopted in the first half of 2004 have effectively facilitated the coordination and communication among different business units and strengthened the management and operation teams.

Financial Review

Turnover

For the six months ended 30 June, 2004, the Group's turnover increased by 183% to RMB93,345,000 (2003: RMB33,008,000) as compared to that of the same period in last year. The significant growth was mainly contributed by the sale of recycled products and waste treatment, which recorded a 163% rise in turnover to RMB82,052,000 (2003: RMB31,026,000). In particular, copper salt series demonstrated a growth of approximately 69%. The Group further developed new products, tin salt, organic solvent, fatty acid and iron salt series recorded a sale of RMB38,018,000.

As the Group further extended its EP projects, this segment demonstrated a significant increase in turnover to RMB6,098,000 (2003: RMB750,000). The Trading Branch, which commenced operation in March 2004, recorded a turnover of RMB5,050,000.

Net Profit

During the period under review, the Group's net profit increased by 86% to RMB19,472,000 (2003: RMB10,474,000) whereas the gross profit dropped from 49% to 43% as compared to that of the same period in last year.

The increase in net profit was not in line with that in turnover as the gross profit margin dropped and the ratio between expenses and turnover rose.

The drop in gross profit is mainly due to the provision of new products to cope with the change of market needs. Although these new products have lower profit margin, they enhance the Group's overall waste treatment capacity and utilization of resources.

For the six months ended 30 June, 2004, the Group's selling and distribution costs, which amounted to approximately RMB3,438,000 (2003: RMB324,000), remained at a relatively low level representing 3.7% (2003: 1.0%) of the Group's turnover. The increase is mainly attributed to that the Trading Branch, Huizhou Dongjiang and KunPeng which incurred their selling and distribution costs for the first time; and that Lishan and Longgang Dongjiang increased their selling and distribution scale. As at 30 June, 2004, the selling and distribution costs incurred by the aforesaid branch and subsidiaries amounted to RMB2,448,000.

For the six months ended 30 June, 2004, the administrative expenses incurred by the Group increased by approximately RMB9,156,000 to RMB13,522,000 as compared to those of the same period in last year. The ratio between administrative expenses and turnover increased slightly from 13.2% to 14.5%. The reason is two-fold: on one hand, the Company incurred additional administrative expenses along with the business expansion; on the other hand, the Company improved the investment in corporate governance and human resource. Furthermore, KunPeng, Huizhou Dongjiang, Dongjiang Recycle Resources and Dongjiang Heritage incurred their administrative expenses for the first time while Lishan and Longgang Dongjiang enlarged their operation scale. As at 30 June, 2004, the administrative expenses incurred by the aforesaid branch and subsidiaries amounted to RMB3,398,000.

Working Capital

As at 30 June, 2004, the Group's trade receivables increased by RMB10,067,000 as compared to those at the end of year 2003. The increase was contributed by two areas: on one hand, the trade receivables increased by RMB4,986,000 due to the extended marketing scale; on the other hand, the Trading Branch, Huizhou Dongjiang and KunPeng generated trade receivables of RMB6,525,000.

As at 30 June, 2004, the Group's other payables and accruals increased by RMB6,502,000, which is mainly due to the increase in advanced payment obtained from customers.

Financial resources, liquidity and treasury policies

As at 30 June, 2004, the Group has current assets of RMB142,323,000 (31 December, 2003: RMB111,559,000) and current liabilities of RMB52,888,000 (31 December, 2003: RMB29,920,000). Included in the current assets, cash and bank balances amounted to RMB88,175,000 (31 December, 2003: RMB73,392,000). The Group had financed its operations and research and development activities with short-term bank loans of RMB25,200,000 (31 December, 2003: RMB10,000,000), which were granted by the PRC banks at interest rates ranging from 5.04% to 5.84% per annum.

The Group's gearing ratio, which is defined as the quotient of total borrowings and shareholders' equity, was 0.18 (31 December, 2003: 0.083). The Group's current ratio was approximately 2.69 times (31 December, 2003: 3.73 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 period under review, the Group invested RMB1,530,000 in the registered capital of KunPeng for its 51% equity interest. The acquisition enriched the range of recycled products the Group provided and enlarged the Group's waste treatment capacity. KunPeng is principally engaged in wastes collection and treatment as well as the manufacture and sale of recycled products including ferric chloride, ferrous chloride and nickel salts to cope with different market needs.

In addition, the Group established a 51%-owned subsidiary Qian Deng at RMB3,916,800 in the PRC to enlarge the market share in sale of recycled products and waste treatment. The specific products Qian Deng recycled are copper sulphate and copper chloride.

In the first six months of 2004, the Group further injected RMB2,000,000 in Huizhou Dongjiang.

Shajing Treatment Centre

The independent non-executive directors of the Company convened a board meeting on 12 August, 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 RMB4.6 million; and
- (ii) Shenzhen Baoan District Shajing Town Gong He Economic Development Corporation (深圳市宝安区沙井镇共和经济发展公司) (“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 30 June, 2004, the Company had paid ED Corporation a construction fee of approximately RMB5.9 million (31 December, 2003: RMB5.9 million), a portion of land resumption fee of approximately RMB6.4 million (31 December, 2003: RMB0.4 million) and other costs of approximately RMB7.6 million (31 December, 2003: RMB7.6 million).

Pledge of assets

As at 30 June, 2004, the Group had no pledged assets.

Exposure on exchange rate fluctuation

The Group did not expose to any major exchange risk as most of the income and expenses were settled in Renminbi.

Information on employees

At 30 June 2004, the number of full-time employees stood at 401 (2003: 281) with a total staff cost of the six months ended 30 June, 2004 of approximately RMB5,020,000 (2003: RMB3,900,000). 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 30 June, 2004 and as at 31 December, 2003.

FUTURE PROSPECTS

The Group will strive to achieve the goal of profit making together with business expansion. By sustaining the growth in core business, recycled products and waste treatment, the Group will continue to penetrate into the waste treatment market and to enrich the recycled product.

To assure the sustaining growth, the Group will harmonize the collaboration of various business segments, facilitate the effectiveness and further integrate internal resources, dedicate more effort to explore more EP-related techniques and business opportunities.

With the great emphasis placed by PRC government on the EP industry and the increasingly high demand on EP services among the society, the Group will continue to explore investment opportunities and participate actively in waste treatment projects promoted by the PRC government. As the business chain of the Group is integrated and harmonized effectively, the Group will achieve a sustainable development and bring forth satisfactory returns for its shareholders.

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 30 June, 2004

Increase waste treatment capacity and expand geographical coverage

i) Pearl River Delta

- | | |
|--|--|
| <ul style="list-style-type: none"> • Commence operation of a new treatment center in Shajing Town of the Baoan District in Shenzhen (“Shajing Treatment Centre”). • Expansion with a base in Huizhou, Huizhou Dongjiang. | <ul style="list-style-type: none"> • Operation commenced. • Operation commenced. |
|--|--|

ii) Western China region

- | | |
|--|--|
| <p>Expansion with a base in Chengdu, Chengdu Treatment Centre.</p> | <ul style="list-style-type: none"> • Trial run. |
|--|--|

iii) Changjiang River Delta

- | | |
|--|--|
| <p>Expansion with a base in Shanghai Xin Yu.</p> | <ul style="list-style-type: none"> • Trial run. |
|--|--|

Business objectives as stated in the prospectus dated 23 January, 2003

Actual business progress from the Latest Practicable Date to 30 June, 2004

Development of new recycled products and EP-related services

Expand the variety of wastes that can be treated and recycled and further promote other EP-related services.

i) Waste treatment and recycled variety

- | | |
|---|--|
| • Commence operation of organic solvent and waste oil treatment facility. | • Operation of organic solvent and trial run of wastes oil treatment facility commenced. |
| • Commence operation of tin-contained wastes treatment facility. | • Trial run. |
| • Commence operation of zinc-contained wastes treatment facility. | • Temporarily postponed. |
| • Complete construction of arsenic-contained wastes treatment facility. | • Temporarily postponed. |
| • Complete construction of treatment facility for cupric sewage sludge. | • Laboratory test completed. |
| • Trial run of waste mineral oil treatment facility. | • In progress. |
| • Commence construction of chromium-contained wastes treatment facility. | • Temporarily postponed. |

ii) EP construction and consultation services

- | | |
|---|--|
| Continue to increase the number of turnkey solution projects. | • Increased 4 turnkey solution projects. |
|---|--|

Business objectives as stated in the prospectus dated 23 January, 2003

Actual business progress from the Latest Practicable Date to 30 June, 2004

Continue its commitment to R&D

- | | |
|--|--|
| <ul style="list-style-type: none"> • Commence R&D on waste and recycle technology on: nickel-contained wastes, lead-contained wastes, waste acid, waste alkaline and waste inorganic cyanide. • Develop the waste treatment and recycle technology on: waste emulsion, dyes, paints and heavy metal swage sludge. • Forming strategic alliance with major EP organization in the PRC. | <ul style="list-style-type: none"> • The tests on waste acid & waste alkaline have completed, and other tests are in the progress of trial. • The tests are in the progress of trial. • The Company entered into a cooperation agreement with Zhong Nan University and has completed the final test on recycling nickel from nickel-contained sludge. |
|--|--|

Further enhance its management system

- | | |
|--|--|
| <ul style="list-style-type: none"> • To establish the information interflow platform. • 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. | <ul style="list-style-type: none"> • In progress. • In progress. |
|--|--|

Strengthen its sales and marketing team

- | | |
|--|--|
| <p>Continue to strengthen after-sale services by modifying relevant internal procedures.</p> | <ul style="list-style-type: none"> • In progress. |
|--|--|

USE OF PROCEEDS

	From the Latest Practicable Date to 30 June, 2004 as per		
	Actual Figure <i>(HK\$ million)</i>	Prospectus <i>(HK\$ million)</i>	Difference <i>(HK\$ million)</i>
Increase wastes treatment capacity (new treatment center in Shenzhen)	9.9	7.7	(2.2)
Enlarge geographical coverage (treatment centers in Chengdu, Huizhou and Shanghai)	20.1	23.3	3.2
Expand waste treatment capability and widen scope of services	0.7	0.6	(0.1)
Continue its commitment in R&D	2.1	1.1	(1.0)
Further enhance its management system	0.5	0.8	0.3
Strengthen its sales and marketing team	0.3	0.2	(0.1)
Total	<u>33.6</u>	<u>33.7</u>	<u>0.1</u>

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.

To facilitate the efficiency and to enlarge the scale of operation in wastes treatment capacity for Shenzhen Treatment Centre, an excess amount of HK\$2.2 million was invested.

To cope with the changing business environment, the Company postponed the investment in Shanghai Xin Yu Treatment Centre.

The additional investment of HK1.0 million was attributable to the R&D on the wastes treatment and recycle technology on: waste emulsion, dyes, paints and heavy metal-contained sewage and sludge, as well as the cooperation agreement with Zhong Nan University on recycling nickel from nickel-contained sludge.

The above amount of approximately HK\$0.1 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 Director consider that the actual application of proceeds from the listing of H Shares of the Company was in line with the Business Objectives.

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

As at 30 June, 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	Percentage of shareholding	
					Total	in this class
Mr. Zhang Wei Yang	261,884,150	35,389,750 (Note 1)	-	-	297,273,900	66.1%
Mr. Li Yong Peng	-	-	35,389,750 (Note 2)	-	35,389,750	7.9%

Notes:

- (1) These shares (representing approximately 7.9% of domestic shares issued) are held by Shenzhen Wen Ying Trading Limited, 90% of which is owned by Ms. Zhou Wen Ying, the spouse of Mr. 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 30 June, 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 30 June, 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%
China Environmental Fund 2003, LP (<i>Note 3</i>)	Beneficial	11,500,000 H shares	6.5%
Leading Environmental Solutions and Services (<i>Note 3</i>)	Interest of a controlled corporation	11,500,000 H shares	6.5%
UBS AG (<i>Note 2</i>)	Person having a security interest in shares	8,910,000 H shares	5.0%

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. 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 30 June, 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 30 June, 2004, China Alpha Fund, a mutual fund managed 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 30 June, 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 interim 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 six 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

12 August, 2004
Shenzhen, Guangdong Province, the PRC

As at the date of this report, the Board comprises three executive directors, being Mr. Zhang Wei Yang (*Chairman*), Mr. He Qi Hu and Mr. Li Yong Peng; three non-executive directors, being Mr. Feng Tao, Mr. Wu Shui Qing and Ms. Sun Ji Ping; and three independent non-executive directors, being Mr. Meng Chun, Mr. Liu Hong Liang and Mr. Wang Ji Wu.

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Shenzhen Dongjiang Environmental Company Limited (the “Company”) will be held at Units A-D and H, 16th Floor, Shenmao Commercial Centre, 59 Xinwen Road, Futian District, Shenzhen, Guangdong Province, the People’s Republic of China (“PRC”) on Tuesday, 28 September, 2004 at 2:00 p.m. (“EGM”) for the following purposes:

ORDINARY RESOLUTIONS

To consider and approve the payment of an interim dividend of RMB0.01 per share as proposed by the Directors.

On the meeting of the board of directors (the “Board”) of the Company held on 12 August, 2004, the Board had decided to recommend payment of an interim dividend of RMB0.01 per share (the “Interim Dividend”), amounting to approximately RMB6,274,000 in aggregate. In view of the current favourable operating and financial conditions of the Company, the Board believes that the proposed payment of the Interim Dividend (the “Proposal”) will not affect the funding requirements for the normal operation and development of the Company, therefore recommends the Proposal to shareholders for their consideration and approval at the EGM. Payment of the Interim Dividend does not represent the future dividend policy of the Company.

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

12 August, 2004
Shenzhen, Guangdong Province, the PRC

Notes:

1. The register of members of the Company will be closed from Monday, 30 August, 2004 to Tuesday, 28 September, 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 at 4:00 p.m. on Friday, 27 August 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 EGM 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 EGM 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 notorially 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. Tuesday, 7 September, 2004.
5. The EGM is expected to take half a day. Shareholders attending the EGM 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:

Units A, B, C, D and H
16th Floor, Shenmao Commercial Center
59 Xinwen Road
Futian District, Shenzhen
Guangdong Province
The PRC
Tel: (86755) 8294 9081
Fax: (86755) 8294 9115
Post Code: 518034