東江環保
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 2004

** 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.

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 GEM (the "GEM Listing Rules") 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.

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
CHEN Shu Sheng
CAI Ping

QUALIFIED ACCOUNTANT

HU Chiu Lun, Alan, *FCCA, CPA*

COMPANY SECRETARY

HU Chiu Lun, Alan, *FCCA, CPA*

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

Cheng Wong Lam & Partners Lawyers

AUDITORS

Ernst & Young

SPONSOR

First Shanghai Capital Limited

LEGAL ADVISORS

Cheng Wong Lam & Partners Lawyers

PRINCIPAL BANKER

China Merchant Bank

HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE

Tricor Limited
Ground Floor
Bank of East Asia
Harbour View Center
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.dongjiang.com.cn

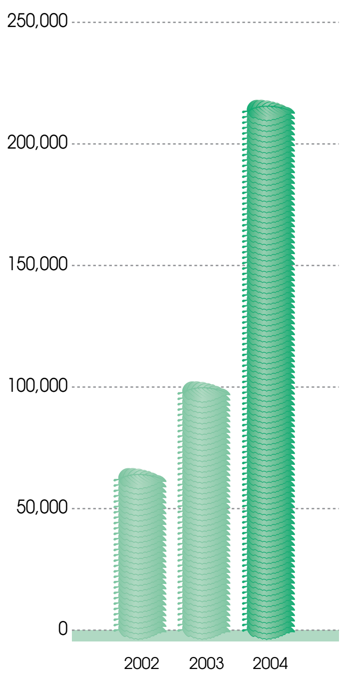
PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1105-1109, Jardine House
1 Connaught Place, Central
Hong Kong

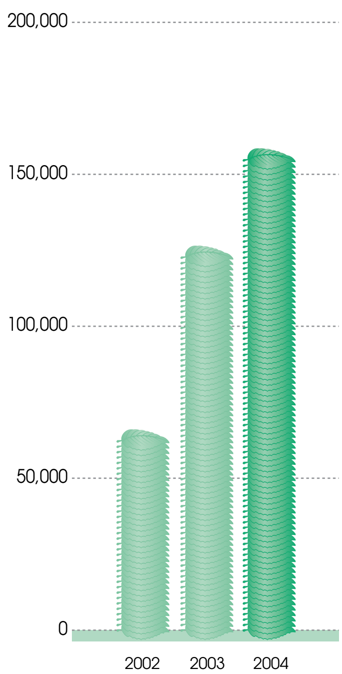
Financial Summary

	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*
Result			
Turnover	**213,804**	98,921	62,556
Gross profit	**90,020**	41,238	30,524
Gross profit rate	**42.10%**	41.69%	48.79%
Net profit from ordinary activities attributable to shareholders	**38,273**	23,709	21,286
Financial position			
Total assets	**247,664**	167,452	75,068
Total liabilities	**59,892**	31,020	7,920
Minority interests	**35,115**	16,091	3,979
Shareholders' equity	**152,657**	120,341	63,169

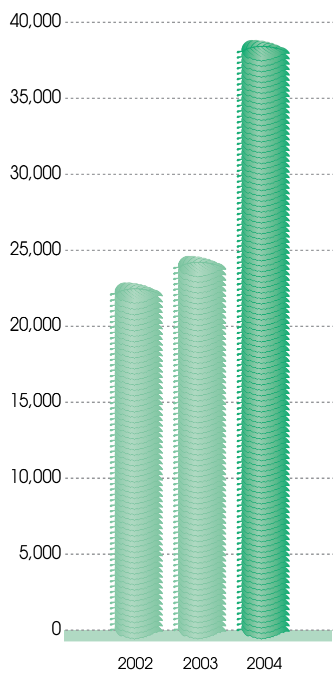
Turnover (RMB'000)



Shareholders' equity (RMB'000)



Net profit from ordinary activities attributable to shareholders (RMB'000)



Chairman's Statement

On behalf of the board of directors (the "Board") of Shenzhen Dongjiang Environmental Company Limited (the "Company"), I am pleased to announce that the Company and its subsidiaries (collectively the "Group") achieved significant growth and outstanding performance for the year ended 31 December 2004.

In 2004, the Group was responsive to the favourable business environment and the changing competition landscape by adjusting its business strategies. A series of effective measures were implemented to consolidate resources, reinforce core business and enhance competitiveness. In accordance with its general resources and market trend, the Group established a more competitive operation model and adopted the strategy of "Creating core resources for synergic development" in early 2004. The main theme is to coordinate various operational resources of the Group to create more opportunities and room for development for our core business of waste collection and treatment. As a result of such synergic coordination, the competitive edge of our waste treatment and recycling business received a substantial boost.

In addition, the Group tapped into the vast opportunities arising from the commercialisation of the municipal environmental protection ("EP") projects by actively participating in the public bidding invited by local governments. During the year, the Group successfully secured the Guangdong Province Hazardous Waste Comprehensive Treatment Demonstration Center Phase I Project, which will be jointly developed with ONYX (Hong Kong) Company Limited, a member of the world's leading waste management group ONYX. The project complemented the Group's business chain with a consolidated position in the Pearl River Delta region. It also opens an opportunity for the Group to acquire invaluable experience in the operation and international cooperation of large-scale EP projects.

To support its business expansion and long-term development, the Group stepped up its investment in research and development, internal management and human resources. During the year, various research projects have completed their existing stage of development. In particular, the Group achieved breakthrough in solving the long-existed difficulties in the thorough processing of heavy-metal sewage. This has immense implication to the Group in terms of extending production line and maintaining technology leadership. With an aim of improving operational efficiency, an advanced corporate management system has been implemented with a set of object-oriented performance management and incentive mechanism specifically designed for the business model and characteristics of the Group. In addition, the Group has also established a new human resources management platform to facilitate the recruitment, retaining and nurturing of talents to support its further development. We believe that technology leadership, effective management and pool of talent will continue to be the key factors for the sustained growth of the Group.

Looking forward, we will closely monitor the latest development trends within the domestic and international EP industries. The Group is well prepared to grasp any emerging opportunities by further consolidating its internal resources and improving its business flow and profit model.

Gradual open-up and accelerated commercialisation of the domestic EP market present unprecedented opportunities and challenges for the Group. In view of this, the Group plans to expand its business width and depth apart from consolidating the leading position of its existing waste treatment and recycling business. In the mean time, the Group will also actively seek cooperation opportunities with fellow industry players in the domestic and international markets, so as to secure its foothold in the emerging EP market of China.

In addition to effectively utilising its internal resources, the Group will also consider appropriate financing means to support the implementation of new projects, business expansions and other strategic plans. Given the restructuring and improvements implemented in 2004, we are confident that the Group is well positioned to enter into a new growth stage, bringing greater value to 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 dedication and contribution to the Group in the past year.

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

23 March 2005

Management Discussion and Analysis

INDUSTRY OVERVIEW

In 2004, the PRC government placed greater emphasis on resources conservation and environmental protection ("EP") in line with its promotion of "Scientific Development" and "Recycle Economy". In the meantime, the PRC State Environmental Protection Administration strengthened regulations on environmental pollution. During the year, a series of measures were implemented to impose punitive actions on enterprises breaching the pollution regulations. Construction projects were strictly required to adopt environmental impact evaluation systems. These developments provided an encouraging policy environment for the rapid development of the EP industry. Leveraging on this opportunity, the Group recorded satisfactory results from all business segments.

BUSINESS REVIEW

In 2004, the Group's turnover increased by approximately 116.1% to RMB213,804,000 over the previous year. Net profit was RMB38,273,000, representing an increase of approximately 61.4%. The increase in turnover and net profit was attributable to the effective rationalisation of internal resources, strengthened internal management and robust business expansion strategies of the Group.

Core Business

Sale of recycled products and waste treatment was the main growth engine of the Group, which recorded an increase of 97.0% in turnover to RMB184,547,000 over the last year and accounted for 86.3% of the Group's total turnover. The growth in turnover was mainly attributable to the enhanced waste management capacity of the Group as well as the improved production capacity and added-value of its recycled products.

As a result of the continued refinement in the waste treatment process and innovation and development of new technology, the Group's waste treatment and recycling capacities received substantial improvement. In addition, the Group made progress in business expansion in the Pearl River Delta and Changjiang River Delta regions, with the new treatment centers in Shenzhen, Huizhou and Kunshan contributing to the growth of the Group's core business.

Supporting Business

During the year, the Group also put emphasis on the development of other supporting businesses, such as construction and operation of EP projects, trading of chemical products and provision of EP consultation services. It was the strategy of the Group to provide comprehensive EP services to customers by leveraging its resources in these businesses to support the development of the Group's core business.

Market Expansion

The Group adopted pro-active market expansion plans during the year, accelerating the development of new projects and markets. In 2004, the treatment center of Huizhou Dongjiang Environmental Co., Ltd. ("Huizhou Dongjiang") and the tri-basic copper chloride ("TBCC") project of Shenzhen Dongjiang Heritage Technologies Co., Ltd. ("DJ Heritage"), both located in the Pearl River Delta region, commenced operation. This has further enhanced the Group's market share in the waste treatment sector of the region. As part of its strategy in further exploring the Changjiang River Delta region, the Group acquired Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng") and established Kunshan Qian Deng Three Wastes Treatment Co., Ltd. ("QianDeng") in the region.

In addition, the Group achieved a breakthrough in the business of final disposal and treatment of hazardous wastes. During the year, it successfully entered into partnership with ONYX (Hong Kong) Company Limited, regarding the joint investment, construction and operation of Guangdong Province Hazardous Waste Comprehensive Treatment Demonstration Center Phase I Project ("Demonstration Center"). The success of this project will boost the market strenghten of the Group in the Pearl River Delta region and will further complement the Group's business lines for better development opportunities in future.

Research and Development

In 2004, the Group continued to step up its research and development ("R&D") efforts, and various R&D projects have been completed successfully. Among these, the research findings and industrial trials of the "nickel-containing sludge treatment and recycling project" were recognised by specialists. As such, the project was ready for commercialisation. In addition, the Group also successfully completed laboratory tests on projects such as the lead removal process of spent etchant and treatment process of nickel-containing plating solution. These achievements presented resolvents to some of the long-existed technical difficulties in the industry, further enhancing the technological advantage of the Group.

Operation Management

During the year, the Group rationalised its internal management system as part of its strategic development plan. The measures taken in this respect include the adoption of a new human resources management system, implementation of object-oriented plan management, optimisation of business flow and organisation restructuring. These measures have enhanced the overall operating efficiency and corporate governance standard of the Group. To cope with the expanded business scale and diversified range of products and services, the Group also improved its sales system with unified brand name, market segment and management structure, so as to maximise its marketing resources.

Awards and Achievements

In 2004, the Group's performance was widely recognised, as reflected by its receipt of various awards. The Group was recognised as one of the "National Recycling Economy Demonstration Entities" by the National Development and Reform Commission and "the Guangdong EP Technology Innovation Partner" by the Guangdong Environmental Protection Bureau. In addition, the Group ranked the fifth in the "Competitive Power Index of H-share Companies" and was listed among the Top 100 PRC Companies with High Potential by Forbes China.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In March 2004, the Company invested RMB1,530,000 to acquire 51% equity interest in KunPeng. 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.

The Group disposed its interest in Shanghai Xin Yu Environmental Protection Technology Co., Ltd. ("Shanghai Xin Yu") in September 2004 at RMB2,300,000 and focused on the development of Kunshan region.

Management Discussion and Analysis

MATERIAL INVESTMENT

The Company further invested RMB2,000,000 and RMB390,000 in Huizhou Dongjiang in February and July last year respectively. This in turn increased the Company's shareholding in Huizhou Dongjiang from 20% to 59.8%.

In February 2004, the Company contributed RMB50,000 for an extra 5% equity interest of Shenzhen Dongjiang Environmental Recycled Resources Company Limited, which increased its shareholding from 90% to 95%.

In March 2004, the Company established a 62%-owned subsidiary Dongjiang Heritage at RMB15,500,000 in PRC. DJ Heritage is principally engaged in the production and sale of TBCC, fresh etchant and ammonium chloride fertilizer.

In April 2004, the Company established a 38%-owned joint venture, Shenzhen Micronutrients Co., Ltd. ("Micronutrients") at RMB760,000. Micronutrients is principally engaged in the trading of new nutritional supplements to the animal-feeding industry.

In addition, in July 2004, the Group established a 51%-owned subsidiary QianDeng at RMB3,916,800 in the PRC to enlarge the market share in sale of recycled products and waste treatment. QianDeng is principally engaged in wastes collection and treatment as well as the manufacture and sale of recycled products including copper sulphate, copper chloride and other copper salts.

FINANCIAL REVIEW

Turnover and Contribution

Turnover was increased by approximately 116.1% to RMB213,804,000 in 2004, as compared to 2003 (2003: RMB98,921,000). The increase of turnover mainly came from the expansion of sale of recycled products and waste treatment and favourable market development. In particular, copper related products were the main source of revenue, which demonstrated 67.2% increase of turnover compared with last year. Waste treatment service recorded 63.8% increase of turnover as compared with last year. The Group further developed new products, tin salt, organic solvent, fatty acid and iron salt series recorded an increase of 175.7% in revenue to RMB71,727,000 as compared to last year.

For the supporting business, revenue generated from construction and operation of EP systems increased by 248.3% to RMB14,232,000 while trading of chemical products amounted to RMB14,834,000 (2003: nil).

Net Profit

During the period under review, the Group's net profit increased by 61.4% to RMB38,273,000 (2003: RMB23,709,000) whereas the gross profit increased by 118.3% to RMB90,020,000 (2003: RMB41,238,000).

During the period under review, the Group's selling and distribution costs was approximately RMB9,612,000 (2003: RMB1,760,000) whereas the administrative expenses was approximately RMB29,087,000 (2003: RMB12,582,000), which amounting to 4.5% (2003:1.8%) and 13.6% (2003: 12.7%) of the total turnover respectively.

The increase in selling and distribution costs was mainly attributed to the expansion of the market scale, which incurred approximately RMB3,217,000 in selling expenses. Besides, the cost incurred in the market development of the newly established branch and subsidiaries amounted to approximately RMB4,635,000.

The increase in administrative expenses was mainly due to the enlargement of operation scale of the Group. Approximately RMB12,311,000 additional expenses were come from existing group companies and RMB4,194,000 from newly established subsidiaries.

In order to strengthen its R&D capability, the Group increased its investment in R&D to approximately RMB4,309,000 (2003: RMB1,438,000), which lead to a rise in other operating expenses to approximately RMB7,647,000 (2003: RMB2,500,000).

FINANCIAL RESOURCES, LIQUIDITY AND TREASURY POLICIES

As at 31 December 2004, the Group has current assets of RMB144,924,000 (31 December 2003: RMB111,559,000) and current liabilities of RMB57,662,000 (31 December 2003: RMB29,920,000). Included in the current assets, cash and cash equivalents amounted to RMB87,568,000 (31 December 2003: RMB73,392,000).

The Group had financed its operations with two short-term bank loans of RMB10,000,000 and RMB200,000, which were granted at interest rates at 5.31% and 5.84% per annum respectively (31 December 2003: RMB10,000,000). The Group's gearing ratio, which is defined as the quotient of interest-bearing bank borrowings and shareholders' equity, was 0.067 (31 December 2003: 0.083). The Group's current ratio was approximately 2.51 times (31 December 2003: 3.73 times). The Group was granted a guarantee amounting to RMB25,000,000 from China Merchants Bank Co., Ltd (Shenzhen Jingtian Branch). In view of the stable financial and liquidity position, the Group will have sufficient resources to meet the needs of its operations and research and development requirements in the future.

SHAJING TREATMENT CENTER

The independent non-executive directors of the Company convened a board meeting on 23 March 2005 to review the progress and status in relation to the construction and the obtaining of land use rights of the Shajing Treatment Center. 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 RMB0.7 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.

Management Discussion and Analysis

As at 31 December 2004, the Company had paid ED Corporation a construction fee of approximately RMB5.9 million (2003: RMB5.9 million), a portion of land resumption of approximately RMB10.3 million (2003: RMB0.4 million) and other costs of approximately RMB13.7 million (2003: RMB7.6 million) 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 2004, the Group had no pledged assets.

INTEREST RATE AND EXCHANGE RISK

During the year under review, the Group was granted two short-term bank loans at fixed interest rates of 5.31% and 5.84% respectively, which would not expose to interest risk.

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 31 December 2004, the number of full-time employees stood at 542 (2003: 250) with a total staff cost of the year ended 31 December 2004 of approximately RMB11,499,000 (2003: RMB7,982,000). During the year under review, the Group has adopted a new human resource management system. Salary, bonus and award are rewarded on profit and performance-related basis. The Group offered continuing training, remuneration package and a range of additional benefits to its employees, including retirement benefits, housing fund and medical insurance.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2004.

DIVIDEND

Pursuant to the shareholders' resolution of an extraordinary general meeting date 28 September 2004, the Company declared an interim dividend of RMB0.01 (2003: RMB0.008) per share (inclusive of applicable tax) in cash amounting to approximately RMB6,274,000 (2003: RMB5,019,000) to its shareholders and the payment was made on 15 November 2004.

The Board proposed a distribution of a final dividend of RMB0.01 per share on 23 March 2005 for the year ended 31 December 2004 (2003: nil).

CAPITAL COMMITMENT

As at 31 December 2004, the Group had the following capital commitments:

	Year ended 31 December	
	2004	2003
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Fixed assets	**1,200**	–
The establishment of a new limited company	**22,440**	16,260
Total	**23,640**	16,260

FUTURE PROSPECTS

Looking forward into 2005, the PRC economy is expected to maintain healthy growth. As the society and its economy develop under strong government support for "Recycling Economy" and "Scientific Development", there will be immense opportunities for the Group.

In the coming year, the Group will capitalise on the favourable environment of the general market and continue to expand its business in terms of width, depth and geographical coverage, focusing on the detoxification, reduction and recycling of industrial wastes. It is the plan of the Group to: (1) reinforce and expand the heavy metal waste treatment and recycling business of Huizhou Dongjiang; (2) promote the construction of the Demonstration Center and commence the establishment of a hazardous waste collection network; and (3) further explore the waste treatment and recycling market of Changjiang River Delta region through the operations of KunPeng and Qian Deng. In addition, the Group will actively seek cooperation opportunities with regional governments to secure medium to large scale municipal EP projects.

On R&D, the Group will closely monitor the latest developments in treatment and disposal technologies involving medical waste, waste electronic products, restaurant waste, industrial and domestic sewage. The Group will accelerate the commercialisation of successful R&D projects with an aim to creating new income streams.

To achieve its business objectives, the Group will further strengthen internal resources rationalisation with the overall implementation of object-oriented and performance management in all departments and subsidiaries, so as to maximise the synergy between various business units. In addition, steps will be taken to enhance the competitiveness of the Group in the human resources market, so as to establish a robust team of talents to cater for its future development needs.

Management Discussion and Analysis

BUSINESS OBJECTIVES

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 2004
Increase waste treatment capacity and expand geographical coverage	
i) Pearl River Delta	
• Construction of a new treatment center in Shajing Town of the Baoan District in Shenzhen.	• *Operation commenced.*
• Expansion with a base in Huizhou, Huizhou Dongjiang.	• *Operation commenced.*
ii) Western China region	
Expansion with a base in Chengdu, Chengdu Treatment Center.	• *Trial run has commenced. Operation was not commenced as Chengdu Treatment Center has collected more different types of wastes which require specific industrialization process.*
iii) Changjiang River Delta	
Expansion with a base in Shanghai Xin Yu.	• *The investment in Shanghai Xin Yu was disposed as a result of changing economic and market conditions.*

Business objectives as stated in the prospectus dated 23 January 2003	Actual business progress from the Latest Practicable Date to 31 December 2004
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.	• *Treatment volume of organic solvent reached the planned level. Waste oil treatment facility is in the progress of trial run.*
• Commence operation of tin-contained wastes treatment facility.	• *Treatment volume reached the planned level.*
• Commence operation of zinc-contained wastes treatment facility.	• *Temporarily postponed as the collection and treatment markets were developing and not mature enough for industrialization.*
• Complete construction of arsenic-contained wastes treatment facility.	• *Temporarily postponed since the market was not favourable.*
• Complete construction of treatment facility for cupric sewage sludge.	• *Final laboratory test was completed. Construction was not commenced as more time was used for trial run, feasibility studies and other preparation works.*
• Trial run of waste mineral oil treatment facility.	• *Trial run has commenced. Operation was not commenced as more time was used for trial run, feasibility studies and other preparation works.*
• Commence construction of chromium-contained wastes treatment facility.	• *Temporarily postponed since the market was not favourable.*

Management Discussion and Analysis

Business objectives as stated in the prospectus dated 23 January 2003	Actual business progress from the Latest Practicable Date to 31 December 2004
ii) EP construction and consultation services	• Increased 8 turnkey solution projects.
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.	• Completed.
2. Develop the waste treatment and recycle technology on: waste emulsion, dyes, paints and heavy metal-contained sewage and sludge.	• Laboratory tests on treatment and recycle technology on dyes, paints and heavy metal-contained sewage and sludge have completed. Treatment and recycle technology on waste emulsion was in progress.
Further enhance its management system	
To establish an information management system.	• Manual management information system was established. Planning to implement a computerized system.
Strengthen its sales and marketing team	
Commence development of market by establishing sales networks around treatment centers.	• Commenced.

USE OF PROCEEDS

The proceeds from the listing of 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 2004 (the "Period"), approximately HK$38.8 million of the listing proceeds were applied to the Business Objectives. Details of the comparison of the application of the HK$38.8 million to the Business Objectives are as follows:

	From the Latest Practicable Date to 31 December 2004		
	Actual Figure (HK$ million)	**As per Prospectus** (HK$ million)	**Difference** (HK$ million)
Increase waste treatment capacity (new treatment centers in Shenzhen)	9.9	8.5	1.4
Enlarge geographical coverage (treatment centers in Chengdu, Huizhou and Shanghai)	21.3	25.4	(4.1)
Expand waste treatment capability and wider scope of services	0.9	0.8	0.1
Continue its commitment in R&D	5.4	2.2	3.2
Future enhance its management system	0.8	0.8	–
Strengthen its sales and marketing team	0.5	0.4	0.1
Total	38.8	38.1	0.7

Note: As stated in the Prospectus, any additional net proceeds more than HK$37.1 million will be applied to finance the Business Objective 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 Objective 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$0.7 million, was further applied to the business plan as stated under the section "Business Objectives" in the Prospectus, was financed from the Company's working capital.

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 amount of HK$0.7 million additionally applied are primarily attributable to:

- change of economic and market conditions; and

- timing difference in application of fund.

SPONSOR'S INTERESTS

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

As at 31 December 2004, China Alpha Fund, a mutual fund managed by First Shanghai Fund Management Ltd., which is an associate of the Sponsor, held 1,650,000 H shares of the Company.

Save as disclosed above, 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 2004.

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 standard of the board practices and procedures as set out in Rules 5.34 to 5.45 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 5.28 and 5.29 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 2004 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 2004.

DIRECTORS

Executive Directors

ZHANG Wei Yang (張維仰), aged 39, 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 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 54, 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 30, is a Director and the officer in charge of administration and human resource of the Company. He graduated from Zhong Nan Finance University (中南財經大學) (currently known as Zhong Nan Finance & Law University (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 37, is a Director and the vice-chairman of the Company. 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. (上海聯創創業投資有限公司) ("New Margin").

WU Shui Qing (吳水清), aged 38, is a Director and an investment manager of Shenzhen High-Tech Investment Co., Ltd. (深圳市高新技術投資擔保有限公司). 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.

Management Profile

SUN Ji Ping (孫集平), aged 48, is a Director and an investment manager of China Venture Capital Inc. (中國風險投資有限公司). 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 47, 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 deputy director of the Research Department of Macro Economy of Development Research Center of the State Council of the PRC (中國國務院發展研究中心). 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 72, was appointed as an independent non-executive Director in September 2003. 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.

WANG Ji Wu (王濟武), aged 34, 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 is now working with a real estate development company as a director and chief financial officer.

SUPERVISORS

YUAN Wei (袁桅), aged 34, is a Supervisor and an investment manager of New Margin. Ms. Yuan 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.

CAI Ping (蔡萍), aged 34, is a Supervisor. Ms. Cai joined the Group in September 1999 and is 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 ten years experience in the field of accounting.

CHEN Shu Sheng (陳曙生), aged 38, 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.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

HU Chiu Lun, Alan (胡超倫), aged 35, 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 Institute of Certified Public Accountants. He has worked with KPMG for three years.

SENIOR MANAGEMENT

WANG Xue Zhi (王學智), aged 44, is now responsible for strategy development and project investment of the Company. 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 Group in February 2001.

Cai Hong (蔡虹), aged 29, is the officer in charge of corporate management of the Company. Ms. Cai graduated from the Institute of Guangdong Committee of Communist Party（廣東省委黨校）majoring in Fiscal Administration and Finance in 1994 and obtained a master degree in business and culture from London City University of United Kingdom. Ms. Cai joined the Group in 1999 and has over seven years of experience in finance and management.

LIU Wen Bin (劉文斌), aged 46, is the officer in charge of marketing 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 28, 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 four years of experience in the field of investment and management.

Directors' Report

The directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the processing and sale of recycled products, the provision of waste treatment services, the trading of chemical products, 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 68.

An interim dividend of RMB0.01 per share was paid on 15 November 2004.

The Board proposed a distribution of a final dividend of RMB0.01 per share for the year ended 31 December 2004.

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 2004 in accordance with the proposed applications set out in the Company's listing prospectus (the "Prospectus"), was as follows:

– approximately HK$9.9 million was used for the new treatment center in Shenzhen;

– approximately HK$21.3 million was used for the new treatment centers in Chengdu, Huizhou and Shanghai;

– approximately HK$0.9 million was used for the expansion of waste treatment capability;

– approximately HK$5.4 million was used for research and development;

– approximately HK$0.8 million was used for the enhancement of the Company's management system; and

– approximately HK$0.5 million was used for the strengthening of the sales and marketing team of the Group.

The shortfall of approximately HK$0.7 million was financed from the Company's working capital.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 3. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital are set out in note 30 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 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB53,336,000, of which RMB6,274,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of RMB30,309,000, 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 18% of the total sales for the year and sales to the largest customer included therein amounted to 5%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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 customers.

Directors' Report

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Zhang Wei Yang
Mr. He Qi Hu
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

The Company has received annual confirmations of independence from Mr. Meng Chun, Mr. Liu Hong Liang and Mr. Wang Ji Wu, and as at the date of this report still considers them to be independent.

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 pages 17 to 19 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors (including independent non-executive Directors and Supervisors) has entered contract with the Company for a term of three years. None of the Directors or the Supervisors had entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary 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	–	–	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, as at 31 December 2004, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to 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)*	Beneficial	61,566,558 domestic shares	13.7%
I.G. Investment Management (Hong Kong) Limited *(Note 2)*	Investment manager	16,000,000 H shares	9.0%
Leading Environmental Solutions and Services *(Note 3)*	Interest of a controlled corporation	11,500,000 H shares	6.5%
China Environmental Fund 2002, LP *(Note 3)*	Beneficial	11,500,000 H shares	6.5%
Martin Currie Investment Management Limited *(Note 2)*	Investment manager	10,590,000 H shares	6.0%
Martin Currie China Hedge Fund Limited *(Note 2)*	Beneficial	8,910,000 H shares	5.0%
UBS AG *(Note 2)*	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 2002, LP, which holds 11,500,000 H shares of the Company. To the best knowledge of the Directors, these parties are independent of and not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 31 December 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.

CONNECTED TRANSACTIONS

The related party transactions of the Group are disclosed in note 35 to the financial statements. There were no connected transactions which were discloseable under Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors or the management shareholders of the Company and their respective associates are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in GEM listing Rules.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in rules 5.48 to 5.67 of the GEM Listing Rules, throughout the accounting period covered by the annual report.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted the Model Code for Securities Transactions by the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rules 5.28 of the GEM Listing Rules 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.

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

23 March 2005

Supervisory Committee's Report

To: The Shareholders of
Shenzhen Dongjiang Environmental Company Limited (the "Company")

During the period under review, the Supervisory Committee of the Company ("the Supervisory Committee") has complied with the PRC Company Law, regulations of the PRC, requirements of the relevant laws and regulations of Hong Kong and articles of association of the Company, and has performed its duties set forth in the Company's Articles of Association, to protect the Company's interest and the interest of the Company's shareholders.

During the year we strengthened our supervising and managing efforts, and participated in the Company's management decision-making process. We regularly reviewed the Company's financial statements and accounts and believe that the Company has prepared the financial statements and accounts accurately, comprehensively and on a timely basis. So far as we are aware, there was no irregularity disclosed in the financial statements and accounts.

We supervised the Directors and other executive officers in the performance of their duties and believe that all Directors and other executive officers had performed their duties in accordance with the principles of honesty and trustworthiness, and worked diligently and sincerely acted in the best interests of the Company. None of the Directors, general manager or other executive 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 had comprehensively analyzed the financial statements of the Company to be presented in the annual general meeting. We believes that during the reporting period the operating results of the Company reflected the true business position, all expenses and costs were rational, the distribution of profit were in the interests of shareholders and for the future development of the Company, and the surplus reserves and public welfare funds transferred from the current year net profit were in accordance with the laws and regulations, as well as the Company's Articles of Association.

By order of the Supervisory Committee

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

23 March 2005

Report of the Auditors

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 29 to 68 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 Institute of Certified Public 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 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
23 March 2005

Consolidated Profit and Loss Account

Year ended 31 December 2004

	Notes	**2004** **RMB'000**	2003 RMB'000
TURNOVER	5	**213,804**	98,921
Cost of sales		**(123,784)**	(57,683)
Gross profit		**90,020**	41,238
Other revenue	5	**3,465**	1,187
Selling and distribution costs		**(9,612)**	(1,760)
Administrative expenses		**(29,087)**	(12,582)
Other operating expenses		**(7,647)**	(2,500)
PROFIT FROM OPERATING ACTIVITIES	6	**47,139**	25,583
Finance costs	7	**(981)**	(261)
Share of profits and losses of associates		**(442)**	(47)
PROFIT BEFORE TAX		**45,716**	25,275
Tax	10	**(4,716)**	(1,724)
PROFIT BEFORE MINORITY INTERESTS		**41,000**	23,551
Minority interests		**(2,727)**	158
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**38,273**	23,709
DIVIDENDS	12		
Interim		**6,274**	5,019
Proposed final		**6,274**	–
		12,548	5,019
EARNINGS PER SHARE			
Basic	13	**RMB0.0610**	RMB0.0386

Consolidated Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Prepayments for fixed assets		–	13,358
Fixed assets	14	**99,322**	30,386
Intangible assets	15	**231**	–
Goodwill	16	**537**	745
Interests in associates	18	**1,826**	10,775
Deferred tax assets	29	**824**	629
		102,740	55,893
CURRENT ASSETS			
Inventories	19	**15,927**	8,397
Construction contracts	20	**453**	661
Trade receivables	21	**20,538**	10,599
Bills receivable		**3,890**	–
Due from a related party	35(i)	**221**	–
Prepayments, deposits and other receivables	22	**16,327**	18,510
Cash and cash equivalents	23	**87,568**	73,392
		144,924	111,559
CURRENT LIABILITIES			
Trade payables	24	**10,555**	6,545
Tax payable		**2,563**	680
Other payables and accruals	25	**29,944**	8,295
Interest-bearing bank borrowings	26	**10,200**	10,000
Due to a minority shareholder of a subsidiary	27	**4,400**	4,400
		57,662	29,920
NET CURRENT ASSETS		**87,262**	81,639
TOTAL ASSETS LESS CURRENT LIABILITIES		**190,002**	137,532
NON-CURRENT LIABILITIES			
Deferred revenue	28	**2,230**	1,100
MINORITY INTERESTS		**35,115**	16,091
		152,657	120,341
CAPITAL AND RESERVES			
Issued capital	30	**62,738**	62,738
Reserves	31(a)	**83,645**	57,603
Proposed final dividend	12	**6,274**	–
		152,657	120,341

Zhang Wei Yong
Director

Li Yong Peng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	Notes	Issued share capital RMB'000	Share premium account RMB'000	Investment property revaluation reserve RMB'000	Reserve funds RMB'000 (note 31(a))	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2003		46,565	–	–	3,424	5,180	8,000	63,169
Final 2002 dividend declared		–	–	–	–	–	(8,000)	(8,000)
Issue of shares	*30(3)*	16,173	41,825	–	–	–	–	57,998
Share issue expenses	*30(3)*	–	(11,516)	–	–	–	–	(11,516)
Net profit for the year		–	–	–	–	23,709	–	23,709
Transfer from retained profits to reserve funds		–	–	–	3,592	(3,592)	–	–
Interim 2003 dividend	*12*	–	–	–	–	(5,019)	–	(5,019)
At 31 December 2003		62,738	30,309	–	7,016	20,278	–	120,341
At 1 January 2004		62,738	30,309	–	7,016	20,278	–	120,341
Surplus on revaluation		–	–	317	–	–	–	317
Net profit for the year		–	–	–	–	38,273	–	38,273
Interim 2004 dividend	*12*	–	–	–	–	(6,274)	–	(6,274)
Proposed final 2004 dividend	*12*	–	–	–	–	(6,274)	6,274	–
Transfer from retained profits to reserve funds		–	–	–	7,047	(7,047)	–	–
At 31 December 2004		**62,738**	**30,309***	**317***	**14,063***	**38,956***	**6,274**	**152,657**

	Issued share capital RMB'000	Share premium account RMB'000	Investment property revaluation reserve RMB'000	Reserve funds RMB'000 (note 31(a))	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
Reserves retained by:							
Company and subsidiaries	62,738	30,309	317	14,063	39,398	6,274	153,099
Associates	–	–	–	–	(442)	–	(442)
31 December 2004	**62,738**	**30,309**	**317**	**14,063**	**38,956**	**6,274**	**152,657**
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

* *These reserve accounts comprise the consolidated reserves of RMB83,645,000 (2003: RMB57,603,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	**2004** **RMB'000**	2003 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**45,716**	25,275
Adjustments for:			
Finance costs	*7*	**981**	261
Share of profits and losses of associates		**442**	47
Loss on disposal of an associate	*6*	**324**	–
Interest income	*5, 6*	**(1,042)**	(1,009)
Loss on disposal of fixed assets	*6*	**1,243**	95
Depreciation	*6, 14*	**7,872**	2,848
Amortisation of intangible assets	*6, 15*	**29**	–
Amortisation of goodwill	*6, 16*	**208**	208
Operating profit before working capital changes		**55,773**	27,725
Increase in inventories		**(7,149)**	(7,409)
(Increase)/decrease in construction contracts		**208**	(134)
Increase in trade receivables		**(8,906)**	(9,780)
Increase in bills receivable		**(3,890)**	–
(Increase)/decrease in prepayments, deposits and other receivables		**5,065**	(4,422)
Decrease in an amount due from a shareholder		**–**	1,047
Increase in amount due from a related party		**(221)**	–
Increase in trade payables		**3,770**	4,344
Increase in other payables and accruals		**15,539**	3,376
Increase in an amount due to a minority shareholder of a subsidiary		**–**	4,400
Increase in deferred revenue		**1,130**	300
Cash generated from operations		**61,319**	19,447
Profits tax paid		**(3,028)**	(1,470)
Net cash inflow from operating activities		**58,291**	17,977

Continued/...

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Net cash inflow from operating activities		**58,291**	17,977
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,042**	1,009
Purchases of fixed assets	*14*	**(53,423)**	(3,874)
Disposal of an associate		**2,300**	–
Acquisition of subsidiaries	*32*	**837**	–
Acquisition of minority interests		**(440)**	–
Investments in associates		**(760)**	–
Repayment/(advances) of loans to associates		**–**	(5,314)
Prepayments for fixed assets		**–**	(15,250)
Contributions by minority interests		**13,384**	12,270
Net cash outflow from investing activities		**(37,060)**	(11,159)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*30(3)*	**–**	57,998
Share issue expenses	*30(3)*	**–**	(11,516)
New bank loan		**200**	10,000
Interest paid		**(981)**	(261)
Dividends paid		**(6,274)**	(13,019)
Net cash inflow/(outflow) from financing activities		**(7,055)**	43,202
NET INCREASE IN CASH AND CASH EQUIVALENTS		**14,176**	50,020
Cash and cash equivalents at beginning of year		**73,392**	23,372
CASH AND CASH EQUIVALENTS AT END OF YEAR		**87,568**	73,392
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*23*	**44,039**	68,355
Non-pledged time deposits with original maturity of less than three months when acquired	*23*	**43,529**	5,037
		87,568	73,392

Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Prepayments for fixed assets		**–**	879
Fixed assets	*14*	**40,324**	28,750
Investments in subsidiaries	*17*	**42,417**	18,430
Interests in associates	*18*	**2,527**	10,710
		85,268	58,769
CURRENT ASSETS			
Inventories	*19*	**7,074**	3,514
Construction contracts	*20*	**453**	661
Trade receivables	*21*	**7,609**	2,351
Bills receivables		**2,890**	–
Prepayments, deposits and other receivables	*22*	**22,085**	9,358
Due from a subsidiary	*17*	**5,050**	4,600
Cash and cash equivalents	*23*	**64,029**	62,608
		109,190	83,092
CURRENT LIABILITIES			
Trade payables	*24*	**3,930**	3,403
Tax payable		**794**	615
Other payables and accruals	*25*	**25,376**	6,154
Interest-bearing bank borrowings	*26*	**10,200**	10,000
		40,300	20,172
NET CURRENT ASSETS		**68,890**	62,920
TOTAL ASSETS LESS CURRENT LIABILITIES		**154,158**	121,689
NON-CURRENT LIABILITIES			
Deferred revenue	*28*	**2,230**	1,100
		151,928	120,589
CAPITAL AND RESERVES			
Issued capital	*30*	**62,738**	62,738
Reserves	*31(b)*	**82,916**	57,851
Proposed final dividend	*12*	**6,274**	–
		151,928	120,589

Zhang Wei Yang
Director

Li Yong Peng
Director

1. CORPORATE INFORMATION

The registered office of Shenzhen Dongjiang Environmental Company Limited is located at 16th Floor, Shenmao Commercial Center, 59 Xinwen Road, Futian District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC").

During the year, the Group's principal activities were the processing and sale of recycled products, the provision of waste treatment services, the trading of chemical products, the construction and operation 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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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, except for the periodic remeasurement of investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. 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.

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

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 investments 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.

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.

Goodwill

Goodwill arising on the acquisition of subsidiaries 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.

On disposal of subsidiaries, 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.

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

Goodwill *(Continued)*

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.

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 and 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.

Fixed assets and depreciation

Fixed assets, other than investment properties and 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 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 and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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

Intangible assets

Know-how

Purchased know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of seven years.

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.

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.

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

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. 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.

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 and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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.

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

Income tax *(Continued)*

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.

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 negative goodwill or 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, associates and interests in joint ventures, 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 rules) that have been enacted or substantively enacted at the balance sheet date.

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

Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value when there is reasonable assurance that the grant or subsidy will be received and all attaching 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 that it is intended to compensate. When the grant or subsidy relates to an asset, the fair value is deducted in arriving at the carrying amount of the relevant asset.

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, trading of chemical products and sale of raw materials, 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 services are 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;

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(f) rental income, on a time proportion basis over the lease terms.

Employee benefits

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

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

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.

Interim dividends are simultaneously proposed and declared, because they have been approved by the shareholders in an extraordinary general meeting to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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. 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 the provision of waste treatment services segment engages in production and sales of recycled products, waste collection and treatment services;

(b) The construction and operation of environmental protection systems segment engages in construction contract work as a main contractor or subcontractor, primarily in respect of environmental protection systems;

(c) The trading of chemical products segment engages in the sale of chemical products to customers in the Mainland China; and

(d) The consultation service segment mainly comprises the provision of consultation services.

4. 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

Amounts in RMB'000	Production and sale of recycled products and the provision of waste treatment services 2004	2003	Construction and operation of environmental protection systems 2004	2003	Trading of chemical products 2004	2003	Consultation service 2004	2003	Total 2004	2003
Segment revenue:										
Sales to external customers	**184,547**	93,677	**14,232**	4,086	**14,834**	–	**191**	1,158	**213,804**	98,921
Segment results	**55,236**	26,219	**274**	(178)	**(427)**	–	**(206)**	(458)	**54,877**	25,583
Corporate and other unallocated expenses									**(7,738)**	–
Profit from operating activities									**47,139**	25,583
Finance costs									**(981)**	(261)
Share of profits and losses of associates	**(442)**	(47)	**–**	–	**–**	–	**–**	–	**(442)**	(47)
Profit before tax									**45,716**	25,275
Tax									**(4,716)**	(1,724)
Profit before minority interests									**41,000**	23,551
Minority interests									**(2,727)**	158
Net profit from ordinary activities attributable to shareholders									**38,273**	23,709

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Group *(Continued)*

Amounts in RMB'000	Production and sale of recycled products and the provision of waste treatment services 2004	2003	Construction and operation of environmental protection systems 2004	2003	Trading of chemical products 2004	2003	Consultation service 2004	2003	Total 2004	2003
Segment assets	**132,191**	75,990	**106,090**	79,333	**6,342**	–	**678**	609	**245,301**	155,932
Goodwill	**537**	745	**–**	–	**–**	–	**–**	–	**537**	745
Interests in associates	**1,826**	10,775	**–**	–	**–**	–	**–**	–	**1,826**	10,775
Total assets	**134,554**	87,510	**106,090**	79,333	**6,342**	–	**678**	609	**247,664**	167,452
Segment liabilities	**35,848**	18,012	**22,460**	12,603	**1,221**	–	**363**	405	**59,892**	31,020
Total liabilities	**35,848**	18,012	**22,460**	12,603	**1,221**	–	**363**	405	**59,892**	31,020
Other segment information:										
Depreciation	**4,109**	1,682	**3,641**	1,133	**58**	–	**64**	33	**7,872**	2,848
Amortisation of goodwill	**208**	208	**–**	–	**–**	–	**–**	–	**208**	208
Provision for doubtful debts	**99**	–	**315**	–	**–**	–	**–**	–	**414**	–
Loss on disposal of fixed assets	**1,243**	95	**–**	–	**–**	–	**–**	–	**1,243**	95
Capital expenditure	**64,888**	19,124	**1,172**	–	**712**	–	**9**	–	**66,781**	19,124

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of recycled products sold, waste treatment services and trading of chemical products, 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.

5. TURNOVER AND REVENUE *(Continued)*

Revenue from the following activities has been included in the Group's turnover:

	Notes	**2004** **RMB'000**	2003 RMB'000
Turnover			
Sale of recycled products and the provision of waste treatment services	4	**184,547**	93,677
Trading of chemical products	4	**14,834**	–
Revenue from construction and operation of environmental protection systems	4	**14,232**	4,086
Consultation service income	4	**191**	1,158
		213,804	98,921
Other revenue			
Interest income	6	**1,042**	1,009
Sale of raw materials		**1,308**	–
Gross rental income	6	**276**	–
Others		**839**	178
		3,465	1,187

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	**2004** **RMB'000**	2003 RMB'000
Cost of inventories sold		**116,691**	53,282
Research and development costs		**4,309**	1,438
Depreciation	*14*	**7,872**	2,848
Amortisation of Intangible assets*	*15*	**29**	–
Amortisation of goodwill*	*16*	**208**	208
Loss on disposal of an associate		**324**	–
Minimum lease payments under operating leases:			
office premises, plant and staff quarters		**1,589**	1,567
Auditors' remuneration		**560**	530
Staff costs (including directors' remuneration *(notes 8)*):			
Wages and salaries		**10,922**	7,779
Retirement benefits scheme contributions		**577**	203
		11,499	7,982
Provision for doubtful debts		**414**	–
Loss on disposal of fixed assets		**1,243**	95
Net rental income		**(276)**	–
Interest income		**(1,042)**	(1,009)

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

7. FINANCE COSTS

	Group	
	2004 **RMB'000**	2003 RMB'000
Interest on bank borrowings wholly repayable within five years	**981**	261

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rule 18.28 of GEM Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004	2003
	RMB'000	*RMB'000*
Other emoluments:		
Salaries, allowances and benefits in kind	**852**	566
Retirement benefits scheme contributions	**12**	10
	864	576

There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**6**	6

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**241**	196
Retirement benefits scheme contributions	**8**	4
	249	200

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Number of employees	
	2004	2003
Nil – HK$1,000,000	**3**	3

10. TAX

The Company and its subsidiaries located in the Shenzhen Special Economic Zone are subject to the PRC corporate income tax at a rate of 15% (2003: 15%) of the estimated assessable income for the year ended 31 December 2004 determined in accordance with the relevant income tax rules and regulations of the PRC. Subsidiaries located in other cities are subject to the PRC corporate income tax at a rate of 33% (2003: 33%).

In accordance with the relevant income tax rules and regulations of the PRC, the Company and Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan") are exempt from corporate income tax for two years commencing from their first year with assessable profits after deducting the tax losses brought forward, and are entitled to a 50% tax exemption for the following three years. However, if the companies' revenue generated from their manufacturing operations falls below 50% of the companies' total revenue for either one of the years during the tax holiday, the Companies are not entitled to any tax benefits for that year.

The year ended 31 December 2004 was the fourth year of the Company's operations with assessable profits and accordingly, the Company made provision for corporate income tax at 7.5% on its assessable profits for the year ended 31 December 2004. Lishan was exempt from corporate income tax, as the year ended 31 December 2004 was its first year with assessable profits.

Pursuant to the documents, Shen Guo Shui Long Long Jian Mian [2004] No. 0160 (深國税龍龍減免[2004]0160號), and Shen Guo Shui Fu Jian Mian [2004] No. 0351 (深國税福減免[2004]0351號), issued by the Shenzhen State Tax Bureau (深圳市國家税務局) on 4 June 2004 and 1 November 2004 respectively, Longgang DJ and DJ Recycled were exempt from corporation income tax for the year 2004.

	Group	
	2004	2003
	RMB'000	*RMB'000*
Current-Mainland China	**4,911**	2,150
Deferred *(note 29)*	**(195)**	(515)
	4,716	1,635
Share of tax attributable to associates	**–**	89
Total tax charge for the year	**4,716**	1,724

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, is as follows:

Group

	2004		2003	
	Tax rate	**Total**	Tax rate	Total
	%	***RMB'000***	%	*RMB'000*
Profit before tax		**45,716**		25,275
Tax at the statutory tax rate	**15/33**	**8,838**	15/33	3,520
Expenses not deductible for tax	**0.2**	**70**	0.5	129
Lower applicable tax rate for the tax benefits enjoyed by the Company	**(9.2)**	**(4,192)**	(7.6)	(1,925)
Tax charge at the Group's effective rate	**10.3**	**4,716**	6.8	1,724

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was RMB37,296,000 (2003: RMB23,650,000 (note 31(b))).

12. DIVIDENDS

	2004	2003
	RMB'000	*RMB'000*
Interim – RMB0.01 (2003: RMB0.008) per ordinary share	**6,274**	5,019
Proposed final – RMB0.01 (2003: Nil) per ordinary share	**6,274**	–
	12,548	5,019

At an extraordinary general meeting held on 28 September 2004, the Company declared an interim dividend of RMB0.01 per share in cash for the six months ended 30 June 2004 amounting to approximately RMB6,274,000.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of RMB38,273,000 (2003: RMB23,709,000) and the weighted average of 627,381,872 (2003: 614,975,000) ordinary shares in issue during the year.

No diluted earnings per share amounts have been presented for the two years ended 31 December 2004 and 2003 as no diluting events existed during those years.

14. FIXED ASSETS

Group

Amounts in RMB'000	Investment properties	Land and buildings	Plant and machinery	Leasehold improve-ments	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
Cost:									
At 1 January 2004	–	15,799	7,062	1,669	1,883	8,154	4,716	–	39,283
Additions	–	13,188	13,314	200	142	4,678	1,630	33,629	66,781
Acquisition of subsidiaries *(note 32)*	–	5,255	1,287	–	191	95	–	4,125	10,953
Transfers	–	19,688	15,824	–	289	–	448	(36,249)	–
Disposals	–	–	(529)	–	(98)	(1,649)	(1,002)	–	(3,278)
Reclassification	2,597	(2,800)	–	–	–	–	–	–	(203)
Surplus on revaluation	317	–	–	–	–	–	–	–	317
At 31 December 2004	**2,914**	**51,130**	**36,958**	**1,869**	**2,407**	**11,278**	**5,792**	**1,505**	**113,853**
Accumulated depreciation:									
At 1 January 2004	–	415	1,049	1,313	865	2,521	2,734	–	8,897
Provided during the year	–	1,461	3,543	318	429	1,308	813	–	7,872
Disposals	–	–	(195)	–	(51)	(868)	(921)	–	(2,035)
Reclassification	–	(203)	–	–	–	–	–	–	(203)
At 31 December 2004	**–**	**1,673**	**4,397**	**1,631**	**1,243**	**2,961**	**2,626**	**–**	**14,531**
Net book value:									
At 31 December 2004	**2,914**	**49,457**	**32,561**	**238**	**1,164**	**8,317**	**3,166**	**1,505**	**99,322**
At 31 December 2003	–	15,384	6,013	356	1,018	5,633	1,982	–	30,386

14. FIXED ASSETS *(Continued)*

Company

Amounts in RMB'000	Investment properties	Land and buildings	Plant and machinery	Leasehold improve-ments	Office equipment, furniture and fixtures	Motor vehicles	Other equipment	Construction in progress	Total
Cost:									
At 1 January 2004	–	15,799	6,487	1,670	1,539	7,001	4,680	–	37,176
Additions	–	10,115	1,553	–	119	2,523	851	970	16,131
Transfers	–	461	220	–	289	–	–	(970)	–
Disposals	–	–	(529)	–	(98)	(1,649)	(991)	–	(3,267)
Reclassification	2,597	(2,800)	–	–	–	–	–	–	(203)
Surplus on revaluation	317	–	–	–	–	–	–	–	317
At 31 December 2004	**2,914**	**23,575**	**7,731**	**1,670**	**1,849**	**7,875**	**4,540**	**–**	**50,154**
Accumulated depreciation:									
At 1 January 2004	–	415	889	1,314	777	2,307	2,724	–	8,426
Provided during the year	–	816	805	306	318	750	646	–	3,641
Disposals	–	–	(195)	–	(51)	(869)	(919)	–	(2,034)
Reclassification	–	(203)	–	–	–	–	–	–	(203)
At 31 December 2004	**–**	**1,028**	**1,499**	**1,620**	**1,044**	**2,188**	**2,451**	**–**	**9,830**
Net book value:									
At 31 December 2004	**2,914**	**22,547**	**6,232**	**50**	**805**	**5,687**	**2,089**	**–**	**40,324**
At 31 December 2003	–	15,384	5,598	356	762	4,694	1,956	–	28,750

The buildings of the Company and the Group are located in the Mainland China.

(i) The Group's investment property, which was located in Shenzhen, was revalued at RMB2,914,000 by Henderson Real Estate Evaluating Co., Ltd., independent professionally qualified valuers, on an open market, existing use basis. The investment property is leased to a company for one year from 1 January 2004 to 31 December 2004 in which a director of the Company is a shareholder, further details of which are included in note 35 to the financial statements.

The building ownership certificate for the investment property with the carrying amount of RMB2,914,000 was obtained by the Company with a lease term of 50 years commencing 18 June 1993.

14. FIXED ASSETS *(Continued)*

(ii) The obtaining of the relevant land use rights and building ownership certificates in respect of the land and buildings with original cost of RMB23,575,000 (2003: RMB12,999,000) and where the Company's waste treatment and recycling plant (the "Shajing Plant") is located is in progress.

The directors expect the land use rights and building ownership certificates of the Shajing plant to be obtained by the end of 2005. Pursuant to an agreement dated 20 January 2003 entered into between the Company, 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 the Shajing plant. ED Corporation has agreed to bear all costs and losses in relation to the Group's failure to obtain the land use rights and building ownership certificates of the new plant. In addition, Mr. Zhang Wei Yang, the chairman of the Company has agreed and undertaken to indemnify the Group against all relocation expenses, losses, damages, costs, claims, proceedings, fees and actions (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 rights and building ownership certificates of the Shajing 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 agreement.

On 12 August 2004, the independent non-executive directors of the Company convened a board meeting to review the progress and status in relation to the obtaining of land use rights and building ownership certificates of the new plant. It was concluded in the board meeting that the land and building ownership rights are expected to be obtained by 31 December 2005.

(iii) The other land located in the PRC with a carrying amount of RMB4,882,000 has a lease term of 50 years.

15. INTANGIBLE ASSETS

	Note	Know-how
		RMB'000
Cost:		
At the beginning of year		–
Acquisition of subsidiaries	*32*	260
At 31 December 2004		**260**
Accumulated amortisation:		
At the beginning of year		–
Provided during the year		29
At 31 December 2004		**29**
Net book value:		
At 31 December 2004		**231**
At 31 December 2003		–

16. GOODWILL

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

Group

	Goodwill
	RMB'000
Cost:	
At beginning of year and 31 December 2004	**1,040**
Accumulated amortisation:	
At beginning of year	295
Provided during the year	208
At 31 December 2004	**503**
Net book value:	
At 31 December 2004	**537**
At 31 December 2003	745

17. INTERESTS IN SUBSIDIARIES

	Company 2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	**42,417**	18,430
Due from a subsidiary*	**5,050**	4,600
	47,467	23,030

* *As at 31 December 2004, the amount due from a subsidiary included in the Company's current assets was unsecured, interest-free and had no fixed terms of repayment.*

Particulars of the companies comprising the Group, which are registered as limited liability companies under the PRC law, are as follows:

Name	Place of registration and operations	Nominal value of registered capital *RMB*	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Isoway Corporate Management Consulting Co., Ltd.	PRC/ Mainland	1,000,000	70%	–	Provision of consulting services for the construction of environmental protection systems
Chengdu Dangerous Waste Treatment Center Co., Ltd. ("Chengdu Co.")*	PRC/ Mainland	10,000,000	51%	–	Investment holding, production and sale of recycled products and provision of waste treatment services
Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan")	PRC/ Mainland	18,000,000	51%	–	Production and sale of polyamide resin, plasticising agent and paint activating agent from collected waste
Shenzhen Longgang Dongjiang Industrial Waste Treatment Company Limited ("Longgang DJ")	PRC/ Mainland	5,000,000	51%	–	Collection, processing and treatment of industrial waste

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the companies comprising the Group, which are registered as limited liability companies under the PRC law, are as follows *(Continued)*:

Name	Place of Registration and operations	Nominal value of registered capital *RMB*	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shenzhen Dongjiang Environmental Recycled Resources Co., Ltd. ("DJ Recycle")	PRC/ Mainland	1,000,000	95%	–	Collection and treatment of industrial waste
Sichuan Xingli Environmental Protection Project Co., Ltd. ("Xingli")*	PRC/ Mainland	2,000,000	–	40.8%	Construction of environmental protection systems and development and sale of environmental equipment
Huizhou Dongjiang Environmental Co., Ltd.	PRC/ Mainland	5,000,000	59.8% #	–	Production and sale of recycled products and provision of waste treatment services
Shenzhen Dongjiang Heritage Technologies Co., Ltd. ("DJ Heritage")	PRC/ Mainland	25,000,000	62%	–	Production and sale of recycled products
Kunshan KunPeng Environmental and Technology Co., Ltd. ("KunPeng")	PRC/ Mainland	3,000,000	51%	–	Collection, processing and treatment of industrial waste; provision of consulting services for the construction of environmental protection systems
Kunshan QianDeng Three Wastes Treatment Co., Ltd ("QianDeng")	PRC/ Mainland	7,680,000	51%	–	Collection, processing and treatment of industrial waste

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

\# *A then associate of the Group as at 31 December 2003. An additional interest of 39.8% was acquired by the Group during the year.*

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

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**2,527**	4,666
Share of net assets	**1,826**	4,731	**–**	–
Due from associates*	**–**	6,044	**–**	6,044
	1,826	10,775	**2,527**	10,710

* *As at 31 December 2003, the amounts due from associates were unsecured, interest-free. They were settled in 2004.*

Particulars of the Company's associates as at 31 December 2004 are as follows:

Name	**Business structure**	**Place of registration and operations**	**Percentage of equity interest attributable to the Group**		**Principal activities**
			2004	2003	
Shenzhen Fugeri Environmental Protection Equipment Co., Ltd.	Corporate	PRC/ Mainland	**40**	40	Development and sale of environmental equipment
Shenzhen Micronutrients Co., Ltd. ("Micronutrients")*	Corporate	PRC/ Mainland	**38**	–	Production and sale of recycled products

* *Micronutrients was not commenced operations as at 31 December 2004.*

19. INVENTORIES

	Group	
	2004	2003
	RMB'000	*RMB'000*
Raw materials	**7,630**	6,170
Finished goods	**8,297**	2,227
	15,927	8,397

	Company	
	2004	2003
	RMB'000	*RMB'000*
Raw materials	**2,119**	1,829
Finished goods	**4,955**	1,685
	7,074	3,514

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	
	2004	2003
	RMB'000	*RMB'000*
Gross amounts due from contract customers	**453**	661
Gross amounts due to contract customers included in other payables	**–**	(190)
	453	471
Contract costs incurred plus recognised profits less recognised losses to date	**10,146**	4,702
Less: Progress billings	**(9,693)**	(4,231)
	453	471

At 31 December 2004, there were no retentions held by customers for contract work included in trade receivables (2003: Nil).

21. TRADE RECEIVABLES

The group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period of the Group ranges 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, and net of provision is as follows:

	Group		**Company**	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current to 90 days	**15,151**	10,578	**4,981**	2,330
91 to 180 days	**1,409**	21	**288**	21
181 to 365 days	**3,258**	–	**1,718**	–
Over 1 year	**720**	–	**622**	–
	20,538	10,599	**7,609**	2,351

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**3,406**	10,258	**798**	3,561
Deposits and other debtors	**12,921**	8,252	**21,287**	5,797
	16,327	18,510	**22,085**	9,358

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**44,039**	68,355	**20,500**	57,571
Time deposits	**43,529**	5,037	**43,529**	5,037
Cash and cash equivalents	**87,568**	73,392	**64,029**	62,608

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB79,980,000 (2003: RMB27,078,000). The RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current to 90 days	**8,685**	6,367	**2,632**	3,225
91 to 180 days	**521**	69	**56**	69
181 to 365 days	**1,150**	–	**1,043**	–
Over 1 year	**199**	109	**199**	109
	10,555	6,545	**3,930**	3,403

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**15,440**	924	**13,632**	190
Other payables	**8,018**	4,445	**6,054**	3,811
Accruals	**6,486**	2,926	**5,690**	2,153
	29,944	8,295	**25,376**	6,154

26. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loan				
Secured	**10,200**	10,000	**10,200**	10,000
Bank loan repayable				
Within one year	**10,200**	10,000	**10,200**	10,000

The bank loan was secured by a shareholder and Shenzhen HI-TECH Investment Co., Ltd. (深圳市高新技術投資擔保有限公司 (formerly深圳市高新技術投資產業服務有限公司)).

27. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

	Group	
	2004	2003
	RMB'000	*RMB'000*
Due to Chengdu Xingli Tyre Co., Ltd. ("Xingli Tyre"):		
Balance at end of year	4,400	4,400

According to the resolutions of shareholders of Chengdu Co., dated 14 May 2003 and 1 September 2003, Xingli Tyre provided unsecured, interest-free loans of RMB2,400,000 and RMB2,000,000, respectively, to Chengdu Co.. During the year, Chengdu Co. has agreed with Xingli Tyre to extend the loan repayment date to 30 June 2005.

28. DEFERRED REVENUE

The balance as at 31 December 2004 represented a subsidy of RMB2,230,000 (2003: RMB1,100,000) 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 non refundable, subject to project being approved and certified by the Shenzhen Science and Technology Bureau upon its completion.

29. 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 2004	629
Deferred tax credited to the profit and loss account during the year *(note 10)*	195
Deferred tax assets at 31 December 2004	**824**
At 1 January 2003	114
Deferred tax credited to the profit and loss account during the year *(note 10)*	515
Deferred tax assets at 31 December 2003	629

The Group has tax losses arising in the Mainland China of RMB4,233,000 (2003: RMB2,340,000) 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.

30. SHARE CAPITAL

Shares

	2004	2003
	RMB'000	*RMB'000*
Authorised, issued and fully paid:		
449,481,872 (2003: 449,481,872) domestic shares of RMB0.10 each	**44,948**	44,948
177,900,000 (2003: 177,900,000) H shares of RMB0.10 each	**17,790**	17,790
	62,738	62,738

During the year ended 31 December 2003, the movements in share capital were as follows:

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

(1) 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 10 domestic shares of nominal value of RMB0.10 each.

(2) 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方法》), 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.

30. SHARE CAPITAL *(Continued)*

(3) 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 (2)) 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 issued share capital amounted to RMB16,173,000 and share premium amounted to RMB30,309,000.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

Pursuant to the relevant laws and regulations for business enterprises, a portion of the profits of the Group's entities which are incorporated in the PRC has been transferred to the statutory reserve fund and statutory welfare fund which are restricted as to use.

(b) Company

	Share premium account *RMB'000*	Investment property revaluation reserve *RMB'000*	Statutory funds* *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Balance at 1 January 2003	–	–	3,424	5,487	8,911
Issue of shares *(note 30(3))*	41,825	–	–	–	41,825
Share issue expenses *(note 30(3))*	(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 and beginning of year	30,309	–	6,916	20,626	57,851
Surplus on revaluation	–	317	–	–	317
Net profit for the year	–	–	–	37,296	37,296
Transfer from retained earnings to statutory funds	–	–	6,148	(6,148)	–
Interim 2004 dividend *(note 12)*	–	–	–	(6,274)	(6,274)
Proposed final 2004 dividend *(note 12)*	–	–	–	(6,274)	(6,274)
Balance as at 31 December 2004	30,309	317	13,064	39,226	82,916

31. RESERVES *(Continued)*

(b) Company *(Continued)*

* *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 against 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 losses in previous years, its current year's net profit is used to make good the losses before allocations are set aside for the statutory funds.

In accordance with PRC rules and regulations, the Company's profit available for distribution is determined based on the lower of the amount reported in accordance with the PRC accounting standards and regulations and that reported in accordance with accounting principles generally accepted in Hong Kong.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

	2004	2003
	RMB'000	*RMB'000*
Net assets acquired:		
Fixed assets, net	**10,953**	–
Intangible assets	**260**	–
Pre-operating expenses	**544**	–
Cash and cash equivalents	**4,367**	–
Trade receivables	**1,033**	–
Prepayments, deposits and other receivables	**2,882**	–
Inventories	**381**	–
Trade payables	**(240)**	–
Other payables and accruals	**(6,110)**	–
Short term loan	**(6,000)**	–
Minority interests	**(3,940)**	–
	4,130	–
Satisfied by:		
Cash	**3,530**	–
Reclassification to interests in subsidiaries from interest in an associate	**600**	–
	4,130	–

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004	2003
	RMB'000	*RMB'000*
Cash consideration	**(3,530)**	–
Cash and bank balances acquired	**4,367**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**837**	–

33. COMMITMENTS

(i) Capital commitments

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Fixed assets	**1,200**	–	**–**	–
The establishment of a new limited company	**22,440**	16,260	**22,440**	16,260
	23,640	16,260	**22,440**	16,260

On 16 December 2004, the Company and ONYX (Hong Kong) Company Limited ("ONYX"), an independent third party, entered into an agreement, pursuant to which the Company and ONYX agreed to establish a joint venture company, and the Company will contribute RMB22,440,000 in cash for a 51% equity interest.

(ii) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twenty years.

At 31 December 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**1,316**	653	**1,052**	333
In the second to fifth years, inclusive	**3,241**	1,765	**2,597**	846
After five years	**–**	–	**–**	–
	4,557	2,418	**3,649**	1,179

34. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2004** **RMB'000**	2003 RMB'000
Purchases of raw materials from a company in which a director of Lishan is a controlling shareholder	*(i)*	**666**	–
Purchases of machinery and equipment from a minority shareholder of Lishan	*(ii)*	**7,793**	–
Rental income from a company in which a director of the Company is a shareholder	*(iii)*	**276**	–
Purchases of raw materials from a shareholder	*(iv)*	**–**	6,596

Notes:

(i) These transactions were conducted on the basis of rates mutually agreed between the Group and the related party, which were arrived at according to the published prices and conditions similar to those offered by other suppliers. On the consolidated balance sheet, the outstanding prepayment to this related party was RMB221,000 at the balance sheet date.

(ii) The machinery and equipment were purchased at amounts mutually agreed between the Group and the related party based on the valuation performed by an independent professional valuer.

(iii) The transaction was determined at rates mutually agreed between the Company and the related party, which was based on market rates for properties in similar locations.

(iv) The transactions were conducted on the basis of rates mutually agreed between the Group and the shareholder, which were arrived at according to the published prices and conditions similar to those offered by other suppliers.

36. POST BALANCE SHEET EVENTS

On 8 January 2005, the Company and Shenzhen Dikai Technology Chemical Company Limited ("Dikai"), an independent third party, entered into an agreement, pursuant to which the Company and Dikai agreed to establish a limited company, and the Company will contribute RMB1,530,000 in cash for 51% equity interest.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2005.