



**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)*



First Quarterly Report **2005**

\* For identification purpose only

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

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

## HIGHLIGHTS

- For the three months ended 31 March, 2005, the Group realised a sustainable growth in its core business - sale of recycled products and the provision of waste treatment services.
- Turnover was increased by approximately 90.8% to RMB65,278,000 for the three months ended 31 March, 2005, as compared to that of the same period in 2004 (2004: RMB34,204,000).
- Net profit was increased by approximately 118.2% to RMB12,012,000 for the three months ended 31 March, 2005, as compared to that of the same period in 2004 (2004: RMB5,505,000).
- Earnings per share was RMB0.0191 (2004: RMB0.0088) for the three months ended 31 March, 2005.

**FIRST QUARTERLY CONSOLIDATED RESULTS (UNAUDITED)**

The board of Directors (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March, 2005, together with the comparative figures of the corresponding period of 2004 as follows:

|   |       | Three months ended<br>31 March, |                                |
|---|-------|---------------------------------|--------------------------------|
|   |       | 2005<br>(unaudited)<br>RMB'000  | 2004<br>(unaudited)<br>RMB'000 |
|   | Notes |                                 |                                |
| TURNOVER  | 2     | 65,278                          | 34,204                         |
| Cost of sales   |       | <u>(38,883)</u>                 | <u>(19,858)</u>                |
| Gross profit  |       | 26,395                          | 14,346                         |
| Other revenue and gains   |       | 3,873                           | 445                            |
| Selling and distribution costs                                      |       | (4,622)                         | (1,559)                        |
| Administrative expenses   |       | (7,490)                         | (5,567)                        |
| Other operating expenses  |       | <u>(2,095)</u>                  | <u>(405)</u>                   |
| PROFIT FROM OPERATING<br>ACTIVITIES                                 |       | 16,061                          | 7,260                          |
| Finance costs   |       | (202)                           | (137)                          |
| Share of loss of associates   |       | <u>(6)</u>                      | <u>(194)</u>                   |
| PROFIT BEFORE TAX   |       | 15,853                          | 6,929                          |
| Tax   | 3     | <u>(3,601)</u>                  | <u>(507)</u>                   |
| PROFIT BEFORE MINORITY<br>INTERESTS                                 |       | 12,252                          | 6,422                          |
| Minority interests  |       | <u>(240)</u>                    | <u>(917)</u>                   |
| NET PROFIT FROM ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO SHAREHOLDERS |       | <u>12,012</u>                   | <u>5,505</u>                   |
| DIVIDENDS   | 4     | <u>—</u>                        | <u>—</u>                       |
| EARNINGS PER SHARE - BASIC  | 5     | <u>0.0191</u>                   | <u>0.0088</u>                  |

Notes:

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

The unaudited consolidated results have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the first quarterly financial reports are consistent with those adopted in the annual financial statements for the year ended 31 December, 2004.

**2. Turnover**

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.

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

|   | <b>Three months ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>31 March,</b>          |                      |
|   | <b>2005</b>               | <b>2004</b>          |
|   | <b>(unaudited)</b>        | <b>(unaudited)</b>   |
|   | <b>RMB'000</b>            | <b>RMB'000</b>       |
| Sale of recycled products and the provision |                           |                      |
| of waste treatment services                 | <b>56,797</b>             | 30,756               |
| Trading of chemical products                | <b>3,773</b>              | 1,378                |
| Revenue from construction and               |                           |                      |
| operation of environmental                  |                           |                      |
| protection systems                          | <b>4,697</b>              | 2,043                |
| Consultation service income                 | <b>11</b>                 | 27                   |
|   | <u>11</u>                 | <u>27</u>            |
|   | <b>65,278</b>             | <b>34,204</b>        |
|   | <u><b>65,278</b></u>      | <u><b>34,204</b></u> |

**3. Tax**

The Company and its subsidiaries located in the Shenzhen Special Economic Zone are subject to the People's Republic of China ("PRC") corporate income tax at a rate of 15% (2004: 15%) of the estimated assessable income for the three months ended 31 March, 2005 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% (2004: 33%).

In accordance with the relevant income tax rules and regulations in the PRC, the Company and Shenzhen Lishan Environmental Protection Materials Co., Ltd. ("Lishan"), a subsidiary of the Company, are exempted from corporate income tax for two years commencing from their first year with assessable profits after deducting tax losses brought forward, and are entitled to a 50% tax exemption for the next 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 holidays, the Companies are not entitled to any tax benefits for that year.

The three months ended 31 March, 2005 fell into the Company's fifth year of operations with assessable profits and accordingly the Company made provision for PRC corporate income tax at 7.5% on its estimated assessable profits for three months ended 31 March, 2005. Lishan was exempt from corporate income tax, as the three months ended 31 March, 2005 fell into its second year with assessable profits.

**4. Dividends**

The Board does not recommend the payment of any dividend for the three months ended 31 March, 2005 (2004: Nil).

**5. Earnings per share**

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the three months ended 31 March, 2005 of RMB12,012,000 (2004: RMB5,505,000) and the weighted average number of 627,381,872 (2004: 627,381,872) ordinary shares in issue during the three months.

No diluted earnings per share was presented as no diluting events existed for each of the three months ended 31 March, 2004 and 2005.

**6. Reserves**

Other than the net profit for the three months ended 31 March, 2005, there were no movements to or from reserves of the Group and the Company during the three months (2004: none).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

After continuous expansion of the scale of core business, the Group achieved a significant growth in both turnover and net profit during the first quarter in 2005. The remarkable growth was mainly attributable to the sale of recycled products and the provision of waste treatment services. As a result of favourable market in the mainland China and the increasing demand on the Group's main recycled products, such as copper salt and tin salt series, the product prices increased and the Group achieved a gratifying growth. Moreover, the effective operations of new established treatment centres in Shenzhen, Huizhou and Kunshan further expanded the collection capacity of wastes and enlarged the production scale of recycled products for the Group.

During the period under review, the Group continued to consolidate the strategy in developing the target markets. The commencement of integrated collection of wastes in Pearl River Delta improved the market development in waste collection and resources optimization.

The overall implementation of objective-oriented and performance management in all departments and subsidiaries facilitated the synergy between various business units. As a result, the competitiveness of the Group's products and services was enhanced. On the other hand, the construction and operation of environmental protection ("EP") systems were substantially improved by continued refinement.

In order to commercialise our research and development ("R&D") achievement, the Group established a 51%-owned subsidiary, namely Shenzhen AIC Technology Co., Ltd (深圳市東迪塗層技術有限公司), at RMB1,530,000 in the PRC on 11 March, 2005. The company is principally engaged in promotion and application of new environmental paint coating technology, which further develops the EP related market and facilitates the diversification of the Group's business.

## Financial review

During the period under review, the Group achieved a 90.8% growth in turnover to RMB65,278,000 (2004: RMB34,204,000) and a 118.2% growth in net profit to RMB12,012,000 (2004: RMB5,505,000) as compared to those of the same period in last year.

The significant growth was mainly contributed by the sale of recycled products and the provision of waste treatment services, which recorded a 84.7% rise in turnover to RMB56,797,000 (2004: RMB30,756,000). For the supporting business, the trading of chemical products recorded a 173.8% rise in turnover to RMB3,773,000 (2004: 1,378,000) while revenue generated from construction and operation of EP systems increased by 129.9% to RMB4,697,000 (2004: RMB2,043,000).

During the period under review, the Group's gross profit margin was 40.4% (2004: 41.9%). The slight drop of gross profit margin was due to the reformation of revenue structure and increase of the manufacturing costs in particular recycled products.

As a result of business development and expansion of the market scale, the Group's selling and distribution costs amounted to approximately RMB4,622,000 (2004: RMB1,559,000) for the three months ended 31 March, 2005. The separate operation in collection and treatment of wastes and the expansion in the trading business increased the ratio of selling and distribution costs to turnover to 7.1% (2004: 4.6%).

The increase in administrative expenses, which amounted to approximately RMB7,490,000 (2004: RMB5,567,000) for the first quarter ended 31 March, 2005, was mainly due to the increasing number of subsidiaries and the expansion in business scale.



## FUTURE PROSPECTS

Looking forward, the Group will continue to focus on two main areas – recycling of wastes and provision of EP services. The Group will focus on the detoxification, reduction and recycling of industrial hazardous wastes and gradually explore the market in non-hazardous waste treatment.

The Group will continue to commit in R&D with particular emphasis on the treatment and recycling of industrial hazardous wastes. In order to maintain the competitive advantages in the market, the Group will enrich the variety of recycled products and further develop new potential products. Furthermore, the Group will accelerate the commercialization of successful R&D projects with an aim to creating new income streams.

To expand the scale and business, the Group will continue to explore investment opportunities and participate actively in municipal-related EP projects.

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

As at 31 March, 2005, the interests or short positions of the Directors and chief executive of the Company, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register under Section 352 of the SFO or as required to be notified to the Company and the Stock Exchange in accordance with Rule 5.46 of the GEM Listing Rules, were as follows:

### Long position in domestic shares of the Company

| Name               | Personal interests | Family interests       | Corporate interests    | Other interests | Total       | Percentage of shareholding in this class |
|--------------------|--------------------|------------------------|------------------------|-----------------|-------------|--|
| Mr. Zhang Wei Yang | 261,884,150        | 35,389,750<br>(Note 1) | –                      | –               | 297,273,900 | 66.1%                                    |
| Mr. Li Yong Peng   | –                  | –                      | 35,389,750<br>(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 March, 2005, 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 required to be notified to the Company and the Stock Exchange in accordance with Rule 5.46 of the GEM Listing Rules.

**SUBSTANTIAL SHAREHOLDERS**

At 31 March, 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of the 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                             | Number and class of shares | Percentage of shareholding in its class |
|--|--------------------------------------|----------------------------|---|
| Shanghai New Margin Venture Capital Co., Ltd ( <i>Note 1</i> )   | Beneficial                           | 61,566,558 domestic shares | 13.7%                                   |
| I.G. Investment Management (Hong Kong) Limited ( <i>Note 2</i> ) | Investment manager                   | 16,000,000 H shares        | 9.0%                                    |
| China Environmental Fund 2002, LP ( <i>Note 3</i> )              | Beneficial                           | 11,500,000 H shares        | 6.5%                                    |
| Leading Environmental Solutions and Services ( <i>Note 3</i> )   | Interest of a controlled corporation | 11,500,000 H shares        | 6.5%                                    |

*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 March, 2005, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **SPONSOR'S INTERESTS**

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

As at 31 March, 2005, China Alpha Fund, a mutual fund managed by First Shanghai Fund Management Ltd. which is an associate of First Shanghai Capital Limited, held 1,650,000 H shares of the Company.

Save as disclosed above, neither First Shanghai Capital Limited, its directors, employees or associates, have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31 March, 2005.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance 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, namely Messrs. Meng Chun, Liu Hong Liang and Wang Ji Wu. The audit committee has reviewed the draft of this first quarterly report and has provided advice and comments thereon.

## **PRACTICES AND PROCEDURES OF THE BOARD**

The Directors considered that the Company has complied with the requirement of Board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the three months period.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since 29 January, 2003, the date on which the Company's H shares were listed on the GEM, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

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

12 May, 2005  
Shenzhen, Guangdong Province, the PRC

*As at the date of this report, the Board comprises:*

*Executive Directors*

Mr. Zhang Wei Yang (*Chairman*)

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