

BUY

24 March 2005

Re-entering the high growth orbit

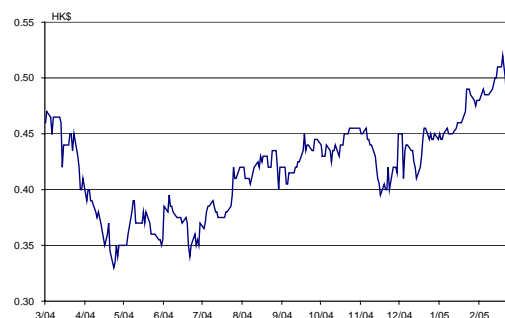
- **61% jump in net profit:** DJ reported an impressive 61% gain in net profit to RMB38.2mn largely attributable to the increased waste treatment capacity and introduction of new products. Turnover stood at RMB213.8mn, up 116% yoy. EPS reached RMB0.061 and a final dividend of RMB0.01 was declared.
- **New products achieved a 176% gain in sales:** During FY04, DJ established a few projects in both Pearl River Delta and Yangtze River Delta, which substantially increased the Group's waste treatment capability. New products added during the period include tin salt, organic solvent, fatty acid and iron salt series.
- **Stepping up investment in R&D:** In FY04, DJ has successfully brought its "nickel-containing sludge treatment and recycling project" to commercialization level. Also, it has marked significant breakthroughs in lead removal process and treatment of nickel plating solution. In the pipeline, the Group is developing treatment and disposal technologies to process waste from the medical field and restaurants, industrial and domestic sewage as well as electronic products disposal.
- **To capitalize on the government's support in the recycling industry:** Looking ahead, DJ will continue to expand its business coverage with a focus in detoxification, reduction and recycling of industrial wastes. Plans include capacity expansion in Huizhou plant as well as to further explore business opportunities in the Yangtze River Delta.
- **New target price \$0.79:** The counter is currently trading at an attractive 5.9x FY05 PER. We are maintaining a 10x FY05 PER rating for DJ representing a 68% upside potential from the current price level. **BUY**

HK\$=RMB1.06

KEY DATA

<i>Sector</i>	<i>Environmental protection</i>
<i>Share price</i>	<i>HK\$0.47</i>
<i>Stock code</i>	<i>8230</i>
<i>Shares O/S (H-shr)</i>	<i>177.90mn</i>
<i>Mkt. Cap (H-shr)</i>	<i>HK\$83.6mn</i>
<i>52wks High-Low</i>	<i>HK\$0.321-0.52</i>
<i>NAV per share</i>	<i>RMB0.22</i>
<i>Major Shareholders</i>	<i>Zhang Wei Yang (66.1%)</i> <i>Shanghai New Margin VC (13.7%)</i>

Price Performance



Source: Bloomberg

Earnings Summary

Year-end 31 Dec	FY02A	FY03A	FY04A	FY05F	FY06F
Net profit (RMB mn)	21.3	23.7	38.3	51.9	62.4
EPS (RMB fen)	0.046	0.039	0.061	0.084	0.101
Growth (%)	41.7	(15.7)	58.3	38.4	20.1
PER (x)	10.9	12.9	8.2	5.9	4.9
DPS (RMB fen)	0.02	0.01	0.02	0.03	0.035
Yield (%)	3.4	1.6	2.8	3.6	4.3

Source: company information, FSSL

Results comments

RMB'000	FY03	vs.	FY04	Comments
Turnover	98,921		213,804	97% yoy growth largely attributable to the increased in capacity and encouraging sales from new products.
Cost of sales	<u>(57,683)</u>		<u>(123,784)</u>	
Gross profit	41,238		90,020	Slight improvement in GP margin of 0.4 percentage points
Other revenue	1,187		3,465	
Selling & distribution costs	(1,760)		(9,612)	Expanded market coverage and new products
Administrative expenses	(12,582)		(29,087)	More branches and subsidiaries were added
Other expenses	<u>(2,500)</u>		<u>(7,647)</u>	About RMB4.3mn went to R&D
Operating profit	25,583		47,139	84% gain in opt. Profit, in-line with expectation
Finance costs	(261)		(981)	
Associates	<u>(47)</u>		<u>(442)</u>	
Profit before tax	25,275		45,716	
Tax	<u>(1,724)</u>		<u>(4,716)</u>	10.3% effective tax rate
Profit before M.I.	23,551		41,000	
Minority Interests	<u>158</u>		<u>(2,727)</u>	
Net profit	<u>23,709</u>		<u>38,273</u>	
EPS (RMB)	0.0386		0.0610	
DPS (RMB)	0.008		0.02	32.7% payout
GP margin (%)	41.7		42.1	
Net margin (%)	24.0		17.9	

Source: company information, FSSL

Disclosure: First Shanghai Capital Limited, an associate of FSSL is currently acting as the continuing sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rules.

As of 31 December 2004, China Alpha Fund (a mutual fund managed by an associate of FSSL), an associate of FSSL held position in the Company.

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