Dongjiang Environmental

Company update

BUY

November 4, 2005

A probe to the PRC's EP industry

- **A rapidly growing PRC's EP company at only 5.8x PER:** Dongjiang Environmental (DJ) recovers resources from hazardous industrial wastes and provides environmental protection (EP) services. We expect DJ's net profit to increase by 35.1% in FY05 and will continue to grow at a CAGR of 18% in the following two years, driven by new recovery products and EP services. The counter is currently trading at 5.8x FY05 PER with an estimated 5.7% dividend yield offers an attractive probe to the PRC's environmental protection industry.
- **Proven business model:** The quarterly revenue of DJ grew by about 3.8x from only RMB 14mn in 1Q03 to more than RMB 67mn in 2Q05. More importantly, DJ maintains a stable GP margin averaging 43% during the period. Thanks to better economies of scale on new products, GP margin for 2Q05 stood at 45.9%, highest in two years. This solid growth record proves that resources recovery is a successful EP business model.
- **World-class technology partners:** Last year, DJ linked up with Heritage Group, one of the largest privately held environmental companies in the North America, to produce tri-basic copper chloride (TBCC), an animal micronutrient. Earlier this year, Onyx Group, a global leading waste management company, joined the camp after DJ has won the first franchise for operating a centralized hazardous waste treatment facility in the PRC. Capitalizing on these world-class technology partners, DJ is well positioned to bid for upcoming projects of various kinds as well as to reinforce its leading position in the EP industry.
- **Attractive valuation:** We expect DJ to achieve a 23% CAGR in net profit from FY05 to FY07 with an attractive dividend yield of no less than 5.6%. Our target price of HK$0.82 represents only 10x FY05 PER, or an upside potential of 74.4%.

**HK$ = RMB1.04*

KEY DATA

Sector	Environmental protection
Share price	HK$0.47
Stock code	8230
Shares O/S (Total)	627.38mn
(H-shr)	177.90mn
Mkt. Cap (H-shr)	HK$83.6mn
52wks High-Low	HK$0.39-0.53
NAV per share	RMB 0.24
Major Shareholders	Zhang Wei Yang (66.1%)
	Shanghai New Margin VC (13.7%)

Price Performance

Source: Bloomberg

Earnings Summary

Year-end 31 Dec	FY03A	FY04A	FY05F	FY06F	FY07F
Turnover (RMB mn)	99	214	274	310	445
Net profit (RMB mn)	23.7	38.3	51.7	58.8	71.8
Growth (%)	n.a.	61.4	35.1	13.6	22.1
EPS (RMB fen)	3.9	6.1	8.2	9.4	11.4
Growth (%)	n.a.	58.2	35.1	13.6	22.1
PER (x)	12.7	8.0	5.9	5.2	4.3
DPS (RMB fen)	0.8	2.0	2.7	3.1	3.8
Yield (%)	1.7	4.1	5.6	6.3	7.7

Source: company information, FSSL

First Shanghai Securities Limited
www.mystockhk.com

A provened business model

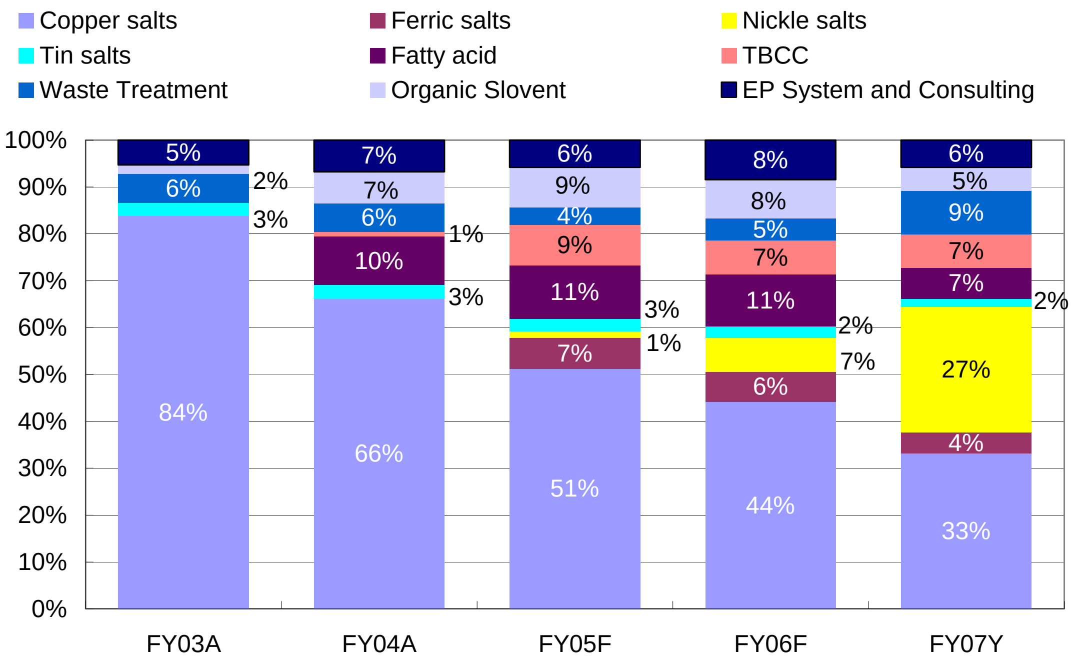
Resources recovery is a proven business model

Outstanding performance of DJ in the past few years proves that recovering resources from hazardous wastes for sales can be a very successful business model. It does not rely on subsidies or monopoly granted by the government or treatment fees paid by pollutant makers, reversing the value chain in conventional EP industry. This business model alleviates waste makers' financial burdens and hence is highly welcomed by the local authorities and the customers.

Currently, DJ is capable to recover copper, ferric and tin salts from waste sludge discharged from printed circuit board (PCB) manufacturing and electroplating process, as well as fatty acid from organic waste. Going forward, DJ will diversify into the recovery of nickel salts and TBCC. Results from trial run have been satisfactory and we expect a scale operation will soon commence to improve the recovery efficiency and boost the group's growth. Nickel is used as catalyst in chemical reactions and electroplating, whereas TBCC is a high value-added additive for livestock feeds. The management expects the turnover of nickel salts to match that of copper salts within the next three years.

In FY05 we expect sales of recycled products to hit RMB 233mn, accounting for about 90% of total revenue. By FY07, we expect the revenue will increase to about RMB 404mn, representing approximately 85% of total revenue. We believe resources recovery will continue to represent a major portion of the group's revenue in the future.

Revenue breakdown FY03 – FY07F



Source: Company, FSSL

Company updates

In FY04, DJ completed the R&D of nickel recovery and commenced trial run for TBCC. Also, DJ and Onyx entered into a joint venture to design, construction and operations of a hazardous waste treatment center at Huizhou in late Q404. These projects are ongoing and followings are their latest developments.

Progress of New Recoveries Production

Nickel salts – a new star products

Trial production of nickel salts has begun in the Huizhou treatment plant. Commercial production is expected to commence in 4Q05. The Group will also invest RMB 30mn in Qiandeng Waste Treatment Plant to install the production facilities for nickel products.

DJ endeavours to improve the efficiency of resources recovery. Besides copper salts, DJ is now capable to recover nickel from the waste liquid generated by PCB manufacturers. Since concentration of nickel is much lower than that of copper in the waste fluid, it requires more advanced recovery technologies, which also raises the entry barrier for potential competitors. DJ expects the large scale production of nickel salts will command a GP margin of at least 25% and contribute a turnover similar to the sales of copper salts within the next two years.

Technical issues in the TBCC production could be resolved shortly.

During 1Q05, about 75% of the TBCC produced by the JV was sold to the joint venture partner – Heritage Group. The remaining 25% was put on domestic market through a distributor. Due to the impurity of liquid waste collected in the PRC, the TBCC currently produced is of sub-standard and selling at about 20% to 30% below the market price. Nevertheless, DJ is working side-by-side with its sources to improve the purity of liquid waste collected from PCB manufacturing process. The management is confident that the technical issues can soon be resolved and both quantity and gross profit of TBCC will be improved.

Fresh etchant –nourishing the relationship with pollutant makers

Fresh etchant, a corrosive liquid used for PCB manufacturing and electroplating. It is the residue generated in the TBCC manufacturing process treated by adding additional chemicals to produce "fresh" alkaline etchant. Although Fresh etchant has less significant economic value, DJ trades it for waste sludge with the PCB manufacturers for continuous supply of copper. This not only strengthens relationships with pollutant makers, it also controls the overall waste collection costs. Fresh etchant from trial production has been distributed to suppliers in 2Q05 and their feedbacks were positive.

Declining dependence on copper salts.

DJ is harvesting from its diversified product mix. The share of copper salts as a percentage of total sales has been lowered from 84% in FY03 to around 66% in FY04. We are forecasting that it will be diluted to around 51% in FY05. We also expect the revenue from nickel salts and EP services to surge in the next two years, whereas the contribution of copper salts to DJ's total revenue will further be lowered to 33% in FY07.

Broadened Waste Collection Network

Benefiting from the new licensing system.

The government has recently implemented a new licensing system for hazardous waste operations that allows DJ to freely collect hazardous waste within the Guangdong province. As such, DJ has successfully solicited 40 new customers, including large enterprises, such as Emerson Electricity, Huawei Technologies and China National Offshore Oil Corporation (CNOOC)-Shell Petrochemical during 2Q05.

The Group has also strengthened its collection fleet to support the expanded collection area. Since the implementation of the new licensing system, the collection network has expanded out of the Peal River Delta region, reaching the Northern part of the province, such as Shaoguan (韶关). We believe that the broadened collection network is significant to fuel DJ's future growth.

Developments of EP Services

Hazardous waste treatment centre

The first hazardous waste treatment centre in the PRC

In June 2005, DJ entered into a 30-year concession agreement with Guangdong Environmental Protection Bureau (广东省环保局) for the establishment of Guangdong Hazardous Waste Comprehensive Treatment Demonstration Centre Project ("the center", 广东省危险废物综合处理示范中心) Phase One. The project is the first franchise on the operation of hazardous waste treatment facilities granted by the PRC government.

By partnering with Onyx in this 50:50 JV, DJ is going to invest approximately RMB150 million in the Center in Huizhou. Onyx is a global leader in waste treatment industry, which engages in a wide spectrum of environmental protection business, including landfilling, incineration, composting, sorting, recycling and transfer as well as urban and industrial cleaning of solid wastes and hazardous wastes.

A strategic role of the centre

Leveraging on the technical know-how of Onyx, the center will enhance DJ's existing treatment capability and further develop its hazardous waste treatment services in the Pearl Delta Region. In addition, we expect the operation experience gained from this JV would help the Group in winning similar project bids in other locations.

The center derives it revenue from the treatment fees paid by hospitals and factories for handling medical and hazardous wastes. Factories in Huizhou Chemical Industrial Park and medical institutes in DongGuan (东莞), FoShan (佛山), HeYuan (河源) and Shanwei (汕尾) will be its major source of customers. For the first five years of operation (Phase One of the project), the designed annual incineration and landfill capacities are estimated to be 10,000 tons and 40,000 tones respectively. The center will also provide stabilization treatment and the capacity will depend on the quantity of residuals produced from incineration. The treatment center is expected to commence operation in late 2005.

Gross margin of the treatment center is expected to be in the range of 40% to 50%. The expected revenue for its first year of operation is approximately RMB 11.85mn. The JV will enjoy an income tax exemption in its first two years operation, a 50% reduction for the subsequent three years, and a fixed tax rate at 15% thereafter. As the treatment center has a 30-year monopoly in the region, it should become a stable income source for the Group.

Wastewater operation services

A supplement of resources recovery business.

DJ also operates and manages polluted water treatment facilities based on the clients' consignment for operation fees. This business has a synergy with other services of the Group and it also yields attractive margins. It generated about RMB 5.3mn revenue from seven clients during 1H05.

Financial Analysis

Earnings Drivers

Increase in waste supply drove up the top line.

Riding on the strong start in 1Q05, DJ reported a 42.5% YoY growth in turnover and 35.9% YoY growth in net profit for 1H05. The broadening of waste supply under the new waste treatment operation licensing system drove the growth. The Group has recruited more than 40 new suppliers during the period and the turnover of copper salts increased by around 60% YoY. In addition, the income from chemical trading business and EP system operation recorded a healthy growth of 56.2% and 77.6%, respectively during the first half.

Gross margin remained stable while expenses edged up

Gross margin of the Group stood at 43.2% during the period, indicating for a stable ASP. Although the number of staff has been doubled during the period, its share in turnover remained at about 14%, indicating that the efficiency can be maintained. Nevertheless, sales and distribution costs surged approximately 268% YoY from RMB 3.43mn in 1H04 to RMB 9.22mn in 1H05. The increase was offset by increase in other revenue.

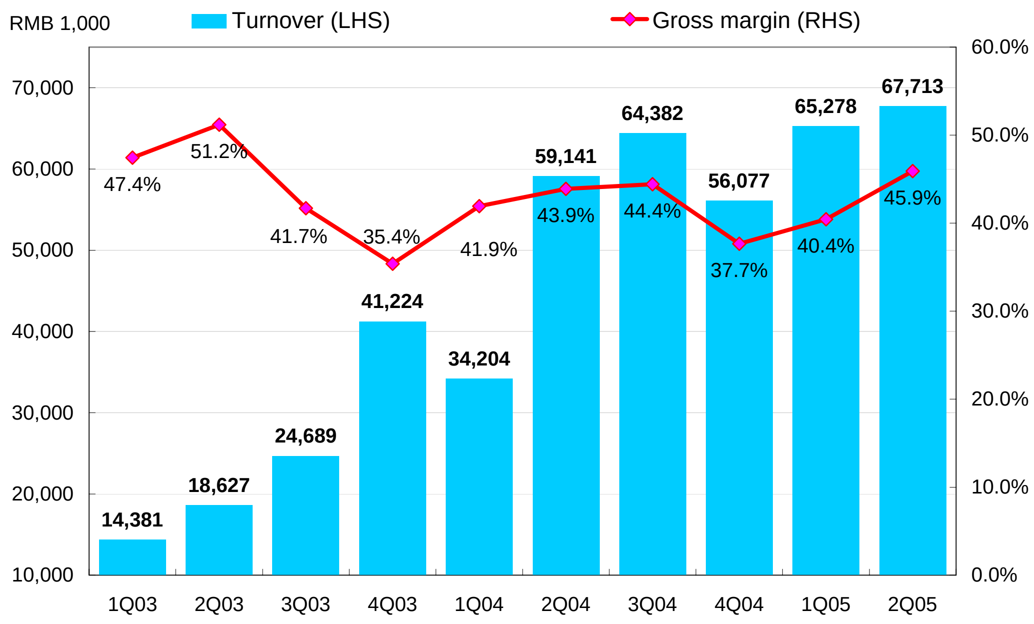
Tax exemption will continue

As part of the tax exemption entitled by the Group expired during the period, the effective tax rate increased to 18.7% in 1H05 from 8.9% a year ago. We expect that DJ's status as an innovative technologic enterprise could be renewed shortly, which could help reducing its effective tax rate back to about 8% for the next two years.

Trend of turnover and GP margin

DJ's quarterly performance reveals a strong upward trend in turnover, resulting from the Kunshan JVs and broadening waste collection networks in Guangdong Province. More importantly, DJ achieved a stable GP margin in the past 2 years. Comparing to the low season in FY03, GP margin in 4Q04 increased about 2.3% to 37.7%. We believe both upward trend in DJ's turnover and stable GP margin can be sustained in the future.

Quarterly turnover and GP margin, 1Q03 – 2Q05



Source: Company information, FSSL

Roadmap of DJ's development

Building up the recovery products portfolio

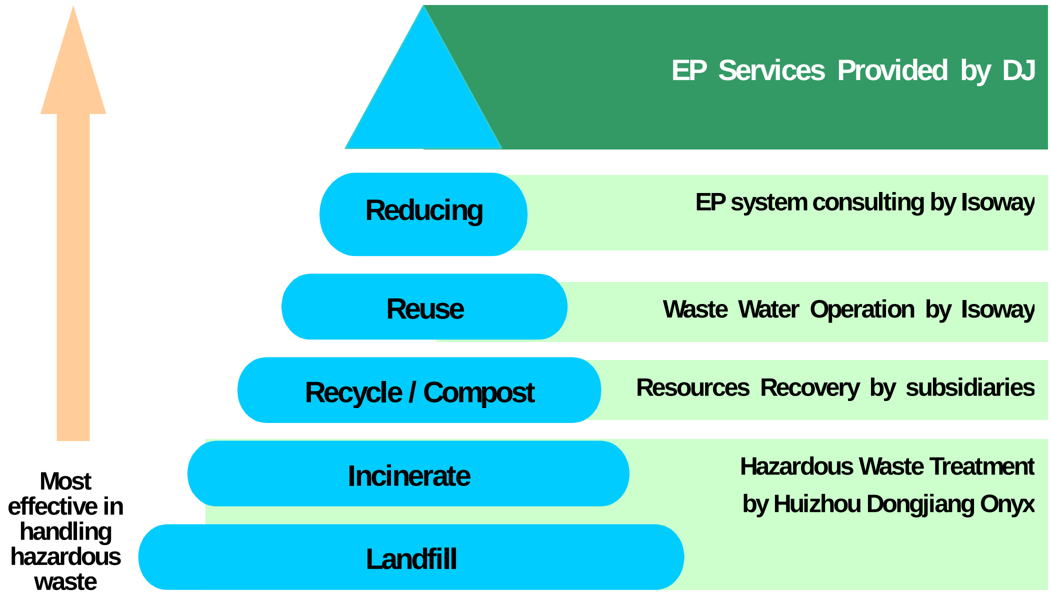
DJ started as a single-product enterprise back in 2001, when copper sulphate represented about 78.9% of the company's sales. Beginning from early 2003, DJ has undergone a series of corporate activities to enlarge its range of recovery products. Fatty acid was added through the acquisition of Lishan in 2003. The purchase of 51% equity interest in Kung Peng and Qian Deng also brought ferric salts products to the Group and extended DJ's operation into another PCB manufacturing hub in Yanzhi River Delta region. In addition, the JV formed with the Heritage Technologies further lifted the Group's competitiveness by introducing TBCC to the group. R&D of nickel recovery completed in 2004 and commenced the trial run recently. The management expects the turnover of nickel salts to match the scale of copper salts within the next three years. As a result, DJ will have a more diversified portfolio of recovery products and we expected the sales of recovery products to increase from approximately RMB 233mn in FY05 to about RMB 404mn in FY07.

Formation of EP services capability

In addition to the resources recovery business, DJ's EP services started from the consulting on EP systems in 1999. After that, Chengdu Dangerous Waste Treatment Center was established in 2002. Moreover, during the 1H05, DJ formed a JV with Onyx, a global leader in landfill, to operate the first hazardous waste (HW) and medical waste (MW) treatment centre in the PRC. Recently, the group begins to operate and manage polluted water treatment facilities for its clients. DJ is now capable to provide a full spectrum of EP services, from waste reduce and recycle/reuse to incineration and landfill.

Income from EP services is stable and its margins are also appealing. More importantly, EP services are an essential supplement of DJ's resources recovery business. From pollutant makers' point of view, although resource recovery is preferred, it is not viable to handle all kinds of wastes, in particular, items of low economic value or highly hazardous waste. Only a full range operation such as DJ, can satisfy the ultimate demands of pollutants makers and the authority.

EP solutions provided by DJ



Reuse	Multiple use of a product in its original form, with or without reconditioning
Recycling	Manufacturing other products using waste materials in. Value is recovered and becomes a useful input into another process.
Incineration	Destroying waste material by burning, a practical method of disposing of hazardous waste materials.
Landfill	Only an option if none of the other options is appropriate.

Source: Company, FSSL

Decisive Management

Veteran in the emerging EP industry

The resources recovery business in the PRC is full of opportunities and risks. Co-operation from local authority is one of the most important factors for the business, especially when expanding into a new region. Originally, Shanghai Xin Yu (上海新禹) was DJ's first JV in the Eastern PRC. However, DJ found that the local authority was less supportive than they originally expected. Hence DJ retreated from the JV in Shanghai and formed another two JVs in Kunshan (昆山) to continue its regional expansion plan.

The strategic withdrawal from Shanghai JV and moving into Kunshan demonstrated the management's determination to expand into the Eastern region. Furthermore, we believe, in an industry with abundant investment opportunities, the management, which willing to pull out from under-perform projects and concentrate limited resources on potential developments, can deliver the best growth to Investors.

Recoverable Resources and PCB Manufacturing Industry

Waste generated from PCB manufacturing process containing recoverable resources, such as copper, tin and nickel.

Currently most of wastes recovered by DJ are generated from Printed Circuit Board (PCB) manufacturing process. Thus, a better understanding of the PCB manufacturing process would give us a better idea on potential of DJ. PCBs are made by adhering a layer of copper over the entire substrate, then removing unwanted copper, i.e. by etching in an acid, leaving only the desired copper traces. DJ extracts dissolved copper from the acid by reversing the chemical reactions. PCBs are the building blocks of electronic products, which formed by soldering the components to the traces on the PCB.

Waste sludge containing heavy metals, such as copper, tin and nickel, is generated, during several major process in manufacturing PCBs The waste sludge is severely poisonous and is hazardous to the environment. It is required by the environmental regulations of the PRC that it must be treated before discharge. Other than copper, DJ recently has extended its recycle capability into extracting nickel from the waste sludge.

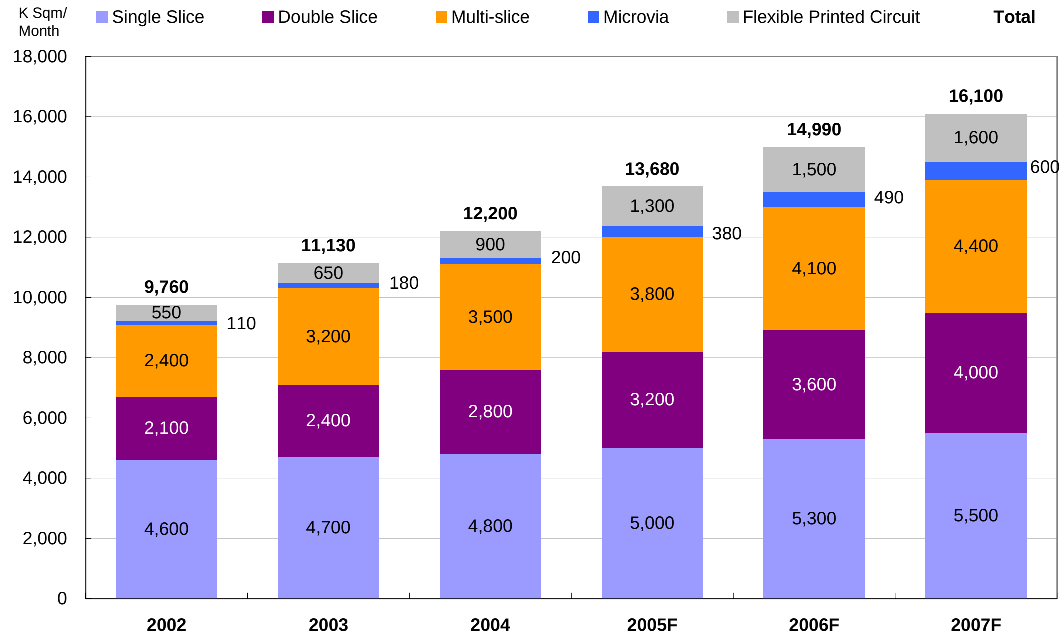
PCB Manufacturing Process Generating Recoverable Metals

PCB Manufacturing Process	Recoverable Resources Generated
1. Preparation of laminate board	
2. Inner layer process ✓ **Copper etching**	• **Copper** • **Etchant**
3. Lamination	
4. Drilling	
5. Chemical copper deposition ✓ **Electroless copper plating**	• **Copper** • **Nickel**
6. Outer layer process ✓ **Copper and tin electroplating**	• **Copper** • **Tin** • **Nickel**
7. Solder mask coating	
8. Surface finishing	
9. Profiling	
10. Final inspection	

Source: FSSL

According to Prismark's forecast, quoted by Taiwan Printed Circuit Association, the monthly PCB production capacity of the PRC surged approximately 25% from 9.76mn square meters in 2002 to 12.2mn square meters in 2004. The growth is expected to continue and increase to 16.1mn square meters per month in 2007.

PCB Production Capacity of the PRC



Source: Taiwan Printed Circuit Association

Taiwan Environmental Protection Bureau conducted a survey in 2000 and estimated the yield of waste sludge produced from PCB manufacturing.

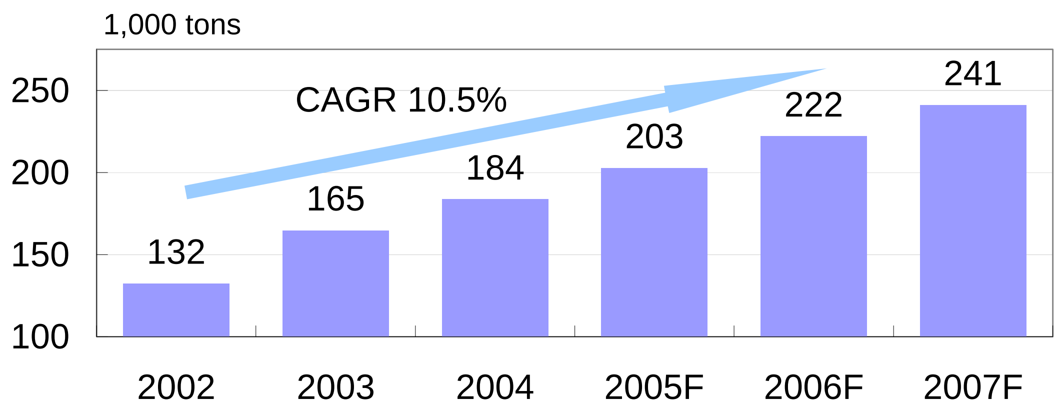
Waste Sludge Generated from PCB Manufacturing (ton/ 100,000 sq ft)

Waste	Single Layer	Double Layer	Multi-layer
Sludge containing copper	1.35	17.95	24.44

Source: Taiwan Environmental Protection Bureau, FSSL

In conjunction with the forecast by Prismark, we estimate that, in the PRC, there are approximately 202k tons of waste sludge discharged in 2005 and will increase to around 241k tons in 2007. A 10.5% CAGR is expected for the quantity of waste sludge generated from PCB manufacturing in the PRC from 2002 to 2007.

Estimated Quantity of Waste Sludge from PCB Manufacturing in the PRC



Source: Company, FSSL

In terms of geographical breakdown of PCB manufacturers, the U.S. Department of Commerce estimated that there are about 800 PCB manufacturers in the PRC. They are mainly located in the Pearl River Delta, the Yangtze River Delta and North China, including Beijing and Tianjing. The Pearl River delta is the PCB hub and home to about 450 PCB manufacturers, over 100 of which are located in Shenzhen and Dongguan. It is also the largest production base of PCB in terms of volume output, accounting for some 72% of the total output in 2003. East China has about 250 PCB manufacturers mainly in Jiangsu and Zhejiang. North China hosts about 85 PCB manufacturers, mainly in the area of Beijing, Tianjing and Dalian. South China also dominate the market in terms of output value,

PCB Output Value by Region in the PRC

Year / PCB Output %	South	East	North
2001	75.1	17.9	7.0
2002	73.2	19.6	7.2
2003	72.0	21.3	6.7

Source: China Printed Circuit Association, Hong Kong Printed Circuit Association, Taiwan Printed Circuit Association, ITRI IEK (2003/06)

Competitive landscape under the new licensing system

An opportunity and also a challenge

According to Guangdong Environmental Protection Bureau, there are 28 operators qualified for handling waste sludge containing copper in the province. Under the previous licensing scheme, operators were not allowed to collect waste out of the municipal they registered in. As the new licenses are granted by the authority at the provincial level, operators can now source their waste supply in a provincial basis. The new licensing scheme presents an opportunity for the group. It broadens the source of supplier, but it also allows competitors to come into DJ's territories.

DJ has the largest copper waste treatment capacity in Guangdong Province.

The Group's two treatment plants, located in Shajing and Huizhou, altogether account for about 14.7% treatment capacity in the Guangdong Province. Top three operators, which have more than 40,000 tons treat capacity per year, including DJ, occupy about 37.2% copper-waste treatment capacity. Five medium-scale operators represent approximately 30.7% of the overall treatment capacity and there are 20 smaller players to make up the remaining 31.2%. In brief, DJ has the largest treatment capacity of copper-containing waste in the Guangdong Province.

Treatment capacity of copper-containing waste in Guangdong Province

Operator Categories	Annual treatment capacity/tons	% of the total capacity in the Guangdong Province	Number of companies
Shenzhen Dongjiang*	52,000	14.7%	1
Large-scale operators	≧40,000	22.5%	2
Medium-scale operators	<40,000 & ≧10,000	30.7%	5
Small-scale operators	<10,000	31.2%	20
		100.0%	28

* including the Shangjing Treatment Plant and Huizhou Treatment Plant

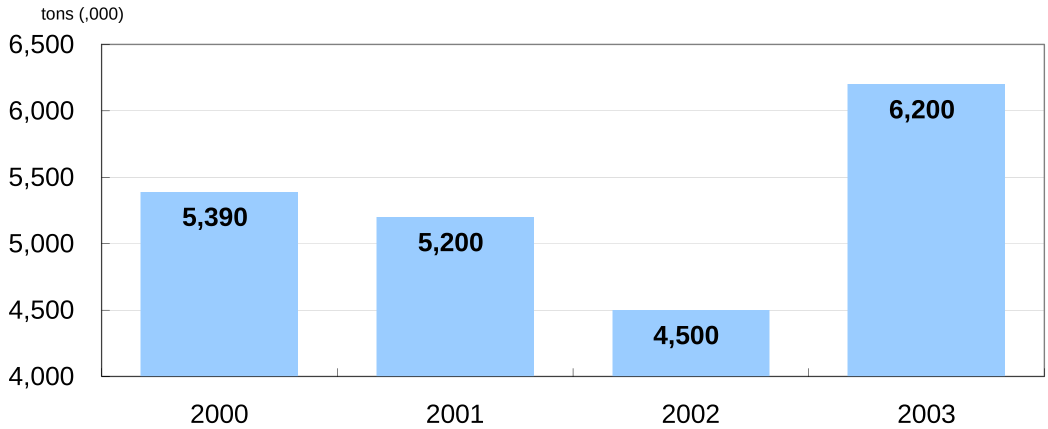
Source: Guangdong Environmental Protection Bureau, 2005

Hazardous waste in Guangdong Province

Enormous demand for hazardous waste treatment

According to the State Environmental Protection Administration (SEPA), the PRC generates a total of 10 million tons of industrial wastes, 650,000 tons of medical wastes and 115,300 tons of radioactive wastes each year. However, only 24.2% of them have been disposed of and one-third is stored in makeshifts. Between 1996 and 2004, about 26.34 million tons of hazardous wastes have been stored untreated.

Hazardous waste output in Guangdong Province, 2000 - 2003



Source: China Year Book, 2001 – 2004

A budget of RMB 15 billion for establishing hazardous waste treatment centers across the PRC

In response to the SARS outbreaks, the State Government initiated a RMB15 billion nation-wide scheme to improve treatment capability of hazardous and medical waste by establishing 31 waste treatment centers across the country through 2006. In addition, about 300 cities are required to set up collection and disposal centers for medical wastes. The Central Government will provide financial support of up to 75% of the project investment to each disposal facility, depending on its location and investment scale. Commercial partners will be responsible for the operation and entitle to a major portion of the profit. These projects require lower capital investments, provide stable incomes and are backed by the local government. We believe it will provide lucrative business opportunities for the waste management industry.

Earnings Estimates

Financial Ratios

Profitability Ratios

	FY03A	FY04A	FY05F	FY06F	FY07F
Gross margin	41.7%	42.1%	42.3%	41.8%	38.2%
Operating margin	25.9%	22.0%	22.1%	22.1%	18.7%
EBITDA magin	29.0%	25.8%	28.5%	29.9%	24.3%
Pre-tax margin	25.6%	21.4%	21.7%	21.7%	18.5%
Net margin	24.0%	17.9%	18.9%	19.0%	16.1%
ROAE	19.7%	25.1%	27.3%	25.5%	25.6%
ROAA	14.2%	15.5%	17.7%	17.4%	17.3%

Activity Ratios

	FY03A	FY04A	FY05F	FY06F	FY07F
Days of inventory	29.7	35.9	33.0	30.0	30.0
Days of account receivable	21.1	26.6	25.0	28.0	30.0
Current ratio	3.7	2.5	1.4	2.3	2.7
Quick ratio	2.8	1.9	0.7	1.6	2.1
Net debt / cash	63.4	78.4	9.2	61.7	135.1
Debt / equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company information, FSSL

Profit & Loss Statement

RMB'000	FY03A	FY04A	FY05F	FY06F	FY07F
Turnover	98,921	213,804	274,070	310,015	444,602
Cost of sales	(57,683)	(123,784)	(158,128)	(180,405)	(274,874)
Gross profit	**41,238**	**90,020**	**115,942**	**129,609**	**169,728**
Other revenue	1,187	3,465	318	1,911	3,771
Selling & distribution exp	(1,760)	(9,612)	(10,963)	(12,401)	(17,784)
Administrative exp	(12,582)	(29,087)	(37,219)	(42,100)	(60,377)
Other operating exp	(2,500)	(7,647)	(7,444)	(8,420)	(12,075)
Operating profit	**25,583**	**47,139**	**60,635**	**68,600**	**83,263**
Finance cost	(261)	(981)	(1,134)	(1,350)	(1,125)
Associates	(47)	(442)	-	-	-
Profit before tax	25,275	45,716	59,501	67,250	82,138
Taxation	(1,724)	(4,716)	(5,058)	(5,380)	(6,571)
Profit before M.I.	23,551	41,000	54,443	61,870	75,567
Minority interests	158	(2,727)	(2,722)	(3,093)	(3,778)
Net profit	**23,709**	**38,273**	**51,721**	**58,776**	**71,789**
Dividend	5,019	12,548	17,068	19,396	23,690

Source: Company information, FSSL

Balance Sheet

RMB'000	FY03A	FY04A	FY05F	FY06F	FY07F
Fixed assets					
Prepayments for fixed assets	13,358	-	-	-	-
Fixed assets	30,386	99,322	202,087	188,352	173,618
Intangible assets	-	231	166	101	36
Goodwill	745	537	329	121	-
Interests in associates	10,775	1,826	1,826	1,826	1,826
Deferred tax assets	629	824	824	824	824
	55,893	102,740	205,232	191,224	176,304
Current assets					
Inventories	8,397	15,927	24,779	25,481	36,543
Construction contracts	661	453	-	-	-
Trade receivables	10,599	20,538	18,772	23,782	36,543
Bills receivables	-	2,890	2,890	2,890	2,890
Other receivables	18,510	16,327	16,308	17,048	16,561
Due from shareholder	-	221	-	-	-
Cash & cash equivalent	73,392	88,568	24,155	76,721	145,111
	111,559	144,924	86,904	145,922	237,648
Current liabilities					
Trade payables	6,545	10,555	11,697	13,345	20,333
Tax payable	680	2,563	2,023	2,152	2,628
Other payables	8,295	29,944	29,379	28,974	49,291
Bank borrowings	10,000	10,200	15,000	15,000	10,000
Due to related party	4,400	4,400	4,400	4,400	4,400
	29,920	57,662	62,499	63,872	86,653
Net current assets	81,639	87,262	24,405	82,051	150,995
Total assets less current liabilities	137,532	190,002	229,637	273,275	327,299
Non-current liabilities					
Deferred revenue	1,100	2,230	2,230	2,230	2,230
Minority interests	16,091	35,115	37,837	40,931	44,709
Net assets	**120,341**	**152,657**	**189,570**	**230,115**	**280,360**
Shareholders' equity					
Capital	62,738	62,738	62,738	62,738	62,738
Reserves	57,603	83,645	118,298	157,678	205,777
Proposed dividend	-	6,274	8,534	9,698	11,845
	120,341	152,657	189,570	230,115	280,360

Source: Company information, FSSL

Cash Flow Statement

RMB'000	FY03A	FY04A	FY05F	FY06F	FY07F
Profit before tax	25,275	45,716	59,501	67,250	82,138
Depreciation & amortization	3,056	8,109	17,508	24,008	24,921
Net interest exp/(inc)	(748)	(61)	184	39	(2,026)
Share from associates	47	442	-	-	-
Loss on disposal of an associate		324			
Disposal loss/(gain)	95	1,243	-	-	-
Operating profit before WC changes	27,725	55,773	77,192	91,296	105,033
Changes in working capital	(8,278)	6,546	(5,816)	(5,209)	3,969
Cash generated from operations	19,447	62,319	71,376	86,088	109,002
Tax paid	(1,470)	(3,028)	(5,598)	(5,251)	(6,095)
Operating cash flow	17,977	59,291	65,779	80,837	102,907
Interest received	1,009	1,042	950	1,311	3,151
CAPEX	(3,874)	(53,423)	(120,000)	(10,000)	(10,000)
Acquisition of a subsidiary	-	837	-	-	-
Disposal of a subsidiary	-	2,300	-	-	-
Investments in associates	-	(760)	-	-	-
Advances to associates	(5,314)	-	-	-	-
Prepayments for fixed assets	(15,250)	-	-	-	
Acquisition of minority interests		(440)			
Contributions by min. interests	12,270	13,384			
Investment cash flow	(11,159)	(37,060)	(119,050)	(8,689)	(6,849)
Proceeds fr new shares	57,998	-	-	-	-
Share issue expense	(11,516)	-	-	-	-
Chg in bank loans	10,000	200	4,800	-	(5,000)
Interest paid	(261)	(981)	(1,134)	(1,350)	(1,125)
Dividend paid	(13,019)	(6,274)	(14,808)	(18,232)	(21,543)
Financing cash flow	43,202	(7,055)	(11,142)	(19,582)	(27,668)
Changes in cash & cash equivalent	50,020	15,176	(64,413)	52,566	68,390
Cash & cash equivalent, opening	23,372	73,392	88,568	24,155	76,721
Cash & cash equivalent, ending	73,392	88,568	24,155	76,721	145,111

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.

First Shanghai Securities Limited

19/F Wing On House
71 Des Voeux Road Central
Hong Kong
Tel: (852) 2522-2101
Fax (852) 2810-6789