



# GRANDY APPLIED ENVIRONMENTAL TECHNOLOGY CORPORATION

泓迪應用環保科技有限公司\*

*(incorporated in the Cayman Islands with limited liability)*

## RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2002

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*This announcement for which the directors of Grandy Applied Environmental Technology Corporation collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Grandy Applied Environmental Technology Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- 1. the information contained in this announcement 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 announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification purpose only

## FINANCIAL HIGHLIGHTS

Summary of the financial results of Grandy Applied Environmental Technology Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2002 is as follows:

- Turnover was approximately HK\$26.32 million, representing an increase of approximately 270% over that of the previous year;
- Profit from operating activities was approximately HK\$4.67 million, representing an improvement of approximately 425% compared to the previous year when a operating loss was recorded; and
- Profit after taxation was approximately HK\$2.41 million, representing an improvement of approximately 205% compared to the previous year when a loss was recorded

## RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the audited financial results of the Group for the year ended 31 March 2002, together with the comparative audited figures for the previous year:

	<i>Notes</i>	<b>2002</b> <i>HK\$</i>	2001 <i>HK\$</i>
TURNOVER	3	<b>26,321,680</b>	7,117,653
Cost of sales		<b><u>(12,671,875)</u></b>	<u>(2,908,761)</u>
Gross profit		<b>13,649,805</b>	4,208,892
Interest income		<b>132,901</b>	2,589
Convertible notes issue expenses		<b>(727,043)</b>	–
Selling and distribution costs		<b>(2,425,385)</b>	(1,783,476)
Administrative expenses		<b><u>(5,958,427)</u></b>	<u>(3,526,214)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	<b>4,671,851</b>	(1,098,209)
Finance costs	5	<b><u>(2,227,419)</u></b>	<u>(76,003)</u>
PROFIT/(LOSS) BEFORE TAX		<b>2,444,432</b>	(1,174,212)
Tax	6	<b><u>(37,000)</u></b>	<u>–</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b><u>2,407,432</u></b>	<u>(1,174,212)</u>
EARNINGS/(LOSS) PER SHARE – Basic (HK cents)	7	<b><u>0.38</u></b>	<u>(0.18)</u>

*Notes:*

### 1. Group Reorganisation and Basis of Presentation and Consolidation

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Subsequent to the balance sheet date, on 10 May 2002, the shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM”).

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the GEM, the Company became the holding company of the companies now comprising the Group on 17 July 2001. This was accomplished by the

acquisition of the entire share capital of Grandy Environmental (H.K.) Limited (“Grandy HK”) from its then shareholders by Worlday Investments Limited, a wholly-owned subsidiary of the Company, on 16 July 2001.

Further details of the Reorganisation, together with the details of Grandy HK acquired pursuant thereto, are set out in the prospectus of the Company dated 29 April 2002.

The Reorganisation involved companies under common control. The consolidated financial statements have been prepared on the basis of merger accounting in accordance with SSAP 27 “Accounting for Group Reconstructions”. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of its acquisition of Grandy HK pursuant to the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 March 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1 April 2000 or since their respective dates of incorporation, where this is a shorter period.

## 2. Segment Information

During the year, since the Group was principally engaged in the manufacturing and selling of environmental protection products in Hong Kong and all of the Group’s products were sold in Hong Kong, the Board consider that the Group operates within a single business and geographical segment. Accordingly, no segment information is presented.

## 3. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

## 4. Profit/(Loss) from operating activities

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

	<b>2002</b>	2001
	<i>HK\$</i>	<i>HK\$</i>
Depreciation	<b>156,734</b>	125,858
Loss on disposal of fixed assets	<b>15,238</b>	–
	<u><b>171,972</b></u>	<u>125,858</u>

## 5. Finance costs

	<b>2002</b>	2001
	<i>HK\$</i>	<i>HK\$</i>
Interest on bank loans and overdrafts wholly repayable within five years	<b>38,366</b>	66,751
Interest on a finance lease	<b>9,252</b>	9,252
Interest on convertible notes	<b>504,329</b>	–
Redemption premium on convertible notes	<b>1,675,472</b>	–
	<u><b>2,227,419</b></u>	<u>76,003</u>
Total finance costs	<b>2,227,419</b>	76,003

## 6. Tax

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax was made in the prior year as the Group had no assessable profit arising in Hong Kong for that year.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

## 7. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$2,407,432 (2001: net loss of HK\$1,174,212) and 640,000,000 shares (2001: 640,000,000 shares) deemed to have been in issue and issuable during the year on the assumption that the Reorganisation and the subsequent capitalisation issue of 631,333,333 shares of the Company had been effective on 1 April 2000.

Diluted earnings/(loss) per share for the years ended 31 March 2002 and 2001 have not been disclosed as no diluting events existed during these years.

## 8. Reserves

	Share premium HK\$	Contributed surplus HK\$ (Note a)	Capital reserve HK\$ (Note b)	Accumulated losses HK\$	Total HK\$
At 1 April 2000	–	2,935,416	–	(2,304,196)	631,220
Net loss for the year	–	–	–	(1,174,212)	(1,174,212)
At 31 March 2001 and at 1 April 2001	–	2,935,416	–	(3,478,408)	(542,992)
Issue of new shares	3,588,697	–	–	–	3,588,697
Arising from professional services received	–	–	300,000	–	300,000
Net profit for the year	–	–	–	2,407,432	2,407,432
At 31 March 2002	<u>3,588,697</u>	<u>2,935,416</u>	<u>300,000</u>	<u>(1,070,976)</u>	<u>5,753,137</u>

Notes:

- The Group's contributed surplus represents the difference between the nominal value of the shares of Grandy HK acquired pursuant to the Reorganisation as set out in note 1 over the nominal value of the Company's shares issued in exchange therefore.
- The capital reserve represents certain professional services fees payable by the Group settled in the form of share options of the Company granted to two professional services providers in lieu of cash consideration.

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 March 2002. No dividend was recommended for the year ended 31 March 2001 as a loss was incurred for that year.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of Operations**

The period under review saw a strong growth in the Group's business performance, with turnover increased by approximately 270% from approximately HK\$7.12 million in 2001 to approximately HK\$26.32 million in 2002. During the period under review, the Group moved from making a net loss of approximately HK\$1.17 million (2001) to making a net profit of approximately HK\$2.41 million, representing an increase in net profit of approximately 205% over the year.

The Group's strong performance, primarily in Hong Kong, has been achieved through a steady growth in demand for its enzyme-based water and air quality improvement services throughout the year and through exceptionally strong demand over the last six months of the year for its energy saving product, namely *Light.Eco*.

Operating expenses in comparison with the previous year increased from approximately HK\$5.38 million to approximately HK\$11.34 million, which resulted mainly from an increase in the number of staff from 21 (at 31 March 2001) to 32 (at 31 March 2002); the sustained marketing effort in Mainland China; investment of resources for new product evaluation and application analysis and also the related issuing expenses of convertible notes.

Profit before taxation increased from a loss of HK\$1.17 million in 2001 to a profit of HK\$2.41 million in 2002 mainly as a result of widening the scope of business to include energy-saving products; sustaining healthy margins across all business lines and an increase in market share for the enzyme-based products/services.

During the period under review, the Group developed process and equipment solutions for the treatment of wastewater from a range of industries including textiles, cloth dyeing, PCB, electroplating and food manufacturing. State-of-the-art forms of technology that have been under evaluation and application analysis include: new sources of enzymes, membrane filtration, advanced oxidation technology, photocatalytic oxidation reactors and bio-farms for water/air quality improvement; and fixed speed motor energy loss controllers (*SavaControls*) for improving the efficiency of motors that are used for air conditioning, refrigeration and air handling units.

### **Liquidity and Financial Resources**

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK\$1.9 million as at 31 March 2002 (2001: HK\$30,000). After deducting interest-bearing bank loans and overdrafts of approximately HK\$1.68 million as at 31 March 2002 (2001: HK\$1.15 million), the Group recorded a net positive cash balance of HK\$220,000 million as at 31 March 2002 as compared to a net borrowings of HK\$1.12 million as at 31 March 2001.

The interest-bearing bank loans at 31 March 2002 were applied to finance the purchase of the inventories of the Group. The committed banking facilities and bank loans at 31 March 2002 were letters of credit facilities and trust receipt loans with a maturity of 90 days from date of delivery of goods by the Group's supplier. The gearing ratio of the Group, as calculated by dividing the total interest-bearing debts by the total asset value of the Group, was 0.61 as at 31 March 2002. The comparative gearing ratio was 0.43 at 31 March 2001 and the higher gearing ratio at 31 March 2002 was caused by issue of HK\$10 million convertible notes during the year to provide financing for expansion of the Group.

During the year, the Group issued HK\$10 million convertible notes to provide financing for its business expansions and the convertible notes bore a fixed interest rate at 8% per annum. All other bank borrowings of the Group bore variable interest rates based on the Hong Kong dollars prime rate. Subsequent to the balance sheet date, the convertible notes were fully redeemed on 15 May 2002 at HK\$12 million which was equal to 120% of the principal amount outstanding. Of HK\$12 million redemption proceeds, HK\$10 million was sourced from the proceeds from the initial public offering and the remaining HK\$2 million from internal resources of the Group.

During the years ended on 31 March 2001 and 31 March 2002, all bank and other borrowings were made and cash balances of the Group were held in Hong Kong dollars.

The Group recorded total current assets of approximately HK\$20.59 million as at 31 March 2002 (2001: HK\$1.55 million) and total current liabilities of approximately HK\$16.19 million as at 31 March 2002 (2001: HK\$3.09 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 1.27 at 31 March 2002 (2001: 0.5). The improvement of the current ratio was mainly due to the profit earned and retained during the year and the issue of HK\$10 million convertible notes.

The Group recorded an increase in shareholders' funds of approximately HK\$6.31 million which was attributable to profit earned during the year and increases in issued share capital of the Group due to the joining of a strategic partner.

### **Treasury Policy**

The Group generally finances its operations with a combination of internally generated resources, financial instrument issued to private investors and also banking facilities provided by banks in Hong Kong.

The financial instrument issued during the year was represented by HK\$10 million convertible notes issued to private investors in Hong Kong. The interest rate of the convertible notes was fixed at 8% per annum and maturity period was planned to fall on 18 months after the issue date. The banking facilities are mainly trust receipt loans of tenor up to 90 days from goods delivery dates and bank overdrafts. The bank interest rates are mainly fixed by reference to the Hong Kong dollar Prime rate.

Bank deposits of the Group are all placed in Hong Kong dollars during the year. Transactions of the Group are mainly denominated in either Hong Kong or United States dollars. The risk of exposure to fluctuations in exchange rates is therefore low. The Group did not arrange for any hedging for the foreign currency transactions during the year.

## **Charges on Assets**

Certain of the Group's bank deposits were pledged to a bank to secure general banking facilities granted to the Group and the Company's vehicle was held under a finance lease.

## **Investments**

The Group did not hold any significant investments nor had any major capital expenditure incurred during the year. Other than the Reorganisation as described in the Company's prospectus dated 29 April 2002, no acquisition or disposals of subsidiaries or affiliated companies was made by the Group during the year.

## **Contingent Liabilities**

As at 31 March 2002, the directors of the Company were not aware of any contingent liabilities of the Group requiring separate disclosure.

## **Future Plans and Prospects**

Demand for the Group's Environmental Protection (EP) Solutions, especially in Mainland China and other parts of Asia, is predicted to grow markedly over the next five years. In Mainland China, the Group considers that the principal market drivers for EP are: China's accession to WTO membership; the holding of the 2008 "Green Olympic Games" in Beijing; significant population and economic growth; and an impending crisis of water shortage, which for the year 2000 the Chinese Government estimated cost industry and agriculture more than RMB\$120 million. Moreover, private and government investment in EP over the next five years is expected by the Chinese Government to be in the region of US\$85 billion, with major policy initiatives being directed at: cleaning-up already heavily polluted water resources; cleaner production strategies; case study programmes; importing of foreign technology. The Group is well positioned to penetrate further into the Chinese market by capitalizing on its sustained marketing efforts to date and by forming strategic alliances with partners such as Shandong Teachers University and Tianjin University. Also, establishment of representative offices in Beijing and Dongguan (Guangdong province) and Malaysia are planned for the coming year. Projects that are already being negotiated in Mainland China include: wastewater treatment projects in Shandong, Dongguan, Zhongshan and Shenzhen; air quality improvement projects for a high profile leisure complex in the Guangdong province; supply of *Light.Eco* to factories in Dongguan, Shunde, Shenzhen and Beijing.

Commencing from May 2002, the Group was granted exclusive distribution rights in Hong Kong for *SavaControls*, significantly broadening its range of energy-saving products. Lighting and air conditioning together in commercial buildings in Hong Kong consume in the region of HK\$12 billion's worth of electricity (2001), which at an average energy saving of 25% gives the Group's energy-saving products a total market that is worth HK\$3 billion. Target customers for such products include commercial buildings, schools, hospitals, supermarkets, restaurants, hotels, convenience stores and industrial sectors where refrigeration and/or air conditioning are a significant expense. Owing to the synergy between energy-saving and air/water quality improvement services, the Group expects to capture a significant share of commercial property as its *Green Building* clientele. Exclusive distribution rights in Malaysia for *SavaControls* are expected to commence from 3rd Quarter 2002.



A further high profile project that the Group is in the process of launching in Hong Kong is a food waste digestion system that enables food waste to be converted into soil conditioner that has a commercial value. The system has been tested extensively by the Environmental Protection Department (EPD) of the Hong Kong SAR Government, and is expected to find application in hospitals, universities, schools, hotels and the catering industry.

During 2002, the Group will be devoting considerable resources to marketing and brand building. Planned promotional activities include attendance of high profile trade exhibitions as well as holding the Group's own seminars and workshops in both Hong Kong and Southern China.

The Board considers that the planned geographical expansion together with the widening of its range of products and services that is already in the pipeline provides good prospects for rapid but managed growth.

Our future business plans will be financed by a combination of internal resources from the listing proceeds and bank borrowings.

### **Employee**

As at 31 March 2002, the Group had 32 full time employees compared to 21 full time employees at 31 March 2001.

The Group remunerates its employees mainly based on individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as the individual's contributions. Other benefits include retirement schemes.

The staff costs of the Group for the year ended 31 March 2002 totalled HK\$4.68 million (2001: HK\$2.84 million), representing an increase of approximately 65%. The major reason was the increase in the number of qualified and experienced professionals.

### **USE OF PROCEEDS FROM THE LISTING OF THE COMPANY'S SHARES**

The proceeds from the Company's issue of new shares at the time of its listing on the GEM on 10 May 2002, after deduction of related issue expenses, amounted to approximately HK\$44 million, of which, HK\$14.30 million has been utilised up to the date of this report and has been applied, in accordance with the proposed applications set out in the Company's prospectus dated 29 April 2002, as follows:

- HK\$10 million used in redemption of the convertible notes; and
- HK\$150,000 used in marketing and brand building; and
- HK\$4.15 million used as general working capital

### **CORPORATE GOVERNANCE**

In the opinion of the Board, the Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") since the listing of the Company's shares on the GEM on 10 May 2002.

## **AUDIT COMMITTEE**

The Company established an audit committee on 2 November 2001, with written terms of reference in compliance with rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

The Group's financial statements for the year ended 31 March 2002 have been reviewed by the audit committee.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 29 July 2002 to Friday, 2 August 2002, both days inclusive, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tengis Limited at 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Friday, 26 July 2002 in order to qualify for attending the first annual general meeting of the Company.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares since the listing of the Company's shares on 10 May 2002.

## **ACKNOWLEDGEMENT**

On behalf of the Board, I would like to take this opportunity to extend my gratitude to all my fellow directors and staff for their valued commitment and hard work, which has been so important to the successful development of the Group in recent years. I would also like to express my sincere thanks to our business partners for their continuous support.

On behalf of the Board  
**Tsui Tai Hoi, Raymond**  
*Managing Director*

Hong Kong, 21 June 2002