



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)

Third Quarterly Results Announcement For the nine months ended 31 December 2002

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This announcement for which the directors of Grandy Applied Environmental Technology Corporation (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange 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 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

BUSINESS REVIEW

The Group is principally engaged in the production, sourcing, sales and marketing of environmental protection products and services for combating environmental problems including energy wastage and pollution of both air and water. The comprehensive range of products and services being offered enables the Group to claim to be one of the leading total solution providers in environmental technology services covering Hong Kong, the PRC and parts of South East Asia.

Both turnover and results of the Group for the three months ended 31 December 2002 have shown a decrease in business performance in comparison with results for the corresponding period of the previous year. In the period under review, the Group continued its programme of investment of funds, which were raised from the listing of the Company on the GEM on 10 May 2002, for financing its business development and expansion plans. Turnover of the Group in the nine-month period under review was approximately HK\$24,483,000 in comparison with approximately HK\$21,252,000 in the corresponding period of the previous year, representing an increase of approximately 15%. Net loss attributable to shareholders for the nine months under review was approximately HK\$4,235,000 (2001: net profit of HK\$2,539,000).

The turnaround from profit to loss, however, is entirely attributable to the continuing investment that the Group has been making for the purpose of progressing its planned business development activities, geographical expansion, R&D funding for projects that are directed at refreshment of its technology base and, to some extent, to a cyclical slowdown in energy saving products sales in the PRC's market (as explained in more details in the section on energy saving products below) and certain regional markets. The Group's performance in the face of a weakening of the domestic and other Asian economies reflects the Group's wide geographical coverage within the region and steady performance when averaged out across its broad range of products.

Opening of new offices

To facilitate the Group's planned geographical expansion in the PRC an operation has been established in Zhuhai in November 2002, which is a Wholly Foreign Owned Enterprise ("WFOE"), 100% owned by the Company. The commencement of operations and opening of a new office is considered a strategic positioning of the Group in order to capitalize on the opportunity of providing green campus consultancy and implementation of environmental protection projects for the Zhuhai campus of Beijing Normal University and other university campuses that are located in Zhuhai.

Promotional and brand-building activities

The English language version of the Group's website was completely re-designed, updated and then launched in October 2002. Currently, the Chinese language version of the website is under preparation. For the operations in Malaysia, a completely new website was also launched in October 2002 with a distinct focus on the Group's range of energy-saving products such as *LightEco* and *SAVAControl*. In addition, promotional material and brochures have been prepared for the green technology services that are being offered through the Group's operations in Beijing (Beijing Grandy Green Technology

Limited) and preparations commenced in December 2002 for the launch of the Beijing office's own website that is scheduled for February 2003. The afore-mentioned commencement of operations in Zhuhai and the subsequent signing of a cooperation agreement with Beijing Normal University were accompanied by a press conference that was held at the university's Zhuhai campus on 1 December 2002. Also, the Group has continued to sponsor the series of environmental protection programmes in Hong Kong called Green Talks every Saturday on FM 104 Metro Finance.

Green campus solutions

The Group has launched a completely new service-line that is directed at assisting universities, schools and colleges in their development of green campuses. Such campuses take a whole-building approach in aiming to implement: energy and resource efficiency; practical applications for waste reduction and pollution prevention; good indoor air quality to promote occupants' health and productivity; reduction in impact on the environment throughout the lifecycle of all buildings on the campus.

Examples of the green campus services that are being offered by the Group include:

- Establishment of environmental management systems
- Performance of environmental impact assessment
- Establishment of "Green Education" teaching programmes
- Provision of occupational health and safety programmes
- Provision of energy audit and energy-conservation measures
- Provision of air and water quality improvement solutions
- Design and build of waste water treatment and recycling systems
- Design and build of direct drinking water systems

As there are currently 15 university campuses in Zhuhai alone, the Group has opened an office there in November 2002 with the specific focus of implementing the above-mentioned green campus services.

Green campus project for Beijing Normal University

In conjunction with the opening of its new office in Zhuhai, the Group entered into a co-operation agreement with Beijing Normal University. Through this agreement, the Group will provide its range of green campus services to the university's new campus that is being constructed in Zhuhai in several stages spanning 3-5 years, of which Phase 1 of the construction was completed in October 2002. The Group established a WFOE with the specific purpose of carrying out the ensuing business and for pursuing similar opportunities with the other universities' campuses that are located in Zhuhai as well as in the surrounding regions of Southern China.

Waste water treatment projects

The Group has continued its development and testing of solutions for the treatment of industrial effluent. To this end, a waste water treatment platform has been designed and constructed for the Group's operations in Southern China. The platform is an integrated precipitator-membrane filtration system of flexible, reconfigurable design that incorporates state-of-the-art static mixer technology with ultra- and nano-filtration modules. It is currently being used as a tool for development of bespoke waste water treatment processes and as a sales and marketing tool for demonstration of our waste water treatment processes to clients. Clients are thus able to provide a sample of their own waste water and witness the subsequent treatment of the waste water to fall within the parameters of water quality that are required before it can be discharged. Projects for treatment of effluent from electroplating factories are currently in progress in the PRC.

Energy-saving products

Sales of *LightEco* for the PRC's market slowed down in comparison with sales for the previous year and the first two quarters of the current financial year. The major reasons being: (i) the Group is tightening its credit terms for its distribution agents in an attempt to cope with the higher than normal build up of trade receivables; and (ii) the Group is adjusting its sales strategy by planning to control a higher portion of sales in the PRC via its own subsidiaries in Beijing and Zhuhai and the sales campaigns have yet to take effect since these two subsidiaries were not yet fully operational in the last quarter of 2002. Based on the Group's experiences in Hong Kong, direct sales of *LightEco* to customers will need more time to materialise. Additional distributorships for *LightEco* have also been appointed in the territory of Chongqing and will continue in other parts in the PRC where direct sales by the Group's subsidiaries are considered not cost effective. Despite the slow down of sales of *LightEco* in the PRC market for the last quarter of 2002, the sales in Hong Kong are picking up and increases in sales in Hong Kong in the first quarter of 2003 are anticipated.

Sales of *SAVAControl* have shown continued growth in Malaysia, where the all-year-round hot climate makes energy-saving on air conditioning, ventilation and refrigeration a high priority for our customers. *LightEco* and *SAVAControl* are also being proposed for the Green Campus of Beijing Normal University in Zhuhai. Other target customers in Hong Kong for the Group's energy-saving products continue to include commercial buildings, schools, hospitals, supermarkets, restaurants, hotels, convenience stores and industrial sectors.

Evaluation of new technology

State-of-the-art forms of technology that are currently under evaluation and application analysis include environmentally-friendly systems for prevention of scale build-up and bio-fouling problems for cooling towers, chillers and boiler systems. In comparison with conventional methods of prevention, such types of technology use significantly less water treatment additives (i.e. anti-fouling and de-scaling agents) or none at all. Other areas under investigation include ozone treatments for improving water quality.

Refreshment of the Group's technology base

In order to maintain its competitive edge within the environmental protection industry, the Group continually seeks to refresh its technology base through carrying out strategic developmental projects. A project, which is part funded by the Hong Kong Government's Innovation Technology Fund and which is directed at development of novel bio-sensors for real-time monitoring of the pollutant levels in waste water is currently being co-sponsored by the Group. In another significant development, Beijing Grandy Green Technology Limited has designed a completely new range of enzyme delivery systems (e.g. sprayers, sprinklers and auto-dosing systems) for enhancing the efficiency of utilization of the enzyme-based products for water and air quality improvement. Prototypes of the new delivery systems are currently under construction.

On 20 December 2002, the Group completed the acquisition of a 60% equity interest in Grandy Kindness Food Waste Technology Limited for the purpose of broadening the product range of the Group. The consideration for the acquisition comprised HK\$6,135,800 in cash and HK\$5,000,000 by way of allotment and issue of 41,666,667 new shares of the Company. The acquisition has conferred on the Group the exclusive rights to the distribution, operation and further technical development and modification of the design of the food waste recycling machinery, which is operated in conjunction with the use of microorganisms for the purpose of carrying out a food waste management business in Hong Kong. The acquisition constituted a discloseable transaction of the Company under the GEM Listing Rules.

FUTURE PROSPECTS

Market demand

Demand for the Group's environmental protection solutions, especially in the PRC and other parts of Asia, is predicted to grow markedly over the next five years. This is in line with the general trend of continuing growth in the PRC's environmental protection market, its accession to WTO membership and the holding of the Green Olympic Games in Beijing in 2008.

The Group expects to capture a growing share of that market through the operations in Beijing, which focus on green processes and environmental protection, and through the operations in Zhuhai that focus on green campus solutions, which has already resulted in the signing of a co-operation agreement with Beijing Normal University's campus in Zhuhai.

Outlook

Throughout 2003, the Group will be devoting considerable resources to marketing, brand building and further geographical expansion in the PRC and South East Asia. 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 the PRC.

The Group considers that its planned geographical expansion with the widening that has taken place to date of its range of products and services and the expected award of new contracts that are currently in the pipeline will be able to provide good prospects for sustained growth.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) announced the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 31 December 2002, together with the unaudited comparative figures for the corresponding periods in 2001 as follows:

	<i>Notes</i>	Three months ended		Nine months ended	
		31 December		31 December	
		2002	2001	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	3	3,175	9,023	24,483	21,252
Cost of sales		(1,300)	(3,162)	(12,537)	(10,338)
Gross profit		1,875	5,861	11,946	10,914
Interest income		40	49	382	74
Convertible notes issue expenses		–	–	–	(727)
Selling and distribution costs		(601)	(935)	(1,692)	(1,829)
Administrative expenses		(5,851)	(2,476)	(14,318)	(4,561)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		(4,537)	2,499	(3,682)	3,871
Finance costs		(20)	(877)	(553)	(1,332)
(LOSS)/PROFIT BEFORE TAX		(4,557)	1,622	(4,235)	2,539
Tax	5	–	–	–	–
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(4,557)	1,622	(4,235)	2,539
(LOSS)/EARNINGS PER SHARE					
– Basic (HK cents)	6	(0.55)	0.25	(0.52)	0.40
(LOSS)/EARNINGS PER SHARE					
– Diluted (HK cents)	6	N/A	N/A	N/A	N/A
INTERIM DIVIDEND PER SHARE		–	–	–	–

Notes:

1. Group reorganisation and basis of presentation

Group reorganisation

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. 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. The Company’s shares have been listed on the GEM since 10 May 2002.

Basis of presentation

The unaudited consolidated profit and loss account includes the results of the Company and its subsidiaries for the nine months ended 31 December 2002 (the “Period”) together with the unaudited figures for the corresponding period in 2001.

The Reorganisation involved companies under common control. The unaudited consolidated results 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 Period rather than from the date of its acquisition of the subsidiary pursuant to the Reorganisation. Accordingly, the unaudited consolidated results of the Group for the Period include the results of the Company and its subsidiaries with effect from 1 April 2001 or since their respective dates of incorporation, where this is a shorter period.

Although the Reorganisation had not been completed and the Group did not legally exist until 17 July 2001, in the opinion of the directors, the unaudited consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

2. Basis of preparation and accounting policies

The unaudited consolidated results have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with SSAP No. 2.125 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The accounting policies and methods of computation used in the preparation of the results are consistent with those adopted in the annual financial statements for the year ended 31 March 2002, except that the Group has adopted the new and revised SSAPs which became effective during the Period.

- SSAP 1 (Revised) “Presentation of Financial Statements”
- SSAP 11 (Revised) “Foreign Currency Transaction”
- SSAP 15 (Revised) “Cash Flow Statements”
- SSAP 30 “Business Combinations”
- SSAP 34 “Employee Benefits”

These SSAPs prescribed new accounting measurement and disclosure practices. The adoption of these SSAPs during the Period does not have any significant impact on the Group’s profit or shareholders’ equity, except that the presentation of certain items and balances in the consolidated results has been revised to comply with the new requirements.

3. Turnover and revenue

Turnover represents the net invoiced value of the goods sold and/or services provided, after allowances for returns and trade discounts. Revenue arising from interest income is disclosed on the face of the consolidated profit and loss account.

4. Segment information

During the Period, since the Group is principally engaged in the manufacturing and selling of environmental protection products and services in Hong Kong and the majority of the Group's products were sold in Hong Kong, the directors consider that the Group principally operates within a single business and geographical segment. Of the three overseas subsidiaries incorporated during the Period, only the subsidiary in Malaysia recorded sales during the three months ended 31 December 2002. Apart from the disclosure made in this note, the directors considered that no segmental information is required to be presented.

For the Period, the subsidiary in Malaysia generated the following unaudited operating results:

	<i>HK\$'000</i>
Turnover	202
Cost of sales	(104)
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Gross profit	98
Selling and distribution costs	(12)
Administrative expenses	(462)
	<hr/>
Loss from operating activities	(376)
Finance costs	–
	<hr/>
Loss before tax	(376)
Tax	–
	<hr/>
Net loss from ordinary activities attributable to shareholders	<u>(376)</u>

5. Taxation

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

No provision for overseas taxation has been made as the overseas operating subsidiaries incorporated in the Period had not recorded any profits for the Period. The Group and the Company has no significant potential deferred tax liabilities for which provision has not been made.

The Group's subsidiaries incorporated in Malaysia and Beijing are in the process of applying for exemption from corporate income tax. Without the tax exemption, the normal corporate income tax rates applicable to the subsidiaries in Malaysia and Beijing are 28% and 33% respectively.

6. (Loss)/Earnings per share

The calculation of basic loss per share for the three months and nine months ended 31 December 2002 is based on the respective unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$4,557,000 and HK\$4,235,000 and on the respective weighted average number of 835,435,000 and 806,945,000 ordinary shares in issue during the above-mentioned periods.

The calculation of basic earnings per share for the three months and nine months ended 31 December 2001 is based on the respective unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$1,622,000 and HK\$2,539,000 and on the respective weighted average number of 640,000,000 ordinary shares in issue during the above-mentioned periods.

No diluted earnings/(loss) per share for the three months and nine months ended 31 December 2001 and for the three months and nine months ended 31 December 2002 have been presented as the share options outstanding during the periods had an anti-dilutive effect on the respective basic earnings/(loss) per share for the above-mentioned periods.

7. Reserves

	Share Premium <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Capital Accumulated Reserve <i>HK\$'000</i>	Losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	–	2,935	–	(3,478)	(543)
Issue of new shares	3,589	–	–	–	3,589
Arising from professional services received	–	–	300	–	300
Net profit for the period	–	–	–	2,539	2,539
At 31 December 2001	<u>3,589</u>	<u>2,935</u>	<u>300</u>	<u>(939)</u>	<u>5,885</u>
At 1 April 2002	3,589	2,935	300	(1,071)	5,753
Issue of new shares	48,487	–	–	–	48,487
Share issue expenses	(9,488)	–	–	–	(9,488)
Net loss for the Period	–	–	–	(4,235)	(4,235)
At 31 December 2002	<u>42,588</u>	<u>2,935</u>	<u>300</u>	<u>(5,306)</u>	<u>40,517</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period (2001: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 31 December 2002, the interests of the directors and chief executive and their respective associates in the shares and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

1. The Company

Name of director	Number of shares held Corporate Interests	Number of options held (Note c)
Mr Tsui Tai Hoi Raymond	416,769,983 (Note a)	8,000,000
Mr Yeung Kam Yan	416,769,983 (Note a)	8,000,000
Mr Leung Chi Kin	416,769,983 (Note a)	8,000,000
Mr Hoang Tan Van George	416,769,983 (Note a)	8,000,000
Mr Chan Hon Chiu	416,769,983 (Note a)	8,000,000
Mr To Hang Ming	416,769,983 (Note a)	8,000,000
Mr Kong Li Szu	119,229,995 (Note b)	–
Prof Yu Chai Mei	–	2,400,000

Notes:

- a. The six references to 416,769,983 shares in the Company relate to the same block of shares held by Achieve Century Limited, a company incorporated in the British Virgin Islands. Approximately 53.87% and approximately 46.13% of the issued share capital of Achieve Century Limited are respectively owned by Tipmax Limited and Star Wave Limited, companies incorporated in the British Virgin Islands.

Tipmax Limited is 100% owned by Mr Tsui Tai Hoi Raymond, whereas Star Wave Limited is owned as to approximately 13.51% by each of Messrs Yeung Kam Yan and Leung Chi Kin, approximately 40.55% by Mr Hoang Tan Van George, and approximately 10.81% by each of Messrs To Hang Ming, Chan Hon Chiu and a non-director related person.

- b. The corporate interest of Mr Kong Li Szu in the shares of the Company was held by Count Wealth Investments Limited, a company incorporated in the British Virgin Islands and beneficially owned as to 100% by Kong Sun Holdings Limited. Kong Sun Holdings Limited is a company incorporated in Hong Kong and its shares are listed on the main board of the Stock Exchange. Approximately 41.3% of the issued share capital of Kong Sun Holdings Limited is beneficially owned by Kong Fa Holding Limited, in which Mr Kong Li Szu has beneficial interests.

- c. These Pre-IPO share options at an exercise price per share of HK\$0.14, representing 50% of the offer price of HK\$0.28 per share in respect of the Company's initial public offering were granted on 26 April 2002. The Pre-IPO share options may be exercised in three equal tranches. The three tranches are exercisable any time commencing on 10 November 2002, 10 May 2003 and 10 May 2004, respectively. These share options, if not otherwise exercised, will lapse on 9 May 2012.

2. Associated corporation-Kong Sun Holdings Limited

As at 31 December 2002, Mr Kong Li Szu had the following interests in the share capital of Kong Sun Holdings Limited, a company listed on the Stock Exchange:

Personal Interest <i>(Note a)</i>	Corporate Interest <i>(Note b)</i>	Total no. of shares
22,760,695	1,057,800,042	1,080,560,737

Notes:

- a. Mr Kong was granted 22,760,695 share options at a consideration of HK\$1.00 to subscribe for shares in Kong Sun Holdings Limited on 7 July 2001. These share options were exercised in full at an exercise price of HK\$0.17984 per share on 4 November 2002. As at 31 December 2002, Mr Kong had no share options in Kong Sun Holdings Limited.
- b. Mr Kong is deemed to be interested in 1,461,175,836 shares in Kong Sun Holdings Limited, of which 1,057,800,042 shares and 403,375,794 shares were held by Kong Fa Holding Limited and Kong Sun Enterprise Sdn. Bhd. respectively. Mr Kong Li Szu is a director and shareholder of Kong Fa Holding Limited.

Save as disclosed in sub-sections 1 and 2 above, at no time during the nine months ended 31 December 2002 was the Company to a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company and none of the directors or the chief executive, or their spouses or children under the age of 18, had any rights to subscribe for equity or debt securities of the Company.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company was notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name of shareholders	Number of shares held
Achieve Century Limited	416,769,983
Tipmax Limited (<i>Note a</i>)	416,769,983
Star Wave Limited (<i>Note a</i>)	416,769,983
Count Wealth Investments Limited	119,229,995
Kong Sun Holdings Limited (<i>Note b</i>)	119,229,995
Kong Fa Holding Limited (<i>Note b</i>)	119,229,995
Mr Kong Look Sen (<i>Note b</i>)	119,229,995

Notes:

- (a) These companies were deemed to have interests in 416,769,983 shares of the Company by virtue of their equity interests in Achieve Century Limited.
- (b) These parties were deemed to have interests in 119,229,995 shares of the Company by virtue of their equity interests in Count Wealth Investments Limited.

Save as disclosed above, the directors are not aware of any other person having an interest in shares representing 10% or more of the issued share capital of the Company.

COMPETING INTERESTS

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) has any interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 31 December 2002, neither the Sponsor nor its directors or employees or associates (as referred to in Rules 6.35 and 18.63 of the GEM Listing Rules) had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 26 April 2002 entered into between the Company and the Sponsor, the Sponsor has been retained for a fee as the continuing sponsor of the Company until 31 March 2005.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Company's audit committee (the "Audit Committee") were prepared and adopted with reference to 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 two independent non-executive directors of the Company.

The Audit Committee had a meeting to review the Group's results for the nine months ended 31 December 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the nine months ended 31 December 2002.

On behalf of the Board
Grandy Applied Environmental Technology Corporation
Tsui Tai Hoi Raymond
Managing Director

Hong Kong, 13 February 2003

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.grandy.com.hk.