



## **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 2003**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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 GEM of the Stock Exchange 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.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting and the website of the Company at [www.grandy.com.hk](http://www.grandy.com.hk).*

\* for identification purpose only

## FINANCIAL HIGHLIGHTS

- Turnover of the Group in the year under review was approximately HK\$28.3 million in comparison with approximately HK\$26.3 million for the previous year, representing an increase of approximately 7.6%.
- Net loss attributable to shareholders for the year under review was approximately HK\$11.4 million.
- No dividend is proposed.

## RESULTS

The board (the “Board”) of directors (the “Directors”) of Grandy Applied Environmental Technology Corporation (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2003 together with the comparative audited figures for the corresponding years in 2002 as follows:

	<i>Notes</i>	<b>2003</b> <i>HK\$</i>	2002 <i>HK\$</i>
<b>Turnover</b>	2	<b>28,318,430</b>	26,321,680
Cost of sales		<b>(13,893,650)</b>	(12,671,875)
Gross profit		<b>14,424,780</b>	13,649,805
Other operating income		<b>394,048</b>	132,901
Selling and distribution costs		<b>(2,253,361)</b>	(2,425,385)
Administrative expenses		<b>(20,846,648)</b>	(5,958,427)
Allowance for bad and doubtful debts		<b>(2,024,952)</b>	–
Product development costs written off		<b>(911,359)</b>	–
<b>(Loss) profit from operations</b>	3	<b>(11,217,492)</b>	5,398,894
Finance costs	4	<b>(476,675)</b>	(2,954,462)
<b>(Loss) profit before taxation</b>		<b>(11,694,167)</b>	2,444,432
Taxation	5	<b>10,031</b>	(37,000)
<b>(Loss) profit before minority interests</b>		<b>(11,684,136)</b>	2,407,432
Minority interests		<b>309,356</b>	–
<b>Net (loss) profit for the year</b>		<b>(11,374,780)</b>	2,407,432
(Loss) earnings per share – Basic	6	<b>HK (1.38) cents</b>	HK 0.38 cents

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2003

	Share capital HK\$	Share premium HK\$	Special reserve HK\$	Translation reserve HK\$	Deficit HK\$	Total HK\$
At 1 April 2001	74,584	–	2,935,416	–	(3,478,408)	(468,408)
Issue of shares	12,083	3,888,697	–	–	–	3,900,780
Net profit for the year	–	–	–	–	2,407,432	2,407,432
At 31 March 2002	86,667	3,888,697	2,935,416	–	(1,070,976)	5,839,804
Issue of shares	2,316,667	54,800,000	–	–	–	57,116,667
Expenses incurred in connection with the issue of shares	–	(9,487,788)	–	–	–	(9,487,788)
Capitalisation on bonus issue of shares	6,313,333	(6,313,333)	–	–	–	–
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	(12,118)	–	(12,118)
Net loss for the year	–	–	–	–	(11,374,780)	(11,374,780)
At 31 March 2003	<u>8,716,667</u>	<u>42,887,576</u>	<u>2,935,416</u>	<u>(12,118)</u>	<u>(12,445,756)</u>	<u>(42,081,785)</u>

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001 in preparation for the listing of the Company's shares on the Stock Exchange.

*Notes:*

## **1. Basis of preparation**

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance of Hong Kong. They have been prepared under the historical cost convention.

In the current year, the Group has adopted for the first time the following new or revised SSAPs issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these new or revised SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement as well as additional disclosures. These changes have not imposed any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

## **2. Turnover**

### **Business segments**

For management purposes, the Group is only engaged in one single segment which is the manufacture and sales of environmental protection products.

2. Turnover (cont'd)

**Geographical segments**

The Group's operations are located in Hong Kong, Malaysia and Mainland China (the "PRC") representing the basis on which the Group reports its primary segment information. The following table provides an analysis of the Group's geographical segment information.

	2003		2002	
	Turnover HK\$	Results HK\$	Turnover HK\$	Results HK\$
Hong Kong	11,714,861	5,343,691	26,321,680	11,224,420
Malaysia	10,324,404	3,875,146	–	–
PRC	6,285,405	927,630	–	–
Inter-segment sales elimination	(6,240)	–	–	–
	<u>28,318,430</u>	<u>10,146,467</u>	<u>26,321,680</u>	<u>11,224,420</u>
Unallocated other operating income		394,048		132,901
Unallocated corporate expenses		(20,846,648)		(5,958,427)
Product development costs written off		(911,359)		–
(Loss) profit from operations		(11,217,492)		5,398,894
Finance costs		(476,675)		(2,954,462)
(Loss) profit before taxation		(11,694,167)		2,444,432
Taxation		10,031		(37,000)
(Loss) profit before minority interests		(11,684,136)		2,407,432
Minority interests		309,356		–
Net (loss) profit for the year		<u>(11,374,780)</u>		<u>2,407,432</u>

Inter-segment sales are charged at prevailing market rate.

## 2. Turnover (cont'd)

### Balance Sheet

	Segment assets		Segment liabilities	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Hong Kong	27,764,762	19,247,490	2,620,908	2,761,978
Malaysia	10,582,710	–	570,713	–
PRC	6,267,680	911,359	143,556	–
	<b>44,615,152</b>	20,158,849	<b>3,335,177</b>	2,761,978
Unallocated	6,358,649	1,896,851	641,231	13,453,918
Consolidated total	<b>50,973,801</b>	<b>22,055,700</b>	<b>3,976,408</b>	<b>16,215,896</b>

### Other Information

	Capital additions		Depreciation and amortisation		Loss on disposal of property, plant and equipment		Allowance for bad and doubtful debts	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Hong Kong	18,673,983	330,042	1,406,385	156,734	58,074	15,238	24,952	–
Malaysia	189,110	–	22,979	–	–	–	–	–
PRC	1,213,537	170,852	40,599	–	–	–	2,000,000	–
Consolidated total	<b>20,076,630</b>	<b>500,894</b>	<b>1,469,963</b>	<b>156,734</b>	<b>58,074</b>	<b>15,238</b>	<b>2,024,952</b>	<b>–</b>

### 3. (Loss) profit from operations

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
(Loss) profit from operations has been arrived at after charging:		
Directors' remuneration	2,776,282	1,327,940
Other staff's retirement benefits scheme contributions	274,160	120,430
Other staff costs	7,417,714	3,214,401
Less: Staff costs capitalised in product development costs	–	(99,803)
	<u>10,468,156</u>	<u>4,562,968</u>
Amortisation of goodwill (included in administrative expenses)	47,400	–
Amortisation of intangible assets (included in administrative expenses)	162,856	–
Auditors' remuneration		
– current year	541,374	268,000
– overprovision in prior years	(40,714)	–
Depreciation of property, plant and equipment		
– owned by the Group	1,159,282	125,419
– held under finance leases	100,425	31,315
Loss on disposal of property, plant and equipment	58,074	15,238
Operating lease rentals in respect of		
– land and buildings	1,326,681	521,701
– machinery and equipment	248,970	–
Research and development costs	228,148	55,457
and after crediting:		
Interest income	381,687	132,901
Rental income from hire of machinery and equipment	<u>378,800</u>	<u>–</u>

### 4. Finance costs

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Expenses incurred in connection with the issue of convertible notes	–	(727,043)
Interest on		
– bank borrowings wholly repayable within five years	(33,778)	(38,366)
– convertible notes, including accretion of premium payable upon the final redemption of the convertible notes	(420,966)	(2,179,801)
– finance leases	(21,931)	(9,252)
	<u>(476,675)</u>	<u>(2,954,462)</u>

## 5. Taxation

	<b>2003</b>	2002
	<i>HK\$</i>	<i>HK\$</i>
The credit (charge) comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the year	–	(37,000)
Overprovision in prior year	<u>10,031</u>	<u>–</u>
	<u><b>10,031</b></u>	<u><b>(37,000)</b></u>

No provision for Hong Kong Profits Tax has been made in the financial statements in 2003 as the Group had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Beijing is entitled to exemption from PRC income tax for three years commencing from their first profit-making year of operation and thereafter, the subsidiary will be entitled to a 50% relief from PRC income tax for the following three years. No provision for PRC income tax has been made in the financial statements as the PRC subsidiaries had no assessable profit for the year.

## 6. (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the net loss for the year of HK\$11,374,780 (2002: net profit of HK\$2,407,432) and the weighted average number of 822,269,406 shares in issue during the year (2002: 640,000,000 shares on the assumption that the 2001 group reorganisation and bonus issue of shares upon listing have been effective on 1 April 2001).

No diluted loss per share has been presented in 2003 as the exercise price of the Company's share options was higher than the average market price of the Company's shares during the year.

No diluted earnings per share was presented in 2002 as the conversion of convertible notes which were issued in August 2001 had anti-dilutive effect for that year.

## 7. Dividend

No dividends had been paid or declared by the Company for the year ended 31 March 2003 (2002: Nil).



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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, waste handling 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, PRC and parts of S.E. Asia.

Results of the Group for the year ended 31 March 2003 have shown a downturn in business performance in comparison with results for the previous year. In the year under review, the Group invested the funds that it raised from the listing of the company on GEM on 10 May 2002 for financing its business development and expansion plans. Turnover of the Group in the year under review was approximately HK\$28.3 million in comparison with approximately HK\$26.3 million for the previous year, representing an increase of approximately 7.6%. Net loss attributable to shareholders for the year under review was approximately HK\$11.4 million.

This loss for the year under review reflects the substantial investment that the Group has made for the purpose of pursuing its planned business development activities, geographical expansion, widening its product ranges, R&D funding for projects directed at refreshment of its technology base, relocation to new offices in Hong Kong and opening of further offices in Malaysia, Beijing and Zhuhai. The turnover position reflects a general worsening of the business climate throughout the region, particularly in Hong Kong, in the wake of the crisis over Severe Acute Respiratory Syndrome (“SARS”) and the war in Iraq.

**Relocation to new offices.** The Group relocated its headquarters in Hong Kong to more spacious and more conveniently located premises in the Luk Kwok Centre, 72 Gloucester Road, Wanchai. The new office houses a custom-designed showroom for the purpose of demonstrating to potential clients the Group’s comprehensive range of environmental protection, energy-saving and waste minimization technology.

**Opening of new offices and appointment of agents.** To facilitate the Group’s planned geographical expansion in S.E. Asia an office was opened in Kuala Lumpur, Malaysia (August 2002). The opening of the office in Malaysia is considered pivotal to the Group’s strategy for further expansion into other geographical markets in S.E. Asia. To build on this strategy, a further office was subsequently opened in Singapore in April 2003. Also, in March 2003 an agent has been appointed in East Malaysia comprising Sabah and Sarawak.

In PRC, a wholly owned foreign enterprise (“WOFE”) named Beijing Grandy Green Technology Limited was established in Beijing in September 2002 - i.e. the headquarters of State Environmental Protection Agency (“SEPA”) and the location of the Green Olympics in 2008. A further operation was established in Zhuhai in November 2002 as a WOFE that is 100% owned by the Group with the principal aim of providing Green Campus services and consulting, in particular to Beijing Normal University with whom a co-operation agreement has been signed for assisting in the establishment of its new green campus in Zhuhai. Furthermore, an office has been opened in Humen, Dongguan to serve the substantial market in Southern China for waste water treatment and waste water recycling.

**Promotional and brand-building activities.** The Group has participated in a number of high level promotional activities such as trade delegations (e.g. the SEPA trade delegation to Beijing in June 2002) and has participated in a number of exhibitions. In addition, the Group has designed and prepared a suite of promotional literature for its range of products, and the Group's new website was launched in October 2002. The Group also sponsored a series of environmental protection programmes called Green Talks every Saturday on FM 104 Metro Finance.

**Green Campus Solutions.** In December 2002 the Group 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-site approach in aiming to implement: energy and resource efficiency; minimizing environmental and ecological impact; practical applications for waste reduction and pollution prevention; and good indoor air quality to promote occupants' health and productivity.

Examples of the Group's Green Campus services include:

- Establishment of environmental management systems
- Performance of environmental impact assessment
- Ecological assessment and planning
- 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

A co-operation agreement has already been entered into with Beijing Normal University for planning and development of its new green campus at Zhuhai.

**Waste water treatment projects.** The Group has continued to develop and implement solutions and plant for the treatment of industrial effluent with particular emphasis on purifying and recycling industrial wastewater for re-use. 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. Projects for treatment of effluent from textile and electroplating factories are currently in progress in Dongguan. In addition, a demonstration-scale (10 tons per day) wastewater recycling system has been established in conjunction with our strategic partner in Shenzhen. The joint aim is to capture a substantial share of the wastewater recycling market for printed circuit board and other factories in the Shenzhen area.

**Extension of range of energy-saving products.** In addition to distribution rights in Asia for LightEco, the Group now has the exclusive rights granted by SAVAWatt (UK) Limited for the distribution of SAVAControl in Hong Kong, Macau, Malaysia and Singapore. SAVAControl can improve the energy-efficiency of most AC induction motors that are commonly used in applications such as refrigeration, air condition and air handling units, but without affecting the performance of the refrigeration or air conditioning system. Award of these distributorships broadens the Group's range of energy-saving products.

**Waste management.** The Group has obtained the exclusive distribution rights in Hong Kong for a food waste management system that incorporates highly active but harmless microorganisms for the transformation of food waste into a soil conditioner that has commercial value. Site tests for the food waste management system are in progress with several high profile clients in Hong Kong, and a joint demonstration-scale project (100 kg per day) has been established with our strategic partner in Shenzhen at the Shenzhen High Technology Park with the aim of carrying out joint promotion of the food waste management system in the Shenzhen area.

Currently the Group is evaluating a technology based on anaerobic digestion for conversion of municipal garbage waste to electricity and humus products. Such a waste-to-energy system will help reduce the burden on land fill sites and provides an environmentally-friendly and more cost-effective alternative to incineration.

**Refreshment of the Group's technology base.** Currently the Group is participating with The Hong Kong University of Science & Technology ("HKUST") in projects that are part-funded by the Hong Kong SAR Government's Innovation Technology Fund ("ITF"). One of the projects is directed at the development of bio-sensors for the real-time monitoring of the level of pollutants in waste water. Another project is aimed at the development of novel nano-catalysts for the treatment of waste water and improvement of indoor air quality.

The Group has also acquired significant expertise and know-how in area of Green Technology, which includes Green Chemistry (i.e. the design of chemical products and processes that reduce or eliminate the use and generation of hazardous substances) and in Process Modelling, which includes expertise in the area of Computational Fluid Dynamics ("CFD").

**Indoor area sterilization services.** To help combat the problem of SARS and other infectious diseases, the Group launched in April 2003 its indoor sterilization services based on the use of ozone (O<sub>3</sub>). Ozone is very a powerful disinfectant which is effective against bacteria, fungi and viruses such as, for example, the corona virus that is responsible for causing SARS. Because ozone is a gas it can reach every nook and cranny of an indoor environment and can penetrate fabrics and other absorbent materials that may harbor micro-organisms. One of the advantages of ozone over other chemical sterilizing agents is that ozone naturally breaks down within a matter of minutes to ordinary oxygen, leaving the indoor environment relatively safe for occupants to re-enter. Applications for the Group's ozone-based sterilization have included schools, offices, hospitals, warehouses, vehicles and domestic dwellings to name but a few.

## **Future prospect**

**Market demand.** Demand for the Group's Environmental Protection ("EP") Solutions, especially in PRC and other parts of Asia, is predicted to grow markedly over the next five years.

In PRC, for example, the Group considers that the principal market drivers for its total EP Solutions include:

- PRC's accession to WTO membership
- Holding of the 2008 'Green Olympics' in Beijing
- Projected population growth from current 1.3 Billion to 1.6 Billion by 2050
- Crisis of water shortage
- Impact of air and water pollution on human health
- Drive towards Cleaner Production and GMP standards in the chemical and related process industries such as fine chemicals and pharmaceuticals

Furthermore, according to PRC's 10th Five Year Plan (2001-2005) for the environment, investment totaling RMB700 Billion (1.3% projected GDP) is required for meeting the plan's objectives, 11% of which is likely to come from central government. Out of the total investment, RMB250 Billion is considered by SEPA to be required for control of water pollution. In order to meet the projected demand, the Group has been developing and acquiring expertise in the areas of waste water treatment solutions, Cleaner Production and other areas of Green Technology, the exploitation of which is currently in progress with the waste water treatment projects in Shandong province, Dongguan and Shenzhen.

**Cleaner production ("CP").** CP is a strategy that aims to eliminate pollution throughout an entire production process. For the chemical and related process industries CP is a way of reducing discharge of pollutants into the environment by minimising or eliminating their production at source. As such, CP is consistent with the goals of the 10th Five Year Plan for prevention and control of water pollution. Since 1993, all regions and government departments in PRC initiated raising awareness of CP through policy research and demonstration projects.

Accordingly, the Group is well placed to capitalize on such policy initiatives through the establishment of Beijing Grandy Green Technology Limited and the acquisition of expertise in Green Chemistry and process modelling.

**Positioning of the Group to capture the Asian market.** The Group is now well positioned to penetrate further into the mainland market by capitalizing on its sustained marketing efforts to date and through the establishment of operations in Beijing and Zhuhai and the opening of an office in Humen.

Moreover, opening of offices in Malaysia and Singapore is enabling the Group to commence capturing a share of the environmental protection market in S.E. Asia.

**Outlook.** Going forward, the Group will be devoting considerable resources to marketing, brand building and further geographical expansion in PRC and S.E. Asia. 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 combine to provide good prospects for renewal of its robust, managed growth.

### **Liquidity and Financial Resources**

The Group had total cash and bank balances (including pledged time deposit) of approximately HK\$ 6,359,000 (2002: HK\$1,897,000). After deducting interest-bearing bank loans and overdrafts of approximately HK\$ 306,000 (2002: HK\$1,677,000), the Group had a net cash balance of HK\$6,053,000 (2002: HK\$220,000) and the increase compared to the previous year end is mainly arising from the net proceeds from listing of the Company's shares on GEM during the current year.

As at 31 March 2003, the Group had a total of HK\$10.5 million available credit facilities from local banks and these facilities are consisting of mainly 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 approximately 0.006 at 31 March 2003. The comparative ratio was 0.61 at 31 March 2002 and the lower gearing was caused mainly by the net proceeds from listing of the Company's shares during the year.

On 10 May 2002, the Group successfully listed the Company's shares on GEM and as a result raised a net proceed of roughly HK\$44 million for financing the Group's businesses and expansion in the neighboring Asian markets as well as repayment of HK\$10 million convertible notes issued in previous year and repaid at a premium of HK\$2 million. The credit facilities of the Group bore variable interest rates based on Hong Kong dollars prime rate.

### **Foreign Exchange Exposure**

As at 31 March 2003, the Group had incorporated three overseas subsidiaries in Beijing, Malaysia and Zhuhai. The paid up capital and loans advanced to these three subsidiaries totaled HK\$5,014,000 at 31 March 2003 (2002: Nil) with HK\$890,000 bank balances maintained in HKD denominated bank account.

Apart from the above, the Group had no other foreign exchange exposure at 31 March 2003.

### **Charge on Group Assets**

The Group's time deposit of HK\$1 million was pledged to a bank to secure general banking facilities granted to the Group. In addition, the Group's two motor vehicles and a photocopier were used as collaterals for their corresponding finance leases entered into with local financial institutions.

### **Contingent Liabilities**

As at 31 March 2003, the Company has given corporate guarantees of HK\$10,500,000 (2002: Nil) to banks to secure the credit facilities granted to its subsidiaries.

## Segment information

During the year, the revenue of the Group was principally generated from the manufacture and sales of environmental protection products. Geographically, the Group established operations in Malaysia and PRC during the year. Financial information in respect of these operations is presented on page 5 to 6 of this announcement.

## Capital Structure

As at 10 May 2002 (the date of listing of the Company's shares on GEM), the issued share capital of the Company amounted to HK\$8,300,000 divided by 830,000,000 shares of HK\$0.01 each. On 20 December 2002, 41,666,667 shares credited as fully paid were allotted and issued to the vendor's nominee as part of the consideration for the Group's acquisition of an indirect interest in Grandy Kindness Food Waste Technology Limited. As at 31 March 2003, the total issued share capital of the Company was HK\$8,716,667 divided into 871,666,667 shares of HK\$0.01 each.

## Material Acquisition of a Subsidiary

On 22 November 2002, Green Jade Asia Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with Kindness Biological Development Limited and Mr Mak Hing Hei Jackie under which and subject to the terms and conditions thereof, Green Jade Asia Limited acquired a 60% interest in Allbright Holdings Limited for an aggregate consideration of HK\$11,135,800, of which HK\$6,135,800 in cash and HK\$5,000,000 by way of the allotment and issue of 41,666,667 shares of the Company. Allbright Holdings Limited's wholly-owned subsidiary Grandy Kindness Food Waste Technology Limited is principally engaged in food waste management business which is in line with the Group's environmental protection business. Completion of the transaction took place on 20 December 2002. The transaction contemplated under the Agreement constituted a discloseable transaction of the Company under the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules").

## Employee Information

As at 31 March 2003, the Group had a total of 82 (2002: 21) employees:

Location	Number of the staff
Hong Kong	41
Zhuhai	28
Beijing	5
Kuala Lumpur	8

For the year ended 31 March 2003, staff cost (including Directors' emoluments) amounted to approximately HK\$10.5 million (2002: HK\$4.6 million). The considerable increase was attributed to the business expansion of the Group. The Group remunerates its employees based on individual performance. Apart from the basic remuneration, staff benefits include medical insurance, share options, and retirement benefits under Mandatory Provident Fund Scheme, etc. Save for the share options granted to staff prior to the listing, no other options were granted to the staff during the year.

## Auditors

At the Extraordinary General Meeting on 25 April 2003, Messrs Deloitte Touche Tohmatsu have been appointed auditors of the Company to hold office until the conclusion of the forthcoming annual general meeting subsequent to the resignation of Messrs Ernst & Young with effect from 31 March 2003. A resolution will be proposed to the forthcoming annual general meeting of the Company to re-appoint Messrs Deloitte Touche Tohmatsu.

## Comparison of Business Objectives with Actual Business Progress

**Business objectives up to  
30 September 2002  
as stated in the Prospectus**

**Actual business progress up to  
30 September 2002**

### 1. Geographical expansion

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Appoint agent(s) to test the function and performance of Group's enzyme products in the PRC</li><li>• Identify suitable agent(s) to develop the market for <i>Light Eco</i> systems in the PRC</li><li>• Explore appropriate marketing strategies to develop the PRC</li></ul> | <p>Agents appointed in Shunde and Xiamen</p> <p>Agents appointed in Dongguan, Shanghai and Beijing</p> <p>Strategies explored and operations established in Beijing</p> <p>Ahead of Schedule:</p> <p>Operations in Malaysia established one year ahead of plan</p> <p>Energy-saving products being offered in Singapore ahead of schedule for further expansion in South East Asia</p> |
|--|--|

### 2. Improvement of existing products and sourcing new products

#### *Water Quality Improvement*

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Improve performance of <i>GreaseKil</i>, <i>Eco Tonic</i> and <i>FlusKleen</i> through collaboration with local institutions</li><li>• Perform trial runs for the application of bio-farm technology in waste water treatment and grease trap maintenance</li></ul> | <p>New enzyme activation methods investigated leading to enzyme-products with higher and more consistent enzymatic activity;</p> <p>New generation <i>EcoTonic</i> under evaluation.</p> <p>Several trails of bio-farm and other microbial products completed for waste water treatment and grease trap maintenance.</p> |
|---|--|

**Business objectives up to  
30 September 2002  
as stated in the Prospectus**

**Actual business progress up to  
30 September 2002**

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Identify appropriate protocol of PCO reactors for the Group's waste water treatment process</li><br/><li>• Study and evaluate waste water treatment and recycling models</li></ul> | <p>In conjunction with ITF research project on PCO reactor for wastewater treatment, other related projects are being identified and compared.</p> <p>Design, construction and client-site testing of mobile demonstration plant completed for waste water treatment project at cloth dying factory.</p> |
|--|--|

Ahead of Schedule:

New generation of waste water treatment model and recycling system incorporating advanced membrane filtration equipment currently under design.

*Air Quality Improvement*

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Improve the performance of <i>EcoKleen</i> through the collaboration with local institutions</li><br/><li>• Commence development and performance analysis of PCO reactor for the Group's IAQ projects</li></ul> | <p>This area of product improvement has been postponed in favor of focusing on waste water treatment technology and design of a new generation of waste water treatment model system (above).</p> <p>Ditto</p> |
|---|--|

*Energy Saving*

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|---|---|
| <ul style="list-style-type: none"><li>• <i>Compact Heat Exchangers</i><br/>Commence market survey for requirements for CHES</li></ul> | <p>Plans postponed for further 6 months as plans to establish WFOE in Beijing for providing Green Technology services brought forward in its place and have taken precedence.</p> |
|---|---|



**Business objectives up to  
30 September 2002  
as stated in the Prospectus**

- *Chemical processing improvement technology*  
Commence the preparation of project and client presentation in relation to chemical process improvement

**Actual business progress up to  
30 September 2002**

Client presentations commenced and projects proposals for process improvement currently being issued.

*Ahead of Schedule:*

Green Technology services being marketed through a subsidiary in Beijing such as Cleaner Production and process improvement.

*New Products*

*Ahead of Schedule:*

*SavaControls* evaluated and distributorship negotiated initially for Hong Kong and Macau and subsequently Malaysia and Singapore

Food waste management system evaluated and distribution agreement concluded

Electrostatic precipitator under evaluation

**3. Establishment of product development and evaluation capabilities**

- Study and evaluate plan of the Group's product development department
- Select appropriate institution/university in the PRC to collaborate for the Group's product development and evaluation activities

Plan under evaluation.

Various institutions visited including Tianjin University, Shandong Teacher's University and proposals for collaboration under evaluation.

**Business objectives up to  
30 September 2002  
as stated in the Prospectus**

**Actual business progress up to  
30 September 2002**

*Ahead of Schedule:*

Two IFT-funded projects proposed by HKUST and supported by the Group have been approved by the ITF review committee.

Third ITF proposal for funding by HKUST supported by Group and application to ITF in progress

**4. Marketing and brand building**

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|---|--|
| <ul style="list-style-type: none"><li>• Formulate marketing and promotion plan of the Group's products</li><br/><li>• Advertise the Group's products and services in journals and magazines</li><br/><li>• Organise and attend seminars relating to environmental protection industry</li></ul> | <p>Plan formulated and a senior marketing manager has been recruited.</p> <p>Press releases and media interviews have been made with the preferred media for promotion. Additionally, the Group has participated in trade exhibitions, events and delegations, and is currently sponsoring <i>Green Talks</i> every Saturday on <i>FM 104 Metro Finance</i>.</p> <p>As per above, the Group has attended trade exhibitions, events and delegations and is currently sponsoring a programme on FM 104 Metro Finance focusing on Environmental Protection.</p> <p>Plans for seminars in Mainland China on Green Technology under formulation</p> |
| <ul style="list-style-type: none"><li>• Expand existing sales and marketing team</li></ul>  | <p>A senior marketing manager has been recruited.</p>  |
| <ul style="list-style-type: none"><li>• Upgrade the Group's website</li></ul>   | <p>The Group's website has been completely redesigned and launched in October 2002.</p>  |

**Business objectives for the six months ended  
31 March 2003  
as stated in the Prospectus**

**Actual business progress up to  
31 March 2003**

**1. Geographical expansion**

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|--|---|
| <ul style="list-style-type: none"><li>• Conclude the marketing strategies to develop the PRC market</li><br/><li>• Appoint agent(s) to develop the Group's water and air quality improvement business in Guangdong province of the PRC</li><br/><li>• Appoint agent(s) to develop the market for LightEco systems in the PRC</li><br/><li>• Appoint agent(s) to develop the Group's business in Malaysia and Singapore</li></ul> | <p>Strategy concluded with agents in major cities in PRC for product distribution, and offices opened in Beijing, Zhuhai and Humen</p> <p>Distribution through the the Group's aforementioned offices the PRC has begun</p> <p>Agents appointed in Tianjin, Chengdu, Chongqing, Guangzhou, Shunde, Zhuhai and Shenzhen but focus being shifted towards distribution through the Group's own offices</p> <p>Wholly-owned subsidiaries of the Company opened in Malaysia (August 2002) and Singapore (April 2003); and an agent appointed for East Malaysia (March 2003)</p> <p>Ahead of Schedule:</p> <p>Operations in Beijing, Zhuhai &amp; Humen established ahead of plan</p> |
|--|---|

**Business objectives for the six months ended  
31 March 2003  
as stated in the Prospectus**

**Actual business progress up to  
31 March 2003**

**2. Improvement of existing products and sourcing new products**

*Water Quality Improvement*

- Continue to improve the performance of *GreaseKil*, *EcoTonic* and *FlusKleen* through collaboration with local institutions  
New enzyme activation methods established leading to enzyme-products with higher and more consistent enzymatic activity;  
New generation of *EcoTonic* evaluated.
- Launch the bio-farm technology in wastewater treatment plant and grease trap maintenance  
This plan has been postponed in favor of focusing on wastewater treatment technology and design of a new generation of waste water treatment model system.
- Conduct performance evaluation of the upgraded water quality improvement system by applying the bio-farm technology  
This plan has been postponed in favor of focusing on wastewater treatment technology and design of a new generation of waste water treatment model system.
- Commence development and performance analysis of PCO reactors for the Group's waste treatment project  
ITF part-funded project in collaboration with HKUST still in progress for development of nano-catalyst PCO technology for wastewater treatment
- Conduct trial runs for the application of the wastewater recycling treatment models in different industrial processes including dyeing, paper-making and electroplating  
Trials of model carried out for cloth dyeing factories in both Hong Kong and Humen; wastewater recycling demonstrations in progress for electroplating wastewater in Humen and for PCB wastewater in Shenzhen.  
Ahead of Schedule:  
State-of-the-art in-line high intensity mixers applied for optimizing dosing of chemical additives such as coagulants

**Business objectives for the six months ended  
31 March 2003  
as stated in the Prospectus**

**Actual business progress up to  
31 March 2003**

*Air Quality Improvement*

- Continue to improve the performance of *EcoKleen* through the collaboration with local institution(s)  
This area of product improvement has been postponed in favor of focusing on wastewater treatment technology and design of a new generation of waste water treatment model system (above).
- Select treatment model and design pilot plant for PCO reactors  
Leading-edge 3rd generation (“3G”) filters under market evaluation with LIFA AIR and portable demonstration 3G filters evaluated in Hong Kong and Malaysia
- Conduct site demonstrations to potential customers  
Site demonstrations of portable 3G filters carried out in Hong Kong and Malaysia since March 2003

*Energy Saving*

- *Compact Heat Exchangers*  
Continue market survey for requirements for Compact Heat Exchangers  
Plans postponed indefinitely as exploration of other areas such as waste-to-energy have taken precedence
- *Chemical processing improvement technology*  
Conduct process improvement audits and implement recommendations  
Proposals for process improvement issued to clients and CFD modelling work carried out for processes made to clients. through the Group’s Beijing office  
Audit of oil & gas production process carried out, and recommendations for boosting production proposed.  
  
Ahead of Schedule:  
  
Green Technology services being marketed through the Beijing office such as Cleaner Production, process improvement and CFD modelling.  
  
Technology for boosting oil & gas production in PRC market being promoted through operations in Beijing, and proposal has been issued.

**Business objectives for the six months ended  
31 March 2003  
as stated in the Prospectus**

*New Products*

**Actual business progress up to  
31 March 2003**

Ahead of Schedule:

Food waste management system evaluated and distribution agreement concluded. Trials of system in progress in Hong Kong and Shenzhen

Technology based on anaerobic digestion for converting waste-to-energy is under evaluation and is being promoted in Malaysia since March 2003

Green Campus consulting and services developed; implementation in progress through the Group's operations in Zhuhai

Indoor area sterilization service based on ozone has been launched to help combat SARS and other diseases

**Business objectives for the six months ended  
31 March 2003  
as stated in the Prospectus**

**Actual business progress up to  
31 March 2003**

**3. Establishment of product  
development and evaluation capabilities**

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• Establish product development laboratory</li></ul>  | <p>Laboratory for development of wastewater treatment processes and other product developments has been established in Humen in January 2003</p>  |
| <ul style="list-style-type: none"><li>• Recruit new staff to conduct advanced product development and evaluation</li></ul>  | <p>PhD-qualified staff recruited with expertise in Green Chemistry and Green Campus services such as ecological assessment and planning. Team of engineers and technicians assembled with expertise and track record in the wastewater treatment and wastewater recycling with the capability for design (and construction) of plant.</p> |
| <ul style="list-style-type: none"><li>• Purchase new equipment to carry out product development and evaluation for new environmental products</li></ul>   | <p>Equipment such as meters purchased for evaluation and field trials of energy-saving products.</p> <p>State-of-the-art plant equipment purchased for wastewater treatment and recycling platform; leading-edge in-line mixers and dosing systems purchased for optimizing use of chemical additives in wastewater treatment</p>         |
| <ul style="list-style-type: none"><li>• Form strategic alliance with institutions/university in the PRC for the Group's application analysis and product development activities</li></ul>       | <p>Strategic alliances formed with Tianjin university, Shandong Teacher's University and South China Institute of Environmental Science</p>   |
| <ul style="list-style-type: none"><li>• Select appropriate institution/university in Hong Kong to collaborate for the Group's application analysis and product development activities</li></ul> | <p>HKUST was invited to give advice on Green Campus services and collaborate for the ITF projects.</p>  |
| <ul style="list-style-type: none"><li>• Develop projects and formulate proposal for ITF programme application</li></ul>   | <p>Ahead of Schedule:</p> <p>Three projects proposed and accepted. Two projects currently in progress, namely: (i) development of novel bio-sensors and (ii) nano-catalysts for wastewater treatment and indoor air quality improvement.</p>  |

**Business objectives for the six months ended  
31 March 2003  
as stated in the Prospectus**

**Actual business progress up to  
31 March 2003**

**4. Marketing and brand building**

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Sponsor environmental related functions such as seminars and related workshops</li></ul> | <p>Sponsorship of <i>Green Talks</i> every Saturday on <i>FM 104 Metro Finance</i></p>   |
| <ul style="list-style-type: none"><li>• Advertise the Group's products and services in journals and magazines</li></ul>          | <p>Press releases and media interviews have been the preferred media of promotion. Additionally, the Group has participated in trade exhibitions, events and delegations.</p>  |
| <ul style="list-style-type: none"><li>• Organize and participate in tree plantation function</li></ul>                           | <p>Resources have been allocated to other marketing efforts, such as sponsorship of <i>Green Talks</i> as mentioned above and press conference in Zhuhai in December 2002 for Green Campus project</p>                           |
| <ul style="list-style-type: none"><li>• Expand existing sales and marketing team</li></ul>                                       | <p>Additional experienced marketing manager joined the Group in October 2002. As mentioned above, agents have been appointed in Hong Kong, major cities of PRC and East Malaysia to strengthen the marketing and sales force</p> |
| <ul style="list-style-type: none"><li>• Maintain the Group's website</li></ul>   | <p>Maintenance in progress;<br/>Chinese version of website launched in March 2003.</p>   |



## Use of Proceeds from the Initial Public Offering

A comparison of the planned uses of proceeds from the initial public offering against the actual uses is set out below:

	<b>Amount to be used up to 31 March 2003 as disclosed in the prospectus dated 29 April 2002 HK\$ million</b>	<b>Actual amount HK\$ million</b>
Geographical expansion	Nil	4.60
Improvement of existing products and sourcing of new products	2.36	3.27
Establishment of application analysis and product development capabilities	2.60	3.85
Marketing and brand building	0.60	0.95
Redemption of the convertible notes	10.00	10.00
General working capital	15.24	15.00
	<hr/> <u>30.80</u>	<hr/> <u>37.67</u>

As compared to the original planned uses of proceeds, the actual uses are differed mainly in proceeds used for geographical expansion, improvement of existing products and sourcing of new products and establishment of application analysis and product development capabilities.

Geographical expansion plans have been rescheduled forward to capture potential market opportunities in Malaysia and PRC and these opportunities can also help to broaden the products and servicing capabilities of the Group at the same time since each of these three subsidiaries are targeting at different products and services.

There was no material deviation from the intended use of proceeds for the year ended 31 March 2003 as disclosed in the prospectus. The Directors presently do not anticipate any material deviation from the intended use of the proceeds as disclosed in the prospectus. To the extent that the net proceeds are not immediately applied for the above purposes, it is the present intention of the Directors to maintain such net proceeds from the initial public offering as short term deposits with authorised financial institutions in Hong Kong.

## BOARD PRACTICES & PROCEDURES

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 GEM Listing Rules throughout the year, except that the non-executive Directors are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

## **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, 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. Quarterly meetings were held during the year. The audited financial results for the year ended 31 March 2003 have been discussed and reviewed by the members of the audit committee and the external auditors.

## **COMPETING INTEREST**

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 March 2003, 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.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 21 July 2003 to 25 July 2003, 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, 28/F BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 18 July 2003 in order to qualify for attending the 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 listed shares for the period from 10 May 2002 (date of listing) to 31 March 2003.

## **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 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, 20 June 2003