



**Grandy Applied Environmental Technology Corporation**

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

environmental protection

**always pays...**

annual report

**2003**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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*This report 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 report 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 report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Tsui Tai Hoi Raymond (*Managing Director*)  
Yeung Kam Yan  
Leung Chi Kin  
Hoang Tan Van George  
Chan Hon Chiu  
To Hang Ming

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Hsu Shiu Foo William  
Yu Chai Mei

## COMPLIANCE OFFICER

Tsui Tai Hoi Raymond

## COMPANY SECRETARY

Lau Yu Kwan Barbara, *ACIS, ACS*

## AUTHORISED REPRESENTATIVES

Tsui Tai Hoi Raymond  
Yeung Kam Yan

## QUALIFIED ACCOUNTANT

Wong Chun Kit Wilfred, *FCCA, AHKSA*

## AUDIT COMMITTEE

Hsu Shiu Foo William  
Yu Chai Mei

## REGISTERED OFFICE

Century Yard, Cricket Square  
Hutchins Drive, P.O. Box 2681GT  
George Town, Grand Cayman  
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

10/F Luk Kwok Centre  
72 Gloucester Road  
Wanchai, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited  
28/F BEA Harbour View Centre  
56 Gloucester Road  
Wanchai, Hong Kong

## PRINCIPAL BANKER

Standard Chartered Bank  
Hang Seng Bank

## SPONSOR

Hantec Capital Limited

## AUDITORS

Deloitte Touche Tohmatsu  
Certified Public Accountants  
26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

## STOCK CODE

8143

# MANAGING DIRECTOR'S STATEMENT

On behalf of the board of directors of Grandy Applied Environmental Technology Corporation (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2003.

The last year has marked a significant milestone for the Company with our successful listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. During the year under review the Group invested part of the proceeds of its listing for assembling a comprehensive range of leading-edge technology and for developing new services and products that truly enables the Group to claim to be a leading *Total Solutions* provider in environmental protection. These developments bring us ever closer to attaining our vision of delivering cost-effective *Environmental Protection Solutions* without causing harmful effects to humans, plants and animals or the wider environment.

In terms of geographical expansion we have opened new offices in Malaysia, Beijing and Zhuhai. And in each location, we provide our clients with solutions for combating pollution, providing a safer, cleaner living environment and using the planet's resources more efficiently.

For example, our focus on energy-efficiency for lighting, refrigeration and air conditioning reduces the amount of fossil fuels that would otherwise be burned and thereby lowers emissions of energy demand-related CO<sub>2</sub>, which is one of the major greenhouse gases that is widely accepted as being associated with climate change. In addition, we have introduced food waste management system, waste recycling and wastewater treatment with the aim of reducing wastage of resources and thereby improving the economics of our clients operations.

Despite the continuation of the economic downturn in Hong Kong and our redeployment of human resources for geographical and product expansion, the sustained efforts of our people have enabled the turnover of the Group to increase from approximately HK\$26.3 million in the previous year to approximately HK\$28.3 million in the year under review. This is a truly remarkable achievement in the current trading climate and in the wake of the war in Iraq.

My fellow directors and I believe that the Group has built a platform for substantial, managed growth in our key locations and that our range of integrated products will enable us to capture an increasing share of the growing environmental protection market in Greater China and South East Asia.

As pressures on the environment continue to grow, and as people start to expect ever-improving social and environmental standards, we remain fully committed to improving the quality of life by solving environmental challenges in a cost-effective manner.

# MANAGING DIRECTOR'S STATEMENT

On behalf of the Group, I would like to thank all those who have contributed through their hard work and inspiration towards the success of our business and, last but not least, I would like to thank our clients for their continuing support in making our a environment cleaner, safer and healthier place to live.

**Tsui Tai Hoi, Raymond**  
*Managing Director*

Hong Kong, 20 June 2003

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

## 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, 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

In PRC, a wholly owned foreign enterprise (“WFOE”) 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 WFOE 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 launch 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

**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").

# MANAGEMENT DISCUSSION AND ANALYSIS

**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 PLANS AND PROSPECTS

**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 10 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 in note 4 to the financial statements.

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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></ul> | <p>New enzyme activation methods investigated leading to enzyme-products with higher and more consistent enzymatic activity;</p> |
|--|--|

New generation *EcoTonic* under evaluation.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

- Perform trial runs for the application of bio-farm technology in waste water treatment and grease trap maintenance
- Identify appropriate protocol of PCO reactors for the Group's waste water treatment process
- Study and evaluate waste water treatment and recycling models

## Actual business progress up to 30 September 2002

Several trials of bio-farm and other microbial products completed for waste water treatment and grease trap maintenance.

In conjunction with ITF research project on PCO reactor for wastewater treatment, other related projects are being identified and compared.

Design, construction and client-site testing of mobile demonstration plant completed for waste water treatment project at cloth dying factory.

Ahead of Schedule:

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

## *Air Quality Improvement*

- Improve the performance of *EcoKleen* through the collaboration with local institutions  
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).
- Commence development and performance analysis of PCO reactor for the Group's IAQ projects  
Ditto

## *Energy Saving*

- *Compact Heat Exchangers*  
Commence market survey for requirements for CHEs  
Plans postponed for further 6 months as plans to establish WOFE in Beijing for providing Green Technology services brought forward in its place and have taken precedence.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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

### *New Products*

## 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

## 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.

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

Plan under evaluation.

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

Ahead of Schedule:

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



# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

## **4. Marketing and brand building**

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

# MANAGEMENT DISCUSSION AND ANALYSIS

**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

- |  |  |
|--|--|
| <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> |
|--|--|

Ahead of Schedule:

Operations in Beijing, Zhuhai & Humen established ahead of plan

## 2. IMPROVEMENT OF EXISTING PRODUCTS AND SOURCING NEW PRODUCTS

### *Water Quality Improvement*

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• Continue to improve the performance of <i>GreaseKil</i>, <i>EcoTonic</i> and <i>FlusKleen</i> through collaboration with local institutions</li></ul> | <p>New enzyme activation methods established leading to enzyme-products with higher and more consistent enzymatic activity;</p> <p>New generation of <i>EcoTonic</i> evaluated.</p> |
|---|---|

# MANAGEMENT DISCUSSION AND ANALYSIS

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

- Launch the bio-farm technology in wastewater treatment plant and grease trap maintenance
- Conduct performance evaluation of the upgraded water quality improvement system by applying the bio-farm technology
- Commence development and performance analysis of PCO reactors for the Group's waste treatment project
- Conduct trial runs for the application of the wastewater recycling treatment models in different industrial processes including dyeing, paper-making and electroplating

## Actual business progress up to 31 March 2003

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.

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.

ITF part-funded project in collaboration with HKUST still in progress for development of nano-catalyst PCO technology for wastewater treatment

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

## Air Quality Improvement

- Continue to improve the performance of *EcoKleen* through the collaboration with local institution(s)
  - Select treatment model and design pilot plant for PCO reactors
  - Conduct site demonstrations to potential customers
- 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).
- Leading-edge 3rd generation ("3G") filters under market evaluation with LIFA AIR and portable demonstration 3G filters evaluated in Hong Kong and Malaysia
- Site demonstrations of portable 3G filters carried out in Hong Kong and Malaysia since March 2003

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

## *Energy Saving*

- *Compact Heat Exchangers*  
Continue market survey for requirements for Compact Heat Exchangers
- *Chemical processing improvement technology*  
Conduct process improvement audits and implement recommendations

Plans postponed indefinitely as exploration of other areas such as waste-to-energy have taken precedence

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.

## *New Products*

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

**Actual business progress up to 31 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

### **3. ESTABLISHMENT OF PRODUCT DEVELOPMENT AND EVALUATION CAPABILITIES**

- Establish product development laboratory
- Recruit new staff to conduct advanced product development and evaluation
- Purchase new equipment to carry out product development and evaluation for new environmental products
- Form strategic alliance with institutions/university in the PRC for the Group's application analysis and product development activities

Laboratory for development of waste-water treatment processes and other product developments has been established in Humen in January 2003

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.

Equipment such as meters purchased for evaluation and field trials of energy-saving products.

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

Strategic alliances formed with Tianjin university, Shandong Teacher's University and South China Institute of Environmental Science

# MANAGEMENT DISCUSSION AND ANALYSIS

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

- Select appropriate institution/university in Hong Kong to collaborate for the Group's application analysis and product development activities
- Develop projects and formulate proposal for ITF programme application

## Actual business progress up to 31 March 2003

HKUST was invited to give advice on Green Campus services and collaborate for the ITF projects.

Ahead of Schedule:

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.

## 4. MARKETING AND BRAND BUILDING

- Sponsor environmental related functions such as seminars and related workshops  
Sponsorship of *Green Talks* every Saturday on FM 104 Metro Finance
- Advertise the Group's products and services in journals and magazines  
Press releases and media interviews have been the preferred media of promotion. Additionally, the Group has participated in trade exhibitions, events and delegations.
- Organize and participate in tree plantation function  
Resources have been allocated to other marketing efforts, such as sponsorship of *Green Talks* as mentioned above and press conference in Zhuhai in December 2002 for Green Campus project
- Expand existing sales and marketing team  
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
- Maintain the Group's website  
Maintenance in progress; Chinese version of website launched in March 2003.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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:

	Amount to be used up to 31 March 2003 as disclosed in the prospectus dated 29 April 2002 HK\$ million	Actual amount HK\$ million
Geographical expansion	–	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
	<u>30.80</u>	<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.

# DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

## EXECUTIVE DIRECTORS

**Mr Tsui Tai Hoi Raymond**, aged 46, the Managing Director of the Company and one of the founders of the Group, is responsible for the business development, strategic planning, marketing and overall management of the Group. Prior to setting up the Group, Mr Tsui has over 15 years of experience in the financial sector including foreign exchange and private equity investments. Mr Tsui served as managing director of Top Rank Investment Ltd., Top Rank Securities Ltd., and Evershine International Investment Ltd. respectively. Mr Tsui holds a Bachelor of Business Administration degree from the City University of New York, the US.

**Mr Yeung Kam Yan**, aged 50, the Project Director and one of the founders of the Group, is in charge of the marketing and business development of the Group. Mr Yeung is a member of the Air & Waste Management Association – Hong Kong section. He has over eight years of experience in accounting, sales and marketing in different international companies including Olivetti (Hong Kong) Ltd. from 1979 to 1982, O.P.D Limited from 1982 to 1985 and Henry Boot Far East Limited from 1986 to 1990. Mr Yeung also operated his own trading and investment business in the PRC before the establishment of the Group from 1990 to 1998.

**Mr Leung Chi Kin**, aged 47, the Engineering Director and one of the founders of the Group, is responsible for the design of environmental systems, site servicing and other operational tasks of the Group. Prior to joining the Group, Mr Leung was appointed as a director of United Tech Engineering Ltd. engaged in the business of general trading and mechanical engineering from 1995 to 1999.

**Mr Hoang Tan Van George**, aged 48, the Production Director and one of the founders of the Group, is responsible for the production and quality control of the Group. Mr Hoang was a technology development officer for 廣西南寧金星科技開發有限公司 from 1992 to 1998. Mr Hoang was mainly responsible for research on applications of enzymes in air and water quality improvements.

**Mr To Hang Ming**, aged 44, the Business Development Director, is responsible for the marketing and business development of the Group. Mr To holds a degree in business – economics from the University of California, Los Angeles in the US. During the period from 1990 to 1994, Mr To worked as a chief dealer of the foreign exchange department in Dresdner Bank and was responsible for foreign exchange dealings. During the period from 1995 to 2000, Mr To worked as a foreign exchange manager of the foreign exchange department of Republic National Bank of New York and was responsible for foreign exchange dealings. Apart from gaining social and marketing skills, such working experience enabled him to build up his clientele and connections. He joined the Group in June 2000.

**Mr Chan Hon Chiu**, aged 43, the Marketing Director, is responsible for the sales and marketing function of the Group. He joined the Group in April 2000. Prior to joining the Group, Mr Chan worked as an operation manager for a building cleaning services provider namely Reliance Services (HK) Limited from 1991 to 1993 and was appointed as a director of two cleaning and waste disposal services providers namely Sanki Rampart Environmental Services Limited and Jamek International Limited and was a partner of Rampart Environmental Service engaged in cleaning and waste disposal services from 1993 to 2001.



# DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr Hsu Shiu Foo William**, aged 52, was appointed as an independent non-executive director in November 2001. He is a lecturer at Brigham Young University, Hawaii. He has over 10 years of global business experience in tourism and related fields in various international corporations. He holds a Bachelor of Arts degree from Brigham Young University, Hawaii and a master's degree in professional studies (hotel administration) from Cornell University, New York. He was an independent non-executive director of Honko International Holdings Limited, the shares of which were listed on the Main Board of the Stock Exchange, from 1996 to 2001.

**Prof Yu Chai Mei**, aged 47, was appointed as an independent non-executive director in November 2001. He is the Associate Professor of the Department of Chemistry and the director of Studies in Environmental Science Programme of the Chinese University of Hong Kong. He possesses extensive knowledge on photocatalytic degradation of pollutants, development and application of methods for trace analysis and design of innovative experiments for analytical and environmental chemistry. He obtained his doctoral degree in Chemistry at the University of Idaho, the US. He has made contribution to the Group by advising the Group on development potentials of PCO technology and has helped the Group to carry out research on the functions of PCO reactors in the early stage of the Group's business development.

## NON-EXECUTIVE DIRECTOR

**Mr Kong Li Szu**, aged 32, is a director of Kong Sun Holdings Limited. He holds a Bachelor of Science degree and a Master of Science degree in civil engineering from Washington University, the US and Stanford University, the US respectively. Mr Kong is well experienced in civil engineering works and PRC investment and trades. He resigned as non-executive Director of the Company with effect from 13 May 2003.

# DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

## SENIOR MANAGEMENT

**Dr Christopher Harold Phillips**, aged 40, is the Senior Project Manager of the Group. He is responsible for the improvement of the Group's production expertise and technological knowhow, and also supports the Group in the development and evaluation of advanced technique products. He graduated from the University of Leeds in the UK with a bachelor of science degree in chemistry and a master's degree with distinction in physical chemistry. He was awarded a doctor's degree in chemistry as a result of his research carried out in UMIST (University of Manchester Institute of Science and Technology in the UK). He has extensive experience in chemical engineering research and development and project management. He is a Chartered Engineer and a Chartered Chemist as well as a Corporate Member of the Institution of Chemical Engineers (UK) and a Fellow of the Royal Society of Chemistry (UK). During the period from 1990 to 1993, he worked as project specialist for Nippon Paint Co., Ltd in Osaka, Japan which is engaged in the production of paints and related products for both industrial and household users. During the period from 1993 to 1994, he worked as a consultant for a UK based company namely Express Separations Limited engaging in the provision of environmentally-friendly process consultancy and research and development services to various process industries. During the period from 1994 to 2000, he worked as a manager within the BHR Group. During the period from 2000 to 2001, he worked as a consultant to Legal Futures, a division of Wall Street Associates, which is an executive search and selection company. He joined the Group in November 2001.

**Mr Mio Kwok Man**, aged 41, is the Senior Manager of the retail section of the Group. Mr Mio is responsible for the business development and distribution of the Group. Mr Mio has over two years of experience in quality control and planning and operation for hygiene and cleaning services. He joined the Group in August 2000. During the period from 1988 to 1994, Mr Mio worked for Ployking Services Ltd. as operations manager. During the period from 1994 to 1997, Mr Mio worked for a hygiene services company namely Swan Hygiene Services Ltd. as quality control and planning manager. During the period from 1997 to 2000, Mr Mio worked for Baguio Cleaning Services Ltd., a company engaging in building cleaning services, as marketing and operations manager.

**Mr Wong Chun Kit**, aged 40, is the financial controller of the Group. He is responsible for the Group's financial control and treasury functions. He holds a bachelor of arts degree from the University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Society of Accountants. Mr Wong worked at Chu & Chu and Ernst & Young respectively prior to working as a internal control manager for Continental Enterprises Limited engaging in the agricultural commodity trading businesses during the period from 1996 to 1997. Mr Wong worked as an assistant financial controller of a project investment and management company, namely Sadance Enterprises Ltd., focusing on private equity investments in various projects in the PRC for the period from 1997 to 2001 before joining the Group in August 2001.

# DIRECTORS' REPORT

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

## PUBLIC LISTING

The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 May 2002.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are engaged in the manufacture and sales of environmental protection products as well as provision of related services.

The principal activities of the Company's principal subsidiaries are set out in note 34 to the financial statements.

During the year, the Group acquired a group of companies engaged in the provision of food waste management services for a consideration of approximately HK\$6.1 million in cash and 41,666,667 new shares of the Company issued for this transaction.

## RESULTS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 34.

The directors do not recommend the payment of a dividend.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23 to the financial statements.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 38 and note 25 to the financial statements respectively.

The Company's reserves available for distribution represent the share premium and contributed surplus less deficit which in aggregate amounted to approximately HK\$31.8 million as at 31 March 2003. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to

# DIRECTORS' REPORT

pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately HK\$4.8 million in the acquisition of property, plant and equipment which mainly comprised leasehold improvements of approximately HK\$2.9 million, motor vehicles of approximately HK\$0.8 million and office equipment of approximately HK\$0.8 million. Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### EXECUTIVE DIRECTORS:

Tsui Tai Hoi, Raymond (*Managing Director*)  
Yeung Kam Yan  
Leung Chi Kin  
Hoang Tan Van, George  
Chan Hon Chiu  
To Hang Ming

### NON-EXECUTIVE DIRECTOR:

Kong Li Szu (resigned on 13 May 2003)

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Hsu Shiu Foo, William  
Yu Chai Mei

In accordance with Article 87 of the Company's Articles of Association, Messrs. Yeung Kam Yan and Leung Chi Kin will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

All the executive directors have each entered into a service contract with the Company for an initial term of two years commencing on 10 May 2002 which will continue thereafter until terminated by either party giving to the other party not less than six months' notice in writing.

# DIRECTORS' REPORT

Both independent non-executive directors have been appointed for an initial term of one year commencing on 10 May 2002 which will continue thereafter until terminated by the Company giving to the other party not less than one month's notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, the interests of the directors and their associates in ordinary shares of the Company and their associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held under corporate interest
Tsui Tai Hoi, Raymond ( <i>Note a</i> )	416,769,983
Yeung Kam Yan ( <i>Note a</i> )	416,769,983
Leung Chi Kin ( <i>Note a</i> )	416,769,983
Hoang Tan Van, George ( <i>Note a</i> )	416,769,983
Chan Hon Chiu ( <i>Note a</i> )	416,769,983
To Hang Ming ( <i>Note a</i> )	416,769,983
Kong Li Szu ( <i>Note b</i> )	119,229,995

### Notes:

- (a) These shares, representing approximately 47.81% of the issued share capital of the Company, refer 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, both companies being incorporated in the British Virgin Islands.

Tipmax Limited is beneficially wholly-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) These shares, representing approximately 13.68% of the issued share capital of the Company, are held by Count Wealth Investments Limited, a company incorporated in the British Virgin Islands and beneficially wholly-owned by Kong Sun Holdings Limited. Kong Sun Holdings Limited is a company incorporated in Hong Kong with its shares

# DIRECTORS' REPORT

listed on the Stock Exchange. Approximately 41.15% 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. Mr. Kong Li Szu resigned as a director of the Company on 13 May 2003.

Save as disclosed above, none of directors nor any of their associates had any interests as at 31 March 2003 in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's pre-listing share option scheme, each of the six executive directors and an independent non-executive director Professor Yu Chai Mei were granted 8,000,000 and 2,400,000 share options respectively on 26 April 2002 to subscribe for ordinary shares in the Company at an exercise price of HK\$0.14 per share exercisable in three equal tranches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012. None of these options granted were exercised since the date of grant and up to 31 March 2003. Details of the share option scheme are set out in note 24 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries 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 (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons, in addition to the directors stated above under the paragraph headed "Directors' interests in shares", are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Achieve Century Limited	416,769,983
Tipmax Limited (Note a)	416,769,983
Star Wave Limited (Note a)	416,769,983
Count Wealth Investments Limited	119,229,995
Kong Sun Holdings Limited (Note b)	119,229,995
Kong Fa Holding Limited (Note b)	119,229,995
Kong Look Sen (Note b)	119,229,995

# DIRECTORS' REPORT

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.

On 13 May 2003, Count Wealth Investments Limited disposed of its entire interest in the Company to Top Accurate Limited which is wholly-owned by Mr. Albert Ma, an independent third party.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 March 2003.

## SHARE OPTIONS

Details of the share option schemes are set out in note 24 to the financial statements.

### (A) PRE-LISTING SHARE OPTION SCHEME

A summary of the pre-listing share options granted during the year which are exercisable in three equal tranches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK\$0.14 per share is as follows:

Type of participants	Number of share options		
	Granted during the year	Lapsed during the year	Outstanding at 31.3.2003
Directors	50,400,000	–	50,400,000
Advisor	2,400,000	–	2,400,000
Employees	27,200,000	2,400,000	24,800,000
	<u>80,000,000</u>	<u>2,400,000</u>	<u>77,600,000</u>

The exercise price per share of the above share options granted under the pre-listing share option scheme represented 50% of the initial public offering price of the Company's shares.

The total number of shares in respect of which options are issuable under this pre-listing share option scheme was 77,600,000 representing approximately 8.9% of the issued share capital of the Company at 31 March 2003.

# DIRECTORS' REPORT

## (B) POST-LISTING SHARE OPTION SCHEME

On 8 July 2002, 7,150,000 share options were granted under the post-listing share option scheme to an independent advisor at an exercise price of HK\$0.18 per share exercisable in two equal tranches from 9 May 2003 and 9 May 2004, respectively, to 9 May 2005. None of these options granted were exercised since the date of grant and up to 31 March 2003.

The exercise price per share of the above share options granted during the year under the post-listing share option scheme represented the average of closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant. The closing price of the Company's shares as quoted by the Stock Exchange immediately before the date of grant, was HK\$0.17.

The Company's shares were listed on 10 May 2002; the directors of the Company consider that it is inappropriate to state the fair value of the options granted under the above share option schemes of the Company adopted on 20 April 2002 because there is no historical record of the Company's share price.

## DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 69% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 35% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 77% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 37% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

## PURCHASE, SALE OR 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 its public listing date 10 May 2002 to 31 March 2003.



# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## 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 Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the period from its public listing date 10 May 2002 to 31 March 2003.

## 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.

## COMPETING INTEREST

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes with 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.

# DIRECTORS' REPORT

## AUDITORS

During the year, Messrs. Ernst & Young who acted as auditors of the Company since its incorporation resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

**Tsui Tai Hoi, Raymond**  
*Managing Director*

Hong Kong, 20 June 2003

# AUDITORS' REPORT

## 德勤 • 關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

**TO THE SHAREHOLDERS OF  
GRANDY APPLIED ENVIRONMENTAL TECHNOLOGY CORPORATION**  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 34 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**DELOITTE TOUCHE TOHMATSU**

Hong Kong, 20 June 2003

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2003

	NOTES	2003 HK\$	2002 HK\$
Turnover	4	28,318,430	26,321,680
Cost of sales		(13,893,650)	(12,671,875)
Gross profit		14,424,780	13,649,805
Other operating income		394,048	132,901
Selling and distribution costs		(2,253,361)	(2,425,385)
Administrative expenses		(20,846,648)	(5,958,427)
Allowance for bad and doubtful debts		(2,024,952)	–
Product development costs written off		(911,359)	–
(Loss) profit from operations	5	(11,217,492)	5,398,894
Finance costs	8	(476,675)	(2,954,462)
(Loss) profit before taxation		(11,694,167)	2,444,432
Taxation	9	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>
(Loss) earnings per share – Basic	10	<u>(1.38) cents</u>	<u>0.38 cents</u>

# CONSOLIDATED BALANCE SHEET

At 31 March 2003

	NOTES	2003 HK\$	2002 HK\$
<b>Non-current assets</b>			
Property, plant and equipment	11	5,171,956	554,094
Intangible assets	12	10,607,144	911,359
Goodwill	13	3,323,587	–
		<u>19,102,687</u>	<u>1,465,453</u>
<b>Current assets</b>			
Inventories	15	2,827,366	2,184,528
Trade and other receivables	16	22,685,099	14,318,858
Amount due from former ultimate holding company		–	60,953
Amount due from a related company	17	–	10,574
Loan to a director	18	–	2,000,000
Amount due from a director	19	–	118,483
Pledged bank deposits		1,000,000	1,013,431
Bank balances and cash		5,358,649	883,420
		<u>31,871,114</u>	<u>20,590,247</u>
<b>Current liabilities</b>			
Trade and other payables	20	3,153,853	2,590,560
Obligations under finance leases due within one year	21	131,599	33,624
Amounts due to directors		21,324	171,418
Amount due to minority shareholder of a subsidiary		160,000	–
Taxation		26,969	37,000
Convertible notes	22	–	11,675,472
Trust receipt loans – secured		–	1,677,000
Bank overdrafts – secured		306,204	–
		<u>3,799,949</u>	<u>16,185,074</u>
Net current assets		<u>28,071,165</u>	<u>4,405,173</u>
Total assets less current liabilities		<u>47,173,852</u>	<u>5,870,626</u>
<b>Non-current liabilities</b>			
Obligations under finance leases due after one year	21	176,459	30,822
Minority interests		4,915,608	–
Net assets		<u>42,081,785</u>	<u>5,839,804</u>

# CONSOLIDATED BALANCE SHEET

At 31 March 2003

	NOTE	2003 HK\$	2002 HK\$
Capital and reserves			
Share capital	23	8,716,667	86,667
Reserves		<u>33,365,118</u>	<u>5,753,137</u>
Shareholders' funds		<u>42,081,785</u>	<u>5,839,804</u>

The financial statements on pages 34 to 67 were approved and authorised for issue by the Board of Directors on 20 June 2003 and are signed on its behalf by:

**Tsui Tai Hoi, Raymond**  
*Managing Director*

**Yeung Kam Yan**  
*Director*

# BALANCE SHEET

At 31 March 2003

	NOTES	2003 HK\$	2002 HK\$
Non-current assets			
Interests in subsidiaries	14	<u>14,527,257</u>	<u>14,450,380</u>
Current assets			
Accounts receivables		232,500	1,884,695
Amounts due from subsidiaries		25,373,374	–
Bank balances		<u>432,731</u>	<u>700</u>
		<u>26,038,605</u>	<u>1,885,395</u>
Current liabilities			
Accounts payables		91,200	68,000
Amount due to a subsidiary		8	–
Convertible notes	22	<u>–</u>	<u>11,675,472</u>
		<u>91,208</u>	<u>11,743,472</u>
Net current assets (liabilities)		<u>25,947,397</u>	<u>(9,858,077)</u>
Net assets		<u>40,474,654</u>	<u>4,592,303</u>
Capital and reserves			
Share capital	23	8,716,667	86,667
Reserves	25	<u>31,757,987</u>	<u>4,505,636</u>
Shareholders' funds		<u>40,474,654</u>	<u>4,592,303</u>

**Tsui Tai Hoi, Raymond**  
Managing Director

**Yeung Kam Yan**  
Director

# 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, net of minority interests' share	-	-	-	(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.



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2003

	NOTE	2003 HK\$	2002 HK\$
Operating activities			
(Loss) profit before taxation		(11,694,167)	2,444,432
Adjustments for:			
Interest income		(381,687)	(132,901)
Interest expenses		476,675	2,227,419
Amortisation of goodwill		47,400	–
Amortisation of intangible assets		162,856	–
Depreciation of property, plant and equipment		1,259,707	156,734
Loss on disposal of property, plant and equipment		58,074	15,238
Product development costs written off		911,359	–
Allowance for bad and doubtful debts		2,024,952	–
Operating cash flows before movements in working capital		(7,134,831)	4,710,922
Increase in inventories		(642,838)	(2,027,805)
Increase in trade and other receivables		(10,403,311)	(12,653,801)
Decrease (increase) in amount due from former ultimate holding company		60,953	(60,953)
Decrease (increase) in amount due from a related company		10,574	(10,574)
Decrease (increase) in amount due from a director		118,483	(118,483)
Increase in trade and other payables		563,293	1,376,689
Net cash used in operating activities		(17,427,677)	(8,784,005)
Investing activities			
Interest received		381,687	132,901
Purchase of property, plant and equipment		(4,403,231)	(330,042)
Purchase of intangible assets		(770,000)	(170,852)
Purchase of subsidiaries (net of cash and cash equivalents)	26	(6,135,800)	–
Repayment from (advance made to) a director		2,000,000	(2,000,000)
Decrease (increase) in pledged bank deposits		13,431	(1,013,431)
Net cash used in investing activities		(8,913,913)	(3,381,424)

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2003

	2003 HK\$	2002 HK\$
Financing activities		
Interest paid	(152,147)	(551,947)
Proceeds from issue of shares	53,200,000	3,600,780
Proceeds from issue of convertible notes	-	10,000,000
Expenses incurred in connection with the issue of shares	(9,487,788)	-
Redemption of convertible notes	(12,000,000)	-
Capital contributed by minority owner of a subsidiary	770,644	-
Repayment of finance leases	(153,000)	(33,624)
Repayment of borrowings from directors	(150,094)	(525,171)
Borrowings raised from minority shareholder of a subsidiary	160,000	-
(Repayment of) borrowings raised from trust receipt loans	(1,677,000)	1,677,000
Short-term bank loans raised	-	1,000,000
Repayment of short-term bank loans	-	(1,903,450)
Net cash from financing activities	<u>30,510,615</u>	<u>13,263,588</u>
Net increase in cash and cash equivalents	4,169,025	1,098,159
Cash and cash equivalents at 1 April	<u>883,420</u>	<u>(214,739)</u>
Cash and cash equivalents at 31 March	<u><u>5,052,445</u></u>	<u><u>883,420</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	5,358,649	883,420
Bank overdrafts	(306,204)	-
	<u><u>5,052,445</u></u>	<u><u>883,420</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 May 2002.

The Company acts as an investment holding company while its subsidiaries are engaged in the manufacture and sales of environmental protection products as well as provision of related services.

## 2. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time the following new or revised Statements of Standard Accounting Practice ("SSAP") 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 had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its estimated useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

### Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the sales of environmental protection products and provision of related services.

### Revenue recognition

Sales of environmental protection products are recognised when the goods are delivered and title has passed.

Revenue from the provision of environmental protection services are recognised when the services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance, from machinery and equipment let under operating leases is recognised on a straight line basis over the period of the respective leases.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of inception of the leases. Any outstanding principal portion of the leasing commitments is shown as an obligations of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture and fixtures	20%
Machinery and equipment	20% to 33 $\frac{1}{3}$ %
Motor vehicles	20%
Office equipment	20%

Assets held under finance leases are depreciated on the same basis as assets owned by the Group or over the period of the leases, if shorter.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Operation rights and intellectual property

Acquired operation rights and intellectual property are stated at cost less amortisation and any identified impairment loss. Amortisation is calculated on a straight line basis over its estimated useful economic life.

### Product development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated asset arising from product development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

Where no internally-generated asset can be recognised, product development expenditure is recognised as an expense in the period in which it is incurred.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible notes, recognised in the income statement in respect of the convertible notes is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible notes for each accounting period.

### Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

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

### 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 the prevailing market rate.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Geographical segments (Continued)

#### 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	–
	<u>44,615,152</u>	<u>20,158,849</u>	<u>3,335,177</u>	<u>2,761,978</u>
Unallocated	6,358,649	1,896,851	641,231	13,453,918
	<u>50,973,801</u>	<u>22,055,700</u>	<u>3,976,408</u>	<u>16,215,896</u>

#### OTHER INFORMATION

	Capital additions		Depreciation and amortisation	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Hong Kong	18,673,983	330,042	1,406,385	156,734
Malaysia	189,110	–	22,979	–
PRC	1,213,537	170,852	40,599	–
	<u>20,076,630</u>	<u>500,894</u>	<u>1,469,963</u>	<u>156,734</u>

	Loss on disposal of property, plant and equipment		Allowance for bad and doubtful debts	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Hong Kong	58,074	15,238	24,952	–
PRC	–	–	2,000,000	–
	<u>58,074</u>	<u>15,238</u>	<u>2,024,952</u>	<u>–</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 5. (LOSS) PROFIT FROM OPERATIONS

	2003 HK\$	2002 HK\$
(Loss) profit from operations has been arrived at after charging:		
Directors' remuneration (Note 6)	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>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 6. DIRECTORS' REMUNERATION

	2003 HK\$	2002 HK\$
Fees for		
– executive directors	–	–
– independent non-executive directors	107,096	–
– other non-executive director	–	–
	<u>107,096</u>	<u>–</u>
Other emoluments for non-executive directors	–	–
Other emoluments for executive directors		
– basic salaries and allowances	2,388,386	1,284,000
– bonus	210,000	–
– retirement benefits scheme contributions	70,800	57,800
	<u>2,669,186</u>	<u>1,341,800</u>
	<u>2,776,282</u>	1,341,800
Less: Capitalised in product development costs	–	(13,860)
Total directors' remuneration	<u><u>2,776,282</u></u>	<u><u>1,327,940</u></u>

For the year ended 31 March 2003, basic salaries and allowances and bonus paid to each of the five executive directors and the remaining executive director were HK\$374,516 and HK\$725,806 respectively while contributions to retirement benefits scheme in respect of each of the six executive directors was HK\$11,800. Also, for the year ended 31 March 2003, the fees paid to each of the independent non-executive director was HK\$53,548.

For the year ended 31 March 2002, basic salaries and allowances paid to each of the six executive directors was HK\$214,000 while contributions to retirement benefits scheme in respect of each of the five executive directors and the remaining executive director were HK\$9,900 and HK\$8,300 respectively.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three executive directors of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining two highest paid individuals are as follows:

	2003 HK\$	2002 HK\$
Basic salaries and allowances	1,046,000	905,157
Retirement benefits scheme contributions	24,000	16,788
	<u>1,070,000</u>	<u>921,945</u>

None of the above two highest paid individuals received emoluments in excess of HK\$1 million.

## 8. FINANCE COSTS

	2003 HK\$	2002 HK\$
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>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 9. TAXATION

	2003 HK\$	2002 HK\$
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	10,031	-
	<u>10,031</u>	<u>(37,000)</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.

## 10. (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 11. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK\$	Leasehold improvements HK\$	Machinery and equipment HK\$	Motor vehicles HK\$	Office equipment HK\$	Total HK\$
<b>THE GROUP</b>						
<b>COST</b>						
At 1 April 2002	68,513	72,475	-	156,574	632,051	929,613
Acquired on acquisition of subsidiaries	-	-	1,135,800	-	-	1,135,800
Additions	356,710	2,852,388	25,540	760,928	804,277	4,799,843
Disposals	(64,043)	(68,017)	-	-	(10,718)	(142,778)
At 31 March 2003	<u>361,180</u>	<u>2,856,846</u>	<u>1,161,340</u>	<u>917,502</u>	<u>1,425,610</u>	<u>6,722,478</u>
<b>DEPRECIATION</b>						
At 1 April 2002	39,375	35,253	-	93,945	206,946	375,519
Provided for the year	60,294	777,720	56,790	123,741	241,162	1,259,707
Eliminated on disposals	(41,223)	(36,871)	-	-	(6,610)	(84,704)
At 31 March 2003	<u>58,446</u>	<u>776,102</u>	<u>56,790</u>	<u>217,686</u>	<u>441,498</u>	<u>1,550,522</u>
<b>NET BOOK VALUES</b>						
At 31 March 2003	<u>302,734</u>	<u>2,080,744</u>	<u>1,104,550</u>	<u>699,816</u>	<u>984,112</u>	<u>5,171,956</u>
At 31 March 2002	<u>29,138</u>	<u>37,222</u>	<u>-</u>	<u>62,629</u>	<u>425,105</u>	<u>554,094</u>

At the balance sheet date, the net book value of property, plant and equipment held under finance leases was HK\$358,816 (2002: HK\$62,629).

Certain of the Group's machinery and equipment with an aggregate cost and accumulated depreciation of HK1,135,800 and HK\$56,790 respectively were held for use under operating leases.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 12. INTANGIBLE ASSETS

	Operation rights HK\$	Intellectual property HK\$	Product development costs HK\$	Total HK\$
<b>THE GROUP</b>				
<b>COST</b>				
At 1 April 2001	–	–	740,507	740,507
Additions	–	–	170,852	170,852
At 31 March 2002	–	–	911,359	911,359
Acquired on acquisition of subsidiaries	10,000,000	–	–	10,000,000
Additions	–	770,000	–	770,000
Write-off	–	–	(911,359)	(911,359)
At 31 March 2003	10,000,000	770,000	–	10,770,000
<b>AMORTISATION</b>				
Amortised for the year and balance at 31 March 2003	140,400	22,456	–	162,856
<b>CARRYING VALUE</b>				
At 31 March 2003	9,859,600	747,544	–	10,607,144
At 31 March 2002	–	–	911,359	911,359

The operation rights of HK\$10,000,000 represents the sole exclusive rights acquired for the remaining term of 20 years commencing November 2000 for the sale, installation, operation of food waste management business including the right of modification and manufacturing of the relevant machinery in Hong Kong and certain cities in the PRC. The operation rights is amortised on a straight line basis over the remaining term of the rights acquired.

The intellectual property represents the exclusive worldwide rights acquired to the use and ownership of the expertise and intellectual property developed by a professor in Mainland China. The intellectual property is amortised on a straight line basis over its estimated useful economic life of 20 years.

During the year, the directors conducted a review on the Group's intangible assets for impairment and identified the above product development costs has no economic value to the Group. Accordingly, it was written off in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 13. GOODWILL

	HK\$
<b>THE GROUP</b>	
<b>COST</b>	
Arising from acquisition during the year and balance at 31 March 2003	3,370,987
<b>AMORTISATION</b>	
Amortised during the year and balance at 31 March 2003	<u>47,400</u>
<b>CARRYING VALUE</b>	
At 31 March 2003	<u><u>3,323,587</u></u>

Goodwill is amortised on a straight line basis over its estimated useful economic life of 20 years.

## 14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	1,527,257	1,527,007
Advance to a subsidiary	<u>13,000,000</u>	<u>12,923,373</u>
	<u><u>14,527,257</u></u>	<u><u>14,450,380</u></u>

Details of the Company's principal subsidiaries at 31 March 2003 are set out in note 34.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 15. INVENTORIES

	THE GROUP	
	2003 HK\$	2002 HK\$
Raw materials	233,906	135,097
Work in progress	28,461	198,688
Finished goods	2,564,999	1,850,743
	<u>2,827,366</u>	<u>2,184,528</u>

## 16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2003 HK\$	2002 HK\$
Trade receivables	17,013,383	11,934,985
Deposits made to suppliers	4,189,465	–
Other receivables	1,482,251	2,383,873
	<u>22,685,099</u>	<u>14,318,858</u>

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2003 HK\$	2002 HK\$
Age		
0 to 90 days	3,090,436	3,807,905
91 to 180 days	870,157	6,338,540
181 to 365 days	15,077,742	1,737,966
Over 365 days	–	50,574
	<u>19,038,335</u>	<u>11,934,985</u>
Less: Allowance for bad and doubtful debts	(2,024,952)	–
	<u>17,013,383</u>	<u>11,934,985</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 17. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company in which all the executive directors of the Company, except for Mr. Tsui Tai Hoi, Raymond, have beneficial interests are as follows:

Name of a related company	Balance	THE GROUP	
	at 31.3.2003 HK\$	Balance at 1.4.2002 HK\$	Maximum amount outstanding during the year HK\$
Star Wave Limited	—	10,574	10,574

The amount was unsecured, interest-free and was fully repaid during the year.

## 18. LOAN TO A DIRECTOR

Details of the loan to a director are as follows:

Name of director	Balance	THE GROUP	
	at 31.3.2003 HK\$	Balance at 1.4.2002 HK\$	Maximum amount outstanding during the year HK\$
Mr. Tsui Tai Hoi, Raymond	—	2,000,000	2,000,000

The loan was unsecured, carried interest at 8% per annum and was fully repaid during the year.

## 19. AMOUNT DUE FROM A DIRECTOR

Details of the amount due from a director are as follows:

Name of director	Balance	THE GROUP	
	at 31.3.2003 HK\$	Balance at 1.4.2002 HK\$	Maximum amount outstanding during the year HK\$
Mr. Tsui Tai Hoi, Raymond	—	118,483	118,483

The amount was unsecured, interest-free and was fully repaid during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 20. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003 HK\$	2002 HK\$
Trade payables	951,755	1,399,687
Other payables	2,202,098	1,190,873
	<u>3,153,853</u>	<u>2,590,560</u>

The following is an aged analysis of trade payables at the balance sheet date:

Age	THE GROUP	
	2003 HK\$	2002 HK\$
0 to 90 days	752,701	1,276,127
91 to 180 days	–	51,506
181 to 365 days	197,163	–
Over 365 days	1,891	72,054
	<u>951,755</u>	<u>1,399,687</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 21. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Amount payable under finance leases:				
Within one year	153,627	42,876	131,599	33,624
Between one to two years	114,324	39,303	100,776	30,822
Between two to five years	85,843	–	75,683	–
	<u>353,794</u>	<u>82,179</u>	<u>308,058</u>	<u>64,446</u>
Less: Future finance charges	45,736	17,733	–	–
	<u>308,058</u>	<u>64,446</u>	<u>308,058</u>	<u>64,446</u>
Less: Amount due within one year shown under current liabilities			131,599	33,624
Amount due after one year			<u>176,459</u>	<u>30,822</u>

## 22. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY	
	2003 HK\$	2002 HK\$
8% convertible notes	–	10,000,000
Add: Accumulated accretion of premium payable upon the final redemption of the convertible notes	–	1,675,472
	<u>–</u>	<u>11,675,472</u>

The convertible notes were fully redeemed in May 2002 at 120% of the principal amount pursuant to a supplemental deed with the noteholders.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 23. SHARE CAPITAL

	Number of ordinary shares	Nominal value per ordinary share	Amount
Authorised			
– on incorporation	50,000	US\$1.00	US\$50,000
– redenomination and subdivision of shares during the year and balance at 31 March 2002	39,000,000	HK\$0.01	HK\$390,000
– increase in authorised share capital	1,461,000,000	HK\$0.01	HK\$14,610,000
– at 31 March 2003	<u>1,500,000,000</u>	HK\$0.01	<u>HK\$15,000,000</u>
Issued and fully paid			
– on incorporation	1	US\$1.00	US\$1
– issue of shares	9,999	US\$1.00	US\$9,999
	<u>10,000</u>	US\$1.00	<u>US\$10,000</u>
– redenomination and subdivision of shares	7,800,000	HK\$0.01	HK\$78,000
– exercise of share options	866,667	HK\$0.01	HK\$8,667
– at 31 March 2002	8,666,667	HK\$0.01	HK\$86,667
– issue of new shares on listing	190,000,000	HK\$0.01	HK\$1,900,000
– bonus issue of shares	631,333,333	HK\$0.01	HK\$6,313,333
– issue of new shares for acquisition	41,666,667	HK\$0.01	HK\$416,667
– at 31 March 2003	<u>871,666,667</u>	HK\$0.01	<u>HK\$8,716,667</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 23. SHARE CAPITAL (CONTINUED)

During the year, the following changes in the share capital of the Company took place:

- (a) Pursuant to the written resolutions dated 20 April 2002 and passed by all the shareholders of the Company
  - the authorised share capital of the Company was increased from \$390,000 to HK\$15,000,000 by the creation of additional 1,461,000,000 new shares of HK\$0.01 each.
  - the Company made a bonus issue of 631,333,333 new shares of HK\$0.01 each, credited as fully paid at par to the then existing shareholders. This bonus issue was funded by the capitalisation of a sum of HK\$6,313,333 standing to the credit of the Company's share premium account.
- (b) Pursuant to the placing and underwriting agreement dated 26 April 2002, the Company offered 160,000,000 new shares for subscription at a price of HK\$0.28 per share. The net proceeds from this subscription were used for the Company's business expansion and to provide additional general working capital.
- (c) 30,000,000 new shares were issued at a price of HK\$0.28 per share pursuant to the exercise of over-allotment options granted to the placing underwriters. The net proceeds from this subscription were used for the Company's business expansion and to provide additional general working capital.
- (d) On 20 December 2002, the Company issued 41,666,667 shares of HK\$0.01 each as part of the consideration for the acquisition of 60% equity interests of a group of companies engaged in the provision of food waste management services.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

## 24. SHARE OPTIONS

### (a) Pre-listing share options

Pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002, the Company may grant options for a consideration of HK\$1 per offer to any directors, employees, consultants and advisors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. All of these options have a duration of 10 years from and including 10 May 2002 subject to the terms of the scheme.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 24. SHARE OPTIONS (CONTINUED)

### (a) Pre-listing share options (Continued)

Details of the movements in the number of share options during the year under the Company's pre-listing share option scheme which are exercisable in three equal trenches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK\$0.14 per share are as follows:

Type of participants	Number of share options		
	Granted during the year	Lapsed during the year	Outstanding at 31.3.2003
Directors	50,400,000	–	50,400,000
Advisor	2,400,000	–	2,400,000
Employees	27,200,000	2,400,000	24,800,000
	<u>80,000,000</u>	<u>2,400,000</u>	<u>77,600,000</u>

### (b) Post-listing share options

Pursuant to the post-listing share option scheme also adopted by the Company on 20 April 2002, the Company may grant options for a consideration of HK\$1 per offer to any directors, employees, any supplier of goods or services, any customers, any person or entity that provides research, development or other technical support or any shareholder of the Group or any investee or any holder of any securities issued by any member of the Group or any investee, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the post-listing share option scheme shall not exceed 10% of the issued share capital of the Company from time to time. No participant shall be granted an option, if exercised in full, would result in the total number of shares already issued under all the options granted to him or her which have been exercised and issuable under all the options granted to him or her which are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of shares in issue. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares. The share options are exercisable for a period not later than 10 years from the date of grant.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 24. SHARE OPTIONS (CONTINUED)

### (b) Post-listing share options (Continued)

On 8 July 2002, 7,150,000 share options were granted under the post-listing share option scheme to an independent advisor at an exercise price of HK\$0.18 per share exercisable in two equal tranches from 9 May 2003 and 9 May 2004, respectively, to 9 May 2005. The total number of shares in respect of which options are issuable under this scheme was 7,150,000, representing approximately 0.82% of the issued share capital of the Company at 31 March 2003. None of these options granted were exercised since the date of grant and up to 31 March 2003.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 25. RESERVES

	Share premium HK\$	Contributed surplus HK\$	Deficit HK\$	Total HK\$
<b>THE COMPANY</b>				
At 1 April 2001	–	–	–	–
Premium arising on issue of shares	3,888,697	–	–	3,888,697
Arising from group reorganisation	–	1,452,415	–	1,452,415
Net loss for the year	–	–	(835,476)	(835,476)
At 31 March 2002	3,888,697	1,452,415	(835,476)	4,505,636
Premium arising on issue of shares	54,800,000	–	–	54,800,000
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)
Net loss for the year	–	–	(11,746,528)	(11,746,528)
At 31 March 2003	<u>42,887,576</u>	<u>1,452,415</u>	<u>(12,582,004)</u>	<u>31,757,987</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 25. RESERVES (CONTINUED)

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the group reorganisation in 2001 and the nominal amount of the Company's shares issued for the acquisition.

## 26. PURCHASE OF SUBSIDIARIES

	2003 HK\$	2002 HK\$
Net assets acquired:		
Property, plant and equipment	1,135,800	–
Intangible assets	10,000,000	–
Minority interests	(4,454,320)	–
	<hr/>	<hr/>
Net assets	6,681,480	–
Goodwill arising on acquisition	3,370,987	–
	<hr/>	<hr/>
	<b>10,052,467</b>	<b>–</b>
	<hr/>	<hr/>
Satisfied by:		
Cash consideration paid	6,135,800	–
Issue of the Company's new shares	3,916,667	–
	<hr/>	<hr/>
	<b>10,052,467</b>	<b>–</b>
	<hr/>	<hr/>
Outflow of cash and cash equivalents in connection with the purchase of subsidiaries	<b>(6,135,800)</b>	<b>–</b>
	<hr/>	<hr/>

The subsidiaries acquired during the year did not have any significant impact on the Group's cash flows or operating results.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 27. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a finance lease in respect of property, plant and equipment with a total capital value at the inception of the lease of HK\$396,612 (2002: Nil).

A portion of the consideration for the acquisition of subsidiaries during the year was satisfied by the issue of the Company's new shares.

In 2002, certain professional services of HK\$300,000 were settled by the granting of the Company's share options.

## 28. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group had unrecognised net deferred tax asset as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Taxation effect of timing differences arising as a result of:		
Tax losses available to set off against future assessable profits	1,797,000	97,000
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	(501,000)	(58,000)
Net deferred tax asset	<u>1,296,000</u>	<u>39,000</u>

The net deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 29. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Within one year	1,105,298	127,737
In the second to fifth year inclusive	1,328,973	–
	<u>2,434,271</u>	<u>127,737</u>

## 30. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$	2002 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of the investment in the PRC	<u>3,199,000</u>	<u>–</u>

The Company had no other significant capital commitments at the balance sheet date.

## 31. OTHER COMMITMENTS

Pursuant to an exclusive right to distribute and sell and the right to use the enzyme-based materials worldwide except North America, South Korea and Japan, the Group was committed to pay to an independent third party 10% of the net profit after taxation of the relevant business for 30 years expiring October 2028. No payments was made during the year as the relevant business was operating at a loss in which the loss could be carried forward to set off against future profits of the relevant business.

The Company had no other significant commitments at the balance sheet date.

## 32. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given corporate guarantees of HK\$10,500,000 (2002: Nil) to banks to secure the credit facilities granted to its subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The Group also operates an Employee Provident Fund Scheme (the "Malaysian Scheme") for all qualifying employees in Malaysia. The assets of the Malaysian Scheme are held separately from the Group in an independently administered fund. The Company's Malaysian subsidiary is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits.

## 34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies, at 31 March 2003 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued/ registered capital	Proportion of nominal value of issued/registered capital indirectly held by the Company	Principal activities
Grandy Environmental (H.K.) Limited	Hong Kong	HK\$3,010,000	100%	Manufacture and sales of environmental protection products and provision of related services
Grandy Environmental (M) Sdn. Bhd.	Malaysia	RM100,000	100%	Sales of environmental protection products
Grandy Enviro-Tech Company Limited	Hong Kong	HK\$10,000	100%	Sales of environmental protection products

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

## 34. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued/ registered capital	Proportion of nominal value of issued/registered capital indirectly held by the Company	Principal activities
Grandy Kindness Food Waste Technology Limited	Hong Kong	HK\$11,135,802	60%	Provision of food waste management services
Beijing Grandy Green Technology Limited	PRC*	HK\$2,200,000	65%	Provision of environmental protection services for a term of 20 years commencing 11 September 2002
Zuhai Grandy Star Environmental Technology Corporation	PRC*	RMB5,000,000	100%	Provision of environmental protection services for a term of 30 years commencing 14 November 2002

\* *These are foreign investment enterprises established in the PRC.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

# FINANCIAL SUMMARY

	20.1.1999 to 31.3.2000 HK\$	1.4.2000 to 31.3.2001 HK\$	1.4.2001 to 31.3.2002 HK\$	1.4.2002 to 31.3.2003 HK\$
<b>RESULTS</b>				
Turnover	<u>2,203,903</u>	<u>7,117,653</u>	<u>26,321,680</u>	<u>28,318,430</u>
(Loss) profit before taxation	(2,304,196)	(1,174,212)	2,444,432	(11,694,167)
Taxation	–	–	(37,000)	10,031
(Loss) profit before minority interests	(2,304,196)	(1,174,212)	2,407,432	(11,684,136)
Minority interests	–	–	–	309,356
Net (loss) profit for the period/year	<u>(2,304,196)</u>	<u>(1,174,212)</u>	<u>2,407,432</u>	<u>(11,374,780)</u>
		<b>As at 31 March</b>		
	2000 HK\$	2001 HK\$	2002 HK\$	2003 HK\$
<b>ASSETS AND LIABILITIES</b>				
Total assets	1,396,315	2,688,865	22,055,700	50,973,801
Total liabilities	(3,690,511)	(3,157,273)	(16,215,896)	(3,976,408)
Minority interests	–	–	–	(4,915,608)
(Deficiency) balance of shareholders' funds	<u>(2,294,196)</u>	<u>(468,408)</u>	<u>5,839,804</u>	<u>42,081,785</u>

The results and summary of assets and liabilities for each of the three periods ended 31 March 2002, which were extracted from the Company's prospectus dated 29 April 2002 and the 2002 annual report, have been prepared on a combined basis as if the current group structure had been in existence throughout those periods.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting of the shareholders of Grandy Applied Environmental Technology Corporation (the "Company") will be held at 10/F Luk Kwok Centre, 72 Gloucester Road, Wanchai, Hong Kong, on Friday, 25 July 2003 at 9:30 a.m. for the following purposes:–

1. to receive and consider the audited financial statements and the reports of the directors of the Company (the "Directors") and auditors for the year ended 31 March 2003;
2. to re-elect Directors and authorise the board of Directors (the "Board") to fix their remuneration;
3. to appoint auditors and authorise the Board to fix their remuneration;
4. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

**"THAT:**

- (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue; or (ii) the grant or exercise of any option under the share option schemes of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for are convertible into shares of the Company, shall not exceed the aggregate of:

# NOTICE OF ANNUAL GENERAL MEETING

- (i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
- (ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution).

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company).”



# NOTICE OF ANNUAL GENERAL MEETING

5. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

**“THAT:**

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its shares on the GEM or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong (“SFC”) and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws of Cayman Islands to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this resolution.”

# NOTICE OF ANNUAL GENERAL MEETING

6. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

**“THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no.4 set out in the notice convening this meeting in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such resolution.”

By Order of the Board  
**Barbara Lau**  
Company Secretary

Hong Kong, 20 June 2003

*Principal place of business:*  
10/F Luk Kwok Centre  
72 Gloucester Road  
Wanchai, Hong Kong

*Notes:*

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a person or persons as his proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's principal place of business at 10/F Luk Kwok Centre, 72 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time of the meeting or any adjourned meeting.
3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.