



**Grandy Applied Environmental Technology Corporation**

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

Environmental protection  
1st Quarterly Report always pays...  
2003/04



## **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 (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this 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.*

## **Business Review**

Grandy Applied Environmental Technology Corporation (the "Company") and its subsidiaries (collectively, 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, China and parts of South East Asia.

Results of the Group for the first quarter ended 30 June 2003 have shown a downturn in business performance in comparison with results for the corresponding period of the previous year. Turnover of the Group in the period under review was approximately HK\$3,989,000 in comparison with approximately HK\$8,390,000 for the first quarter of the previous year, representing a decrease of approximately 52%. Net loss attributable to shareholders for the period under review was approximately HK\$5,550,000.

The loss for the first quarter ended 30 June 2003 reflects the Group's continuing planned investment in pursuit of its business development activities and widening its product ranges and research and development funding for projects directed at refreshment of its technology base. The decrease in turnover in comparison with that for the first quarter of the previous year reflects a general worsening of the business climate throughout the region, particularly in Hong Kong and Mainland China, in the wake of the crisis over Severe Acute Respiratory Syndrome ("SARS") and the war in Iraq.

**Promotional and Brand-building Activities.** The Group continues to promote its range of products and brand through making high level presentations to key clients and governmental departments throughout its regions of operation. Also, the English and Chinese versions of our website are continually updated with our latest developments.

**Indoor Air Quality (“IAQ”) and Indoor Sterilization Services.** The outbreak of SARS has been widely acknowledged as a turning point for Hong Kong and for the region as a whole. As a result, people’s awareness of the importance of environmental hygiene has been heightened. In response to the SARS crisis, the Group has promoted its services for cleaning and maintaining the cleanliness of building ventilation systems for improvement of IAQ with particular focus on the territories of Hong Kong and Beijing where there is concern that there will be a reoccurrence of SARS later in the year. In addition, 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>), which is a very powerful disinfectant that is effective against bacteria, fungi and viruses such as the corona virus that is responsible for 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.

**Green Campus Solutions.** A contract was signed with a developer of the Beihai University Economic District for carrying out ecological assessment and planning.

**Waste Water Treatment Projects.** The Group has continued to build on its business in the area of recycling and re-use of industrial wastewater. Projects for treatment of effluent from cloth-washing, electroplating and printed circuit board factories are currently in progress in Southern China and Shandong. In addition, a demonstration-scale (10 tons per day) wastewater recycling system has been established in the Shenzhen area 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.

**Energy-saving Products.** In Hong Kong, sales of *LightEco* have increased in the period following recovery from the outbreak of SARS. Both *LightEco* and *SAVAControl* continue to be marketed actively in South East Asia with sales progressing steadily in the region.

**Waste Management.** Site tests in Hong Kong and the Shenzhen area are in progress for the Group's food waste management system that converts food waste into a soil conditioner that has commercial value.

In June 2003, a subsidiary of the Group, United Consultancy Limited, entered into a Co-operation and License Agreement with MK Protech OY, a Finnish corporation, which is engaged in providing technology for pre-treatment of municipal solid waste followed by anaerobic digestion for conversion of the organic fraction of the garbage-type waste into humus products and bio-gas, which can be used for the generation of electricity. This waste-to-energy system helps reduce the burden on land fill and dump sites and provides an environmentally-friendly and more cost-effective alternative to incineration. The technology known as HLAD (High Loaded Anaerobic Digestion) is being promoted particularly in our territories in South East Asia.

**Clean Technology for Boosting Oil Production.** The Group's subsidiary known as Beijing Grandy Green Technology Limited in May 2003 signed an exclusive agreement with CALTEC Ltd, a company in the UK, for the exclusive distribution in Mainland China of its environmentally-friendly *WELLCOM* equipment range for boosting oil and gas production and *I-Sep* equipment for in-line separation. The *WELLCOM* technology enables a higher proportion of a well's oil/gas to be recovered, extending the useful production life of the well by utilizing energy from high pressure wells to boost the production of neighboring low pressure oil/gas wells. Target clients for such equipment will be the Mainland Chinese oil companies.

**Green Technology.** Beijing Grandy Green Technology Limited was informed by the Human Resource Department of Beijing Government on 30 June 2003 that the company has been awarded a prestigious contract for promotion of "CFD Modelling and Optimization of Crystallization Processes" as a new technology of national importance, and the result was announced on the Beijing Government's website: <http://www.bjp.gov.cn/files/gongshichuang/2003-4-16.htm>.

**Refreshment of the Group's Technology Base.** The Group continues to participate with HKUST in projects that are part-funded by the Hong Kong SAR Government's Innovation Technology Fund. One project is directed at development of novel bio-sensors for monitoring pollutants in waste water, and the other is aimed at development of novel nano-catalysts for the treatment of waste water and improvement of IAQ.

### **Future Prospects**

**Market Demand.** In Mainland China, the Group considers that the principal market drivers for its total Environmental Protection Solutions include:

- China'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
- Fear over the widely predicted re-occurrence of SARS later this year and the likely implementation of legislation in Beijing concerning the maintenance of air duct hygiene
- Drive towards Cleaner Production and Good Manufacturing Practices standards in the chemical and related process industries such as fine chemicals and pharmaceuticals

In order to meet the projected demand, the Group has been developing and acquiring expertise in areas such as waste water treatment solutions, Green Technology/Cleaner Production and provision of IAQ improvement services.

**Green Technology.** The Group is well placed to capitalize on Mainland China's Cleaner Production and other Green Policy initiatives through its subsidiary known as Beijing Grandy Green Technology Limited.

**Positioning of the Group to Capture the Asian Market.** The Group is now well positioned to penetrate further into the Chinese market by capitalizing on its sustained marketing efforts to date through the establishment of offices in its clients' key locations of Hong Kong, Malaysia, Singapore, Zhuhai, Humen and Beijing.

**Outlook.** Going forward, the Group will continue to devote considerable resources to marketing, brand building and further expansion in its established territories in Mainland China and South East Asia.

The Group considers that its established presence in strategic geographical locations together with its comprehensive, integrated range of products and services combine to provide a good basis for renewal and continuation in the future of robust, managed growth.

**First Quarterly Results (Unaudited)**

The board (the "Board") of directors (the "Directors") announced the unaudited consolidated results of the Company for the three months ended 30 June 2003, together with the unaudited comparative figures for the corresponding period in 2002 as follows:

	Notes	Three months ended	
		2003	2002
		HK\$'000	HK\$'000
<b>TURNOVER</b>	3	<b>3,989</b>	8,390
Cost of sales		<b>(1,640)</b>	(3,966)
Gross profit		<b>2,349</b>	4,424
Other operating income		<b>3</b>	252
Selling and distribution costs		<b>(429)</b>	(615)
Administrative expenses		<b>(6,119)</b>	(3,410)
Allowance for bad and doubtful debts		<b>(1,500)</b>	–
<b>(LOSS)/PROFIT FROM OPERATIONS</b>		<b>(5,696)</b>	651
Finance costs		<b>(35)</b>	(515)
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(5,731)</b>	136
Taxation	4	<b>–</b>	–
<b>(LOSS)/PROFIT BEFORE MINORITY INTERESTS</b>		<b>(5,731)</b>	136
Minority interests		<b>181</b>	–
<b>NET (LOSS)/PROFIT FOR THE PERIOD</b>		<b>(5,550)</b>	136
<b>(LOSS)/EARNINGS PER SHARE</b>			
– Basic (HK cents)	5	<b>(0.637)</b>	0.018
<b>(LOSS)/EARNINGS PER SHARE</b>			
– Diluted (HK cents)	5	<b>N/A</b>	0.017
<b>INTERIM DIVIDEND PER SHARE</b>	7	<b>–</b>	–



Notes:

**1. General**

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability. The shares of the Company were listed on the Growth Enterprise Market ("GEM") 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. Principal accounting policies**

The unaudited consolidated results have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2003, except for the adoption of Statements of Standard Accounting Practice No. 12 (Revised) "Income Taxes" ("SSAP 12") issued by Hong Kong Society of Accountants which became effective in the current period. The adoption of the SSAP 12 had no significant impact on the results for the current and prior periods. Accordingly, no prior period adjustment was required.

**3. Turnover and revenue**

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

**4. Taxation**

No provision for Hong Kong profits tax was made in prior period and during the period as the Group had no assessable profit arising in Hong Kong for that period.

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

The Group's subsidiary incorporated in Malaysia is in the process of applying for exemption from corporate income tax. Without the tax exemption, the normal corporate income tax rate applicable to the subsidiary in Malaysia is 28%. The Group's subsidiaries incorporated in Zhuhai and in Singapore are subject to corporate income tax at 33% and 22% respectively.

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiary incorporated 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 income tax in Malaysia, the PRC and Singapore has been made in the financial statements as all the overseas subsidiaries had no assessable profit for the period.

#### **5. (Loss)/Earnings per share**

The calculation of basic loss per share for the three months ended 30 June 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders of HK\$5,550,000 and on the average number of 871,666,667 ordinary shares in issue during the period.

The calculation of basic earnings per share for the three months ended 30 June 2002 is based on the unaudited net profit from ordinary activities attributable to shareholders of HK\$136,000 and the weighted average of 754,835,165 ordinary shares in issue during the period.

No diluted loss per share for the three months ended 30 June 2003 has been presented as the exercise prices of the Company's share options were higher than the average market price of the Company's shares during the period.

The calculation of diluted earnings per share for the three months ended 30 June 2002 is based on the unaudited net profit attributable to shareholders of HK\$136,000 and 782,592,326 ordinary shares, being 754,835,165 ordinary shares as used in the calculation of basic earnings per share and the weighted average of 27,757,161 ordinary shares assumed to have been in issue at no consideration on the deemed exercise of the pre-listing share options.

**6. Capital and reserves**

	<b>Share capital</b>	<b>Share premium</b>	<b>Special reserve</b>	<b>Translation reserve</b>	<b>Deficit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2002	87	3,889	2,935	–	(1,071)	5,840
Issue of new shares	1,900	51,300	–	–	–	53,200
Expenses incurred in connection with the issue of shares	–	(9,430)	–	–	–	(9,430)
Capitalisation on bonus issue of shares	6,313	(6,313)	–	–	–	–
Net profit for the period	–	–	–	–	136	136
<b>At 30 June 2002</b>	<b>8,300</b>	<b>39,446</b>	<b>2,935</b>	<b>–</b>	<b>(935)</b>	<b>49,746</b>
At 1 April 2003	8,717	42,888	2,935	(12)	(12,446)	42,082
Net loss for the period	–	–	–	–	(5,550)	(5,550)
<b>At 30 June 2003</b>	<b>8,717</b>	<b>42,888</b>	<b>2,935</b>	<b>(12)</b>	<b>(17,996)</b>	<b>36,532</b>

**7. Dividend**

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2003 (2002: Nil).

## Disclosure of Interests

### Directors

As at 30 June 2003, the interests of the Directors in the shares or underlying shares of the Company (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests which they were taken or deemed to have under such provision of the SFO) or (b) which were required to be recorded in the register maintained by the Company under Section 352 of the SFO or (c) otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

### Long position in shares

Name of Director	Number of shares	Capacity/ Nature of interest	Approximate percentage of the issued share capital (%)
Tsui Tai Hoi Raymond	416,769,983*	Interest of a controlled corporation/Corporate	47.81
Yeung Kam Yan	416,769,983*	Interest of a controlled corporation/Corporate	47.81
Leung Chi Kin	416,769,983*	Interest of a controlled corporation/Corporate	47.81
Hoang Tan Van George	416,769,983*	Interest of a controlled corporation/Corporate	47.81
Chan Hon Chiu	416,769,983*	Interest of a controlled corporation/Corporate	47.81
To Hang Ming	416,769,983*	Interest of a controlled corporation/Corporate	47.81

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

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

**Long position in underlying shares**

The Directors were granted options to subscribe for the shares of the Company under a pre-listing share option scheme adopted by the Company on 20 April 2002, details of which are as follows:

<b>Name of Director</b>	<b>Number of underlying shares in respect of the options granted<sup>#</sup></b>
Tsui Tai Hoi Raymond	8,000,000
Yeung Kam Yan	8,000,000
Leung Chi Kin	8,000,000
Hoang Tan Van George	8,000,000
Chan Hon Chiu	8,000,000
To Hang Ming	8,000,000
Yu Chai Mei	2,400,000

<sup>#</sup> Each of the pre-listing share options granted on 26 April 2002 carries a right to subscribe for one ordinary share of the Company at an exercise price of HK\$0.14, representing 50% of the offer price of HK\$0.28 per share in respect of the Company's initial public offering. These share options may be exercised in three equal tranches commencing on 10 November 2002, 10 May 2003 and 10 May 2004, respectively. These share options, if not otherwise exercised, will lapse on 9 May 2012. During the period under review, none of these share options were exercised.

Save as disclosed above, as at 30 June 2003, none of the Directors had any interests or short positions in the securities of the Company or any of its associated corporations, within the meaning of the SFO, (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or (b) which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or (c) which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors.

### Substantial Shareholders

So far as was known to any Director or chief executive of the Company, as at 30 June 2003, the following parties, other than the Directors, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meeting of the Company:

Name of shareholders	Number of shares	Capacity	Approximate percentage of issued share capital (%)
Achieve Century Limited	416,769,983	Beneficial owner	47.81
Tipmax Limited (Note a)	416,769,983	Interest in a controlled corporation	47.81
Star Wave Limited (Note a)	416,769,983	Interest in a controlled corporation	47.81
Top Accurate Limited	119,229,995	Beneficial owner	13.68
Mr Albert Ma (Note b)	119,229,995	Interest in a controlled corporation	13.68

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) Mr Ma was deemed to have interests in 119,229,995 shares of the Company by virtue of his equity interests in Top Accurate Limited.

Save as disclosed above, no persons, other than the Directors whose interests are set out in the sub section "Directors" above, have interests or short positions in shares or underlying shares representing 10% or more of the issued share capital of the Company or as otherwise required to be recorded in the register kept under Section 336 of the SFO.

### **Outstanding Share Options**

As at 30 June 2003, options to subscribe for an aggregate of 84,750,000 shares of the Company granted pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002 and the post-listing share option scheme after listing were outstanding, details of which are as follows:

#### **Pre-listing share option scheme**

As at 30 June 2003, options to subscribe for an aggregate of 77,600,000 shares of the Company at an exercise price of HK\$0.14 each were outstanding and these options relate to the options granted to 7 Directors (including the Directors as disclosed above), one technical adviser and 5 employees of the Company at the date of grant. The options will vest in three equal tranches on 10 November 2002, 10 May 2003 and 10 May 2004 respectively. The options, if not otherwise exercised, will lapse on 9 May 2012.

#### **Post-listing share option scheme**

Options to subscribe for an aggregate of 7,150,000 shares of the Company of an exercise price of HK\$0.18 each were granted on 8 July 2002 to an independent advisor. Half of the options are exercisable from 9 May 2003 to 9 May 2005 and the remainder from 9 May 2004 to 9 May 2005. The closing market price of the shares of the Company immediately before the date of grant is HK\$0.173. As at 30 June 2003, these options remained outstanding.

The Directors consider that it is not necessary to state the value of the share options granted during the period on the ground that the market price of the Company's shares were constantly lower than the exercise price of the options after the date of grant. Furthermore, the information based on the speculative assumptions for valuing the options would not be useful to the shareholders and may be misleading to the shareholders.

**Competing Interests**

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

**Sponsor's Interests**

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 30 June 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.

**Audit Committee**

The written terms of reference which describe the authority and duties of the Company's audit committee (the "Audit Committee") were prepared and adopted with reference to Rules 5.23 to 5.25 of the GEM Listing Rules.

The primary duties of the Audit Committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the Directors; and (ii) to review and supervise the financial reporting process and internal controls. The Audit Committee comprises two independent non-executive Directors.



The Audit Committee held a meeting to review the Group's results for the three months ended 30 June 2003.

***Purchase, Sale or Redemption of the Company's Shares***

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the three months ended 30 June 2003.

On behalf of the Board

**Grandy Applied Environmental Technology Corporation**

**Kenneth Chan**

*Director*

Hong Kong, 14 August 2003