



# GRANDY APPLIED ENVIRONMENTAL TECHNOLOGY CORPORATION 泓迪應用環保科技有限公司

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

Annual Report

2002

Environmental protection always pays...



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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at "www.hkgem.com" in order to obtain up-to-date information on GEM-listed issuers.

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

# | Contents



Corporate Information	2
Managing Director's Statement	3–5
Management Discussion and Analysis	6–10
Directors' and Senior Management's Profiles	11–14
Report of the Directors	15–28
Report of the Auditors	29
Consolidated Profit and Loss Account	30
Consolidated Balance Sheet	31
Consolidated Cash Flow Statement	32–33
Balance Sheet	34
Notes to Financial Statements	35–65
Financial Summary	66



# 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

## NON-EXECUTIVE DIRECTOR

Kong Li Szu

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Hsu Shiu Foo William  
Yu Chai Mei

## COMPLIANCE OFFICER

Tsui Tai Hoi Raymond

## COMPANY SECRETARY

Wong Chun Kit Wilfred, *FCCA, AHKSA*

## 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  
4/F Hutchison House  
10 Harcourt Road  
Central, Hong Kong

## PRINCIPAL BANKER

Standard Chartered Bank

## SPONSORS

Hantec Capital Limited  
SBI E2-Capital (HK) Limited

## AUDITORS

Ernst & Young

## STOCK CODE

8143

## Managing Director's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Grandy Applied Environmental Technology Corporation (the "Company") for the period from 28 May 2001 (date of incorporation) to 31 March 2002 and of the Group for the year ended 31 March 2002.

### SUCCESSFUL LISTING

The Company's shares were successfully listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 10 May 2002 and the Company has raised a net fund of approximately HK\$44 million. I am confident that the listing of the Company will enhance our business growth by expanding our scope of business and strengthening the research and development of applied environmental technology in the years to come.

### FINANCIAL HIGHLIGHTS

Summary of the financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2002 is as follows:

- Turnover was approximately HK\$26.32 million, representing an increase of approximately 270% over that of the previous year;
- Profit from operating activities was approximately HK\$4.67 million, representing an improvement of approximately 425% compared to the previous year when an operating loss of 1.10 million was recorded; and
- Profit after tax was approximately HK\$2.41 million, representing an improvement of approximately 205% compared to the previous year when a loss of 1.17 million was recorded.

## Managing Director's Statement

### FUTURE PLANS AND PROSPECTS

Demand for the Group's Environmental Protection (EP) Solutions, especially in Mainland China and other parts of Asia, is predicted to grow markedly over the next five years. In Mainland China, the Group considers that the principal market drivers for EP are: China's accession to WTO membership; the holding of the 2008 "Green Olympic Games" in Beijing; significant population and economic growth; and an impending crisis of water shortage, which for the year 2000 the Chinese Government estimates cost industry and agriculture more than RMB120 million. Moreover, private and government investment in EP over the next five years is expected by the Chinese Government to be in the region of US\$85 billion, with major policy initiatives being directed at: cleaning-up already heavily polluted water resources; cleaner production strategy; case study programmes; importing of foreign technology. The Group is well positioned to penetrate further into the Chinese market by capitalising on its sustained marketing efforts to date and by forming strategic alliances with partners such as Shandong Teachers University and Tianjin University. Also, establishment of representative offices in Beijing and Dongguan (Guangdong province) and Malaysia are planned for the coming year. Projects that are already being negotiated in Mainland China include: wastewater treatment projects in Shandong, Dongguan, Zhongshan and Shenzhen; air quality improvement projects for a high profile leisure complex in Guangdong province; supply of *Light.Eco* to factories in Dongguan, Shunde, Shenzhen and Beijing.

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

## Managing Director's Statement

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

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

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

The Group's future business plans will be financed by a combination of internal resources and also from the listing proceeds and bank borrowings.

### ACKNOWLEDGEMENT

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

**Tsui Tai Hoi Raymond**

*Managing Director*

Hong Kong  
21 June 2002

# Management Discussion and Analysis

## GROUP REORGANISATION

Pursuant to a group reorganisation in preparation for the listing of the Company's shares on the GEM, the Company became the holding company of the subsidiaries comprising the Group on 17 July 2001. There has been no changes to the Group's structure since the Company was listed on GEM on 10 May 2002. Details of the Group's reorganisation are set out in the prospectus of the Company dated 29 April 2002.

## BUSINESS AND OPERATIONAL REVIEW

The period under review saw a strong growth in the Group's business performance, with turnover increased by approximately 270% from approximately HK\$7.12 million in 2001 to approximately HK\$26.32 million in 2002. For the year under review (previous year's figures given in parentheses), the turnover that was derived from the main business lines was:

- 17.7% (70.5%) Water Quality Improvement
- 5.1% (29.3%) Air Quality Improvement
- 77.2% (0.2%) Energy Saving.

During the period under review, the Group moved from making a net loss of approximately HK\$1.17 million in 2001 to making a net profit of approximately HK\$2.41 million in 2002, representing an increase in net profit of approximately 205% over the year.

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

Operating expenses in comparison with the previous year increased from approximately HK\$5.39 million to approximately HK\$11.34 million, which resulted mainly from an increase in the number of staff from 21 (at 31 March 2001) to 32 (at 31 March 2002); the sustained marketing effort in Mainland China; investment of resources for new product evaluation and application analysis and also the related issue expenses of convertible notes.



## Management Discussion and Analysis

Profit before tax increased from a loss of HK\$1.17 million in 2001 to a profit of HK\$2.44 million in 2002 mainly as a result of widening the scope of business to include energy-saving products; sustaining healthy margins across all business lines and an increase in income for the enzyme-based products/services.

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

### LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

## Management Discussion and Analysis

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

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

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

### TREASURY POLICIES

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

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

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

# Management Discussion and Analysis

## INTENDED USE OF NET PROCEEDS FROM LISTING

On 10 May 2002, the shares of the Company were listed on GEM. The net proceeds from the listing after deduction of the related issue expenses amounted to approximately HK\$44 million.

The Group intends to apply such net proceeds as follows:

- To expand the Company's activities in other geographical markets including the PRC and Malaysia
- To enhance and improve existing products as well as source new products
- To establish application analysis and enhance product development capabilities
- To market the Company's products and build up the Company's own brandname and goodwill
- To redeem the Company's convertible notes
- To use as general working capital

## CHARGES ON ASSETS

The Group's time deposit of HK\$1.01 million as at 31 March 2002 was pledged to a bank to secure general banking facilities granted to the Group and the Company's motor vehicle was held under a finance lease.

## INVESTMENTS

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

# Management Discussion and Analysis

## CONTINGENT LIABILITIES

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

## EMPLOYEES

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

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

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

## Directors' and Senior Management's Profiles

### EXECUTIVE DIRECTORS

Mr Tsui Tai Hoi Raymond, aged 45, 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. During the period from 1979 to 1991, Mr Tsui worked for a foreign exchange company namely Yamane Prebon (Hong Kong) Limited as a broker. During the period from 1991 to 1993, Mr Tsui was the managing director of Top Rank Investment Ltd. and Top Rank Securities Ltd. which were engaged in brokerage of foreign exchange and securities. During the period from 1993 to 1999, Mr Tsui worked as managing director of Evershine International Investment Ltd. focusing on private equity investments in technology related companies and other small to medium size businesses in Hong Kong. Mr Tsui holds a Bachelor of Business Administration degree from the City University of New York, the US.

Mr Yeung Kam Yan, aged 49, 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 46, 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 47, 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.

## Directors' and Senior Management's Profiles

Mr To Hang Ming, aged 43, 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 42, 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.

### NON-EXECUTIVE DIRECTOR

Mr Kong Li Szu, aged 31, is a director of Kong Sun. 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 was appointed by the Company as a non-executive Director in July 2001.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Hsu Shiu Foo William, aged 51, was appointed as an independent non-executive director in November 2001. He is a Visiting Fellow at the Faculty of Business of the City University of Hong Kong. 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 appointed as visiting professor in the faculty of tourism of the Hangzhou University in the PRC in October 1995. 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, and he was responsible for the review and supervision of the financial reporting process and the review of transactions of such company.

## Directors' and Senior Management's Profiles

Prof Yu Chai Mei, aged 46, 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.

### SENIOR MANAGEMENT

Dr Christopher Harold Phillips, aged 39, 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 40, 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

## Directors' and Senior Management's Profiles

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 39, is the financial controller and the company secretary of the Group. He is responsible for the Group's financial control, treasury and company secretarial 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. During the period from 1986 to 1988, Mr Wong worked as an audit staff of Chu & Chu. During the period from 1989 to 1995, Mr Wong worked in the audit department of Ernst & Young. During the period from 1996 to 1997, Mr Wong worked as internal control manager for Continental Enterprises Limited engaging in the agricultural commodity trading businesses. During the period from 1997 to 2001, 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. He joined the Group in August 2001.



## Report of the Directors

The directors present their first report and the audited financial statements of the Company for the period from 28 May 2001 (date of incorporation) to 31 March 2002 and of the Group for the year ended 31 March 2002.

### GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM, the Company became the holding company of the Group on 17 July 2001.

Further details of the Reorganisation, together with the details of the subsidiary acquired pursuant thereto, are set out in notes 2, 16 and 29 to the financial statements and in the prospectus of the Company dated 29 April 2002.

Subsequent to the balance sheet date, on 10 May 2002, the shares of the Company were listed on the GEM.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

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

# Report of the Directors

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 65.

The directors do not recommend the payment of any dividend in respect of the period from 28 May 2001 to 31 March 2002.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the GEM on 10 May 2002, after deduction of related issue expenses, amounted to approximately HK\$44 million. Of which, HK\$14.3 million has been utilised up to the date of this report and has been applied, in accordance with the proposed applications set out in the Company's prospectus dated 29 April 2002, as follows:

- HK\$10 million used in the redemption of the Company's HK\$10,000,000 8% convertible notes;
- HK\$0.15 million used in marketing and brand building; and
- HK\$4.15 million used as general working capital.

## FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last three financial years, is set out on page 66. This summary does not form part of the audited financial statements.

# Report of the Directors

## **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

## **CONVERTIBLE NOTES**

Details of the convertible notes of the Company and the Group are set out in note 28 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital and share options during the period from 28 May 2001 to 31 March 2002, together with the reasons therefor, are set out in note 29 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Other than in connection with the Company's initial public offering and the public listing of the Company's shares on the GEM on 10 May 2002, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities up to the date of this report.

# Report of the Directors

## RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 30 to the financial statements.

## DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Company's share premium and capital reserve accounts are distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at 31 March 2002, the Company's reserves available for distribution to shareholders amounted to HK\$3,053,221.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 52% of the total sales for the year and sales to the largest customer included therein amounted to approximately 16%. Purchases from the Group's five largest suppliers accounted for approximately 70% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 33%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

# Report of the Directors

## DIRECTORS

The directors of the Company during the period from 28 May 2001 to 31 March 2002 were as follows:

### Executive directors:

Mr Tsui Tai Hoi Raymond	(appointed on 26 June 2001)
Mr Yeung Kam Yan	(appointed on 26 June 2001)
Mr Leung Chi Kin	(appointed on 26 June 2001)
Mr Hoang Tan Van George	(appointed on 26 June 2001)
Mr Chan Hon Chiu	(appointed on 26 June 2001)
Mr To Hang Ming	(appointed on 2 November 2001)
Tipmax Limited	(appointed on 18 June 2001 and resigned on 26 June 2001)
Offshore Incorporations (Cayman) Limited	(appointed on 28 May 2001 and resigned on 18 June 2001)

### Non-executive director:

Mr Kong Li Szu	(appointed on 18 July 2001)
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### Independent non-executive directors:

Mr Hsu Shiu Foo William	(appointed on 2 November 2001)
Prof Yu Chai Mei	(appointed on 2 November 2001)

In accordance with article 86(3) of the Company's articles of association, all the existing directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each of the non-executive director and the independent non-executive directors is the period up to his retirement by rotation in accordance with the articles of association of the Company.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 14 of the annual report.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company on 20 April 2002 for an initial term of two years commencing from 10 May 2002. Each of the independent non-executive directors has entered into a service contract with the Company on 20 April 2002 for an initial term of one year commencing from 10 May 2002. The service contracts will continue thereafter unless terminated in accordance with the terms of the service contracts.

Apart from the foregoing, no director of the Company proposed for re-election at the forthcoming annual general meeting has a 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 CONTRACTS

Save as disclosed in note 36 to the financial statements and the transactions in connection with the Reorganisation in preparation for the listing of the Company's shares on the GEM, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES

Subsequent to the balance sheet date, on 10 May 2002, the shares of the Company were listed on the GEM. At the date of this report, the interests of the directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

<b>Name of director</b>	<b>Number of shares held</b>
	<b>Corporate interests</b>
<b>Executive directors:</b>	
Mr Tsui Tai Hoi Raymond ( <i>Note a</i> )	416,769,983
Mr Yeung Kam Yan ( <i>Note a</i> )	56,305,624
Mr Leung Chi Kin ( <i>Note a</i> )	56,305,624
Mr Hoang Tan Van George ( <i>Note a</i> )	416,769,983
Mr Chan Hon Chiu ( <i>Note a</i> )	45,052,835
Mr To Hang Ming ( <i>Note a</i> )	45,052,835
<b>Non-executive director:</b>	
Mr Kong Li Szu ( <i>Note b</i> )	119,229,995

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES (Continued)

*Notes:*

- (a) The corporate interests of these directors in the shares of the Company are held by Achieve Century Limited, a company incorporated in the British Virgin Islands. Approximately 53.87% and approximately 46.13% of the issued share capital of Achieve Century Limited are respectively owned by Tipmax Limited and Star Wave Limited, companies incorporated in the British Virgin Islands.

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

The interests of Messrs Tsui Tai Hoi Raymond, Yeung Kam Yan, Leung Chi Kin, Hoang Tan Van George, To Hang Ming and Chan Hon Chiu therefore duplicate those of each other.

- (b) The corporate interest of Mr Kong Li Szu in the shares of the Company is held by Count Wealth Investments Limited, a company incorporated in the British Virgin Islands and beneficially owned as to 100% by Kong Sun Holdings Limited. Kong Sun Holdings Limited is a company incorporated in Hong Kong and whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited. Approximately 44.43% 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.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests 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

Apart from as disclosed under the heading "Share option schemes" below and other than the transactions in connection with the Reorganisation in preparation for the listing of the Company's shares on the GEM, at no time since its incorporation were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# Report of the Directors

## RETIREMENT BENEFITS SCHEME

The Group has implemented a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") for its employees in Hong Kong in compliance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (as amended from time to time) which took effect from 1 December 2000. Under the MPF Scheme, the Group will only make contributions for employees based on statutory requirements and no voluntary contributions has been made. Details of the MPF Scheme of the Group and the employer contributions charged to profit and loss account for the year are set out in notes 4 and 7 to the financial statements, respectively.

## SHARE OPTION SCHEMES

Subsequent to the balance sheet date, on 20 April 2002, the Company conditionally approved a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and/or of allowing the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity").

The directors of the Company may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for ordinary shares of the Company:

- (a) any employee, including executive directors, of the Company, any of its subsidiaries and/or Invested Entities;
- (b) any non-executive director, including independent non-executive directors, of the Company, any of its subsidiaries or Invested Entities;
- (c) any supplier of goods or services to the Company, any of its subsidiaries or Invested Entities;
- (d) any customer of the Company, any of its subsidiaries or Invested Entities;
- (e) any person or entity that provides research, development or other technological support to the Company, any of its subsidiaries or Invested Entities; and



## Report of the Directors

### SHARE OPTION SCHEMES (Continued)

- (f) any shareholder of or any holder of any securities issued by the Company, any of its subsidiaries or Invested Entities.

The options may be granted to any company wholly owned by one or more persons belonging to any of the above eligible participants or any discretionary object of an eligible participant which is a discretionary trust.

The Scheme became effective on 10 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from 20 April 2002.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At the date of this report, the number of shares issuable under share options that can be granted under the Scheme was 83,000,000, which represented 10% of the Company's shares in issue as at that date.

The maximum number of shares issuable under share options to each eligible participant in the Scheme or any other share option scheme of the Company within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders' approval in a general meeting of the Company with such participant and his associates abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares on the GEM on the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

## Report of the Directors

### SHARE OPTION SCHEMES (Continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The period during which an option may be exercised will be determined by the directors at their discretion, save that no option may be exercised later than 10 years after it has been granted.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of an ordinary share; (ii) the average of the closing prices of the Company's ordinary shares on the GEM on the five trading days immediately preceding the date of offer of the grant of the option; and (iii) the closing price of the Company's ordinary shares on the GEM on the date of offer of the grant of the option.

At the date of this report, no options have been granted or agreed to be granted under the Scheme.

In addition to the Scheme, the Company also operates a Pre-IPO share option scheme (the "Pre-IPO Scheme") which was conditionally approved on 20 April 2002. The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors, employees, consultants and advisers of the Group to the growth of the Group and/or to the listing of the Company's shares on the GEM.

The principal terms of the Pre-IPO Scheme are substantially the same as the terms of the Scheme as set out above except that:

- (a) the exercise price of the share options is 50% of the offer price of HK\$0.28 per share in respect of the Company's initial public offering of its shares;
- (b) the aggregate number of share options subject to the Pre-IPO Scheme is 80,000,000;
- (c) the grantees eligible for the share options are only restricted to full-time or part-time employees, executive directors, non-executive director, independent non-executive directors, consultants and advisers of the Company and/or any of its subsidiaries; and
- (d) no further options would be granted under the Pre-IPO Scheme after the listing of the Company's shares on the GEM on 10 May 2002.

# Report of the Directors

## SHARE OPTION SCHEMES (Continued)

A total of 80,000,000 share options were granted under the Pre-IPO Scheme on 26 April 2002 and all of which remained outstanding at the date of this report. Details of the share options granted under the Pre-IPO Scheme are set out as follows:

	<b>Number of options held</b>
<b>Directors:</b>	
Mr Tsui Tai Hoi Raymond	8,000,000
Mr Yeung Kam Yan	8,000,000
Mr Leung Chi Kin	8,000,000
Mr Hoang Tan Van George	8,000,000
Mr Chan Hon Chiu	8,000,000
Mr To Hang Ming	8,000,000
Prof Yu Chai Mei	2,400,000
	50,400,000
<b>Other employees:</b>	
In aggregate	29,600,000
	80,000,000

These Pre-IPO share options were granted on 26 April 2002, at an exercise price per share of HK\$0.14, representing 50% of the offer price of HK\$0.28 per share in respect of the Company's initial public offering. The cash consideration paid by each director and employee for the options granted was HK\$1 per grant of options. The options may be exercised in three equal portions. The three portions are exercisable at any time commencing on 10 November 2002, 10 May 2003 and 10 May 2004, respectively. The options, if not otherwise exercised, will lapse on 9 May 2012.

The exercise in full of the Pre-IPO share options would, under the capital structure of the Company as at the date of this report, result in the issue of 80,000,000 additional ordinary shares of the Company of HK\$0.01 each.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at the date of this report, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's issued capital
Achieve Century Limited	416,769,983	50.21
Tipmax Limited ( <i>Note a</i> )	416,769,983	50.21
Star Wave Limited ( <i>Note a</i> )	416,769,983	50.21
Count Wealth Investments Limited	119,229,995	14.37
Kong Sun Holdings Limited ( <i>Note b</i> )	119,229,995	14.37
Kong Fa Holding Limited ( <i>Note b</i> )	119,229,995	14.37
Mr Kong Look Sen ( <i>Note b</i> )	119,229,995	14.37

*Notes:*

- (a) The interests disclosed include the shares of the Company owned by Achieve Century Limited. Achieve Century Limited is held as to approximately 53.87% and approximately 46.13% by Tipmax Limited and Star Wave Limited, respectively. Accordingly, Tipmax Limited and Star Wave Limited are deemed to be interested in the shares of the Company owned by Achieve Century Limited.
- (b) The interests disclosed include the shares of the Company owned by Count Wealth Investments Limited. Count Wealth Investments Limited is 100% beneficially owned by Kong Sun Holdings Limited. Approximately 44.43% and 16.31% of the issued share capital of Kong Sun Holdings Limited are beneficially owned by Kong Fa Holding Limited and Kong Sun Enterprise Sdn. Bhd., respectively. Mr Kong Look Sen has beneficial interests in both Kong Fa Holding Limited and Kong Sun Enterprise Sdn. Bhd. Accordingly, Kong Sun Holdings Limited, Kong Fa Holding Limited and Mr Kong Look Sen are deemed to be interested in the shares of the Company owned by Count Wealth Investments Limited.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

# Report of the Directors

## CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group during the year are set out in note 36 to the financial statements.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

## CORPORATE GOVERNANCE

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

## AUDIT COMMITTEE

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

The audit committee met once since its establishment during which the Group's financial statements for the year ended 31 March 2002 have been reviewed.

## Report of the Directors

### SPONSOR'S INTERESTS

As at 31 March 2002, neither Hantec Capital Limited (the "Sponsor") or SBI E2-Capital (HK) Limited (the "Co-Sponsor") nor any of their directors, employees or associates (as defined in note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company.

Pursuant to an agreement dated 20 August 2001 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's sponsor for the period up to 31 March 2005. Pursuant to an agreement dated 12 November 2001 entered into between the Company and the Co-Sponsor, the Co-Sponsor received a fee for the listing of the Company's shares on the GEM.

### AUDITORS

During the period, Ernst & Young were appointed as the first auditors of the Company. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Tsui Tai Hoi Raymond**

*Managing Director*

Hong Kong

21 June 2002

## Report of the Auditors



安永會計師事務所

To the members

### **Grandy Applied Environmental Technology Corporation**

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

We have audited the financial statements on pages 30 to 65 which have been prepared in accordance with the 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 an 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 of the Group as at 31 March 2002 and of the profit 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.

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong  
21 June 2002

## Consolidated Profit and Loss Account

Year ended 31 March 2002

	Notes	2002 HK\$	2001 HK\$
<b>TURNOVER</b>	6	<b>26,321,680</b>	7,117,653
Cost of sales		<b>(12,671,875)</b>	(2,908,761)
Gross profit		<b>13,649,805</b>	4,208,892
Interest income		<b>132,901</b>	2,589
Convertible notes issue expenses		<b>(727,043)</b>	–
Selling and distribution costs		<b>(2,425,385)</b>	(1,783,476)
Administrative expenses		<b>(5,958,427)</b>	(3,526,214)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	7	<b>4,671,851</b>	(1,098,209)
Finance costs	8	<b>(2,227,419)</b>	(76,003)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>2,444,432</b>	(1,174,212)
Tax	11	<b>(37,000)</b>	–
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b>2,407,432</b>	(1,174,212)
<b>EARNINGS/(LOSS) PER SHARE - Basic (HK cents)</b>	13	<b>0.38</b>	(0.18)

Other than the net profit/loss from ordinary activities attributable to shareholders for the year, the Group had no recognised gains and losses. Accordingly, a statement of recognised gains and losses is not presented in the financial statements.



# Consolidated Balance Sheet

31 March 2002

	Notes	2002 HK\$	2001 HK\$
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	554,094	396,024
Deferred development costs	15	911,359	740,507
		<b>1,465,453</b>	1,136,531
<b>CURRENT ASSETS</b>			
Inventories	17	2,184,528	156,723
Trade receivables	18	11,934,985	1,284,826
Prepayments, deposits and other receivables	19	4,573,883	80,231
Pledged time deposit	22	1,013,431	–
Cash and cash equivalents	23	883,420	30,554
		<b>20,590,247</b>	1,552,334
<b>CURRENT LIABILITIES</b>			
Trade payables	24	1,399,687	735,081
Tax payable		37,000	–
Other payables and accruals	25	1,362,291	1,175,379
Interest-bearing bank loans and overdrafts	26	1,677,000	1,148,743
Finance lease payable	27	33,624	33,624
Convertible notes	28	11,675,472	–
		<b>16,185,074</b>	3,092,827
		<b>4,405,173</b>	(1,540,493)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,870,626</b>	(403,962)
<b>NON-CURRENT LIABILITY</b>			
Finance lease payable	27	30,822	64,446
		<b>5,839,804</b>	(468,408)
<b>CAPITAL AND RESERVES</b>			
Issued capital	29	86,667	74,584
Reserves	30	5,753,137	(542,992)
		<b>5,839,804</b>	(468,408)

**Tsui Tai Hoi Raymond**  
Director

**Yeung Kam Yan**  
Director

# Consolidated Cash Flow Statement

Year ended 31 March 2002

	Notes	2002 HK\$	2001 HK\$
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	31(a)	<b>(10,784,005)</b>	(776,588)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		<b>132,901</b>	2,589
Interest on bank loans and overdrafts		<b>(38,366)</b>	(66,751)
Interest element of finance lease rental payments		<b>(9,252)</b>	(9,252)
Interest on convertible notes		<b>(504,329)</b>	–
Net cash outflow from returns on investments and servicing of finance		<b>(419,046)</b>	(73,414)
<b>INVESTING ACTIVITIES</b>			
Purchases of fixed assets		<b>(330,042)</b>	(92,247)
Increase in deferred development costs		<b>(170,852)</b>	(740,507)
Net cash outflow from investing activities		<b>(500,894)</b>	(832,754)
<b>NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES</b>		<b>(11,703,945)</b>	(1,682,756)
<b>FINANCING ACTIVITIES</b>			
	31(b)		
Proceeds from issue of share capital		<b>3,600,780</b>	–
Proceeds from issue of convertible notes		<b>10,000,000</b>	–
New bank loans		<b>1,000,000</b>	2,200,000
Repayment of bank loans		<b>(1,903,450)</b>	(1,296,550)
Advances from directors		–	3,049,826
Repayment of advances from directors		<b>(525,171)</b>	(2,271,492)
Capital element of finance lease rental payments		<b>(33,624)</b>	(33,624)
Net cash inflow from financing activities		<b>12,138,535</b>	1,648,160
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>434,590</b>	(34,596)
Cash and cash equivalents at beginning of year		<b>(214,739)</b>	(180,143)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>219,851</b>	(214,739)

# Consolidated Cash Flow Statement

Year ended 31 March 2002

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>883,420</b>	30,554
Time deposit with original maturity of less than three months when acquired, pledged as security for trade finance facilities	<b>1,013,431</b>	–
Bank overdrafts	–	(245,293)
Trust receipt loans	<b>(1,677,000)</b>	–
	<b>219,851</b>	(214,739)

## Balance Sheet

31 March 2002

	Notes	2002 HK\$
<b>NON-CURRENT ASSET</b>		
Interests in subsidiaries	16	<b>12,997,965</b>
<b>CURRENT ASSETS</b>		
Prepayments, deposits and other receivables	19	<b>1,884,695</b>
Cash and cash equivalents	23	<b>700</b>
		<b>1,885,395</b>
<b>CURRENT LIABILITIES</b>		
Other payables and accruals	25	<b>68,000</b>
Convertible notes	28	<b>11,675,472</b>
		<b>11,743,472</b>
<b>NET CURRENT LIABILITIES</b>		<b>(9,858,077)</b>
		<b>3,139,888</b>
<b>CAPITAL AND RESERVES</b>		
Issued capital	29	<b>86,667</b>
Reserves	30	<b>3,053,221</b>
		<b>3,139,888</b>

**Tsui Tai Hoi Raymond**

*Director*

**Yeung Kam Yan**

*Director*

# Notes to Financial Statements

31 March 2002

## 1. CORPORATE INFORMATION

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

During the year, the principal activities of the Group consisted of the manufacturing and selling of environmental protection products.

In the opinion of the directors, the ultimate holding company is Tipmax Limited, which is incorporated in the British Virgin Islands and 100% owned by Mr Tsui Tai Hoi Raymond, a director of the Company.

## 2. GROUP REORGANISATION

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM, the Company became the holding company of the companies now comprising the Group on 17 July 2001. This was accomplished by the acquisition of the entire share capital of Grandy Environmental (H.K.) Limited ("Grandy HK") from its then shareholders by Worlday Investments Limited ("Worlday"), a wholly-owned subsidiary of the Company, on 17 July 2001.

Further details of the Reorganisation, together with the details of Grandy HK acquired pursuant thereto, are set out in notes 16 and 29 to the financial statements and in the prospectus of the Company dated 29 April 2002.

# Notes to Financial Statements

31 March 2002

## 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 14 (Revised): “Leases”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The adoption of these SSAPs and Interpretations has had no impact on the preparation of these financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

# Notes to Financial Statements

31 March 2002

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of presentation and consolidation

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

The comparative consolidated balance sheet as at 31 March 2001 has been prepared on the assumption that the Reorganisation had been completed and the existing Group had been in place at that date. Comparative amounts have not been presented for the Company in the financial statements as the Company had not been incorporated as at 31 March 2001.

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

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

### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

# Notes to Financial Statements

31 March 2002

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis at an annual rate of 20% for all classes of fixed assets to write off the cost of each asset over its estimated useful life.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.



# Notes to Financial Statements

31 March 2002

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the deferred development costs over the commercial lives of the underlying products, subject to a maximum of three years, commencing from the date when the products are put into commercial production.

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, and are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal.

# Notes to Financial Statements

31 March 2002

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

### Convertible notes

Convertible notes are stated at cost, and are adjusted for the accretion of premiums on redemption on a straight-line basis over the terms of the notes.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Foreign currency transactions

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

# Notes to Financial Statements

31 March 2002

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

## 5. SEGMENT INFORMATION

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

## 6. TURNOVER AND REVENUE

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

# Notes to Financial Statements

31 March 2002

## 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2002 HK\$	2001 HK\$
Depreciation	156,734	125,858
Research and development costs	55,457	60,000
Minimum lease payments under operating leases of land and buildings	521,701	437,460
Auditors' remuneration	268,000	80,000
Loss on disposal of fixed assets	15,238	–
Staff costs (excluding directors' remuneration – note 9):		
Salaries, bonuses, allowances and benefits in kind	3,214,401	1,949,650
Retirement benefits scheme contributions	120,430	39,559
	<b>3,334,831</b>	1,989,209
Less: Capitalised in deferred development costs	<b>(99,803)</b>	(216,070)
	<b>3,235,028</b>	1,773,139
Exchange losses, net	<b>3,175</b>	581

## 8. FINANCE COSTS

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

# Notes to Financial Statements

31 March 2002

## 9. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to The Rules Governing the Listing of Securities on the GEM and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Fees	–	–
Other emoluments of executive directors:		
Salaries, bonuses, allowances and benefits in kind	<b>1,284,000</b>	842,000
Retirement benefits scheme contributions	<b>57,800</b>	9,144
	<b>1,341,800</b>	851,144
<i>Less: Capitalised in deferred development costs</i>	<b>(13,860)</b>	(103,090)
	<b>1,327,940</b>	748,054

Five of the existing executive directors and the remaining existing executive director received emoluments of HK\$223,900 each and HK\$222,300, respectively, for the year (2001: HK\$156,000, HK\$157,971, HK\$157,971, HK\$63,260, HK\$157,971 and HK\$157,971, respectively).

The two executive directors who resigned during the period, the non-executive director and the two independent non-executive directors received nil fees and emoluments for the year (2001: Nil).

The remuneration of each of the directors for the years ended 31 March 2002 and 2001 fell within the range of Nil to HK\$1,000,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the years ended 31 March 2002 and 2001, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Subsequent to the balance sheet date, on 26 April 2002, a total of 50,400,000 share options of the Company were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on pages 22 to 25. No value in respect of such share options granted has been charged to the profit and loss account or included in the disclosure of directors' remuneration above.

# Notes to Financial Statements

31 March 2002

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: four) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining two (2001: one) non-director, highest paid employees are as follows:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Salaries, bonuses, allowances and benefits in kind	<b>905,157</b>	186,000
Retirement benefits scheme contributions	<b>16,788</b>	3,650
	<b>921,945</b>	189,650

The remuneration of the two (2001: one) non-director, highest paid employees for the year each fell within the range of Nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to any of the two (2001: one) non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

Subsequent to the balance sheet date, on 26 April 2002, a total of 6,400,000 share options of the Company were granted to the two non-director, highest paid employees for the year in respect of their services to the Group, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on pages 22 to 25. No value in respect of such share options granted has been charged to the profit and loss account or included in the remuneration disclosed above.

# Notes to Financial Statements

31 March 2002

## 11. TAX

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

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

## 12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the period from 28 May 2001 (date of incorporation) to 31 March 2002 dealt with in the financial statements of the Company is HK\$835,476.

## 13. EARNINGS/(LOSS) PER SHARE

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

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

# Notes to Financial Statements

31 March 2002

## 14. FIXED ASSETS

Group	Leasehold improvements HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Motor vehicle HK\$	Total HK\$
Cost:					
At 1 April 2001	72,475	335,579	64,663	156,574	629,291
Additions	–	326,192	3,850	–	330,042
Disposals	–	(29,720)	–	–	(29,720)
At 31 March 2002	72,475	632,051	68,513	156,574	929,613
Accumulated depreciation:					
At 1 April 2001	20,758	124,014	25,865	62,630	233,267
Provided for the year	14,495	97,414	13,510	31,315	156,734
Disposals	–	(14,482)	–	–	(14,482)
At 31 March 2002	35,253	206,946	39,375	93,945	375,519
Net book value:					
At 31 March 2002	37,222	425,105	29,138	62,629	554,094
At 31 March 2001	51,717	211,565	38,798	93,944	396,024

The motor vehicle of the Group was held under a finance lease.



# Notes to Financial Statements

31 March 2002

## 15. DEFERRED DEVELOPMENT COSTS

Group	HK\$
Cost:	
At 1 April 2001	740,507
Additions	170,852
At 31 March 2002	911,359
Accumulated amortisation:	
At 1 April 2001 and 31 March 2002	–
Net book value:	
At 31 March 2002	911,359
At 31 March 2001	740,507

## 16. INTERESTS IN SUBSIDIARIES

	Company 2002 HK\$
Unlisted share, at cost	8
Due from subsidiaries	12,997,957
	<b>12,997,965</b>

The amounts due from subsidiaries include an interest-free balance of HK\$2,997,957 and an interest-bearing balance of HK\$10,000,000. On 22 August 2001, the Company issued a total of HK\$10,000,000 8% convertible notes (the "Convertible Notes"), details of which are set out in note 28 to the financial statements, and the whole proceeds therefrom were advanced by the Company to the subsidiaries. Accordingly, the Company recharged the subsidiaries on any finance costs, including redemption premium on the Convertible Notes, paid or payable by the Company to the Convertible Notes holders and recorded such as interest income to the Company.

# Notes to Financial Statements

31 March 2002

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Worlday	British Virgin Islands	US\$1	100%	–	Investment holding
Grandy HK	Hong Kong	HK\$3,010,000	–	100%	Manufacturing and trading of environmental protection products
Grandy Enviro-Tech Company Limited	Hong Kong	HK\$10,000	–	100%	Trading of environmental protection products

## 17. INVENTORIES

	Group	
	2002 HK\$	2001 HK\$
Raw materials	<b>135,097</b>	135,910
Work in progress	<b>198,688</b>	4,519
Finished goods	<b>1,850,743</b>	16,294
	<b>2,184,528</b>	156,723

At 31 March 2002, none of the inventories was carried at net realisable value (2001: Nil).

# Notes to Financial Statements

31 March 2002

## 18. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advances is normally required. The credit period generally ranges from 30 days to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the date of recognition of sale, is as follows:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
0 to 90 days	<b>3,807,905</b>	1,059,261
91 to 180 days	<b>6,338,540</b>	210,302
181 to 365 days	<b>1,737,966</b>	13,288
Over 1 year	<b>50,574</b>	1,975
	<b>11,934,985</b>	1,284,826

On 26 April 2002, Mr Tsui Tai Hoi Raymond, a director of the Company, executed a deed of indemnity in respect of the Group's trade receivables unsettled as at 23 April 2002, amounting to HK\$11,697,685 (the "Relevant Receivables"), which comprised the Group's trade receivables of HK\$11,343,263 as at 31 March 2002. At the date of approval of these financial statements, the Relevant Receivables remained unsettled amounting to HK\$10,304,403. Pursuant to the aforesaid deed of indemnity, Mr Tsui Tai Hoi Raymond, will indemnify and pay to the Group by 16 November 2002 the amount of the Relevant Receivables which remain unsettled to the Group on 9 November 2002.

# Notes to Financial Statements

31 March 2002

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	Group		Company
		2002 HK\$	2001 HK\$	2002 HK\$
Prepayments		<b>1,884,695</b>	–	<b>1,884,695</b>
Deposits and other debtors		<b>499,178</b>	80,231	–
Loans to a director	20	<b>2,000,000</b>	–	–
Due from a director	20	<b>118,483</b>	–	–
Due from the ultimate holding company	21	<b>60,953</b>	–	–
Due from a related company	21	<b>10,574</b>	–	–
		<b>4,573,883</b>	80,231	<b>1,884,695</b>

## 20. LOANS TO A DIRECTOR AND DUE FROM/TO DIRECTORS

- (i) Particulars of loans to a director and the amount due from a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group	Maximum amount outstanding		
	31 March 2002 HK\$	during the year HK\$	31 March 2001 HK\$
<b>Loans to a director</b>			
Mr Tsui Tai Hoi Raymond	2,000,000	2,000,000	–
<b>Due from a director</b>			
Mr Tsui Tai Hoi Raymond	118,483	118,483	–
	<u>2,118,483</u>		<u>–</u>

The loans granted to a director were unsecured, bore interest at 8% per annum and were repayable in the year ending 31 March 2003. The amount due from a director was unsecured, interest-free and had no fixed terms of repayment. Subsequent to the balance sheet date, the loans granted to and the amount due from Mr Tsui Tai Hoi Raymond as at 31 March 2002 were fully repaid to the Group on 22 April 2002.

# Notes to Financial Statements

31 March 2002

## 20. LOANS TO A DIRECTOR AND DUE FROM/TO DIRECTORS (Continued)

- (ii) The amounts due to directors were unsecured, interest-free and had no fixed terms of repayment. Subsequent to the balance sheet date, the balance as at 31 March 2002 was fully settled by the Group on 23 April 2002.

## 21. DUE FROM THE ULTIMATE HOLDING COMPANY/A RELATED COMPANY

Particulars of the amounts due from the ultimate holding company and a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

	<b>31 March 2002</b>	<b>Maximum amount outstanding during the year</b>	<b>31 March 2001</b>
	HK\$	HK\$	HK\$
<b>Ultimate holding company</b>			
Tipmax Limited	60,953	<u>60,953</u>	–
<b>Related company</b>			
Star Wave Limited	10,574	<u>10,574</u>	–
	<u>71,527</u>		<u>–</u>

The amounts due from the ultimate holding company and a related company were unsecured, interest-free and had no fixed terms of repayment. Subsequent to the balance sheet date, the balances as at 31 March 2002 were fully repaid to the Group on 22 April 2002.

## 22. PLEDGED TIME DEPOSIT

The Group's pledged time deposit was pledged to a bank to secure the banking facilities granted to the Group.

# Notes to Financial Statements

31 March 2002

## 23. CASH AND CASH EQUIVALENTS

	Group		Company
	2002 HK\$	2001 HK\$	2002 HK\$
Cash and bank balances	883,420	30,554	700
Time deposit	1,013,431	–	–
	1,896,851	30,554	700
Less: Pledged time deposit – note 22	(1,013,431)	–	–
Cash and cash equivalents	883,420	30,554	700

## 24. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date is as follows:

	2002 HK\$	2001 HK\$
0 to 90 days	1,276,127	432,168
91 to 180 days	51,506	301,821
Over 1 year	72,054	1,092
	1,399,687	735,081

## 25. OTHER PAYABLES AND ACCRUALS

	Group		Company
	2002 HK\$	2001 HK\$	2002 HK\$
Accruals	1,067,404	231,333	68,000
Other liabilities	123,469	247,457	–
Due to directors – note 20	171,418	696,589	–
	1,362,291	1,175,379	68,000

# Notes to Financial Statements

31 March 2002

## 26. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2002 HK\$	2001 HK\$
Bank overdrafts, unsecured	–	245,293
Bank loans, secured	–	903,450
Trust receipt loans, secured	<b>1,677,000</b>	–
	<b>1,677,000</b>	1,148,743

All the Group's interest-bearing bank loans and overdrafts are repayable within one year or on demand.

The Group's trade finance facilities as at 31 March 2002 were secured by the pledge of the Group's time deposit amounting to HK\$1,013,431 (2001: Nil) and a personal guarantee for an unlimited amount executed by Mr Tsui Tai Hoi Raymond, a director of the Company. Subsequent to the balance sheet date, the personal guarantee given by Mr Tsui Tai Hoi Raymond was released and replaced by a corporate guarantee given by the Company following the listing of the Company's shares on the GEM on 10 May 2002.

# Notes to Financial Statements

31 March 2002

## 27. FINANCE LEASE PAYABLE

The Group leases its motor vehicle for its manufacturing and selling of environmental protection products business. The lease is classified as a finance lease and has a remaining lease term of 23 months.

At 31 March 2002, the total future minimum lease payments under the finance lease and their present values, were as follows:

Group	Minimum lease payments 2002 HK\$	Minimum lease payments 2001 HK\$	Present value of minimum lease payments 2002 HK\$	Present value of minimum lease payments 2001 HK\$
Amounts repayable:				
Within one year	42,876	42,876	33,624	33,624
In the second year	39,303	42,876	30,822	33,624
In the third to fifth years, inclusive	–	39,303	–	30,822
Total minimum finance lease payments	82,179	125,055	64,446	98,070
Future finance charges	(17,733)	(26,985)		
Total net finance lease payable	64,446	98,070		
Portion classified as current liabilities	(33,624)	(33,624)		
Long term portion	30,822	64,446		



# Notes to Financial Statements

31 March 2002

## 28. CONVERTIBLE NOTES

	Group		Company
	2002 HK\$	2001 HK\$	2002 HK\$
Cost	10,000,000	–	10,000,000
Premium on redemption	1,675,472	–	1,675,472
	<b>11,675,472</b>	–	<b>11,675,472</b>

On 22 August 2001, the Company issued a total of HK\$10,000,000 8% Convertible Notes with the original due date on 21 February 2003 to the Convertible Notes holders. Pursuant to the note instrument dated 22 August 2001, the conversion of the Convertible Notes are contingent upon the successful listing of the Company's shares on the GEM and such condition has not been met as at 31 March 2002. In addition, pursuant to a supplemental deed dated 19 April 2002 entered into between, inter alia, the Company and the Convertible Notes holders, the Company and the Convertible Notes holders agreed that, by rescinding the conversion rights vested on the Convertible Notes holders, the Company was conditionally obliged to redeem all the Convertible Notes at a redemption amount equal to 120% of the principal amount outstanding within 3 business days after the listing of the Company's shares on the GEM. The Convertible Notes holders may not exercise their rights to redeem any part or all of the Convertible Notes on or before 31 May 2002.

Subsequent to the balance sheet date, on 15 May 2002, the Convertible Notes were fully redeemed at the redemption amount of HK\$12,000,000, which was equal to 120% of the principal amount of the Convertible Notes, in accordance with the aforesaid note instrument and supplemental deed.

# Notes to Financial Statements

31 March 2002

## 29. SHARE CAPITAL

### Shares

	<b>2002 HK\$</b>
Authorised:	
39,000,000 ordinary shares of HK\$0.01 each	<b>390,000</b>
Issued and fully paid:	
8,666,667 ordinary shares of HK\$0.01 each	<b>86,667</b>

During the period and up to the date of approval of these financial statements, the following movements in share capital were recorded:

- (a) On 28 May 2001, the Company was incorporated with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each, 1 share of which was allotted and issued for cash at par on the same date.
- (b) On 16 July 2001 and 18 July 2001, 99 shares and 338 ordinary shares of US\$1 each were allotted and issued for a total cash consideration of HK\$772 and HK\$3,000,000, respectively.
- (c) On 16 July 2001, as part of the Reorganisation as set out in note 2 to the financial statements, the Company issued an aggregate of 9,562 new ordinary shares of US\$1 each credited as fully paid at par to Tipmax Limited and Star Wave Limited, the then shareholders of Grandy HK on that day, as consideration for the acquisition of the entire issued share capital of Grandy HK by Worlday on 17 July 2001.
- (d) On 16 October 2001, the authorised share capital of the Company was converted from US\$50,000 to HK\$390,000 and the 50,000 ordinary shares of HK\$7.8 each in the capital of the Company after such conversion were then sub-divided into 39,000,000 ordinary shares of HK\$0.01 each.

# Notes to Financial Statements

31 March 2002

## 29. SHARE CAPITAL (Continued)

### Shares (continued)

- (e) On 27 November 2001, pursuant to two option deeds dated 20 July 2001 entered into between the Group and two third parties, 866,667 shares were allotted and issued at a total cash consideration of HK\$600,000.
- (f) On 20 April 2002, in connection with the Company's initial public offering, the authorised share capital of the Company was increased to HK\$15,000,000 by the creation of 1,461,000,000 additional ordinary shares of HK\$0.01 each ranking pari passu with the then existing shares in all aspects.
- (g) On 7 May 2002, in connection with the Company's initial public offering, a total of 190,000,000 ordinary shares of HK\$0.01 each were issued to the public at HK\$0.28 each for a total cash consideration of HK\$53,200,000 before any related issue expenses.
- (h) On 7 May 2002, as authorised and pursuant to resolutions in writing of all the shareholders of the Company passed on 20 April 2002, a total of 631,333,333 shares of HK\$0.01 each were allotted and issued as fully paid at par to the shareholders, whose names appeared on the register of members of the Company at the close of business on 22 April 2002, in proportion to their respective shareholdings by way of capitalisation of the sum of HK\$6,313,333 standing to the credit of the share premium account of the Company.

# Notes to Financial Statements

31 March 2002

## 29. SHARE CAPITAL (Continued)

### Shares (continued)

A summary of the above movements of the Company's issued share capital is as follows:

	Notes	Ordinary shares of US\$1 each (equivalent to HK\$7.8 each)	Ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$
Issued and fully paid:				
Shares issued and credited as fully paid pursuant to the Reorganisation	(c)	9,562	–	74,584
Pro forma issued share capital at 31 March 2001 and at 1 April 2001		9,562	–	74,584
Shares allotted and issued upon incorporation	(a)	1	–	8
Shares allotted and issued for cash	(b)	437	–	3,408
Conversion of nominal value of shares from US\$1 (equivalent to HK\$7.8) each to HK\$0.01 each	(d)	(10,000)	7,800,000	–
Shares allotted and issued pursuant to the exercise of two option deeds by two third parties	(e)	–	866,667	8,667
Issued share capital at 31 March 2002		–	8,666,667	86,667
New issue and placing of shares to the public	(g)	–	190,000,000	1,900,000
Capitalisation of the share premium account for shares credited as fully paid	(h)	–	631,333,333	6,313,333
Issued share capital at the date of approval of these financial statements		–	830,000,000	8,300,000

# Notes to Financial Statements

31 March 2002

## 29. SHARE CAPITAL (Continued)

### Share options

- (a) Pursuant to an option deed dated 20 July 2001 entered into between, inter alia, the Company and Eagle Strategy Limited ("Eagle Strategy"), a third party, Eagle Strategy agreed to provide advice on the Company's business model and strategies for the Company's business development, identify and introduce to the Company potential investors and assist the Company in its negotiations with such potential investors at the request of the Company. As a consideration of such professional services, the Company granted Eagle Strategy an option to purchase 6.2% of the total number of enlarged issued shares of the Company existing at the time of the exercise. The option was exercised on 20 November 2001 at a total cash consideration of HK\$372,000 and a total of 537,334 ordinary shares of HK\$0.01 each of the Company were allotted and issued to Eagle Strategy.
- (b) Pursuant to an option deed dated 20 July 2001 entered into between, inter alia, the Company and Outshine Company Limited ("Outshine"), a third party, Outshine agreed to procure another third party to arrange financing in the form of the Convertible Notes for the Company and to procure and introduce potential investors to subscribe for the Convertible Notes at the request of the Company. As a consideration for such professional services, the Group granted Outshine an option to purchase 3.8% of the total number of enlarged issued shares of the Company existing at the date of the exercise. The option was exercised on 20 November 2001 at a total cash consideration of HK\$228,000 and a total of 329,333 ordinary shares of HK\$0.01 each of the Company were allotted and issued to Outshine.
- (c) Subsequent to the balance sheet date, pursuant to the resolutions in writing passed by all the shareholders of the Company on 20 April 2002, the Company conditionally approved two share option schemes, which became effective upon the public listing of the Company's shares on the GEM on 10 May 2002. Further details of the two share option schemes are set out under the heading "Share option schemes" in the Report of the Directors on pages 22 to 25.

# Notes to Financial Statements

31 March 2002

## 30. RESERVES

### Group

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

### Company

	<b>Share premium</b>	<b>Capital reserve</b>	<b>Accumulated loss</b>	<b>Total</b>
	HK\$	HK\$ (Note b)	HK\$	HK\$
Issue of new shares	3,588,697	–	–	3,588,697
Arising from professional services received	–	300,000	–	300,000
Net loss for the period from 28 May 2001 (date of incorporation) to 31 March 2002	–	–	(835,476)	(835,476)
At 31 March 2002	3,588,697	300,000	(835,476)	3,053,221

#### Notes:

- (a) The Group's contributed surplus represents the difference between the nominal value of the shares of Grandy HK acquired pursuant to the Reorganisation as set out in note 2 to the financial statements over the nominal value of the Company's shares issued in exchange therefore.
- (b) The capital reserve of the Company and the Group represents certain professional services fees payable by the Company settled in the form of share options of the Company granted to two professional services providers in lieu of cash consideration.

# Notes to Financial Statements

31 March 2002

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash outflow from operating activities

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Profit/(loss) from operating activities	<b>4,671,851</b>	(1,098,209)
Depreciation	<b>156,734</b>	125,858
Loss on disposal of fixed assets	<b>15,238</b>	–
Interest income	<b>(132,901)</b>	(2,589)
Decrease/(increase) in inventories	<b>(2,027,805)</b>	154,033
Increase in trade receivables	<b>(10,650,159)</b>	(761,662)
Decrease/(increase) in prepayments, deposits and other receivables	<b>(4,193,652)</b>	35,888
Increase in trade payables	<b>664,606</b>	362,531
Increase in other payables and accruals	<b>712,083</b>	407,562
Net cash outflow from operating activities	<b>(10,784,005)</b>	(776,588)

# Notes to Financial Statements

31 March 2002

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Analysis of changes in financing during the year

	<b>Issued capital and share premium</b>	<b>Interest- bearing bank loans</b>	<b>Due to directors</b>	<b>Convertible notes</b>	<b>Finance lease payable</b>
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 April 2000	74,584	–	2,918,255	–	131,694
Arising from capitalisation of an amount due to a director by a subsidiary	–	–	(3,000,000)	–	–
Cash inflow/(outflow) from financing activities, net	–	903,450	778,334	–	(33,624)
At 31 March 2001 and at 1 April 2001	74,584	903,450	696,589	–	98,070
Accretion of premium on redemption of the Convertible Notes	–	–	–	1,675,472	–
Cash inflow/(outflow) from financing activities, net	3,600,780	(903,450)	(525,171)	10,000,000	(33,624)
At 31 March 2002	3,675,364	–	171,418	11,675,472	64,446

### (c) Major non-cash transactions

- (i) During the year ended 31 March 2002, the Group settled the costs of professional services of HK\$300,000 to Eagle Strategy and Outshine in the form of share options of the Company granted to them in lieu of a cash consideration. Details of the arrangements are set out in the sub-paragraphs (a) and (b) of the section headed "Share options" in note 29 to the financial statements.
- (ii) During the year ended 31 March 2001, 3,000,000 ordinary shares of HK\$1 each of a subsidiary of the Company were issued at par through capitalisation of an amount due to a director of HK\$3,000,000.



# Notes to Financial Statements

31 March 2002

## 32. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

## 33. OPERATING LEASE COMMITMENTS

The Group leases its office and warehouse properties under operating lease arrangements, with leases negotiated with original terms ranging from 6 months to 30 months.

At 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2002</b>	2001
	<b>HK\$</b>	HK\$
Within one year	<b>127,737</b>	239,760
In the second to fifth years, inclusive	–	23,888
	<b>127,737</b>	263,648

## 34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, at 31 March 2002, the Group had a commitment in respect of a sole agency agreement and a supplemental agreement thereto entered into between Grandy HK and a third party on 1 November 1998 and 15 June 2001, respectively. Pursuant to the aforesaid agreements, Grandy HK would be required to pay an amount (the "Royalty") equivalent to 10% of its net profit after tax to the third party for 30 years expiring on 31 October 2028 for the purpose of obtaining an exclusive right to distribute and sell and the right to use the enzyme-based materials produced by the third party in certain parts of the world. All losses incurred by Grandy HK in each year could be carried forward to the next financial year for the purpose of calculating the net profit in arriving at the payable amount. During the year, the Group was not required to pay any Royalty to the third party as the accumulated losses of Grandy HK brought forward was sufficient to offset against its net profit for the year.

At the balance sheet date, neither the Group, nor the Company had any significant capital commitments.

# Notes to Financial Statements

31 March 2002

## 35. POST BALANCE SHEET EVENTS

In addition to the matters disclosed in note 29 to the financial statements, the following significant events occurred subsequent to the balance sheet date:

- (a) On 7 May 2002, the Company issued 190,000,000 ordinary shares of HK\$0.01 each to the public at HK\$0.28 per ordinary share for a total cash consideration of HK\$53,200,000 before any related issue expenses. On the same date, a total of 631,333,333 shares of HK\$0.01 each were allotted and issued as fully paid at par to the shareholders, whose names appeared on the register of members of the Company at the close of the business on 22 April 2002, in proportion to their respective shareholdings by way of capitalisation of the sum of HK\$6,313,333 standing to the credit of the share premium account of the Company.
- (b) On 15 May 2002, in accordance with the note instrument and the supplemental deed referred to in note 28 to the financial statements, the Company redeemed all the Convertible Notes at a redemption amount of HK\$12 million which was equal to 120% of the principal amount outstanding.

A condensed pro forma adjusted consolidated balance sheet of the Group as at 31 March 2002, which is based on the audited net assets of the Group as at 31 March 2002 and adjusted as if the new issue and placing, and listing of the Company's shares and the redemption of the Convertible Notes as set out in notes (a) and (b) above had taken place on 31 March 2002, is presented below:

	<b>Audited consolidated net assets 31 March 2002</b>	<b>Pro forma adjustment: New issue and placing of shares</b>	<b>Pro forma adjustment: Capitalisation issue of shares</b>	<b>Pro forma adjustment: Redemption of the Convertible Notes</b>	<b>Pro forma consolidated net assets 31 March 2002</b>
	HK\$	HK\$ (Note a)	HK\$ (Note a)	HK\$ (Note b)	HK\$
Non-current assets	1,465,453	-	-	-	1,465,453
Current assets	20,590,247	53,200,000	-	(12,000,000)	61,790,247
Current liabilities	16,185,074	-	-	(12,000,000)	4,185,074
Net current assets	4,405,173	53,200,000	-	-	57,605,173
Non-current liability	30,822	-	-	-	30,822
Net assets	5,839,804	53,200,000	-	-	59,039,804
Issued capital	86,667	1,900,000	6,313,333	-	8,300,000
Reserves	5,753,137	51,300,000	(6,313,333)	-	50,739,804
	5,839,804	53,200,000	-	-	59,039,804

# Notes to Financial Statements

31 March 2002

## 36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 18, 20 and 21, and the transactions in connection with the Reorganisation in preparation for the listing of the Company's shares on the GEM, the Group had the following material transactions with related parties during the year:

	Notes	2002 HK\$	2001 HK\$
Interest income received from Mr Tsui Tai Hoi Raymond	(a) & (d)	<b>102,345</b>	–
Service fees paid to Apollo Shine International Limited ("Apollo Shine")	(b) & (d)	<b>72,000</b>	600,000
Rental expenses paid to Apollo Shine	(c) & (d)	<b>39,000</b>	156,000

Notes:

- (a) Interest income from Mr Tsui Tai Hoi Raymond, a director of the Company, arose from loans with principal amount of HK\$2,000,000 in aggregate advanced to him during the year, which bore interest at 8% per annum. Subsequent to the balance sheet date, the loans were fully settled on 22 April 2002.
- (b) Prior to 6 August 2001, Mr Tsui Tai Hoi Raymond, a director of the Company, had beneficial interests in Apollo Shine. The service fees were paid to Apollo Shine to cover administrative expenses incurred by Apollo Shine, including staff salaries and office running expenses, as the Group shared the office facilities and staff with Apollo Shine. The service fees were determined at rates mutually agreed between the Group and Apollo Shine.
- (c) The transactions were determined at rates mutually agreed between the Group and Apollo Shine.
- (d) The transactions were discontinued prior to the listing of the Company's shares on the GEM on 10 May 2002.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

## 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 June 2002.

## Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the period ended 31 March 2000 and each of the two years ended 31 March 2002, prepared on the basis set out in the note below:

	<b>Year ended 31 March 2002 HK\$</b>	Year ended 31 March 2001 HK\$	Period from 20 January 1999 (date of incorporation) to 31 March 2000 HK\$
<b>RESULTS</b>			
<b>TURNOVER</b>	<b>26,321,680</b>	7,117,653	2,203,903
Cost of sales	<b>(12,671,875)</b>	(2,908,761)	(1,019,257)
Gross profit	<b>13,649,805</b>	4,208,892	1,184,646
Interest income	<b>132,901</b>	2,589	1,731
Convertible notes issue expenses	<b>(727,043)</b>	–	–
Selling and distribution costs	<b>(2,425,385)</b>	(1,783,476)	(748,631)
Administrative expenses	<b>(5,958,427)</b>	(3,526,214)	(2,727,585)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	<b>4,671,851</b>	(1,098,209)	(2,289,839)
Finance costs	<b>(2,227,419)</b>	(76,003)	(14,357)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>2,444,432</b>	(1,174,212)	(2,304,196)
Tax	<b>(37,000)</b>	–	–
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>2,407,432</b>	(1,174,212)	(2,304,196)

	<b>As at 31 March</b>		
	<b>2002 HK\$</b>	2001 HK\$	2000 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>TOTAL ASSETS</b>	<b>22,055,700</b>	2,688,865	1,396,315
<b>TOTAL LIABILITIES</b>	<b>16,215,896</b>	3,157,273	3,690,511
	<b>5,839,804</b>	(468,408)	(2,294,196)

Note: The summary of the consolidated results, assets and liabilities of the Group for the period ended 31 March 2000 and the year ended 31 March 2001 has been extracted from the Company's prospectus dated 29 April 2002. The consolidated results of the Group for the year ended 31 March 2002 and the consolidated assets and liabilities of the Group as at that date are those set out in the financial statements on pages 30 and 31, respectively. The summary of the consolidated results, assets and liabilities of the Group includes the results, assets and liabilities of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial year ended 31 March 2002, and is presented on the basis set out in note 4 to the financial statements.