



Grandy Applied Environmental Technology Corporation

(Incorporated in the Cayman Islands with limited liability)

2002/03
Half-Year Report



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This report for which the directors of Grandy Applied Environmental Technology Corporation collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange for the purpose of giving information with regard to Grandy Applied Environmental Technology Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Results of the Group for the six months ended 30 September 2002 have shown a sustained growth in business performance in comparison with results for the corresponding period of the previous year. In the period under review, the Group commenced using the funds raised from the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Hong Kong Stock Exchange Limited on 10 May 2002 for financing its business development and expansion plans. Turnover of the Group in the period under review was approximately HK\$21,307,000 in comparison with approximately HK\$12,230,000 in the first half of last year, representing an increase of 74.22%. Net profit attributable to shareholders for the half-year under review was approximately HK\$322,000, representing a decrease of 64.89% relative to the corresponding period last year. This relative decrease in profit, however, is entirely attributable to the substantial investment that the Group has made for the purpose of progressing its planned business development activities, geographical expansion, widening its product ranges, R&D funding for projects directed at refreshment of its technology base and relocation to its new offices in Hong Kong. The Group's sustained performance in the face of an overall weakening of the domestic and other Asian economies reflects: (i) improvements introduced by management designed to enhance the Group's operational efficiency; (ii) economies of scale due to growth of the Group's businesses; and (iii) the introduction of new product lines such as "*Light.Eco*" (August 2001), "*SavaControls*" (May 2002) and a "Food Waste Management" system (August 2002) – which are generating a strong and growing demand. Meanwhile, there has been a steady growth in demand for the Group's broad range of enzyme-based water quality and air quality improvement products and services.

Promotional and brand-building activities. The Group has participated in a number of high level promotional activities such as the Australian Trade Exhibition in conjunction with Ilum-a-lite (manufacturer of *Light.Eco*), in which *Light.Eco* was promoted to a number of high profile clients in Hong Kong. In July, the Group participated in an exhibition held at the Hong Kong Exhibition Centre, which was focused on environmental protection products and services specifically for the hotel and other catering industries. At the exhibition, the Group fielded a high-profile display featuring demonstration models of its entire range of environmental protection technology. In addition, the

Group has designed and prepared a suite of promotional leaflets, literature and posters for each of its products and services, and the Group's website has been completely re-designed, updated and launched in October 2002. Currently, the Group is sponsoring a series of environmental protection programmes called *Green Talks* every Saturday on *FM 104 Metro Finance*.

Waste water treatment projects. The Group has continued to develop and test its process and equipment solutions for the treatment of industrial waste water. The primary market for waste water treatment projects and supply of equipment continues to be the Mainland China where there is vast potential for measures and solutions that are aimed at halting and eventually reversing the trend of pollution of China's already scarce water resources. In order to provide turnkey solutions, the Group has developed close working relationships with a number of contractors who have a solid track record of design and build of conventional waste water treatment plant. Waste water treatment projects are expected to commence shortly in Shandong province, Dongguan and Shenzhen. Recently, a demonstration project was completed for a highly prestigious leisure and sports complex in Guangdong province in which a river passing through the golf course, which was badly polluted with industrial effluent, was decontaminated.

Extension of range of energy-saving products. Commencing from 10 May 2002, the Group was granted the exclusive rights by SavaWatt (UK) Limited for the distribution of *SavaControls* in the territories of Hong Kong and Macau. Subsequently, to widen geographical coverage, in August 2002 and September 2002 respectively, the Group negotiated and was granted exclusive distribution rights for *SavaControls* in the territories of Malaysia and Singapore. *SavaControls* can improve the energy-efficiency of most AC induction motors that are commonly used in applications such as refrigeration, air conditioning and air handling units, but without affecting the performance of the refrigeration or air conditioning system. Award of these new distributorships significantly broadens the Group's range of energy-saving products. Together, lighting and air conditioning in commercial buildings in Hong Kong are estimated to have consumed in the region of HK\$12 Billion's worth of electricity in 2001. Therefore, at an average energy-saving of 25%, the extended product range affords the Group exposure to a total market potential that is worth HK\$3 Billion in Hong Kong alone. Target customers for the Group's range of energy-saving products include commercial buildings, schools, hospitals, supermarkets, restaurants, hotels, convenience stores and industrial sectors where refrigeration and/or air conditioning are a significant overhead. Owing to the synergy between its energy-saving and air/water quality improvement services, the Group believes it is set to capture a significant share of commercial property in Hong Kong, Mainland China and other parts of South East Asia as its *Green Building* clientele.

Food waste management system. A high profile product, for which the Group is negotiating the exclusive distribution rights in Hong Kong, is a food waste management system that incorporates highly active but harmless microorganisms for the transformation of food waste into a soil conditioner that has commercial value. Designed and patented by Guangzhou Tianwei Biotechnology Co. Ltd, the system has been tested extensively by an independent authority in Hong Kong and is already in operation at many sites in Hong Kong. Further clients that are being targeted for the food waste recycling system are in sectors that include hospitals, universities, schools, hotels and the catering industry in Hong Kong and large cities in Mainland China.

Evaluation of new technology. State-of-the-art forms of technology that are currently under evaluation and application analysis include: new sources of enzymes and highly effective microbes for water quality improvement; membrane filtration systems sourced internationally from several manufacturers; advanced oxidation technology; and photocatalytic oxidation reactors. The Group is continuing to evaluate the possibility of a cooperative agreement for the distribution in Hong Kong and Mainland China of an electrostatic precipitator (EP) that is capable of recovering 90% of oil from the ventilation exhaust of extractors that are widely used in kitchens of restaurants, hotels and other catering sectors.

Refreshment of the Group's technology base. In order to maintain its competitive edge within the Environmental Protection industry, the Group continually seeks to refresh its technology base through carrying out strategic developmental projects. Accordingly, in June 2002 the Group supported two applications that were submitted by The Hong Kong University of Science and Technology ("HKUST") for part-funding from the Hong Kong SAR Government's Innovation Technology Fund ("ITF"). One of the projects is directed at the development of bio-sensors for the real-time monitoring of the level of pollutants in waste water. This project is co-supported by a manufacturer of electronic equipment that is based in Hong Kong, which will provide the manufacturing facility for the Group's future commercial exploitation of the sensing equipment that the Group expects will be developed. The second project is related to the development of novel nano-catalysts for the improvement of water quality and indoor air quality. The Group has now received confirmation that both of the aforementioned ITF applications have been accepted: the first project on bio-sensors is expected to be kicked off in December 2002 and the second one on nano-catalysts is expected to commence in January 2003.

In October 2002, the Group supported a third ITF application by HKUST concerning a follow-on project that is aimed at building on the aforementioned anticipated development of novel nano-catalysts. If the funding application is successful, the follow-on project will be specifically directed at treatment of waste water.

Recently, as an integral part of the establishment of the Group's operations in Beijing, a subsidiary of the Group known as Grand Brilliant Corporation Limited successfully concluded an Intellectual Property (IP) Transfer Agreement with Dr Wei Hongyuan David, which affords the Group sole access to and the rights to exploit and further develop leading-edge know-how in certain strategically important areas of Green Technology as detailed in the section of the review herein entitled "Green Technology". Dr Wei after obtaining his PhD in Chemical Engineering from University of Manchester Institute of Science and Technology in UK has developed extensive experience internationally in both industry and academia in Green Technology, and he currently retains his position as a Professor in Chemical Engineering at the School of Chemical Engineering and Technology at the University of Tianjin – a top ten ranking university in the People's Republic of China. Prior to this he was a senior consultant at BHR Group Limited (UK), the world-leading centre of expertise in fluid engineering. His specialist expertise developed since September 1988 includes: chemical reaction engineering; industrial crystallisation; process optimisation; process improvement; water treatment plant and processes (including waste water, sewage and drinking water treatment); waste minimisation, Cleaner Production and Green Chemistry; Indoor Air Quality simulation; Computational Fluid Dynamics and a range of complementary process simulations techniques.

Geographical expansion. In the period under review the Group has successfully registered a wholly-owned subsidiary office in Malaysia, which became operational in August 2002. For the moment, the operations in Malaysia focus on the sales and marketing of energy-saving devices such as *SavaControls*, with plans to extend the product range to include *Light.Eco* in the ensuing months. The operations in Malaysia are considered an essential platform for the Group's business plans, as set forth in its listing prospectus, for further geographical expansion into other parts of South East Asia such as Thailand and Vietnam where the Group is currently negotiating several contracts for energy-saving products and waste water treatment projects.

In Mainland China, an office has been established in Beijing in September 2002, which is the headquarters of State Environmental Protection Agency ("SEPA") and the location of the *Green Olympics* in 2008. The office is a wholly foreign owned enterprise ("WFOE") that comprises a joint venture, the equity of which is owned 65% by Grand Brilliant Corporation Limited, a wholly-owned subsidiary of the Group, and 35% by Dr Wei Hongyuan David (whose background is detailed in the section of the review herein entitled "Refreshment of the Group's technology base"). The WFOE is known as Beijing Grandy Green Technology Limited. Although the operations are eventually expected to market the entire range of the Group's products, the focus will be on the provision of Green Technology consultancy services, which are detailed in the section of the review herein entitled "Green Technology".

Green Technology. As outlined in the section of the review herein entitled "Refreshment of the Group's technology base", a wholly-owned subsidiary of the Company known as Grand Brilliant Corporation Limited has in accordance with the terms of an Intellectual Property Transfer Agreement acquired the sole rights to exploit and further develop expertise and know-how in areas of Green Technology, which include the following:

1. **Green Chemistry**, which is the design of chemical products and processes that reduce or eliminate the use and generation of hazardous substances, thus providing an effective approach to pollution prevention which is in line with the Mainland Chinese Government's key strategy of Cleaner Production.
2. **Green Environmental Services**, which include: wastewater treatment, drinking water treatment and reservoir design; Indoor air quality ("IAQ") assessments and simulation; air pollution audit; waste minimisation.
3. **Process Modelling**, which includes Computational Fluid Dynamics and other simulation techniques and their application in various areas such as: (i) chemical reactor design, improvement, optimisation and scale-up; (ii) design and optimisation of waste water treatment plant; (iii) optimisation of dosing of coagulants, flocculants and other chemical additives; (iv) IAQ modelling.

Future Prospects

Market demand. 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, for example, the Group considers that the principal market drivers for its total EP Solutions include:

- China's accession to World Trade Organisation membership
- Holding of the 2008 'Green Olympics' in Beijing
- Projected population growth from current 1.3 Billion to 1.6 Billion by 2050
- Impending crisis of water shortage, which for the year 2000 the Chinese Government estimates cost industry and agriculture more than RMB120 Billion in lost production
- Impact of water pollution on human health, which has been valued at approximately RMB41.7 Billion (2000)

- Drive towards Cleaner Production and GMP standards in the chemical and related process industries such as fine chemicals and pharmaceuticals

In 2000, Mainland China's total investment in the environment amounted to approximately RMB106.1 Billion (1.1% of GDP), representing an increase of 28.8% over the previous year (*Report on State of the Environment in China 2000*). According to SEPA, this figure is set to grow by 15% per annum in the coming years.

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

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

Accordingly, the Group is well placed to capitalise on such policy initiatives through the establishment of Beijing Grandy Green Technology Limited.

Positioning of the Group to capture the Asian market. 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. In addition, operations have been established in Beijing, which will enable the waste water projects under negotiation in Mainland China to commence. Several demonstration and consultancy projects relating to waste water treatment are in progress in Guangdong province and are expected to lead to the award of contracts for providing environmental protection services for river maintenance and maintenance of ornamental ponds, food waste management, energy-conservation and grease trap maintenance.

The opening of an office in Malaysia (as detailed in the section of the review herein entitled "Geographical expansion"), the appointment of agents in Malaysia and the award of additional distributorships for *SavaControls* in the regions of Malaysia and Singapore will position the Group to start capturing a significant share of the Environmental Protection market in South East Asia.

Outlook. Going forward, the Group will be devoting considerable resources to marketing, brand building and further geographical expansion in Mainland China and South East Asia. Planned promotional activities include attendance of high profile trade exhibitions as well as holding the Group's own seminars and workshops in both Hong Kong and Mainland China in 2003.

The Group considers that its planned geographical expansion with the widening that has taken place to date of its range of products and services and the expected award of new contracts that are currently in the pipeline combine to provide good prospects for continuation of robust, managed growth.

Liquidity and financial resources

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK\$20,336,000 as at 30 September 2002 (31 March 2002: HK\$1,896,000). Without any interest-bearing bank loans and overdrafts as at 30 September 2002 (31 March 2002: HK\$1,677,000), the Group recorded a net positive cash balance of approximately HK\$20,336,000 as at 30 September 2002 (31 March 2002: HK\$219,000).

The Group recorded total current assets of approximately HK\$51,994,000 as at 30 September 2002 (31 March 2002: HK\$20,590,000) and total current liabilities of approximately HK\$7,181,000 as at 30 September 2002 (31 March 2002: HK\$16,185,000). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, is 7.24 at 30 September 2002 (31 March 2002: 1.27). The gearing ratio of the Group, calculated by dividing total interest bearing borrowings by equity, is 0.007 at 30 September 2002 (31 March 2002: 2.297). The improvements in the Group's liquidity, current ratio and gearing ratio were mainly due to net share proceeds of HK\$44,000,000 from the listing of the Company's shares on the GEM and also the profit earned and retained by the Group during the period.

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.

Charge on assets

The Group's time deposits of approximately HK\$2,022,000 (31 March 2002: HK\$1,013,000) were pledged to banks to secure general banking facilities granted to the Group and the Company's motor vehicles were held under finance leases.

Foreign exchange exposure

The Group had two operating subsidiaries established in Beijing and Malaysia respectively as at 30 September 2002. The capital and loans committed to these two subsidiaries amounted to HK\$1,300,000 as at 30 September 2002 (31 March 2002: Nil).

The Group's policy is for each operating entity to borrow in local currency, where possible, in order to minimise currency risks and therefore the Group did not have any financial instrument for hedging purpose.

Employee information

As at 30 September 2002, the Group had 64 full time employees. During the six months ended 30 September 2002, the staff costs, including directors' remuneration, totaled approximately HK\$3,815,000. The Group's employment and remuneration policies remained the same as detailed in the Annual Report for the year ended 31 March 2002.

Geographical expansion

During the six months ended 30 September 2002, the Group had invested in two subsidiaries with one incorporated in Beijing, the People's Republic of China and the other incorporated in Kuala Lumpur, Malaysia.

The subsidiary in Beijing is a wholly foreign owned enterprise with the Group holding 65% (i.e. HK\$1,430,000) of the subsidiary's paid up capital totaling HK\$2,200,000. The subsidiary in Malaysia is 100% owned by the Group with paid up capital of approximately HK\$208,000 (i.e. RM100,000).

Comparison of the planned use of proceeds from the initial public offering against the actual use

	Amount to be used up to 30 September 2002 as disclosed in the prospectus dated 29 April 2002 <i>HK\$ million</i>	Actual amount <i>HK\$ million</i>
Geographical expansion	–	3.45
Improvement of existing products to sourcing of new products	2.36	2.0
Establishment of application analysis and product development capabilities	1.60	0.10
Marketing and brand building	0.30	0.50
Redemption of convertible notes	10.0	10.0
General working capital	15.24	15.0
	<u>29.50</u>	<u>31.05</u>

The major changes in the use of proceeds as compared to the original plan are that the plan of establishment of application analysis and product development was postponed as plans to establish subsidiaries in Malaysia and Beijing were brought forward.

COMPARISON OF BUSINESS OBJECTIVES AGAINST ACTUAL BUSINESS PROGRESS

Business objectives up to 30 September 2002 as stated in the Prospectus dated 29 April 2002

Actual business progress up to 30 September 2002

1. Geographical expansion

- Appoint agent(s) to test the function and performance of Group's enzyme products in the PRC
- Identify suitable agent(s) to develop the market for *Light Eco* systems in the PRC
- Explore appropriate marketing strategies to develop the PRC

Agents appointed in Shunde and Xiamen

Agents appointed in Dongguan, Shanghai and Beijing

Strategies explored and operations established in Beijing

Ahead of Schedule:

Operations in Malaysia established one year ahead of plan

Energy-saving products being offered in Singapore ahead of schedule for further expansion in South East Asia

2. Improvement of existing products and sourcing new products

Water Quality Improvement

- Improve performance of *GreaseKil*, *Eco Tonic* and *FlusKleen* through collaboration with local institutions
- Perform trial runs for the application of bio-farm technology in waste water treatment and grease trap maintenance

New enzyme activation methods investigated leading to enzyme-products with higher and more consistent enzymatic activity;

New generation *Eco Tonic* under evaluation.

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

- Identify appropriate protocol of PCO reactors for the Group's waste water treatment process
- Study and evaluate waste water treatment and recycling models

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

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

Ahead of Schedule:

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

Air Quality Improvement

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

This area of product improvement has been postponed in favor of focusing on waste water treatment technology and design of a new generation of waste water treatment model system (above).

Ditto

Energy Saving

i. Compact Heat Exchangers (CHE)

- Commence market survey for requirements for CHES

Plans postponed for further 6 months as plans to establish WFOE in Beijing for providing Green Technology services brought forward in its place and have taken precedence.

ii. *Chemical processing improvement technology*

- Commence the preparation of project and client presentation in relation to chemical process improvement

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

Ahead of Schedule:

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

New Products

Ahead of Schedule:

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

Food waste management system evaluated and distribution agreement concluded

Electrostatic precipitator under evaluation

3. Establishment of product development and evaluation capabilities

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

Plan under evaluation.

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

4. Marketing and brand building

- Formulate marketing and promotion plan of the Group's products
- Advertise the Group's products and services in journals and magazines
- Organise and attend seminars relating to environmental protection industry
- Expand existing sales and marketing team
- Upgrade the Group's website

Ahead of Schedule:

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

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

Plan formulated and a senior marketing manager has been recruited.

Press releases and media interviews have been made with the preferred media for promotion. Additionally, the Group has participated in trade exhibitions, events and delegations, and is currently sponsoring *Green Talks* every Saturday on *FM 104 Metro Finance*.

As per above, the Group has attended trade exhibitions, events and delegations and is currently sponsoring a programme on *FM 104 Metro Finance* focusing on Environmental Protection.

Plans for seminars in Mainland China on *Green Technology* under formulation

A senior marketing manager has been recruited.

The Group's website has been completely redesigned and launched in October 2002.

UNAUDITED CONSOLIDATED RESULTS**Condensed Consolidated Profit and Loss Account**

For the three months and six months ended 30 September 2002

	Notes	Three months ended 30 September		Six months ended 30 September	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Audited) HK\$'000
TURNOVER	3	12,918	10,016	21,307	12,230
Cost of sales		(7,271)	(5,633)	(11,237)	(7,177)
Gross profit		5,647	4,383	10,070	5,053
Interest income		90	25	342	25
Convertible notes issue expenses		–	(727)	–	(727)
Selling and distribution costs		(475)	(716)	(1,090)	(894)
Administrative expenses		(5,057)	(1,058)	(8,498)	(2,086)
PROFIT FROM OPERATING ACTIVITIES		205	1,907	824	1,371
Finance costs		(19)	(428)	(502)	(454)
PROFIT BEFORE TAX		186	1,479	322	917
Tax	5	–	–	–	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		186	1,479	322	917
EARNINGS PER SHARE					
– Basic (HK cents)	7	0.022	0.231	0.041	0.143
EARNINGS PER SHARE					
– Diluted (HK cents)	7	N/A	N/A	0.040	N/A
INTERIM DIVIDEND PER SHARE		–	–	–	–

Condensed Consolidated Balance Sheet*30 September 2002*

		30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		4,374	554
Intangible assets		1,678	911
		6,052	1,465
CURRENT ASSETS			
Inventories		1,554	2,185
Trade receivables	8	27,626	11,935
Prepayments, deposits and other receivables		2,478	4,574
Pledged time deposits		2,022	1,013
Cash and cash equivalents		18,314	883
		51,994	20,590
CURRENT LIABILITIES			
Trade payables	9	5,233	1,400
Tax payable		37	37
Other payables and accruals		1,785	1,362
Interest-bearing bank loans and overdrafts		–	1,677
Finance lease payables		126	34
Convertible notes		–	11,675
		7,181	16,185
NET CURRENT ASSETS		44,813	4,405
TOTAL ASSETS LESS CURRENT LIABILITIES		50,865	5,870
NON-CURRENT LIABILITY			
Finance lease payables		221	30
MINORITY INTERESTS		770	–
		49,874	5,840
CAPITAL AND RESERVES			
Issued capital	10	8,300	87
Reserves		41,574	5,753
		49,874	5,840

Condensed Consolidated Cash Flow Statement*For the six months ended 30 September 2002*

	Six months ended 30 September	
	2002	2001
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
		(Restated)
Net cash outflow from operating activities	(8,132)	(4,605)
Net cash outflow from investing activities	(4,301)	(1,308)
Net cash inflow from financing activities	32,550	11,458
Increase in cash and cash equivalents	20,117	5,545
Cash and cash equivalents at beginning of period	219	(215)
Cash and cash equivalents at end of period	20,336	5,330

Analysis of balances of cash and cash equivalents

Pledged time deposits with original maturity of less than three months when required, pledged as security for trade finance facilities	2,022	–
Cash and bank balances	4,312	5,330
Time deposits with original maturity of less than three months when acquired	14,002	–
	20,336	5,330

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2002

	Issued Capital (Unaudited) HK\$'000	Share Premium (Unaudited) HK\$'000	Contributed Surplus (Unaudited) HK\$'000	Capital Reserve (Unaudited) HK\$'000	Accumulated Losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2001	75	-	2,935	-	(3,478)	(468)
Issue of new shares	3	2,997	-	-	-	3,000
Arising from professional services received	-	-	-	300	-	300
Net profit for the period	-	-	-	-	917	917
At 30 September 2001	<u>78</u>	<u>2,997</u>	<u>2,935</u>	<u>300</u>	<u>(2,561)</u>	<u>3,749</u>
At 1 April 2002	87	3,589	2,935	300	(1,071)	5,840
Issue of new shares	8,213	44,987	-	-	-	53,200
Share issue expenses	-	(9,488)	-	-	-	(9,488)
Net profit for the period	-	-	-	-	322	322
At 30 September 2002	<u>8,300</u>	<u>39,088</u>	<u>2,935</u>	<u>300</u>	<u>(749)</u>	<u>49,874</u>

Notes to Condensed Consolidated Interim Financial Statements:

1. Group reorganisation and basis of presentation

Group reorganisation

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM, the Company became the holding company of the companies now comprising the Group on 17 July 2001. The Company's shares have been listed on the GEM since 10 May 2002.

Basis of presentation

The unaudited condensed consolidated profit and loss account includes the results of the Company and its subsidiaries for the three months and six months ended 30 September 2002.

The Reorganisation involved companies under common control. The unaudited consolidated results have been prepared on the basis of merger accounting in accordance with SSAP 27 "Accounting for Group Reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries for the three months and six months ended 30 September 2001 rather than from the date of its acquisition of the subsidiary pursuant to the Reorganisation. Accordingly, the unaudited consolidated results of the Group for the three months and six months ended 30 September 2001 include the results of the Company and its subsidiaries with effect from 1 April 2001 and 1 July 2001, respectively or since their respective dates of incorporation, where this is a shorter period.

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

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

2. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Listing Rules of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with SSAP No. 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

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

- SSAP 1 (Revised): "Presentation of Financial Statements"
- SSAP 11 (Revised) "Foreign Currency Transaction"
- SSAP 15 (Revised) "Cash Flow Statements"
- SSAP 34: "Employee Benefits"

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

3. Turnover and revenue

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

4. Segment information

During the period, since the Group is principally engaged in the manufacturing and selling of environmental protection products and services, the directors consider that the Group operates within a single business segment. Accordingly, no business segment information is presented.

5. Tax

No provision for Hong Kong profits tax or overseas income tax has been made during the periods as the Group had no assessable profits arising in Hong Kong and overseas.

6. Profit from the operating activities

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

	Three months ended 30 September 2002 (Unaudited) HK\$'000		Six months ended 30 September 2002 (Unaudited) HK\$'000	
	2001 (Unaudited) HK\$'000	2001 (Audited) HK\$'000		
Depreciation	247	36	364	68
Amortisation of intangible assets	3	–	3	–
Loss on disposal of fixed assets	–	14	58	14
Interest income	(90)	(25)	(342)	(25)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. Earnings per share

The calculation of basic earnings per share for the three months and six months ended 30 September 2002 is based on the respective unaudited net profits from ordinary activities attributable to shareholders of approximately HK\$186,000 and HK\$322,000 and on the respective weighted average number of 830,000,000 and 792,623,000 ordinary shares in issue during the periods.

The calculation of basic earnings per share for the three months and six months ended 30 September 2001 is based on the respective unaudited net profits from ordinary activities attributable to shareholders of approximately HK\$1,479,000 and HK\$917,000 and on the weighted average number of 640,000,000 ordinary shares in issue during the periods.

The calculation of diluted earnings per share for the six months ended 30 September 2002 is based on the unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$322,000 and on the weighted average number of 803,790,000 ordinary shares in issue during the period.

No diluted earnings per share for the three months and six months ended 30 September 2001 and for the three months ended 30 September 2002 have been presented as the share options outstanding during the periods had an anti-dilutive effect on the respective basic earnings per share for the periods.

8. 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 720 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 at the balance sheet date, based on the date of recognition of sales, is as follows:

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
0 to 90 days	11,466	3,808
91 to 180 days	6,286	6,338
181 to 365 days	9,823	1,738
Over 1 year	51	51
	27,626	11,935

9. Trade payables

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

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
0 to 90 days	5,026	1,276
91 to 180 days	199	52
181 to 365 days	7	-
Over 1 year	1	72
	5,233	1,400

10. Share capital

Shares	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Authorised:		
1,500,000,000 (31 March 2002: 39,000,000) ordinary shares of HK\$0.01 each	<u>15,000</u>	<u>390</u>
Issued and fully paid:		
830,000,000 (31 March 2002: 8,666,667) ordinary shares of HK\$0.01 each	<u>8,300</u>	<u>87</u>

Share options

The Company operates the Pre-IPO Share Option Scheme and Share Option Scheme, details of the option schemes of the Company are set out in the paragraph headed "OUTSTANDING SHARE OPTIONS". At 30 September 2002, the Company had outstanding share options entitling the holders to subscribe for 87,150,000 shares in the Company. No options were exercised during the period.

11. Commitments

The Group had a commitment in respect of a sole agency agreement and a supplemental agreement thereto entered into between Grandy Environmental (H.K.) Limited ("Grandy HK"), a wholly-owned subsidiary of the Company, 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 period, the Group was not required to pay any Royalty to the third party as Grandy HK had accumulated losses as at 30 September 2002.

At the balance sheet date, the Group had no significant capital commitments.

12. Related party transactions

The Group had the following material transactions with related parties during the period:

		Six months ended	
		30 September	
		2002	2001
	<i>Notes</i>	(Unaudited)	(Audited)
		HK\$'000	HK\$'000
Interest income received from Mr Tsui Tai Hoi Raymond	<i>(a) & (d)</i>	7	22
Service fees paid to Apollo Shine International Limited ("Apollo Shine")	<i>(b) & (d)</i>	–	72
Rental expenses paid to Apollo Shine	<i>(c) & (d)</i>	–	39
		<u> </u>	<u> </u>

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 periods, which bore interest at 8% per annum. 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 services 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 30 September 2002, the interests of the Directors and chief executive and their respective associates in the shares and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

1. The Company

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

Notes:

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

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

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

board of the Exchange. Approximately 16.31% of the issued share capital of Kong Sun Holdings Limited is beneficially owned by Kong Fa Holding Limited, in which Mr Kong Li Szu has beneficial interests.

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

2. Associated corporation-Kong Sun Holdings Limited

As at 30 September 2002, Mr Kong Li Szu had the following interests in Kong Sun Holdings Limited, a company listed on the Exchange:

Number of ordinary shares and nature of interest	Number of share options and nature of interest
1,416,675,836	22,760,695
Corporate interest (Note a)	Personal interest (Note b)

Notes:

- a. Mr Kong is deemed to be interested in 1,416,675,836 shares in Kong Sun Holdings Limited, of which 393,375,794 and 1,023,300,042 were held by Kong Fa Holding Limited and Kong Sun Enterprise Sdn. Bhd. respectively. Mr Kong Li Szu is a director and shareholder of Kong Fa Holdings Limited.
- b. Mr Kong was granted 22,760,695 share options at a consideration of HK\$1.00 to subscribe for shares in Kong Sun Holdings Limited on 7 July 2001. As at 30 September 2002, these share options remained outstanding and exercisable during the period from 9 January 2002 to 31 May 2006 at an exercise price of HK\$0.17984 per share.

As the Company has not issued any debt securities, therefore save as disclosed in subsections 1 and 2 above, none of the directors had any interests in the equity and debt securities of the Company or any of its associated corporations as at 30 September 2002 as recorded in the register maintained under Section 29 of the SDI Ordinance or which are required, pursuant to Rules 5.40 to 5.49 of the GEM Listing Rules, to be notified to the Company and the Exchange.

OUTSTANDING SHARE OPTIONS

As at 30 September 2002, options to subscribe for an aggregate of 87,150,000 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 20 April 2002 and the Share Option Scheme after listing were outstanding. Details of which are as follows:

(a) Pre-IPO Share Option Scheme

As at 30 September 2002, options to subscribe for an aggregate of 80,000,000 shares of the Company at an exercise price of HK\$0.14 each were outstanding and these options relate to the options granted to 7 directors (including the directors of the Company as disclosed above), one technical adviser and 6 employees of the Company at the date of grant. The options will vest in three equal tranches on 10 November 2002, 10 May 2003 and 10 May 2004 respectively. The options, if not otherwise exercised, will lapse on 9 May 2012.

(b) Share Option Scheme

Options to subscribe for an aggregate of 7,150,000 shares of the Company of an exercise price of HK\$0.18 each were granted on 8 July 2002 to an independent business consultant. The options will vest in 2 equal tranches on 9 May 2003 and 9 May 2004 respectively and they, if not otherwise exercised, will lapse on 9 May 2005. The closing market price of the shares of the Company immediately before the date of grant is HK\$0.173. As at 30 September 2002, these options remained outstanding.

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

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 30 September 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

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

Notes:

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

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

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 30 September 2002, neither the Sponsor nor its directors or employees or associates (as referred to in Rules 6.35 and 18.63 of the GEM Listing Rules) had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

AUDIT COMMITTEE

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

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

The Audit Committee had a meeting, during which the Group's results for the six months ended 30 September 2002 have been reviewed.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 September 2002, the Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, except that the non-executive directors are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2002.

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

Hong Kong, 8 November 2002