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)

Half-year Results Announcement
For the six months ended 30 September 2003

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

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. 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 in order to obtain up-to-date information on GEM-listed issuers.

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

* *for identification purpose only*

MANAGING DIRECTOR'S STATEMENT

Grandy Applied Environmental Technology Corporation ("Grandy" or "the Company") will commence a restructuring plan this quarter in cooperation with its new strategic shareholder, Key Engineering Co., Ltd. ("Key").

Key, publicly-traded on the KOSDAQ market of South Korea, is a waste management subsidiary of Spackman Group, a global investment conglomerate headed by American financier Charles C. Spackman. His Group has holdings in over 50 subsidiaries in such industries as financial services, trading, media and marketing, information technology, public security, and waste management. In addition, Genesis Southstar Ltd., another Spackman Group affiliate, purchased 60 million shares (approximately 5% of the existing issued share capital) of Grandy from an existing shareholder on 11 September this year.

Grandy's Management will work with its new strategic shareholders to implement a new internal restructuring plan this quarter. The plan consists of three main objectives:

1) **Cut Costs**

   Grandy's Management, including myself, has agreed not to receive any salary or compensation from the Company, other than stock options previously allotted to us, until the Company reaches four full quarters of cumulative profitability.

2) **Reduce Exposure to Low-Margin Business Segments**

   Grandy's Management plans to reduce its exposure to existing peripheral low-margin business segments and concentrate efforts and resources on its core businesses of enzymes and energy-saving solutions.

3) **Add Value with Acquisitions**

   Grandy's Management will work with its new strategic shareholders to acquire or invest into other higher margin environmental companies that can add strategic and operational value to its existing business and that can also materially contribute to the profitability of the Company on a consolidated basis. Such add-on acquisitions will be made with cash or by using the stock of Grandy as currency.

Our Management is firmly committed to this turnaround effort and will work very closely with Key and Spackman Group in implementing this process. With the international experience that our new partner brings, we will work very hard to achieve material results for our shareholders starting from this third quarter. We hope this effort will mark a new beginning for Grandy and, above all, translate into value for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Grandy Applied Environmental Technology Corporation (the "Company") and its subsidiaries (collectively, the "Group") is principally engaged in the production, sourcing, sales and marketing of environmental protection products and services for combating environmental problems including energy wastage, waste handling and pollution of both air and water. The integrated range of products and services being offered enables the Group to claim to be a Total Solution provider in environmental technology services covering Hong Kong, China and parts of South East Asia.

Results of the Group for the six months ended 30 September 2003 have shown a downturn in business performance in comparison with results for the corresponding period of the previous year. Turnover of the Group in the six months under review was approximately HK$9,832,000 in comparison with approximately HK$21,307,000 for the same period of the previous year, representing a decrease of approximately 53.86%. Net loss attributable to shareholders for the six months under review was approximately HK$16,783,000, whereas a net profit of approximately HK$322,000 was recorded for the corresponding six-month period in the previous year.

The loss for the six months ended 30 September 2003 reflects the Group's (i) continuous investments in building up market connections and relationships in the various geographical areas targeted for expansions and (ii) prudence of the Management by making full provision for bad and doubtful debts for certain overdue trade receivables carried forward from the same period in the previous year. The decrease of approximately HK$11,475,000 in turnover in comparison with that for the six months of the previous year also reflects (a) a more prudent approach taken by the Management in tightening payment terms that can better protect the Group and (b) a slow down in the Group's activities and also in the business climate throughout the region in the first six months of 2003, particularly in Hong Kong, with the crisis over Severe Acute Respiratory Syndrome ("SARS").

Relocation to New Office. In order to reflect the current expansion and to cope with the expected future growth of the waste water treatment and recycling business in Southern China, the Group relocated its Guangdong-based operations on 17 September 2003 to a prestigious new office of floor area 10,000 square feet in Humen (虎門).

Promotional and Brand-building Activities. The Group continues to promote its range of products and brand through making high level presentations to key clients and governmental departments throughout its regions of operation. For example, as a result of promotion at government level, on 19 August 2003 Beijing Grandy Green Technology Limited was awarded the status of "Future Star" (Most Promising Start-up Company) by the Beijing Venture Hatch Association.

Indoor Air Quality ("IAQ") and Indoor Sterilization Services. As reported in the previous quarter, in response to the SARS crisis, the Group promoted its services for cleaning and maintaining the cleanliness of building ventilation systems for improvement of IAQ. This has led to the award of IAQ service contracts in the first two quarters of value HK$218,000. In addition, the Group's *Indoor Sterilization Services* based on the use of ozone (O_3) has led to the award in the first two quarters of contracts with schools, offices, hospitals, warehouses, vehicles and domestic dwellings of value HK$227,000. Despite the fact that the SARS crisis appears to have ended in June 2003, warnings from medical health experts and from World Health Organization officials about the possible re-occurrence of SARS continued to remind people of this deadly virus. The Group's Management believes that this will help to stimulate the demand for our IAQ services, and a joint venture named Grandy Air & Acoustics Limited was formed in July 2003 with a local partner in Hong Kong for strengthening our service capabilities as well as market connections in this area.

For the year ahead, the combined projected revenue from IAQ and Indoor Sterilization services is estimated to grow significantly and such turnover is anticipated to be derived from businesses and projects under the new joint venture that was established in July 2003.

Green Campus Solutions. A contract worth RMB900,000 was signed with a developer of the Beihai University Economic District for which an Environmental Impact Assessment is currently in progress. The contract is scheduled to be completed in about nine months in June 2004.

Waste Water Treatment Projects. The Group has continued to build on its business in the area of recycling and re-use of industrial wastewater. Projects in Southern China (and one in Shandong) for treatment of effluent from cloth-washing, electroplating and printed circuit board factories of total value of approximately RMB2,000,000 have been completed at 30 September 2003. For the year ahead, the projected revenue for waste water treatment is estimated to increase rapidly. Such turnover is anticipated to be derived from projects such as (i) waste water re-use and treatment for electronics factories, electroplating factories, printed circuit board factories, bleaching and dyeing factories and (ii) drinking water filtering systems for residential areas located in both Dongguan and nearby cities.

Accordingly, as mentioned above, the Group has located its Guangdong-based operations to a larger office in Humen (虎門). The operations in Guangdong have also recruited senior project engineers with expertise in Environmental Impact Assessment.

Energy-saving Products. Contracts for implementation of energy-saving solutions in the first two quarters of total value HK$3,557,000 have been completed. For the year ahead the projected revenue is estimated to increase significantly. Forecasted contracts in the six months ending 31 March 2004 include certain prestigious residential as well as commercial sites managed by top property management groups in Hong Kong who have tested and confirmed the effectiveness of our energy saving products in the past one year.

Waste Management. Site tests in Hong Kong and the Shenzhen area remain in progress for the Group's food waste management system that converts food waste into a soil conditioner that has commercial value. For the six months ended 30 September 2003, revenues from food waste projects amounted to HK$142,000.

United Consultancy Limited, a subsidiary of the Group, has continued to market throughout South East Asia a technology from Finland known as HLAD (High Loaded Anaerobic Digestion) for pre-sorting and treatment of Municipal Solid Waste. As the HLAD technology has only been promoted since the first quarter of 2003, there are as yet no projections of revenues for the year ahead even though a number of proposals in Malaysia are currently in progress in line with the Management's plans.

Clean Technology for Boosting Oil Production. The Group's subsidiary known as Beijing Grandy Green Technology Limited continues to promote technology in Mainland China for boosting the productivity and extending the useful lifetime of oil and gas wells. As the technology is new in the Mainland Chinese market (albeit proven technology in the West), a very low projection has been forecasted by the Management for revenue for the year ahead.

Green Technology. On 19 August 2003 Beijing Grandy Green Technology Limited was awarded by the Beijing Venture Hatch Association the status of "Future Star" (Most Promising Start-up Company). In the second quarter, contracts of total value RMB346,800 were awarded including an annual consultancy contract from a key client (a Top 100 national chemical producer in China) and a process modelling project from Europe. Beijing Grandy Green Technology Limited has under the annual consultancy contract provided training in the areas of process improvement, in particular with focus on crystallization improvement. Additional contracts are anticipated to arise from carrying out work on the annual contract, for example projects in the area of waste minimization and crystallizer design.

For the year ahead, the projected revenue from Green Technology is estimated to improve, comprising projects in green chemistry, process design, optimization and scale-up for pharmaceutical, agrochemical and petrochemical companies.

Refreshment of the Group's Technology Base. The Group continues to participate with The Hong Kong University of Science and Technology ("HKUST") in projects that are part-funded by the Hong Kong SAR Government's Innovation Technology Fund ("ITF").

Future Prospects

Market Demand in China. The Group continues to consider that the principal market drivers in Mainland China for its total Environmental Protection Solutions include:

- Ratification of China's National Tenth Five-Year Plan of Environmental Protection, requiring total investment of RMB 700 billion (or 1.3% of the GDP of the period)
- China's accession to WTO membership and opening of its markets
- Holding of the 2008 "Green Olympics" in Beijing
- Adoption of environmental standards (e.g. ISO14000) that are increasingly demanded by Chinese companies' overseas trading partners
- Drive towards Cleaner Production and Good Manufacturing Practices standards in the chemical and related process industries such as fine chemicals and pharmaceuticals
- Projected population growth from current 1.3 Billion to 1.6 Billion by 2050
- Crisis of water shortage
- Impact of air and water pollution on human health
- Fear over the widely predicted re-occurrence of SARS later this year and the likely implementation of legislation in Beijing concerning the maintenance of air duct hygiene

Market Demand in South East Asia. Demand for the Group's products is expected to grow in South East Asia due to concern over quality of the environment. For example, Malaysia is a signatory to the United Nations Framework Convention on Climate Change and ratified the Kyoto Protocol in September 2002. Accordingly, Malaysia has developed energy policy objectives that promote transfer of technology for energy-efficiency and introduction of renewable energy sources such as "waste-to-energy". In addition, the Malaysian Government has set itself a target of achieving the status of a "Fully-developed Nation" by 2020 and, as such, has set a priority on the development of a new integrated waste management system (such as the HLAD technology currently being marketed by the Group) with the aim of reducing reliance on costly and environmentally-unfriendly landfill and dump sites.

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

Outlook. Going forward, the Group continues to devote considerable resources to marketing, brand building and further expansion in its established territories in Mainland China and South East Asia. Its established presence in strategic geographical locations together with its comprehensive, integrated range of products and services will serve to provide a good basis for anticipated well managed growth.

Liquidity and Financial Resources

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK$2,491,000 at 30 September 2003 (31 March 2003: HK$6,359,000). With interest-bearing bank loans of approximately HK$3,128,000 (31 March 2003: NIL) and no overdrafts at 30 September 2003 (31 March 2003: HK$306,000), the Group recorded a net negative cash balance of approximately HK$637,000 at 30 September 2003 (31 March 2003: net positive cash balance of HK$6,053,000).

The negative cash position at 30 September 2003 was mainly caused by the fall behind of certain forecasted sales as a result of SARS in the region which also largely explained the losses incurred for the six months period under review. In addition, cash inflows from certain overseas trade receivables have not been materialized and the Group's management decided to make additional provision of HK$6,700,000 for these trade receivables. After that, no more provision for bad and doubtful debts is considered necessary in the foreseeable future.

The Group recorded total current assets of approximately HK$21,362,000 at 30 September 2003 (31 March 2003: HK$31,871,000) and total current liabilities of approximately HK$10,632,000 at 30 September 2003 (31 March 2003: HK$3,800,000). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, is 2.0 at 30 September 2003 (31 March 2003: 8.39). The gearing ratio of the Group, calculated by dividing total interest bearing borrowings by equity, is 0.133 at 30 September 2003 (31 March 2003: 0.015). The negative trend in the Group's liquidity, current ratio and gearing ratio were mainly due to net losses of HK$16,783,000 incurred by the Group during the period.

Treasury Policies

The Group generally finances its operations with a combination of internal resources and banking facilities provided by banks in Hong Kong.

Charge on Assets

The Group's trade receivables in Hong Kong of approximately HK$406,000 (31 March 2003: time deposit of HK$1,000,000 respectively) were pledged to banks to secure general banking facilities granted to the Group. In addition, two of the Group's motor vehicles registered in Hong Kong were held under finance leases.

Foreign Exchange Exposure

The Group had four operating subsidiaries established in Beijing, Malaysia, Singapore and Zhuhai respectively as at 30 September 2003. The capital and loans committed to these four subsidiaries amounted to approximately HK$6,917,000 at 30 September 2003 (31 March 2003: HK$5,778,000).

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

Employee Information

At 30 September 2003, the Group had 83 full time employees. During the six months ended 30 September 2003, the staff costs, including directors' remuneration, totaled approximately HK$6,087,000. The Group's employment and remuneration policies remained the same as detailed in its Annual Report for the year ended 31 March 2003.

Geographical Expansion

During the six months ended 30 September 2003, the Group invested in one subsidiary incorporated in Singapore. The subsidiary in Singapore is 100% owned by the Group with paid up capital of approximately HK$445 (i.e. S$ 100).

COMPARISON OF THE PLANNED USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING AGAINST THE ACTUAL USE

	Amount to be used up to 30 September 2003 as disclosed in the prospectus dated 29 April 2002 (the "Prospectus") *HK$ million*	**Actual Amount** *HK$ million*
Geographical expansion	0.90	4.60
Improvement of existing products and sourcing of new products	2.86	3.27
Establishment of application analysis and product development capabilities	3.60	3.85
Marketing and brand building	0.90	1.00
Redemption of convertible notes	10.00	10.00
General working capital	15.24	18.79
	33.50	41.51

Geographical expansion plans have been rescheduled forward to capture potential market opportunities in Malaysia, Singapore and in the PRC. These opportunities can also help to broaden the products and service capabilities of the Group at the same time since each of the four overseas subsidiaries' focus are on different products and services.

The actual use of proceeds for general working capital purpose deviated from the plan because of the losses incurred for the year ended 31 March 2003 and also for the six months ended 30 September 2003, which absorbed part of the Group's financial resources, which could have been used for other plans.

In view of the losses incurred by the Group for the year ended 31 March 2003 and for the six months ended 30 September 2003, the Management is constantly reviewing the intended uses of proceeds to ensure that uses of proceeds are in the best interests of the shareholders of the Company. The Management presently do not anticipate any material deviation from the intended uses of proceeds as disclosed in the Prospectus. Unutilised net proceeds will be maintained as short term deposits with authorized financial institutions in Hong Kong.

COMPARISON OF BUSINESS OBJECTIVES AGAINST ACTUAL BUSINESS PROGRESS

The following is a comparison of actual business progress in the six months ended 30 September 2003 with the Business Objectives for the same period as set out in the Prospectus. The Company reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

Business objectives up to 30 September 2003 as stated in the Prospectus	Actual business progress up to 30 September 2003
Geographical expansion	
– Organize seminars and workshops for potential customers in the PRC	Seminar held on process improvement and crystallization (to key client of Beijing Grandy Green technology Limited)
– Appoint additional agents for the Group's expansion in the Guangxi Province, Hunan Province, Hainan Province, Tianjin City and Shandong Province of the PRC	Agents appointed in Shandong for promotion of water treatment units and appropriate agents in other provinces yet to be identified
– Establish a representative office in the Guangdong Province of the PRC to promote sales	New office in Humen opened in September 2003

Improvement of existing products and sourcing of new products

Water quality improvement

GreaseKil, EcoTonic and FlusKleen	–	Launch advanced GreaseKil, EcoTonic and FlusKleen to the market	Objectives postponed in light of prevailing market forces and new opportunities in indoor area sterilization based on O_3 and in area of waste management
Bio-farm technology	–	Conduct feasibility studies for the applications of bio-farm technology in different water systems	Plans postponed to give priority to the ITF projects with HKUST
PCO technology	–	Select treatment model and design pilot plant for the PCO reactors	Co-operation in progress on nano-catalyst filter development through ITF project with HKUST
	–	Conduct site demonstrations to potential customers	Trials of proto-type filter have been carried out at HKUST
Wastewater treatment and recycling process	–	Launch wastewater recycling process services to the customers	Services launched and several wastewater treatment projects in progress in Guangdong and Shandong provinces

Air quality improvement

EcoKleen	–	Launch advanced EcoKleen to the market	Objectives postponed in light of prevailing market forces and new opportunities in indoor area sterilization based on O_3 and in area of waste management
IAQ	–	Launch PCO technology products to the market of IAQ	LIFA 3G filters marketed in Hong Kong.

Energy Saving

Heat energy saving system (Compact Heat Exchanger)	–	Conduct performance evaluation including case studies	Objectives postponed in favor of process improvement projects, oil/ gas well boosting technology
Chemical processing improvement technology	–	Evaluate saving gained by clients and formulate case studies	Consultancy projects in progress with key client, one of top 100 chemicals producers in China
	–	Study and evaluate further potential clients	Other process improvement projects under proposal to Mainland Chinese companies
	–	Form strategic alliance with institution/ university in Hong Kong for the Group's application analysis and product development activities	Strategic alliance formed with HKUST
	–	Conduct collaboration programme with PRC university/ institution	Collaboration programmes in place with South China Institution of Environmental Science for Environmental project and waste water treatment in Southern China
	–	Conduct collaboration programme with local university/institutions	Collaboration programmes in place with HKUST in respect of the ITF Project
	–	Form strategic alliance with institution/ university in the PRC for the Group's application analysis and product development activities	Strategic alliance formed with Tianjin University. Work undertaken on measurement of crystallization kinetics, impeller design and joint proposals written for design of crystallizers
	–	Commence ITF programme	Two ITF programmes in progress with HKUST

Marketing and brand building

–	Sponsor and organize environmental related education programmes	None carried out to date as focus remained on sales
–	Advertise the Group's products and services in journals and magazines	None carried out to date as focus remained on sales
–	Participate in different environmental related exhibitions	Participated in the Air and Waste Management Association exhibition on air quality in September 2003
–	Expand existing and sales and marketing team	Sales and marketing team currently comprises 8 members, with 4 being based in Humen
–	Maintain the Group's website	Group's website in English and Chinese continually updated

UNAUDITED CONSOLIDATED RESULTS

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 SEPTEMBER 2003

		Three months ended 30 September		Six months ended 30 September	
		2003	2002	**2003**	2002
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Turnover	*3*	**5,843**	12,918	**9,832**	21,307
Cost of sales		**(3,508)**	(7,271)	**(5,148)**	(11,237)
Gross profit		**2,335**	5,647	**4,684**	10,070
Other operating income		**20**	90	**23**	342
Selling and distribution costs		**(610)**	(475)	**(1,039)**	(1,090)
Administrative expenses		**(6,237)**	(5,057)	**(12,356)**	(8,498)
Allowance for bad and doubtful debts		**(6,942)**	–	**(8,442)**	–
(Loss) profit from operations	*4*	**(11,434)**	205	**(17,130)**	824
Finance costs		**(35)**	(19)	**(70)**	(502)
(Loss) profit before minority interests		**(11,469)**	186	**(17,200)**	322
Minority interests		**236**	–	**417**	–
Net (loss) profit for the period		**(11,233)**	186	**(16,783)**	322
(Loss) earnings per share	*6*				
– Basic		**(1.29) cents**	0.02 cents	**(1.93) cents**	0.04 cents
– Diluted		**N/A**	N/A	**N/A**	0.04 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2003

	NOTES	**30 September 2003 HK$'000 (Unaudited)**	31 March 2003 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**5,778**	5,172
Intangible assets		**10,307**	10,607
Goodwill		**3,229**	3,324
		19,314	19,103
Current assets			
Inventories		**3,631**	2,827
Trade and other receivables	7	**15,240**	22,685
Pledged bank deposits		**–**	1,000
Bank balances and cash		**2,491**	5,359
		21,362	31,871
Current liabilities			
Trade and other payables	8	**7,158**	3,154
Obligations under finance leases due within one year		**123**	132
Amounts due to directors		**39**	21
Amounts due to minority shareholders of subsidiaries		**184**	160
Taxation		**–**	27
Secured short-term bank loans		**1,500**	–
Trust receipt loans – secured		**1,628**	–
Bank overdrafts – secured		**–**	306
		10,632	3,800
Net current assets		**10,730**	28,071
Total assets less current liabilities		**30,044**	47,174
Non-current liabilities			
Obligations under finance leases due after one year		**118**	176
Minority interests		**4,627**	4,916
Net assets		**25,299**	42,082
Capital and reserves			
Share capital		**8,717**	8,717
Reserves		**16,582**	33,365
Shareholders' funds		**25,299**	42,082

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Share capital *HK$'000* (Unaudited)	Share premium *HK$'000* (Unaudited)	Special reserve *HK$'000* (Unaudited)	Translation reserve *HK$'000* (Unaudited)	Deficit *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
At 1 April 2002	87	3,889	2,935	–	(1,071)	5,840
Issue of shares	1,900	51,300	–	–	–	53,200
Expenses incurred in connection with the issue of shares	–	(9,488)	–	–	–	(9,488)
Capitalisation on bonus issue of shares	6,313	(6,313)	–	–	–	–
Net profit for the period	–	–	–	–	322	322
At 30 September 2002	8,300	39,388	2,935	–	(749)	49,874
Issue of shares	417	3,500	–	–	–	3,917
Exchange differences arising from translation of financial statements of overseas operations, net of minority interests' share	–	–	–	(12)	–	(12)
Net loss for the period	–	–	–	–	(11,697)	(11,697)
At 31 March 2003	8,717	42,888	2,935	(12)	(12,446)	42,082
Net loss for the period	–	–	–	–	(16,783)	(16,783)
At 30 September 2003	8,717	42,888	2,935	(12)	(29,229)	25,299

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Six months ended 30 September	
	2003	2002
	HK$'000	HK$'000
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(5,225)**	(8,132)
Net cash used in investing activities	**(498)**	(19,312)
Net cash from financing activities	**3,161**	30,873
Net (decrease) increase in cash and cash equivalents	**(2,562)**	3,429
Cash and cash equivalents at 1 April	**5,053**	883
Cash and cash equivalents at 30 September	**2,491**	4,312

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

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

3. SEGMENT INFORMATION

Business segments

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

3. **SEGMENT INFORMATION** – continued

Geographical segments

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

	Three months ended 30 September		**Six months ended 30 September**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
– Hong Kong	**2,831**	2,918	**6,372**	5,022
– PRC	**2,933**	–	**3,017**	6,285
– Malaysia	**–**	10,000	**320**	10,000
– Singapore	**79**	–	**123**	–
	5,843	12,918	**9,832**	21,307
Results				
– Hong Kong	**1,256**	1,434	**2,823**	2,313
– PRC	**(148)**	–	**(382)**	2,934
– Malaysia	**(6,237)**	3,738	**(7,293)**	3,733
– Singapore	**(88)**	–	**55**	–
	(5,217)	5,172	**(4,797)**	8,980
Unallocated other operating income	**20**	90	**23**	342
Unallocated corporate expenses	**(6,237)**	(5,057)	**(12,356)**	(8,498)
(Loss) profit from operations	**(11,434)**	205	**(17,130)**	824
Finance costs	**(35)**	(19)	**(70)**	(502)
(Loss) profit before minority interests	**(11,469)**	186	**(17,200)**	322
Minority interests	**236**	–	**417**	–
Net (loss) profit for the period	**(11,233)**	186	**(16,783)**	322

4. (LOSS) PROFIT FROM OPERATIONS

	Three months ended 30 September		Six months ended 30 September	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(Loss) profit from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	**445**	247	**887**	364
Amortisation of goodwill included in administrative expenses	**47**	–	**95**	–
Amortisation of intangible assets included in administrative expenses	**150**	3	**300**	3

5. TAXATION

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the period.

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

6. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the three months ended 30 September 2003 is based on the net loss for the period of approximately HK$11,233,000 (2002: net profit of HK$186,000) and the weighted average number of 871,666,667 (2002: 830,000,000) shares in issue during the period.

The calculation of the basic (loss) earnings per share for the six months ended 30 September 2003 is based on the net loss for the period of approximately HK$16,783,000 (2002: net profit of HK$322,000) and the weighted average number of 871,666,667 (2002: 792,623,000) shares in issue during the period.

The calculation of the diluted earnings per share for the six months ended 30 September 2002 is based on the net profit for the period of approximately HK$322,000 and 803,790,000 shares, being 792,623,000 shares used in the calculation of basic earnings per share and the weighted average of 11,167,000 shares assumed to have been in issue at no consideration on the deemed exercise of the pre-listing share options.

No diluted (loss) earnings per share has been presented for the three months ended 30 September 2002 and three months and six months ended 30 September 2003 as the exercise price of the Company's share options was higher than the average market price of the Company's shares during the period.

7. TRADE AND OTHER RECEIVABLES

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

	30 September 2003	31 March 2003
	HK$'000	*HK$'000*
Age		
0 to 90 days	**4,390**	3,090
91 to 180 days	**765**	870
181 to 365 days	**1,777**	15,078
Over 365 days	**11,524**	–
	18,456	19,038
Less: Allowance for bad and doubtful debts	**(8,442)**	(2,025)
	10,014	17,013

8. TRADE AND OTHER PAYABLES

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

	30 September 2003	31 March 2003
	HK$'000	*HK$'000*
Age		
0 to 90 days	**1,787**	753
91 to 180 days	**16**	–
181 to 365 days	**611**	197
Over 365 days	**16**	2
	2,430	952

9. POST BALANCE SHEET EVENT

In November 2003, the Company issued and allotted 287,000,000 ordinary shares of HK$0.01 each of the Company to Key Engineering Co. Ltd., at HK$0.035 per share, representing a discount of approximately 53.95% to the closing price of HK$0.076 per share as quoted on the Stock Exchange on 6 October 2003 on which the subscription agreement was signed.

DISCLOSURE OF INTERESTS

A. Directors and Chief Executives

As at 30 September 2003, the interests of the directors (the "Director") and chief executives of the Company and their respective associates had interests in the shares of the Company (the "Shares") and underlying Shares as recorded in the register maintained by the Company under Section 352 of the Securities and Futures Ordinance ("SFO") as follows:

Shares

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

Note:

1. These 416,769,983 Shares relate to the same block of Shares held by Achieve Century Limited. Approximately 53.87% and approximately 46.13% of the issued share capital of Achieve Century Limited are respectively owned by Tipmax Limited and Star Wave Limited, both incorporated in the British Virgin Islands.

   Tipmax Limited is wholly owned by Tsui Tai Hoi Raymond, whereas Star Wave Limited is owned as to approximately 13.51% by each of Yeung Kam Yan and Leung Chi Kin, approximately 40.55% by Hoang Tan Van George, and approximately 10.81% by each of To Hang Ming, Chan Hon Chiu and Mio Kwok Man who is not a Director.

2. Immediately following the placing of 287,000,000 Shares (the "Placing Shares") in November 2003, the percentage has dropped to 35.97% of the issued share capital as enlarged by the Placing Shares.

Underlying Shares

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

Name of Director	**Number of underlying Shares in respect of the options granted** *(Note)*
Tsui Tai Hoi Raymond	8,000,000
Yeung Kam Yan	8,000,000
Leung Chi Kin	8,000,000
Hoang Tan Van George	8,000,000
Chan Hon Chiu	8,000,000
To Hang Ming	8,000,000
Yu Chai Mei	2,400,000

Note:

Each of the pre-listing share options granted on 26 April 2002 carries a right to subscribe for one Share at an exercise price of HK$0.14, representing 50% of the offer price of HK$0.28 per share in respect of the Company's initial public offering. These share options may be exercised in three equal tranches commencing on 10 November 2002, 10 May 2003 and 10 May 2004, respectively. These share options, if not otherwise exercised, will lapse on 9 May 2012. None of these share options have been exercised since the date of grant.

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Directors and chief executives of the Company or their respective associates (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transaction by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred therein. Nor any of the Directors and the chief executives of the Company (including their spouses and children under the age of 18) had, as at 30 September 2003, any interest in, or had been granted any right to subscribe for the securities of the Company's associated corporations within the meaning of the SFO, or had exercised any such rights.

B. Substantial Shareholders

So far as was known to any Director, as at 30 September 2003, the following parties, other than the Directors and chief executives of the Company, had interests in the Shares representing 10% or more of the voting power at any general meeting of the Company as recorded in the register maintained by the Company under Section 336 of the SFO:

Name of Shareholders	Number of Shares	Capacity	Approximate percentage of the issued share capital (%)
Achieve Century Limited *(Note 1)*	416,769,983	Beneficial owner	47.81
Tipmax Limited *(Notes 1 and 2)*	416,769,983	Interest in a controlled corporation	47.81
Star Wave Limited *(Notes 1 and 2)*	416,769,983	Interest in a controlled corporation	47.81

Note:

1. Immediately following the placing of Placing Shares in November 2003, the percentage has dropped to approximately 35.97% of the issued share capital as enlarged by the Placing Shares.

2. These companies were deemed to have interests in 416,769,983 Shares by virtue of their equity interests in Achieve Century Limited.

3. As at the date of this announcement, Key Engineering Co., Ltd beneficially owns the Placing Shares, representing approximately 24.77% of the issued share capital as enlarged by the Placing Shares.

Save as disclosed above, as at 30 September 2003, no persons, other than the Directors and chief executives of the Company whose interests are set out in the section A above, had interests or short positions in Shares or underlying Shares representing 10% or more of the voting power at any general meeting of the Company as recorded in the register required to be kept under Section 336 of the SFO, or who is interested in 10% or more of the voting power at any general meeting of any other meetings of the Group.

C. Certain Other Persons

As at 30 September 2003, the following persons who are required to disclose their interests pursuant to the Part XV of the SFO, other than the Directors and chief executives of the Company, had interests in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholders	Number of Shares	Capacity	Approximate percentage of the issued share capital (%)
Top Accurate Limited *(Note 1)*	59,229,995	Beneficial owner	6.80
Albert Ma *(Notes 1 and 2)*	59,229,995	Interest in a controlled corporation	6.80
Genesis Southstar Ltd. *(Note 3)*	60,000,000	Beneficial owner	6.88
Littauer Technologies Co., Ltd *(Notes 3 & 4)*	60,000,000	Interest in a controlled corporation	6.88
PML Associates Limited *(Notes 3 & 4)*	60,000,000	Interest in a controlled corporation	6.88
Chan Sio Peng *(Notes 3 & 4)*	60,000,000	Interest in a controlled corporation	6.88

Notes:

1. Immediately following the placing of the Placing Shares in November 2003, the percentage has dropped to approximately 5.11% of the issued share capital as enlarged by the Placing Shares.

2. Mr Albert Ma was deemed to have interests in 59,229,995 Shares by virtue of his equity interest in Top Accurate Limited.

3. Immediately following the placing of the Placing Shares in November 2003, the percentage has dropped to approximately 5.18% of the issued share capital as enlarged by the Placing Shares.

4. These parties were deemed to have interests in 60,000,000 Shares by virtue of their equity interests in Genesis Southstar Ltd.

Save as disclosed above, as at 30 September 2003, no other person who was required to disclose their interests pursuant to Part XV of the SFO, other than the Directors and chief executives of the Company whose interests are set out in the section A above, had registered any interests or short position in any Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

OUTSTANDING SHARE OPTIONS

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

(a) Pre-listing share option scheme

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

(b) Post-listing share option scheme

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

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

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 30 September 2003, neither the Sponsor nor its directors or employees or associates (as referred to in Rules 6.35 and 18.63 of the GEM Listing Rules) had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

AUDIT COMMITTEE

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

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

The Audit Committee had a meeting, during which the Group's results for the six months ended 30 September 2003 have been reviewed.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 September 2003, 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 SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the six months ended 30 September 2003.

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

Hong Kong, 13 November 2003

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.grandy.com.hk.