



Grandy Corporation

(Incorporated in the Cayman Islands with limited liability)

Environmental protection
3rd Quarterly Report always pays...
2003/04



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This report for which the directors of Grandy Corporation collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Grandy 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.

BUSINESS REVIEW

Grandy Corporation (formerly known as “Grandy Applied Environmental Technology Corporation” and referred to as the “Company” hereinafter) and its subsidiaries (collectively, the “Group”) is principally engaged in the marketing, design and development of environmental protection technology in the areas of energy-saving, enzyme treatments and membrane technology. The Group aims to capture growth in the expanding environmental protection market in the People’s Republic of China (“China”) and parts of Asia by supplying cost-effective environmental protection products and services for reducing electricity consumption and for purifying the air and water systems of our clients in the commercial, industrial, governmental and retail sectors.

Results of the Group for the three months ended 31 December 2003 have shown a significant improvement in business performance in comparison with results for the corresponding period of the previous year. Turnover of the Group in the three months under review was approximately HK\$6,341,000 in comparison with approximately HK\$3,175,000 for the same period of the previous year, representing an increase of approximately 99.7%. Net loss attributable to shareholders for the three months under review was approximately HK\$480,000 in comparison with a net loss of HK\$4,557,000 for the corresponding period of the previous year.

The improvement in revenues for the three months ended 31 December 2003 reflects a combination of revenue from waste water treatment projects in the PRC and also an increase in the turnover from energy-saving and indoor air quality services in Hong Kong. At the same time, the reduction in loss for the period under review in comparison with that for the same period of the previous year (and also for the previous two quarters in the current year) has been achieved through the Management’s implementation of cost-cutting and business-promotion measures that are designed to bring the Group back into profit and restore growth.

New Strategic Shareholder. In November 2003 the Company announced its plans to commence restructuring and turning round its business performance in cooperation with its new strategic shareholder, Key Engineering Co, Ltd (“Key Engineering”). Key Engineering, a subsidiary of Spackman Group, is a waste management company that is publicly traded on the KOSDAQ market of South Korea. Spackman Group, a global investment conglomerate, has holdings in over 50 subsidiaries in various industries that include environmental protection, bio-technology, waste management, security services, information technology, media and financial services.

Corporate Identity. The Group has embarked on re-building its brand with a proposed change in corporate identity, which will include renaming the Company "Grandy Corporation" (already approved by the Shareholders of the Company at an Extraordinary General Meeting held on 9 January 2004 but subject to formal registration procedures in the place of incorporation of the Company and in Hong Kong).

Restructuring Programme. The main planks of the recovery strategy are:

- *Cost control measures* – which include the Senior Management's receiving no salary until the Company attains four consecutive quarters of profitability
- *Reducing exposure to low margin business segments* – i.e. concentrating on higher-profit margin businesses of energy-saving, enzyme treatments and membrane systems
- *Adding value* – through acquisition or investment into higher margin environmental protection companies that are already profitable

Restructuring measures that have already been implemented are as follows:

1. **Appointment of New Directors.** In order to help focus on restructuring the Company, effective from 10 December 2003 the Company has appointed three new Directors to the Board of the Company: Martin Mohabeer (a Managing Director of Spackman Group); John Ko (Director of the Korean operations of Spackman Group and Co-Chief Executive Officer of Key Engineering); and Sukin Oh (Co-Chief Executive Officer of Key Engineering).
2. **Closure of Malaysian Subsidiary.** In line with the Management's restructuring strategy of re-focusing on core high-margin business and reducing overheads, the Group closed its Malaysian subsidiary with effect from 31 December 2003.
3. **Closure of Joint Venture in Indoor Air Quality Services.** The Joint Venture Company that was formed in July 2003 with a local partner in Hong Kong was removed from the Group with effect from 1 December 2003 to help facilitate re-focusing on core business.

- 4. Reduction in Overheads.** As aforementioned, Senior Management has agreed to receive no further remuneration until four consecutive full quarters of profitability have been attained. In addition, the head count of the headquarters in Hong Kong has been reduced from 43 as at 31 August 2003 to 32 as at 31 December 2003, and most remaining employees outside the Senior Management team have agreed to a reduction in salary until the Company's business performance has been turned around.
- 5. Streamlined Product Range.** The Group has streamlined its range of products in order to focus on core higher-margin business segments. The re-focused product range comprises:

 - *Energy-saving products* for reducing energy consumption of lighting, air conditioning and refrigeration
 - *Enzyme treatments* for improvement of water and air quality
 - *Membrane systems* for water purification and wastewater treatment/recycling
- 6. Investor Relations.** The English version of the Company's website has been completely re-designed and simplified in line with the new streamlined range of products. New sections of the website include "Investor Relations", "Corporate Governance" and "Management" with greater emphasis placed on complete disclosure and transparency of the Company's business operations.

Waste Water Treatment Projects. The Group has continued to build on its business in the area of recycling and re-use of industrial wastewater. Work in progress on projects in Mainland China for treatment of effluent from cloth-washing, electroplating and printed circuit board factories of total value of approximately HK\$873,000 has been completed for the three months ended 31 December 2003. A Memorandum of Agreement was signed in December 2003 with the CaiDian District Government of Wuhan City, Hubei Province, concerning the development of a new district and the construction of two municipal wastewater treatment plants.

Energy-saving Products. Contracts for implementation of energy-saving solutions in the quarter under review of total value of approximately HK\$3,660,000 have been completed by the Group.

Enzyme Treatments. Contracts for air and water quality improvement undertaken for the Group's prestigious clients in the commercial and residential property management sectors of total value of approximately HK\$1,161,000 have been completed in the period under review.

Waste Management. Site tests in Hong Kong 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 three months ended 31 December 2003, revenues from food waste projects amounted to approximately HK\$63,000.

Indoor Air Quality (IAQ) Services. Prior to the aforementioned closure of the Joint Venture Company that had been established for IAQ services, contracts of total value of approximately HK\$411,000 had been completed in the period under review.

Green Technology. In the third quarter, work in progress of total value approximately HK\$173,000 was completed by Beijing Grandy Green Technology Limited. This sum included project work under an annual consultancy contract for a key client that is a Top 100 national chemical producer in China. The Beijing subsidiary continued promoting technology for boosting the productivity and extending the useful lifetime of oil and gas wells.

FUTURE PROSPECTS

According to the State Environmental Protection Agency's "Report on the State of the Environment in China 2001", investment in Environmental Protection in China in the year 2001 amounted to 1.15% of GDP. Moreover, China's State Economic and Trade Commission (SETEC) estimated in 2002 that the output value of the Environmental Protection industry will reach RMB 200 Billion by the year 2005, with an annual growth rate of about 15 percent.

The Group together with its new strategic shareholder, Key Engineering, aims to capture a share in the growth in this rapidly expanding Environmental Protection market in China and other parts of Asia through its re-focused range of products and services for reducing electricity consumption and for purifying the region's polluted air and water systems.

Outlook. Going forward, the Management is totally committed to continuing the turn round in business performance of the Group through implementation of its aforementioned Restructuring Programme. Moreover, the Group will embark in the year ahead on its strategy of seeking opportunities for acquisition or investment in other profitable environmental protection companies in the region, thereby improving profitability and increasing value for its shareholders.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") announced the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 31 December 2003, together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

	Three months ended		Nine months ended	
	31 December		31 December	
	2003	2002	2003	2002
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover	6,341	3,175	16,173	24,483
Cost of sales	(2,754)	(1,300)	(7,902)	(12,537)
Gross profit	3,587	1,875	8,271	11,946
Other operating income	–	40	23	382
Selling and distribution costs	(208)	(601)	(1,247)	(1,692)
Administrative expenses	(3,900)	(5,851)	(16,256)	(14,318)
Allowance for bad and doubtful debts	–	–	(8,442)	–
Loss from operations	(521)	(4,537)	(17,651)	(3,682)
Finance costs	(55)	(20)	(125)	(553)
Loss before minority interests	(576)	(4,557)	(17,776)	(4,235)
Minority interests	96	–	513	–
Net loss for the period	(480)	(4,557)	(17,263)	(4,235)
Loss per share				
– Basic (HK cents)	4	(0.55)	(1.86)	(0.52)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Special reserve	Translation reserve	Deficit	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 April 2002	87	3,889	2,935	–	(1,071)	5,840
Issue of shares	2,317	54,800	–	–	–	57,117
Expenses incurred in connection with the issue of shares	–	(9,488)	–	–	–	(9,488)
Capitalisation on bonus issue of shares	6,313	(6,313)	–	–	–	–
Net loss for the period	–	–	–	–	(4,235)	(4,235)
	<u>8,717</u>	<u>42,888</u>	<u>2,935</u>	<u>–</u>	<u>(5,306)</u>	<u>49,234</u>
At 31 December 2002	<u>8,717</u>	<u>42,888</u>	<u>2,935</u>	<u>–</u>	<u>(5,306)</u>	<u>49,234</u>
At 1 April 2003	8,717	42,888	2,935	(12)	(12,446)	42,082
Issue of shares	2,870	7,175	–	–	–	10,045
Net loss for the period	–	–	–	–	(17,263)	(17,263)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(17,263)</u>	<u>(17,263)</u>
At 31 December 2003	<u>11,587</u>	<u>50,063</u>	<u>2,935</u>	<u>(12)</u>	<u>(29,709)</u>	<u>34,864</u>

Notes:

1. Basis of Preparation

The condensed consolidated financial information has 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.

2. Principal Accounting Policies

The condensed consolidated financial information has 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 revised Statement of Standard Accounting Practice No. 12 "Income Taxes" ("SSAP 12") issued by the Hong Kong Society of Accountants 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. Taxation

No provision for taxation has been made in the quarterly financial report 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 quarterly financial report as the PRC subsidiaries had no assessable profit for the period.

4. Loss per share

The calculation of basic loss per share for the three months ended 31 December 2003 is based on the net loss for the period of approximately HK\$480,000 (2002: HK\$4,557,000) and the weighted average number of 1,033,885,634 (2002: 835,435,000) ordinary shares in issue during the period.

The calculation of basic loss per share for the nine months ended 31 December 2003 is based on the net loss for the period of approximately HK\$17,263,000 (2002: HK\$4,235,000) and the weighted average number of 925,936,285 (2002: 806,945,000) shares in issue during the period.

No diluted loss per share has been presented for the three months and nine months ended 31 December 2003 and 31 December 2002 as the exercise price of the Company's share options was higher than the average market price of the Company's shares during the periods.

DISCLOSURE OF INTERESTS

A. Directors and Chief Executives

As at 31 December 2003, the interests of the directors (the "Directors") 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 <i>(Note 1)</i>	Capacity/Nature of Interest	Approximate percentage of the issued share capital <i>(%)</i>
Tsui Tai Hoi Raymond	416,769,983	Interest of a controlled corporation/Corporate	35.97
Yeung Kam Yan	416,769,983	Interest of a controlled corporation/Corporate	35.97
Chan Hon Chiu	416,769,983	Interest of a controlled corporation/Corporate	35.97

Note:

- 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 Yeung Kam Yan and approximately 10.81% by Chan Hon Chiu.

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 <i>(Note)</i>
Tsui Tai Hoi Raymond	8,000,000
Yeung Kam Yan	8,000,000
Chan Hon Chiu	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.
- On 31 January 2004, all the above directors have surrendered their outstanding pre-listing share options to the Company at no consideration.

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 31 December 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 31 December 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	35.97
Tipmax Limited (Note 1)	416,769,983	Interest in a controlled corporation	35.97
Star Wave Limited (Note 1)	416,769,983	Interest in a controlled corporation	35.97
Key Engineering Co., Ltd.	287,000,000	Beneficial owner	24.77

Note:

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

Save as disclosed above, as at 31 December 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 members of the Group.

C. Certain Other Persons

As at 31 December 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	59,229,995	Beneficial owner	5.11
Albert Ma (Note 1)	59,229,995	Interest in a controlled corporation	5.11
Genesis Southstar Ltd.	60,000,000	Beneficial owner	5.18
Littauer Technologies Co., Ltd. (Note 2)	60,000,000	Interest in a controlled corporation	5.18
PML Associates Ltd. (Note 2)	60,000,000	Interest in a controlled corporation	5.18
Chan Sio Peng (Note 2)	60,000,000	Interest in a controlled corporation	5.18

Notes:

1. Mr Albert Ma was deemed to have interests in 59,229,995 Shares by virtue of his equity interest in Top Accurate Limited.
2. 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 31 December 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 31 December 2003, options to subscribe for an aggregate of 84,745,000 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 31 December 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 8 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 remainder 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 31 December 2003, number of options remained outstanding is 7,145,000.

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 31 December 2003, neither the Sponsor nor its directors or employees or associates (as referred to in Rules 6.35 and 18.63 of the GEM Listing Rules) had any interest in the

securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

AUDIT COMMITTEE

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

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

The Audit Committee had a meeting to review the Group's results for the nine months ended 31 December 2003.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 31 December 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 COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the nine months ended 31 December 2003.

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

Hong Kong, 13 February 2004