

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



*2004/05*  
*First Quarterly Report*

Environmental protection  
always pays ..... ..

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

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

The Company and its subsidiaries (collectively, the "Group") are 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 treatment for pollution of both air and water:

Results of the Group for the first quarter ended 30 June 2004 have shown an improvement in business performance in comparison with results for the corresponding period of the previous year. Turnover of the Group in the period under review was approximately HK\$4,696,000 in comparison with approximately HK\$3,989,000 for the first quarter of the previous year, representing an increase of approximately 17.7%. Net profit attributable to shareholders for the period under review was approximately HK\$419,000, showing a significant improvement and a turnaround from a net loss of HK\$5,550,000 for the corresponding period in the previous year.

The reduction in expenses for the first quarter ended 30 June 2004 reflects mainly the effects of the Group's costs rationalization measures as mentioned in the annual report of the Company for the year ended 31 March 2004 ("2004 Annual Report"). The increase in turnover and turnaround from loss to profit in comparison with that for the first quarter of the previous year reflects mainly the contribution generated by a subsidiary acquired in April 2004 i.e. Youngdong Environmental Engineering Co., Ltd\* ("Youngdong Engineering").

**Promotional and Brand-building Activities.** Due to tightening in cost controls, the Group has put on hold all its specific promotional and brand-building activities until the Group's financial positions have improved significantly. The Group will market its products through the existing customers' networks and business connections.

**Indoor Air Quality ("IAQ") and Indoor Sterilization Services.** In response to the Severe Acute Respiratory Syndrome ("SARS") crisis, the Group has launched in April 2003 its *Indoor Sterilization Services* based on the use of ozone (O<sub>3</sub>), which is a very powerful disinfectant that is effective against a number of bacteria, fungi and viruses. The Group has continued to provide such services to the public but customers enquiries have slowed down after the peak of the SARS crisis as the general public are gradually forgetting the nightmare.

**Energy-saving Products.** In the Hong Kong Special Administrative Region (“HKSAR”), sales of LightEco (i.e. the Group’s energy saving product designed specifically for fluorescent light bulbs) have decreased during the period compared to the corresponding period in the previous year. However, the Group management believes that the overall yearly sales should not be materially lower in this fiscal year ending 31 March 2005 compared to the fiscal year ended 31 March 2004 as a lot of quotations have been prepared on the pipelines pending for confirmations of the final terms and approval by the relevant management companies and incorporated owners organizations.

In view of the potentials of energy saving products in the markets in the People’s Republic of China (“PRC”), the Group is actively looking for strategic partners in marketing the LightEco products. At the same time, the Group is also searching for other energy saving products that will have a wider range of applications so as to cover more market segments in the PRC.

**Food Waste Management.** Despite a full provision being made for the operation rights and goodwill relating to the food waste project (as disclosed in the 2004 Annual Report), the management continues to promote and market this product while keeping costs at a minimum.

### ***Future Prospects***

**Marketing and Business Development Strategies.** Summarizing all the Group’s experiences in the past two fiscal years ended 31 March 2004, the management believes that the following strategies should be implemented:

- The marketing efforts should be concentrated on identifying the right strategic partners with already built-up marketing networks instead of expanding into new and unknown territories via the setting up of our own branches or offices as these will often imply the increase in fixed set up costs with no returns in the short run.
- The business development strategies should be achieved via acquisitions of profit-making operations with track records as the management considers this is the most effective means of enhancing both the Group’s earnings and assets base.

With the new strategies and direction in mind, the management is working towards the new direction and will formulate the Group policies to achieve the above goals.

**New Products.** As we introduced in our 2004 Annual Report, a newly developed nano product was being launched in February 2004 and we anticipate that the product will start to add to our revenue growth in the second quarter of the fiscal year ending 31 March 2005 ("Fiscal Year 2005"). Like most new products being launched in the market, the nano product may take some time to build up customer confidence but the management is still positive on the long term prospects of the nano product.

**Newly Acquired Subsidiary.** On 30 April 2004, the Company has completed the acquisition of Youngdong Engineering. The results of Youngdong Engineering have been included in the results of the Group starting from 1 May 2004. As explained under the "Business Review" section, this is one major reason why results of the Group have a turnaround in the first quarter of Fiscal Year 2005.

Barring from any unforeseen circumstances, the management anticipates that Youngdong Engineering will continue to contribute to the results of the Group so that results of the Group on a yearly basis may be improved and sustained.

**Outlook.** Even though the Group had suffered significant losses in the last two fiscal years ended 31 March 2004, the management is still positive about the outlook for the Group. With all the management shareholders taking no salary starting from 1 October 2003 and all the costs rationalization measures implemented since that date, the management believes that our new strategies can help to regain confidence from the shareholders and the general public as their supports are very important for the future results and successes of the Group.

**First Quarterly Results (Unaudited)**

The board (the "Board") of directors (the "Directors") announced the unaudited consolidated results of the Company for the three months ended 30 June 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

	Notes	Three months ended	
		2004	2003
		HK\$'000	HK\$'000
<b>TURNOVER</b>	3	<b>4,696</b>	3,989
Cost of sales		<b>(704)</b>	(1,640)
Gross profit		<b>3,992</b>	2,349
Other operating income		<b>298</b>	3
Selling and distribution costs		<b>(267)</b>	(429)
Administrative expenses		<b>(3,340)</b>	(6,119)
Allowance for bad and doubtful debts		<b>-</b>	(1,500)
<b>PROFIT/(LOSS) FROM OPERATIONS</b>		<b>683</b>	(5,696)
Finance costs		<b>(113)</b>	(35)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>570</b>	(5,731)
Taxation	4	<b>(168)</b>	-
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>		<b>402</b>	(5,731)
Minority interests		<b>17</b>	181
<b>NET PROFIT/(LOSS) FOR THE PERIOD</b>		<b>419</b>	(5,550)
<b>EARNINGS/(LOSS) PER SHARE</b>			
- Basic (HK cents)	5	<b>0.036</b>	(0.637)

Notes:

**1. General**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company while its subsidiaries are engaged in the manufacture and sales of environmental protection products as well as provision of related services.

**2. Principal accounting policies**

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

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 2004.

**3. Turnover and revenue**

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

**4. Taxation**

No provision for Hong Kong profits tax was made in the prior period and during the period as the Group had no assessable profit arising in Hong Kong. Provision for profits tax was made for the subsidiary in the Republic of Korea at the relevant prevailing tax rate.

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiary incorporated in Beijing is entitled to exemption from the PRC income tax for three years commencing from their first profit-making year of operation and thereafter, the subsidiary will be entitled to a 50% relief from the PRC income tax for the following three years.

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

The calculation of basic earnings per share for the three months ended 30 June 2004 is based on the unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$419,000 and on the average number of 1,158,671,667 ordinary shares in issue during the period.

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

No diluted earnings/(loss) per share for the three months ended 30 June 2004 and for the three months ended 30 June 2003 have been presented as the exercise prices of the Company's share options were higher than the average market price of the Company's shares during the period.

## 6. Capital and reserves

	Share capital	Share premium	Special reserve	Translation reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	8,717	42,888	2,935	(12)	(12,446)	42,082
Net loss for the period	–	–	–	–	(5,550)	(5,550)
At 30 June 2003	<u>8,717</u>	<u>42,888</u>	<u>2,935</u>	<u>(12)</u>	<u>(17,996)</u>	<u>36,532</u>
At 1 April 2004	11,587	50,063	2,935	(12)	(47,174)	17,399
Net profit for the period	–	–	–	–	419	419
<b>At 30 June 2004</b>	<b><u>11,587</u></b>	<b><u>50,063</u></b>	<b><u>2,935</u></b>	<b><u>(12)</u></b>	<b><u>(46,755)</u></b>	<b><u>17,818</u></b>

## 7. Dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2004 (2003: Nil).



## **Disclosure of Interests**

### **Directors**

As at 30 June 2004, the interests and short positions of the Directors and their associates in the ordinary shares of the Company and their associated corporations, as recorded in the register maintained by the Company under Section 352 of the Hong Kong Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rules 5.46 to 5.66 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

### **Long position in ordinary shares of HK\$ 0.01 each of the Company**

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
Mr. Tsui Tai Hoi, Raymond	Interest in a controlled corporation	376,769,983	32.52%
Mr. Yeung Kam Yan	Interest in a controlled corporation	376,769,983	32.52%
Mr. Chan Hon Chiu	Interest in a controlled corporation	376,769,983	32.52%

Note:

These 376,769,983 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 59.59% and approximately 40.41% of the issued share capital of Achieve Century Limited are respectively owned by Tipmax Limited and Star Wave Limited, companies incorporated in the British Virgin Islands.

Tipmax Limited is wholly owned by Mr. Tsui Tai Hoi Raymond, whereas Star Wave Limited is owned as to approximately 17.06% by Mr. Yeung Kam Yan and approximately 13.65% by Mr. Chan Hon Chiu.

Save as disclosed above, none of the Directors nor any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2004.

### Substantial Shareholders

As at 30 June 2004, the following persons or corporations, in addition to the Directors stated above, have relevant interests in the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate percentage of issued share capital of the Company</b>
Achieve Century Limited	Beneficial owner	376,769,983	32.52
Tipmax Limited (Note a)	Interest in a controlled corporation	376,769,983	32.52
Star Wave Limited (Note a)	Interest in a controlled corporation	376,769,983	32.52
Key Engineering Co., Ltd.	Beneficial owner	287,000,000	24.77
Genesis Southstar Ltd.	Beneficial owner	60,000,000	5.18
Littauer Technologies Co., Ltd. (Note b)	Interest in a controlled corporation	60,000,000	5.18
PML Associates Ltd. (Note b)	Interest in a controlled corporation	60,000,000	5.18
Mr. Chan Sio Peng (Note b)	Interest in a controlled corporation	60,000,000	5.18
Top Accurate Limited	Beneficial owner	59,229,995	5.11
Mr. Ma She Shing, Albert (Note c)	Interest in a controlled corporation	59,229,995	5.11

Notes:

- (a) These companies were deemed to have interests in 376,769,983 shares of the Company by virtue of their equity interests in Achieve Century Limited. The issued share capital of Achieve Century Limited is owned as to approximately 59.59% by Tipmax Limited and as to approximately 40.41% by Star Wave Limited. Tipmax Limited is wholly owned by Mr. Tsui Tai Hoi, Raymond.
- (b) These parties were deemed to have interests in 60,000,000 shares by virtue of their equity interests in Genesis Southstar Ltd..
- (c) Mr Ma was deemed to have interests in 59,229,995 shares of the Company by virtue of his equity interest in Top Accurate Limited.

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

### **Outstanding Share Options**

As at 30 June 2004, options to subscribe for an aggregate of 11,145,000 shares of the Company granted pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002 and the post-listing share option scheme after listing were outstanding. Details of which are as follows:

#### **(a) Pre-listing share option scheme**

Options to subscribe for an aggregate of 80,000,000 shares of the Company at an exercise price of HK\$0.14 each were granted on 26 April 2002 and these options relate to the options granted to seven (7) Directors (including the Directors as disclosed above), one (1) technical adviser and five (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. The total number of shares in respect of which shares are issuable under this pre-listing share option scheme is 4,000,000, representing approximately 0.3% of the issued share capital of the Company at 30 June 2004.

**(b) Post-listing share option scheme**

Options to subscribe for an aggregate of 7,150,000 shares of the Company at 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 are exercisable from 9 May 2004 to 9 May 2005. The closing market price of the shares of the Company immediately before the date of grant is HK\$0.173. The total number of shares in respect of which shares are issuable under this post-listing share option scheme is 7,145,000, representing approximately 0.6% of the issued share capital of the Company at 30 June 2004.

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.

***Resignation of Managing Director***

On 28 July 2004, the Managing Director of the Group, Mr. Tsui Tai Hoi, Raymond, resigned because (a) he considered that he shall take personal responsibility for the significant losses of the Group for the past two fiscal years and (b) of his personal reasons. With Mr. Tsui's resignation, the management may consider looking for suitable candidate(s) to be appointed to the Board so that new business ideas and market connections may be brought into the Group.

***Competing Interests***

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

**Sponsor's Interests**

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 30 June 2004, neither the Sponsor nor its directors or employees or associates (as referred to in Rules 6.35 and 18.75 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 5.28 to 5.33 of the GEM Listing Rules.

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

The Audit Committee held a meeting to review the Group's results for the three months ended 30 June 2004.

**Compliance with the GEM Listing Rules**

The Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the three months ended 30 June 2004.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the three months ended 30 June 2004.

On behalf of the Board

**Grandy Corporation**

**Chan Hon Chiu**

*Executive Director*

Hong Kong, 11 August 2004

*At the date of this report, the executive Directors are Mr. Chan Hon Chiu and Mr. Yeung Kam Yan and the Independent non-executive Directors are Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei.*

\* *for identification purpose only*