



**Grandy Corporation**

**泓迪有限公司\***

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

**(Stock Code: 8143)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 MARCH 2005**

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

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*\* for identification purpose only*

## FINANCIAL RESULTS

The board of directors (the “Board”) of Grandy Corporation (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2005 together with the comparative figures for the corresponding year in 2004 as follows:

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	2	<b>34,230</b>	18,578
Cost of sales		<u><b>(15,539)</b></u>	<u>(8,916)</u>
Gross profit		<b>18,691</b>	9,662
Other operating income		<b>79</b>	76
Selling and distribution expenses		<b>(2,017)</b>	(1,864)
Administrative expenses		<b>(17,912)</b>	(21,315)
Allowance for bad and doubtful debts		<b>(3,715)</b>	(11,791)
Impairment in value of intangible assets		–	(10,007)
Impairment in value of goodwill		–	(3,134)
Provision for obsolete inventories		<u><b>(1,282)</b></u>	<u>–</u>
Loss from operations	3	<b>(6,156)</b>	(38,373)
Finance costs	4	<b>(288)</b>	(102)
Loss on disposal of subsidiaries		<u><b>(222)</b></u>	<u>(972)</u>
Loss before taxation		<b>(6,666)</b>	(39,447)
Taxation	5	<u><b>(440)</b></u>	<u>–</u>
Loss before minority interests		<b>(7,106)</b>	(39,447)
Minority interests		<u><b>61</b></u>	<u>4,718</u>
Net loss for the year		<u><b>(7,045)</b></u>	<u>(34,729)</u>
Loss per share	6		
– basic		<u><b>(HK\$0.03)</b></u>	<u>(HK\$0.18)</u>

Notes:

### 1. Basis of presentation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules of GEM of the Stock Exchange. The financial statements have been prepared under the historical cost convention.

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as the “new HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The new HKFRSs may result in changes in the future as to how the Group’s financial performance and financial position are prepared and presented.

### 2. Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services, the sales of environmental protection products and provision of related services. All significant intra-group transactions have been eliminated on consolidation.

### 3. Loss from operations

	2005 <i>HK\$’000</i>	2004 <i>HK\$’000</i>
<b>Loss from operations has been arrived at after charging:</b>		
Directors’ remuneration	151	1,580
Other staff’s retirement benefits scheme contributions	1,125	341
Other staff costs	10,200	7,798
	<u>11,476</u>	<u>9,719</u>
Amortisation of goodwill included in administrative expenses	425	190
Amortisation of intangible assets included in administrative expenses	1	600
Auditors’ remuneration		
– current year	293	401
– under provision in prior years	105	9
Allowance for bad and doubtful debts	3,542	11,791
Bad debt written off	173	–
Cost of goods sold	1,996	6,487
Depreciation of fixed assets		
– owned by the Group	1,006	1,799
– held under finance leases	6	37
Impairment in value of fixed assets included in administrative expenses	–	1,303
Loss on disposal of fixed assets	264	240
Operating lease rentals in respect of		
– land and buildings	1,368	1,371
Provision for obsolete inventories	1,282	–
<b>and after crediting:</b>		
Interest income	73	5
Rental income from hire of machinery and equipment	<u>50</u>	<u>30</u>

#### 4. Finance costs

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on		
– bank borrowings wholly repayable within five years	137	71
– bank overdraft	147	–
– finance leases	4	31
	<u>288</u>	<u>102</u>

#### 5. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group incurred a taxation loss for the year. Provision on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>Current tax</b>		
Provision for the year – overseas	289	–
Underprovision in previous year – Hong Kong	151	–
	<u>440</u>	<u>–</u>

No provision for PRC income tax has been made in the financial statements as the PRC subsidiaries had no assessable profit for the year.

The charge for the year is reconciled to the loss before taxation per the consolidated income statement as follows:

	<b>2005</b>		2004	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Loss before taxation	<u>(6,666)</u>		<u>(39,447)</u>	
Tax at the applicable income tax rate	1,167	17.5	6,903	17.5
Effect of different tax rates of subsidiaries operating in other jurisdictions	(50)	(0.8)	647	1.6
Tax effect of expenses and income not deductible or taxable for tax purposes	(523)	(7.8)	(3,089)	(7.8)
Tax effect of tax losses not recognised	(959)	(14.3)	(4,379)	(11.1)
Utilisation of tax losses previously not recognised	–	–	426	1.1
Under provision in previous year	(151)	(2.3)	–	–
Others	76	1.1	(508)	(1.3)
Tax charge and effective tax rate for the year	<u>(440)</u>	<u>(6.6)</u>	<u>–</u>	<u>–</u>

## 6. Loss per share

The calculation of the basic loss per share is based on the net loss for the year of HK\$7,045,000 (2004: HK\$34,729,000) and the weighted average number of 238,971,928 (2004: 196,664,618) shares in issue during the year after adjusting for the effects of the share consolidation approved on 11 May 2005. The basic loss per share for 2004 had been adjusted accordingly.

No diluted loss per share has been presented as share options outstanding during the year had an anti-dilutive effect on the basic loss per share for both years.

## 7. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2005 (2004: Nil).

## 8. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

### *Geographical segments*

The Group's operations are located in Korea, Hong Kong, Mainland China (the "PRC"), Singapore and Malaysia, 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.

	Turnover		Results	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	9,375	13,869	5,194	5,963
PRC	362	4,119	83	(2,580)
Singapore	–	386	–	(15)
Malaysia	–	204	–	(7,361)
Korea	24,493	–	11,397	–
	<u>34,230</u>	<u>18,578</u>	<u>16,674</u>	<u>(3,993)</u>
Unallocated other operating income			79	76
Unallocated corporate expenses			(22,909)	(21,315)
Impairment in value of intangible assets			–	(10,007)
Impairment in value of goodwill			–	(3,134)
			<u>(6,156)</u>	<u>(38,373)</u>
Loss from operations			(6,156)	(38,373)
Finance costs			(288)	(102)
Loss on disposal of subsidiaries			(222)	(972)
			<u>(6,666)</u>	<u>(39,447)</u>
Loss before taxation			(6,666)	(39,447)
Taxation			(440)	–
			<u>(7,106)</u>	<u>(39,447)</u>
Loss before minority interests			(7,106)	(39,447)
Minority interests			61	4,718
			<u>(7,045)</u>	<u>(34,729)</u>
Net loss for the year			<u>(7,045)</u>	<u>(34,729)</u>

Balance sheet

	Segment assets		Segment liabilities	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	18,619	15,019	3,955	4,157
PRC	813	3,452	2,400	2,940
Singapore	–	–	200	200
Malaysia	–	6	–	–
Korea	6,559	–	2,964	–
	<u>25,991</u>	<u>18,477</u>	<u>9,519</u>	<u>7,297</u>
Unallocated	2,664	8,649	7	2,105
	<u>28,655</u>	<u>27,126</u>	<u>9,526</u>	<u>9,402</u>

Other information

	Capital additions		Depreciation and amortisation	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	415	889	2,407
PRC	–	1,043	295	146
Singapore	–	95	–	45
Malaysia	–	10	–	28
Korea	314	–	254	–
	<u>314</u>	<u>1,563</u>	<u>1,438</u>	<u>2,626</u>

	Loss on disposal of fixed assets		Allowance for bad and doubtful debts	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	50	2,363	454
PRC	264	–	873	3,709
Singapore	–	51	–	204
Malaysia	–	139	–	7,424
Korea	–	–	479	–
	<u>264</u>	<u>240</u>	<u>3,715</u>	<u>11,791</u>

	Impairment in value of fixed assets		Impairment in value of intangible assets		Impairment in value of goodwill	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	1,303	–	9,298	–	3,134
PRC	–	–	–	709	–	–
	<u>–</u>	<u>1,303</u>	<u>–</u>	<u>10,007</u>	<u>–</u>	<u>3,134</u>

### Business segments

The Group is engaged in environmental and environmental-related businesses including installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services, the manufacture and sales of environmental protection products.

	Manufacture and sales of environmental protection products		Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>9,737</u>	<u>18,578</u>	<u>24,493</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>34,230</u>	<u>18,578</u>
Segment assets	<u>11,704</u>	<u>18,477</u>	<u>6,559</u>	<u>–</u>	<u>10,392</u>	<u>8,649</u>	<u>28,655</u>	<u>27,126</u>
Capital additions	<u>–</u>	<u>1,563</u>	<u>314</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>314</u>	<u>1,563</u>

### 9. Reserves

#### The Group

	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	42,888	2,935	(12)	(12,446)	33,365
Issue of shares	7,176	–	–	–	7,176
Net loss for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(34,729)</u>	<u>(34,729)</u>
At 31 March 2004 and 1 April 2004	50,064	2,935	(12)	(47,175)	5,812
Issue of shares	6,025	–	–	–	6,025
Issuing expenses	(67)	–	–	–	(67)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	355	–	355
Release upon disposal of subsidiaries	–	–	12	–	12
Net loss for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,045)</u>	<u>(7,045)</u>
<b>At 31 March 2005</b>	<b><u>56,022</u></b>	<b><u>2,935</u></b>	<b><u>355</u></b>	<b><u>(54,220)</u></b>	<b><u>5,092</u></b>

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.

## The Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	42,888	1,452	(12,582)	31,758
Premium arising on issue of shares	7,176	–	–	7,176
Net loss for the year	–	–	(37,908)	(37,908)
At 31 March 2004	50,064	1,452	(50,490)	1,026
Premium arising on issue of shares	6,025	–	–	6,025
Issuing expenses	(67)	–	–	(67)
Net loss for the year	–	–	(21,297)	(21,297)
<b>At 31 March 2005</b>	<b>56,022</b>	<b>1,452</b>	<b>(71,787)</b>	<b>(14,313)</b>

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the group reorganisation in 2001 and the nominal amount of the Company's shares issued for the acquisition.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

The Company and its subsidiaries are principally engaged in the production, sourcing, sales and marketing, design and development of environmental products and ancillary services for combating environmental problems in the areas of energy-saving, enzyme treatments and waste water treatment. The integrated range of products and services being offered enables the Group to be a total solution provider in environmental technology services covering Hong Kong, the People's Republic of China ("PRC") and the Republic of Korea.

In April 2004, the Group completed its acquisition of Youngdong Environmental Engineering Co., Ltd. incorporated in the Republic of Korea, which is a company involving mainly in environmental-related businesses, including the installation, engineering and management of waste water treatment systems and environmental facilities and the provision of environmental analyses and measurement services.

Moreover, during the current year, the Group's cost rationalization measures continued in full speed, which included closure of the loss-making subsidiary incorporated in Beijing, the People's Republic of China and down-sizing of operation of low-margin products, such as, energy-saving products and food waste equipment.

On the other hand, the Group continued to procure new business opportunities and new business partners this year. In January 2005, the Company allotted and issued 231,730,000 new shares of the Company to an independent strategic investor, Easeglory Holdings Limited at a subscription price of HK\$0.036 per share.

The effect of the above cost-retention and business-promotion measures has been shown in the current year's results and will continue to have an impact on the results of the coming years.



## **Financial review**

Results of the Group for the year ended 31 March 2005 have shown improvement in turnover compared with 31 March 2004. Turnover of the Group for the year was HK\$34.2 million in comparison with HK\$18.6 million in 2004, representing an increase of approximately 84%. Net loss attributable to shareholders for the year ended 31 March 2005 was HK\$7.1 million in comparison with a net loss of HK\$34.7 million in 2004, representing a decrease of approximately 80%.

The improvement in revenue for the year ended 31 March 2005 was mainly driven by the contribution in turnover by Youngdong which was partly set off by the decreases in revenue from energy-saving businesses in Hong Kong and from overseas subsidiaries. The turnover of Youngdong represented HK\$24.5 million equivalent to approximately 71% of the Group's turnover for the year ended 31 March 2005.

The decrease in net loss attributable to shareholders for the year ended 31 March 2005 was achieved by a combination of the successes in the Group's cost cutting measures and the fact that a significant portion of the loss for the year ended 31 March 2004 was related to one-off provisions and impairment in value of intangible assets which were of a non-recurring nature.

## **Liquidity and financial resources**

The Group had total cash and bank balances of approximately HK\$3.1 million as at 31 March 2005 (2004: HK\$8.6 million). The decrease in cash and bank balances were mostly due to the repayment of all outstanding bank loans of approximately HK\$2.1 million and the acquisition of Youngdong of approximately HK\$3.9 million. Thus, the Group recorded a net positive cash balance of approximately HK\$3.1 million as at 31 March 2005 as compared to a net positive cash balance of approximately HK\$8.6 million as at 31 March 2004.

The Group recorded total current assets of approximately HK\$24.3 million as at 31 March 2005 (2004: HK\$24.2 million) and total current liabilities of approximately HK\$9.5 million as at 31 March 2005 (2004: HK\$9.4 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 2.55 as at 31 March 2005 (2004: 2.57).

The Group recorded an increase in shareholders' funds of approximately HK\$1.6 million which was mainly attributable to the increase in issued share capital of the Company as a result of placing new shares to Easeglory Holdings Limited.

## **Foreign exchange exposure**

As at 31 March 2005, the Group had three overseas subsidiaries in Singapore, Korea and Zhuhai. However, the Group's management considered that there is no exposure (2004: Nil) for the Group.

## **Charges on Group assets**

Apart from two photocopiers which were used as collaterals for their corresponding finance leases, the Group had no other charges on its assets as at 31 March 2005.

## **Future prospects**

It has been the Company's business strategy to make investments that have earning potentials for the Group to expand its existing operations and to diversify its businesses. Looking ahead, the board of directors is dedicated to bring the best returns and to enhance the shareholders' value in the long run. The Group will continue to strive for advancement in both quantity and quality of earnings and expansion of businesses by all means, including merger, acquisition and/ or establishment of business ventures.

## **Board practices and procedures**

The Company has complied throughout the year ended 31 March 2005 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

## **Purchase, sale or redemption of the Company's listed shares**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## **Audit committee**

The Company established an audit committee on 2 November 2001, with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports, 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 three independent non-executive directors of the Company. Quarterly meetings were held during the year. The audited financial results for the year ended 31 March 2005 have been discussed and reviewed by the members of the audit committee.

By order of the Board  
**Grandy Corporation**  
**Yung Kwok Leong**  
*Chairman*

Hong Kong, 28 June 2005

*As at the date of this announcement, the Company's executive directors are Mr. Yung Kwok Leong, Mr. Chan Hon Chiu and Mr. Yeung Kam Yan. The Company's independent non-executive directors are Mr. Chan Ping Kuen, Francis, Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and the website of the Company at [www.grandy.com.hk](http://www.grandy.com.hk).*