



**Grandy Corporation**

(Incorporated in the Cayman Islands with limited liability)

annual report **2004/05**

**Environmental protection  
always pays.....**

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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 enquires, 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.*

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## Corporate Information

### EXECUTIVE DIRECTORS

Yung Kwok Leong (*Chairman*)

Chan Hon Chiu

Yeung Kam Yan

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Ping Kuen Francis

Hsu Shiu Foo William

Yu Chai Mei

### COMPLIANCE OFFICER

Chan Hon Chiu

### COMPANY SECRETARY

Chan Siu Wing Raymond, *CPA, CPA (Australia)*

### AUTHORISED REPRESENTATIVES

Chan Hon Chiu

Yeung Kam Yan

### QUALIFIED ACCOUNTANT

Chan Siu Wing Raymond, *CPA, CPA (Australia)*

### AUDIT COMMITTEE

Chan Ping Kuen Francis

Hsu Shiu Foo William

Yu Chai Mei

### REGISTERED OFFICE

Century Yard, Cricket Square

Hutchins Drive, P.O. Box 2681 GT

George Town, Grand Cayman

British West Indies

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd

Butterfield House, 68 Fort Street

P.O. Box 705, George Town

Grand Cayman, Cayman Islands

British West Indies

### HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

G/F BEA Harbour View Centre

56 Gloucester Road

Wanchai, Hong Kong

### PRINCIPAL BANKER

Standard Chartered Bank

Hang Seng Bank

### AUDITORS

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

31/F Gloucester Tower

The Landmark

11 Pedder Street

Central

Hong Kong

### STOCK CODE

8143

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1902

19/F, Sing Pao Building

No.101 King's Road

North Point, Hong Kong

## Chairman's Statement

For and on behalf of the board of directors (the "Board") of Grandy Corporation (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2005.

### PERFORMANCE

In April 2004, the Group completed its acquisition of Youngdong Environmental Engineering Co., Ltd. ("Youngdong") 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 ("Easeglory") 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 financial years. In respect of the results of the Group for the year ended 31 March 2005, the Group's audited loss for the year is approximately HK\$7.1 million (2004: HK\$34.7 million). As such, loss per share narrowed to HK\$0.03 (2004: HK\$0.18) representing a significant reduction of approximately 83% as compared to that of the previous year.

### LOOKING AHEAD

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 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 business by all means, including merger, acquisition and/or establishment of business ventures.

### APPRECIATION

I would like to thank our management team and all our staff for their untiring efforts and significant contribution during the past year. I would also like to take this opportunity to express my sincere gratitude and appreciation to all our fellow shareholders and institutional investors for their continuous support and confidence in our Group.

**Yung Kwok Leong**

*Chairman*

Hong Kong, 28 June 2005

# Management Discussion and Analysis

## FINANCIAL HIGHLIGHTS

Summary of the results of the Group for the financial year ended 31 March 2005 is as follows:

- Turnover was approximately HK\$34.2 million, representing an increase of 84% as compared to a turnover of approximately HK\$18.6 million for the previous year. The increase in turnover was mostly driven by the acquisition of Youngdong;
- Gross profit was approximately HK\$18.7 million, representing an increase of 93% as compared to a gross profit of approximately HK\$9.7 million for the previous year. The increase in gross profit was driven by the lowering of material and overhead costs; and
- Loss after taxation and minority interests was approximately HK\$7.1 million, representing a decrease of 80% as compared to a loss after taxation and minority interests of approximately HK\$34.7 million for the previous year. The improved result was credited to the management's effort in adopting various cost cutting measures. There was no impairment loss of fixed assets recognised during the year.

## 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.

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.

## Management Discussion and Analysis

### Relocation to New Office

In May 2005, the Group relocated its headquarter and principal place of business in Hong Kong to a more convenient and cost saving premise in Sing Pao Building, No. 101 King's Road, North Point, Hong Kong. This was one of the cost cutting measures successfully implemented by the Group's management.

### New Strategic Shareholder

As explained in the Company's announcement dated 20 January 2005 and in accordance with the terms of a subscription agreement dated 18 January 2005, the Company allotted and issued 231,730,000 new shares of the Company to an independent investor, Easeglory Holdings Limited ("Easeglory") on 3 February 2005 at a subscription price of HK\$0.036 per share which amount to approximately HK\$8.3 million. Easeglory is beneficially owned by Mr. Yung Kwok Leong ("Mr. Yung"), the Chairman and executive Director of the Group.

As disclosed in the Company's announcement dated 20 January 2005, the Group will use part of the cash proceeds from subscription of shares to finance investments in environmental related projects in the PRC.

### Waste Water Treatment Businesses

The Group's waste water treatment businesses for government projects are mainly carried out through Youngdong in the Republic of Korea. These government projects are located in the province of Chungcheong Book Do, the Republic of Korea. The attributable turnover for the year ended 31 March 2005 was HK\$24.5 million and has been progressing in line with anticipation of the local management in the Republic of Korea.

The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks. Other waste water treatments such as grease trap and under sink maintenance have been routinely carried out to commercial sectors in Hong Kong.

### Energy-saving Products

Contracts for implementation of energy-saving solutions of approximately HK\$4.3 million have been completed by the Group for the year ended 31 March 2005.

### 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 approximately HK\$4.2 million have been completed by the Group for the year ended 31 March 2005.

### Nano Products

Turnover from the nano products for the year ended 31 March 2005 was approximately HK\$0.4 million generated from the sale to residential properties in Hong Kong. Management is of the view that the trend of these new products is positive and will experience a continuous growth.

## Management Discussion and Analysis

### Food Waste Treatment and Management

The development of food waste treatment and management businesses in Hong Kong is much slower than our expectations partially due to government budget deficits which result in withholding of funds originally planned for the food waste projects, and also partially due to the general lack of environmental protection initiatives.

### Indoor Air Quality (IAQ) Services

Due to the re-focusing of the Group's business development strategies and cessation of the two joint ventures originally aimed at the IAQ businesses, turnover from this business line has been very insignificant even though we are still providing the services to customers via the use of sub-contractors.

## FUTURE PLANS AND PROSPECTS

The Company's management anticipates that the Company is able to capitalize on the business networks of Mr. Yung, the Company's Chairman, in the PRC market for the promotion of the products of the Group and thus captures more business opportunities. The established networks of Mr. Yung in the PRC can facilitate the Group's expansion in the PRC markets at a relatively lower cost, which is crucial to the Group in its early stage of business developments in the PRC markets especially given that the current expenses of marketing in major cities are getting much higher.

With the introduction of a new strategic shareholder together with the cost reduction measures in Hong Kong, the Group's management believes that the Group will gradually recover from its poor results in the past two years and outlook for shareholders of the Company is still positive on a longer term.

## 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.



## Management Discussion and Analysis

### 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.

### SEGMENT INFORMATION

During the year, the revenue of the Group was principally generated from the manufacture and sales of environmental protection products. Geographically, the Group has established operations in Korea during the year. Financial information in respect of these operations is presented in Note 4 to the financial statements.

### CAPITAL STRUCTURE

As at 31 March 2004, the total issued share capital of the Company was HK\$11,586,717 divided into 1,158,671,667 shares of HK\$0.01 each.

During the year, a total of 231,730,000 shares credited as fully paid were allotted and issued to Easeglory. For further details of the placing of new shares to Easeglory, please refer to the announcement of the Company dated 20 January 2005.

As at 31 March 2005, the total issued share capital of the Company was HK\$13,904,017 divided into 1,390,401,667 shares of HK\$0.01 each.

At the extraordinary general meeting held on 11 May 2005, an ordinary resolution approving the share consolidation has been duly passed by the Shareholders present and voting in person or by proxy, on a show of hands. The GEM Listing Committee of the Stock Exchange has also granted the listing of, and permission to deal in, the consolidated shares. Following the share consolidation which became effective on 12 May 2005, the authorised share capital of the Company remains at HK\$15,000,000 divided into 300,000,000 consolidated shares of HK\$0.05 each, of which 278,080,333 consolidated shares are in issue and fully paid or credited as fully paid.

### MATERIAL ACQUISITION OF A SUBSIDIARY

On 30 April 2004, Righttime Development Limited (a wholly owned subsidiary of the Company, hereinafter referred to as "Righttime") acquired the entire interest in Youngdong with a consideration of KWR580 million (approximately HK\$3.9 million) in cash.

## Management Discussion and Analysis

### EMPLOYEE INFORMATION

As at 31 March 2005, the Group had 65 (2004: 52) full time employees as shown in the following table:

Location	Number of Staff
Hong Kong	31
Dongguan	3
Singapore	1
Korea	30

For the year ended 31 March 2005, staff cost (including Directors emoluments) amounted to approximately HK\$11.5 million (2004: HK\$9.7 million). The increase in staff costs is mainly due to the increase in number of staff from the new subsidiary. The Group remunerates its employees based on individual performance and qualification. Apart from the basic remuneration, staff benefits include the Mandatory Provident Fund Scheme and bonus.

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As explained under sections headed "Business Review" and "Future Plans and Prospects" above, the Group has re-focused its business development strategies and therefore many business objectives proposed at the time of listing have been re-assessed and revised during the second half of financial year ended 31 March 2005.

In summary, the Group's existing strategies are to (a) concentrate on its existing businesses with net contributions to the Group; (b) expand via mergers with and/or acquisitions of profit-making businesses and (c) expand into the PRC markets at the minimum costs e.g. via new business partners' connections and networks.

For comparisons of business objectives with actual business progress for the six months periods ended on 31 March 2004, please refer to the 2003/04 Annual Report of Grandy Corporation. For comparisons of business objectives with actual business progress for the six months period ended on 30 September 2004, please refer to the 2004/05 Interim Report of Grandy Corporation.

## Management Discussion and Analysis

### Business objectives for the period from

1 October 2004 to 31 March 2005

as stated in the Prospectus of the Company  
dated 29 April 2002

Actual business progress for the period from  
1 October 2004 to 31 March 2005

#### 1. Geographical expansion

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Organize seminars and workshops to potential customers in the PRC and the Republic of Korea</li> </ul>  | <p>Seminars carried out in the central part of Korea to promote waste water businesses</p>        |
| <ul style="list-style-type: none"> <li>• Appoint additional agents to develop the Group's business in the Jiangsu and Henan provinces</li> </ul> | <p>Appointment in the Shanghai Municipality is delayed and subject to review of market demand</p> |
| <ul style="list-style-type: none"> <li>• Appoint agent in the USA to develop the Group's business</li> </ul>                                     | <p>Appointment ceased due to cost cutting measures</p>  |
| <ul style="list-style-type: none"> <li>• Set up new subsidiaries in Hong Kong and in the PRC</li> </ul>  | <p>Developments are in progress with the new strategic shareholder</p>                            |

#### 2. Improvement of existing products and sourcing of new products and services

##### *Water Quality Improvement*

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Conduct practical evaluation of nano products in the commercial sectors</li> </ul>  | <p>Plan postponed as priority is given to the evaluation of performance in public and private housing in Hong Kong</p> |
| <ul style="list-style-type: none"> <li>• Conduct feasibility studies for the further applications of waste water treatment businesses to government agencies in Hong Kong</li> </ul> | <p>Plan postponed due to change in priority of government funding</p>  |
| <ul style="list-style-type: none"> <li>• Introduce cleansing and ancillary services to both public and private housing in Hong Kong</li> </ul>                                       | <p>Services were jointly provided with a sub-contractor</p>  |

## Management Discussion and Analysis

### Business objectives for the period from

1 October 2004 to 31 March 2005

as stated in the Prospectus of the Company  
dated 29 April 2002

Actual business progress for the period from  
1 October 2004 to 31 March 2005

#### *Air Quality Improvement*

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Evaluate the newly developed application of Ecokleen from research</li> <li>• Continue sourcing of new type of indoor air quality reactor</li> </ul> | <p>Developments on the product on hold due to the changes in the operation environment and cost cutting measures</p> <p>Sourcing ceased due to change in business development strategies</p> |
|---|--|

#### *Energy Saving Product*

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Continue sourcing of appropriate Compact Heat Exchange devices for customers to enhance energy</li> <li>• Chemical processing improvement technology</li> </ul> | <p>Continue to identify appropriate and cost efficient devices</p> <p>Project ceased due to change in business development strategies and cost cutting measures</p> |
|--|---|

### 3. Establishment of product development and evaluation capabilities

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Continue collaboration programmes</li> <li>• Form strategic alliance with institution/university in the PRC for the Group's application analysis and product development activities</li> <li>• Continue Innovation and Technology and Fund ("ITF") programme application</li> </ul> | <p>Programmes not carried out due to change in business development strategies and cost cutting measures</p> <p>Strategic alliance not formed due to change in business development strategies and cost cutting measures</p> <p>ITF programmes ceased due to re-focus business development strategies</p> |
|--|---|

## Management Discussion and Analysis

### Business objectives for the period from

1 October 2004 to 31 March 2005

as stated in the Prospectus of the Company  
dated 29 April 2002

### Actual business progress for the period from

1 October 2004 to 31 March 2005

#### 4. Marketing and brand building

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Sponsor and organize environmental related education programmes</li> </ul>       | <p>None carried out to date as focus remained on sales and re-focus of business development strategies</p> |
| <ul style="list-style-type: none"> <li>• Advertise the Group's products and services in journals and magazines</li> </ul> | <p>None carried out to date as focus remained on sales and re-focus of business development strategies</p> |
| <ul style="list-style-type: none"> <li>• Participate in different environmental related exhibitions</li> </ul>            | <p>No participant during the period as a cost control measure</p>  |
| <ul style="list-style-type: none"> <li>• Expand existing sales and marketing team</li> </ul>                              | <p>Sales and marketing team has been reorganized by the use of salesmen purely on commission basis</p>     |
| <ul style="list-style-type: none"> <li>• Maintain the Group's website</li> </ul>  | <p>Constantly updating new information to the Group's website in English and Chinese</p>                   |

## Directors' and Senior Management's Profiles

### EXECUTIVE DIRECTORS

**Mr. Yung Kwok Leong**, aged 40, the Chairman of the Group, and a director of Able Developments Limited, Prime Source Trading Limited, Grand Brilliant Corporation Limited and Grand Motion Investments Limited respectively, which are wholly owned subsidiaries of the Company. Mr. Yung, being a registered economist in the Fujian Province in the PRC, has business experience in the manufacture, sale and distribution of environmental-related raw materials and related products, such as melamine materials and household wares as well as other business areas in the PRC for over 20 years. Mr. Yung became the Chairman of the Group in March 2005.

**Mr. Chan Hon Chiu**, aged 45, the Marketing Director, is responsible for the sales and marketing functions of Group. Mr. Chan joined the Group in April 2000. Prior to joining the Group, Mr. Chan worked as an operation manager for a building cleaning services provider namely Reliance Services (HK) Limited from 1991 to 1993 and was appointed as a director of two cleaning and waste disposal services providers namely Sanki Rampart Environmental Services Limited and Jamek International Limited, a partner of Rampart Environmental Service engaged in cleaning and waste disposal services from 1993 to 2001. Mr. Chan is the authorized representative and compliance officer of the Company.

**Mr. Yeung Kam Yan**, aged 53, the Project Director and one of the founders of the Group, is in charge of the marketing and business development of the Group. Mr. Yeung is a member of the Air & Waste Management Association – Hong Kong Section. Mr. Yeung has over eight years of experience in accounting, sales and marketing in different international companies including Olivetti (Hong Kong) Ltd. from 1979 to 1982, O.P.D. Limited from 1982 to 1985 and Henry Boot Far East Limited from 1986 to 1990. Mr. Yeung also operated his own trading and investment business in the PRC from 1990 to 1998 before the establishment of the Group.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Ping Kuen Francis**, aged 46, was appointed as an independent non-executive Director in September 2004. Mr. Chan is also a director of Able Developments Limited and Prime Source Trading Limited, respectively, both of which are wholly owned subsidiaries of the Company. Mr. Chan is a member of The Institute of Chartered Accountants in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan holds a bachelor degree in economics from the University of Sydney. Mr. Chan has over twenty years of experience in auditing, accounting and financial management and previously worked for an international accounting firm and a number of listed companies in Hong Kong and in the United States.

**Mr. Hsu Shiu Foo William**, aged 54, was appointed as an independent non-executive Director in November 2001. Mr. Hsu is a lecturer at Brigham Young University, Hawaii. Mr Hsu has over 10 years' global business experience in tourism and related fields in various international corporations. Mr. Hsu holds a bachelor of arts degree from the Brigham Young University, New York, USA.

**Prof. Yu Chai Mei**, aged 49, was appointed as an independent non-executive Director in November 2001. Prof. Yu is a Professor in the Department of Chemistry and the Director of Studies in Environmental Science Programme of The Chinese University of Hong Kong. Prof. Yu possesses extensive knowledge in pollution treatment and environmental monitoring. Prof. Yu obtained his doctoral degree in Chemistry at the University of Idaho, the US. Prof. Yu has made contributions by advising the Group on development potentials of PCO technology and has helped the Group to carry out research on the functions of PCO reactors in the early stage of the Group's business development.

## Directors' and Senior Management's Profiles

### SENIOR MANAGEMENT

**Mr. Leung Chi Kin**, aged 49, is a senior manager of the engineering section and one of the founders of the Group. Mr. Leung is responsible for the design of environmental systems, site servicing and other operational tasks of the Group. Prior to joining the Group, Mr. Leung was appointed as a director of United Tech Engineering Ltd. engaged in the business of general trading and mechanical engineering from 1995 to 1999.

**Mr. Mio Kwok Man**, aged 44, is the senior manager of the retail section of the Group. Mr. Mio is responsible for the business development and distribution of the Group. Mr. Mio has over two years of experience in quality control and planning and operation for hygiene and cleaning services. Mr. Mio joined the Group in August 2000. During the period from 1988 to 1994, Mr. Mio worked for Ployking Services Ltd. as operations manager. During the period from 1994 to 1997, Mr. Mio worked for a hygiene services company namely Swan Hygiene Services Ltd. as quality control and planning manager. During the period from 1997 to 2000, Mr. Mio worked for Baguio Cleaning Services Ltd., a company engaging in building cleaning services, as marketing and operations manager.

**Mr. To Hang Ming**, aged 46, is the senior manager of the administration and business development sections of the Group. Mr. To is responsible for marketing and business development and administrative functions of the Group. Mr. To holds a degree in business-economics from the University of California, Los Angeles in the US. During the period from 1990 to 1994, Mr. To worked as a chief dealer of the foreign exchange department in Dresdner Bank and was responsible for foreign exchange dealings. During the period from 1995 to 2000, Mr. To worked as a foreign exchange manager of the foreign exchange department of Republic National Bank of New York and was responsible for foreign exchange dealings. Apart from gaining social and marketing skills, such working experience enables him to build up his clientele and connections. Mr. To joined the Group in June 2000.

**Mr. Chan Siu Wing Raymond**, aged 40, is the financial controller and company secretary of the Group. Mr. Chan is responsible for the Group's financial controls and treasury functions. Mr. Chan is a member of the Certified Practising Accountant in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company in June 2005, Mr. Chan has more than 15 years of experience in handling accounting and company secretarial functions.

**Mr. Hyoung Kyu Kim**, aged 40, is the senior finance manager of the Korean operations. Mr. Kim is responsible for the financial controls of Youngdong. Mr. Kim graduated from Seoul National University and obtained a bachelor's degree in arts from the Department of International Economics. Mr. Kim has over 10 years working experience in the areas of finance and asset management. Prior to joining the Group in June 2004, he worked in Hong Kong and Singapore.

## Report of the Directors

The directors present their annual report and the audited financial statements of the Group for the year ended 31 March 2005.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while 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 as detailed in note 36 of the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 60% of the Group's total sales while the sales attributable to the Group's largest customers was approximately 30% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2005 and the state of the Company's and the Group's affairs as at 31 March 2005 are set out in the financial statements on pages 22 to 24.

The directors do not recommend the payment of a dividend.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23 to the financial statements.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 25 and note 25 to the financial statements respectively.

The Company has no distributable reserves as at 31 March 2005. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.



## Report of the Directors

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

#### Executive directors:

Yung Kwok Leong (*Chairman*) (appointed on 2 March 2005)

Chan Hon Chiu

Yeung Kam Yan

Tsui Tai Hoi, Raymond (*Managing Director*) (resigned on 28 July 2004)

#### Independent non-executive directors:

Chan Ping Kuen Francis (appointed on 27 September 2004)

Hsu Shiu Foo William

Yu Chai Mei

In accordance with Article 87 of the Company's Articles of Association, Mr. Yu Chai Mei, the independent non-executive directors, will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with the Article 86 of the Articles of Association, Mr. Chan Ping Kuen Francis, the independent non-executive director and Mr. Yung Kwok Leong, the Chairman and executive director, will hold office until the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

There is no service contract entered into between the Company and Mr. Yung Kwok Leong. All the other executive directors have entered into service contracts with the Company for an initial term of two years commencing on 10 May 2002 which will continue thereafter until terminated by either party giving to the other party not less than six months' notice in writing during the initial term and three months' notice in writing during any renewed term after the first two years.

Mr. Chan Ping Kuen Francis has entered into a service contract with the Company for a period of one year commencing from 27 September 2004 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing. All the other independent non-executive directors have been appointed for an initial term of one year commencing on 10 May 2002 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## Report of the Directors

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2005, 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 the underlying Shares as recorded in the register maintained by the Company under Section 352 of the Securities and Futures Ordinance ("SFO") as follows:

Name of Director/ Respective Associate	Number of Shares Held	Capacity/Nature of Interest	Approximate Percentage of the Issued Share Capital (%)
Yung Kwok Leong	231,730,000	Corporate interest <i>(Note a)</i>	16.67
Yung Muk Ying	231,730,000	Corporate interest <i>(Note b)</i>	16.67
Chan Hon Chiu	20,783,993	Beneficial owner	1.49
Yeung Kam Yan	18,976,186	Beneficial owner	1.36

(a) Easeglory Holdings Limited, a company incorporated in British Virgins Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong, who is the beneficial owner of these 231,730,000 shares.

(b) Ms. Yung Muk Ying is deemed to have interest in 231,730,000 shares by virtue of her being the spouse of Mr. Yung Kwok Leong.

Save as disclosed above, none of the Directors or the chief executives of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of their associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors under Rule 5.46 of the GEM Listing Rules.

### DIRECTORS' RIGHTS TO ACQUIRE SHARE OR DEBENTURES

Save as disclosed above under the heading "Directors' interests in shares, underlying shares and debentures", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the following persons or corporations, in addition to the Directors and their respective associates stated under the paragraph headed "Directors' interests in shares, underlying shares and debentures", 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:

Name of Shareholders	Number of Shares held	Approximate percentage of Existing shareholding
Key Engineering Co., Ltd.	347,000,000	24.96
Easeglory Holdings Limited ( <i>Note a</i> )	231,730,000	16.67
Top Rainbow Ltd. ( <i>Note b</i> )	224,506,294	16.15
Mr. Yang Pei Gen ( <i>Note c</i> )	224,506,294	16.15
Ms. Lu Jin Ming ( <i>Note d</i> )	224,506,294	16.15

(a) Easeglory Holdings Limited, a company incorporated in British Virgins Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong, who is the beneficial owner of these 231,730,000 shares.

(b) Top Rainbow Ltd., a company incorporated in the British Virgin Islands, is the beneficial owner of these 224,506,294 shares.

(c) Mr. Yang Pei Gen is deemed to have interest in 224,506,294 shares by virtue of his equity interest in Top Rainbow Ltd.

(d) Ms. Lu Jin Ming is deemed to have interest in 224,506,294 shares by virtue of her being the spouse of Mr. Yang Pei Gen.

Save as disclosed above, the Directors were not aware of any other person (other than the Directors or the chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### SHARE OPTIONS

Details of the share option schemes are set out in note 24 to the financial statements.

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

A summary of the pre-listing share options which are exercisable in three equal tranches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK\$0.14 per share is as follows:

## Report of the Directors

Type of participants	Number of share options		
	Outstanding at 1 April 2004	Cancelled during the year	Outstanding at 31 March 2005
Employees	8,000,000	(8,000,000)	–
Advisor	2,400,000	–	2,400,000
Former employees	1,600,000	–	1,600,000
	<hr/>		
	12,000,000	(8,000,000)	4,000,000

The total number of shares in respect of which options are issuable under this pre-listing share option scheme was 4,000,000, representing approximately 0.29% of the issued share capital of the Company at 31 March 2005.

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

Details of the movements in the number of share options during the year under the Company's post-listing option scheme which are exercisable in two equal tranches from 9 May 2003 and 9 May 2004, respectively to 9 May 2005 at an exercise price of HK\$0.18 per share are as follows:

Type of participants	Number of share options		
	Outstanding at 1 April 2004	Cancelled during the year	Outstanding at 31 March 2005
Advisor	7,145,000	–	7,145,000

The total number of shares in respect of which options are issuable under this post-listing share option scheme was 7,145,000 representing approximately 0.51% of the issued share capital of the Company at 31 March 2005.

### DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### 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.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### 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.

## Report of the Directors

### FIVE YEAR FINANCIAL SUMMARY

Please refer to page 58 of the financial statements for the five year financial summary.

### SIGNIFICANT RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, during the year, the Group had entered into the following significant transaction with related parties:

During the year, the Group's wholly owned subsidiary, Righttime Development Limited, acquired the entire share capital of Youngdong Environmental Engineering Co., Ltd from Key Engineering Co., Ltd ("Key Engineering"), a substantial shareholder of the Company, at a consideration of KRW 580 million (approximately HK\$3,866,000). The Directors considered that the transaction was determined on normal commercial terms and in the interest of the Company. Key Engineering is a connected person of the Company under the GEM Listing Rules. As such, the transaction also constituted connected transaction under the GEM Listing Rules. For further details, please refer to the Company's circular dated 14 April 2004.

### 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.

### COMPETING INTEREST

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in the business which competes with or may compete with the business of the Group.

### AUDITORS

Messrs. HLB Hodgson Impey Cheng have been appointed as auditors of the Company with effect from 13 May 2005 in succession to Messrs. Deloitte Touche Tohmatsu who resigned from the office on 6 May 2005. HLB Hodgson Impey Cheng will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past two years.

On Behalf of the Board

**Yung Kwok Leong**

*Chairman*

Hong Kong, 28 June 2005

## Report of the Auditors



Chartered Accountants  
Certified Public Accountants

### **TO THE SHAREHOLDERS OF GRANDY CORPORATION**

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **HLB Hodgson Impey Cheng**

*Chartered Accountants  
Certified Public Accountants*

Hong Kong, 28 June 2005

# Consolidated Income Statement

For the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>	3	<b>34,230</b>	18,578
<b>Cost of sales</b>		<b>(15,539)</b>	(8,916)
<b>Gross profit</b>		<b>18,691</b>	9,662
<b>Other operating income</b>	3	<b>79</b>	76
<b>Selling and distribution expenses</b>		<b>(2,017)</b>	(1,864)
<b>Administrative expenses</b>		<b>(17,912)</b>	(21,315)
<b>Allowance for bad and doubtful debts</b>		<b>(3,715)</b>	(11,791)
<b>Impairment in value of intangible assets</b>		<b>-</b>	(10,007)
<b>Impairment in value of goodwill</b>		<b>-</b>	(3,134)
<b>Provision for obsolete inventories</b>		<b>(1,282)</b>	-
<b>Loss from operations</b>	5	<b>(6,156)</b>	(38,373)
<b>Finance costs</b>	8	<b>(288)</b>	(102)
<b>Loss on disposal of subsidiaries</b>	27	<b>(222)</b>	(972)
<b>Loss before taxation</b>		<b>(6,666)</b>	(39,447)
<b>Taxation</b>	9	<b>(440)</b>	-
<b>Loss before minority interests</b>		<b>(7,106)</b>	(39,447)
<b>Minority interests</b>		<b>61</b>	4,718
<b>Net loss for the year</b>		<b>(7,045)</b>	(34,729)
<b>Loss per share</b>	11		
<b>- basic</b>		<b>(HK\$0.03)</b>	(HK\$0.18)

All of the Group's activities are classed as continuing.

The accompanying notes form an integral part of these financial statements.

# Consolidated Balance Sheet

At 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Fixed assets	13	2,342	2,888
Other investments	14	131	–
Goodwill	16	1,893	–
		<b>4,366</b>	2,888
<b>Current assets</b>			
Inventories	18	2,373	4,575
Trade and other receivables	19	18,780	11,014
Cash and bank balances		3,136	8,649
		<b>24,289</b>	24,238
<b>Less: Current liabilities</b>			
Trade and other payables	20	8,470	6,663
Obligations under finance leases – due within one year	21	7	9
Amounts due to directors	22	664	473
Amount due to minority shareholder of a subsidiary	22	160	160
Secured short-term bank loans		–	999
Trust receipt loans		–	1,091
Tax payable		225	–
		<b>9,526</b>	9,395
<b>Net current assets</b>		<b>14,763</b>	14,843
<b>Total assets less current liabilities</b>		<b>19,129</b>	17,731
<b>Non-current liabilities</b>			
Obligations under finance leases – due after one year	21	–	7
<b>Minority interests</b>		<b>133</b>	325
<b>Net assets</b>		<b>18,996</b>	17,399
Capital and reserve:			
<b>Share capital</b>	23	<b>13,904</b>	11,587
<b>Reserves</b>		<b>5,092</b>	5,812
<b>Shareholders' funds</b>		<b>18,996</b>	17,399

Approved by the Board of Directors on 28 June 2005 and signed on its behalf by:

**Chan Hon Chiu**  
Director

**Yeung Kam Yan**  
Director

The accompanying notes form an integral part of these financial statements.



# Balance Sheet

At 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Interests in subsidiaries	17	–	–
<b>Current assets</b>			
Accounts receivables		113	113
Amounts due from subsidiaries		–	4,699
Bank balances		7	7,950
		<b>120</b>	12,762
<b>Less: Current liabilities</b>			
Accounts payables		378	149
Tax payable		151	–
		<b>529</b>	149
<b>Net current (liabilities)/assets</b>		<b>(409)</b>	12,613
<b>Net (liabilities)/assets</b>		<b>(409)</b>	12,613
Capital and reserve:			
<b>Share capital</b>	23	<b>13,904</b>	11,587
<b>Reserves</b>	25	<b>(14,313)</b>	1,026
<b>Shareholders' (deficits)/ funds</b>		<b>(409)</b>	12,613

Approved by the Board of Directors on 28 June 2005 and signed on its behalf by:

**Chan Hon Chiu**

Director

**Yeung Kam Yan**

Director

The accompanying notes form an integral part of these financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	8,717	42,888	2,935	(12)	(12,446)	42,082
Issue of shares	2,870	7,176	–	–	–	10,046
Net loss for the year	–	–	–	–	(34,729)	(34,729)
At 31 March 2004 and 1 April 2004	11,587	50,064	2,935	(12)	(47,175)	17,399
Issue of shares	2,317	6,025	–	–	–	8,342
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	–	–	–	–	(7,045)	(7,045)
<b>At 31 March 2005</b>	<b>13,904</b>	<b>56,022</b>	<b>2,935</b>	<b>355</b>	<b>(54,220)</b>	<b>18,996</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 accompanying notes form an integral part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		<b>(6,666)</b>	(39,447)
Adjustments for:			
Interest income		<b>(73)</b>	(5)
Interest expenses		<b>288</b>	102
Amortisation of goodwill		<b>425</b>	190
Amortisation of intangible assets		<b>1</b>	600
Bad debt written off		<b>173</b>	–
Depreciation of fixed assets		<b>1,012</b>	1,836
Exchange difference on translation of financial statements of overseas subsidiaries		<b>294</b>	–
Loss on disposal of fixed assets		<b>264</b>	240
Impairment in value of fixed assets		–	1,303
Impairment in value of intangible assets		–	10,007
Impairment in value of goodwill		–	3,134
Loss on disposal of subsidiaries		<b>222</b>	972
Allowance for bad and doubtful debts		<b>3,542</b>	11,791
Provision for obsolete inventories		<b>1,282</b>	–
Operating cash flows before movements in working capital		<b>764</b>	(9,277)
Decrease/(increase) in inventories		<b>1,750</b>	(2,143)
Increase in trade and other receivables		<b>(9,633)</b>	(1,274)
(Decrease)/increase in trade and other payables		<b>(424)</b>	4,204
Net cash used in operations		<b>(7,543)</b>	(8,490)
Overseas tax paid		<b>(215)</b>	–
Hong Kong profits tax paid		–	(27)
Net cash used in operating activities		<b>(7,758)</b>	(8,517)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		<b>73</b>	5
Purchase of fixed assets		<b>(299)</b>	(1,563)
Proceeds from disposal of fixed assets		–	351
Purchase of other investments		<b>(131)</b>	–
Purchase of a subsidiary (net of cash and cash equivalents)	26	<b>(3,081)</b>	–
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	27	<b>(485)</b>	(1)
Decrease in pledged bank deposits		–	1,000
Net cash used in investing activities		<b>(3,923)</b>	(208)

**Consolidated Cash Flow Statement**

For the year ended 31 March 2005

Note	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	<b>(288)</b>	(102)
Proceeds from issue of shares	<b>8,342</b>	10,046
Issue costs of shares	<b>(67)</b>	–
Capital contributed by minority owner of a subsidiary	–	128
Repayment of finance leases	<b>(9)</b>	(293)
Borrowings raised from directors	<b>280</b>	453
Short-term bank loans (repaid)/raised	<b>(999)</b>	999
(Repayment of)/borrowings raised from trust receipt loans	<b>(1,091)</b>	1,091
Net cash generated from financing activities	<b>6,168</b>	12,322
Net (decrease)/increase in cash and cash equivalents	<b>(5,513)</b>	3,597
<b>Cash and cash equivalents at the beginning of the year</b>	<b>8,649</b>	5,052
<b>Cash and cash equivalents at the end of the year</b>	<b>3,136</b>	8,649
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	<b>3,136</b>	8,649

The accompanying notes form an integral part of these financial statements.

# Notes to Financial Statements

31 March 2005

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market 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 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 as well as provision of related services.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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. A summary of significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

### (a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention and modified by marking to market of certain of non-trading securities.

### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

### (c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

**Notes to Financial Statements**

31 March 2005

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

**(e) 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.

**(f) Revenue recognition**

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue from provision of environmental analyses, measurement and environmental protection services is recognised when the services are provided.

Revenue from installation of wastewater treatment system is recognised using the percentage of completion method, measured principally by the percentage of costs incurred to the total estimated cost to complete the contract.

Rental income, including rentals invoiced in advance, from machinery and equipment let under operating leases is recognised on a straight line basis over the period of the respective leases.

Interest income is accrued on a time proportion basis, taking into account the principal amounts outstanding and at the interest rates applicable.

**(g) Finance leases**

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of inception of the leases. Any outstanding principal portion of the leasing commitments is shown as an obligation of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

## Notes to Financial Statements

31 March 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

#### (h) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situation where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of fixed assets, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Plant and machinery	20%
Furniture, fixtures and equipment	20% to 33 $\frac{1}{3}$ %
Motor vehicles	20%
Office equipment	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### (i) Operation rights and intellectual property

Acquired operation rights and intellectual property are stated at cost less amortisation and any identified impairment loss. Amortisation is calculated on a straight line basis over its estimated useful economic life.

#### (j) Product development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated asset arising from product development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activities. The resultant asset is amortised on a straight line basis over its estimated useful life.

Where no internally-generated asset can be recognised, product development expenditure is recognised as an expense in the period in which it is incurred.

**Notes to Financial Statements**

31 March 2005

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued****(k) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

**(l) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

*i. Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

*ii. Reversal of impairment loss*

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.



**Notes to Financial Statements**

31 March 2005

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued****(m) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(n) Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

**Notes to Financial Statements**

31 March 2005

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued****(o) Current assets and liabilities**

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

**(p) Investments in debts***Held-to-maturity Securities:*

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the income statement as an expense immediately.

**(q) Cash equivalents**

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

**(r) Provisions**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

**(s) Employee benefits**

- i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the income statement as incurred.

**Notes to Financial Statements**

31 March 2005

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued****(s) Employee benefits – continued**

- iii. When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- iv. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(t) Borrowing costs**

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the period in which the costs are incurred.

**(u) Segments reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses, and corporate revenue.

## Notes to Financial Statements

31 March 2005

## 3. TURNOVER AND REVENUE

	2005 HK\$'000	2004 HK\$'000
<b>Turnover:</b>		
Manufacture and sales of environmental protection products	9,737	18,578
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services	24,493	–
	<b>34,230</b>	18,578
<b>Other operating income:</b>		
Interest income	73	5
Sundry income	6	71
	<b>79</b>	76
	<b>34,309</b>	18,654

## Notes to Financial Statements

31 March 2005

## 4. GEOGRAPHICAL AND BUSINESS SEGMENTS

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	–
	<b>34,230</b>	18,578	<b>16,674</b>	(3,993)
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)
Loss from operations			(6,156)	(38,373)
Finance costs			(288)	(102)
Loss on disposal of subsidiaries			(222)	(972)
Loss before taxation			(6,666)	(39,447)
Taxation			(440)	–
Loss before minority interests			(7,106)	(39,447)
Minority interests			61	4,718
Net loss for the year			<b>(7,045)</b>	(34,729)

## Notes to Financial Statements

31 March 2005

## 4. GEOGRAPHICAL AND BUSINESS SEGMENTS – continued

## Geographical segments – continued

Balance sheet

	Segment assets		Segment liabilities	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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	–
	<b>25,991</b>	18,477	<b>9,519</b>	7,297
Unallocated	2,664	8,649	7	2,105
	<b>28,655</b>	27,126	<b>9,526</b>	9,402

Other information

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

## Notes to Financial Statements

31 March 2005

## 4. GEOGRAPHICAL AND BUSINESS SEGMENTS – continued

## Geographical segments – continued

Other information – continued

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

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

## 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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue	9,737	18,578	24,493	-	-	-	34,230	18,578
Segment assets	11,704	18,477	6,559	-	10,392	8,649	28,655	27,126
Capital additions	-	1,563	314	-	-	-	314	1,563

## Notes to Financial Statements

31 March 2005

## 5. LOSS FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 6</i> )	151	1,580
Other staff's retirement benefits scheme contributions	1,125	341
Other staff costs	10,200	7,798
	<b>11,476</b>	9,719
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	–
and after crediting:		
Interest income	73	5
Rental income from hire of machinery and equipment	50	30



## Notes to Financial Statements

31 March 2005

## 6. DIRECTORS' REMUNERATION

	2005 HK\$'000	2004 HK\$'000
Fees for		
– executive directors	–	–
– independent non-executive directors	151	120
– other non-executive director	–	–
	<b>151</b>	120
Other emoluments for non-executive directors	–	–
Other emoluments for executive directors		
– basic salaries and allowances	–	1,260
– bonus	–	158
– retirement benefits scheme contributions	–	42
	–	1,460
Total directors' remuneration	<b>151</b>	1,580

For the year ended 31 March 2005, basic salaries and allowances and bonus paid to each of the three executive directors were HK\$28. Also, for the year ended 31 March 2005, the fees paid to each of the three independent non-executive directors were approximately HK\$60,000, HK\$60,000 and HK\$31,000 respectively.

For the year ended 31 March 2004, basic salaries and allowances and bonus paid to each of the five executive directors and the remaining executive director were approximately HK\$203,000 and HK\$405,000 respectively while contributions to retirement benefits scheme in respect of each of the six executive directors was HK\$7,000. Also, for the year ended 31 March 2004, the fees paid to each of the two independent non-executive directors were HK\$60,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## Notes to Financial Statements

31 March 2005

**7. EMPLOYEES' EMOLUMENTS**

No executive director of the Company included in the aggregate emoluments of the five highest paid individuals (2004: one). The aggregate emoluments of the five (2004: four) highest paid individuals are as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Basic salaries and allowances	<b>1,444</b>	1,559
Retirement benefits scheme contributions	<b>82</b>	41
	<b>1,526</b>	1,600

None of the above five highest paid individuals received emoluments in excess of HK\$1 million.

**8. FINANCE COSTS**

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

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

## Notes to Financial Statements

31 March 2005

**9. TAXATION – continued**

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:

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

**10. NET LOSS FOR THE YEAR**

For the year ended 31 March 2005, net loss of approximately HK\$21,297,000 (2004: HK\$37,908,000) has been dealt with in the financial statements of the Company.

**11. 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 (note 35) 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.

**12. DIVIDEND**

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

## Notes to Financial Statements

31 March 2005

## 13. FIXED ASSETS

## The Group

	<b>Furniture and fixtures</b>	<b>Leasehold improve- ments</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>						
At 1 April 2004	332	3,495	1,260	538	1,699	7,324
Additions	63	–	–	13	238	314
Acquisition of a subsidiary	162	–	–	177	118	457
Exchange difference	43	–	–	11	19	73
Disposal of subsidiaries	(9)	–	(28)	–	(18)	(55)
Transferred to inventories	–	–	(76)	–	–	(76)
Disposals	(323)	(2,794)	–	(306)	(14)	(3,437)
<b>At 31 March 2005</b>	<b>268</b>	<b>701</b>	<b>1,156</b>	<b>433</b>	<b>2,042</b>	<b>4,600</b>
<b>Depreciation and impairment</b>						
At 1 April 2004	326	2,827	328	224	731	4,436
Provided for the year	96	210	254	106	346	1,012
Disposal of subsidiaries	(2)	–	(9)	–	(2)	(13)
Transferred to inventories	–	–	(19)	–	–	(19)
Written back on Disposals	(323)	(2,794)	–	(41)	–	(3,158)
<b>At 31 March 2005</b>	<b>97</b>	<b>243</b>	<b>554</b>	<b>289</b>	<b>1,075</b>	<b>2,258</b>
<b>Net book values</b>						
<b>At 31 March 2005</b>	<b>171</b>	<b>458</b>	<b>602</b>	<b>144</b>	<b>967</b>	<b>2,342</b>
At 31 March 2004	6	668	932	314	968	2,888

## Notes to Financial Statements

31 March 2005

**13. FIXED ASSETS – continued**

At the balance sheet date, the net book value of fixed assets held under finance leases was approximately HK\$17,000 (2004: HK\$23,000).

Also, at the balance sheet date, certain of the Group's machinery and equipment with an aggregate cost and accumulated depreciation of approximately HK\$984,000 (2004: HK\$1,060,000) and HK\$443,000 (2004: HK\$265,000) respectively were held for use under operating leases.

**14. OTHER INVESTMENTS**

	The Group	
	2005 HK\$'000	2004 HK\$'000
Debt securities, unlisted	131	–

**15. INTANGIBLE ASSETS****The Group**

	Operation rights HK\$'000	Intellectual property HK\$'000	Organisation costs HK\$'000	Total HK\$'000
<b>Cost</b>				
At 1 April 2004	10,000	770	–	10,770
Arising from acquisition of a subsidiary	–	–	1	1
<b>At 31 March 2005</b>	<b>10,000</b>	<b>770</b>	<b>1</b>	<b>10,771</b>
<b>Amortisation and impairment</b>				
At 1 April 2004	10,000	770	–	10,770
Amortised for the year	–	–	1	1
<b>At 31 March 2005</b>	<b>10,000</b>	<b>770</b>	<b>1</b>	<b>10,771</b>
<b>Carrying values</b>				
<b>At 31 March 2005</b>	–	–	–	–
At 31 March 2004	–	–	–	–

**Notes to Financial Statements**

31 March 2005

**15. INTANGIBLE ASSETS – continued**

The operation rights of HK\$10,000,000 represent the sole exclusive rights acquired for the remaining term of 20 years commencing November 2000 for the sale, installation, operations of food waste management business including the rights of modification and manufacturing of the relevant machinery in Hong Kong and certain cities in the PRC. The operation rights are amortised on a straight line basis over the remaining term of the rights acquired.

The intellectual property represents the exclusive worldwide rights acquired to the use and ownership of the expertise and intellectual property developed by a professor in Mainland China. The intellectual property is amortised on a straight line basis over its estimated useful life of 20 years.

During the year ended 31 March 2004, the directors conducted a review on the Group's intangible assets and determined that they were impaired as there were insufficient economic benefits generating from these intangible assets that will flow to the Group in the foreseeable future. Accordingly, an impairment in value of HK\$10,007,048 was recognised in the income statement.

Organisation costs for Youngdong Environmental Engineering Co., Ltd are amortised on a straight line basis over its estimated useful life of 5 years.

**16. GOODWILL****The Group**

	HK\$'000
	<hr/>
<b>Cost</b>	
At 1 April 2004	3,371
Arising from acquisition of a subsidiary during the year	2,318
	<hr/>
<b>At 31 March 2005</b>	<b>5,689</b>
	<hr/>
<b>Amortisation and impairment</b>	
At 1 April 2004	3,371
Amortised during the year	425
	<hr/>
<b>At 31 March 2005</b>	<b>3,796</b>
	<hr/>
<b>Carrying value</b>	
<b>At 31 March 2005</b>	<b>1,893</b>
	<hr/>
At 31 March 2004	–
	<hr/>

**Notes to Financial Statements**

31 March 2005

**16. GOODWILL – continued**

Goodwill is amortised on a straight line basis over its estimated useful economic life of 5 years.

During the year ended 31 March 2004, the directors conducted a review on the Group's goodwill and determined that it was impaired as there were insufficient economic benefits that will flow to the Group in the foreseeable future. Accordingly, an impairment in value of HK\$3,133,987 was recognised in the income statement of the previous year.

**17. INTERESTS IN SUBSIDIARIES**

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at costs	<b>1,527</b>	1,527
Less: Impairment in value	<b>(1,527)</b>	(1,527)
	–	–
Advance to a subsidiary	<b>13,000</b>	13,000
Less: Allowance for advance to a subsidiary	<b>(13,000)</b>	(13,000)
	–	–
	<b>–</b>	–

Details of the Company's principal subsidiaries at 31 March 2005 are set out in note 36.

**18. INVENTORIES**

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>95</b>	188
Work in progress	<b>3</b>	156
Finished goods	<b>2,275</b>	4,231
	<b>2,373</b>	4,575

## Notes to Financial Statements

31 March 2005

## 19. TRADE AND OTHER RECEIVABLES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Trade receivables	10,725	7,058
Deposits made to suppliers	306	3,279
Prepayments and other deposits	7,749	677
	<b>18,780</b>	11,014

Payment terms with customers are mainly on credit together with deposits and receivable by instalments basis. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers and receivable by instalment basis where it is normally payable from 1 to 2 years of issuance. The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2005 HK\$'000	2004 HK\$'000
<b>Age</b>		
0 to 90 days	3,804	1,880
91 to 180 days	3,328	3,210
181 to 365 days	1,735	2,958
Over 365 days	4,668	992
	<b>13,535</b>	9,040
Less: Allowance for bad and doubtful debts	<b>(2,810)</b>	(1,982)
	<b>10,725</b>	7,058



## Notes to Financial Statements

31 March 2005

## 20. TRADE AND OTHER PAYABLES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Trade payables	3,926	2,475
Other payables	4,544	4,188
	<b>8,470</b>	6,663

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

Age	The Group	
	2005 HK\$'000	2004 HK\$'000
0 to 90 days	1,665	434
91 to 180 days	338	717
181 to 365 days	1	1,324
Over 365 days	1,922	–
	<b>3,926</b>	2,475

## Notes to Financial Statements

31 March 2005

## 21. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amount payable under finance leases:				
Within one year	9	12	7	9
Between one to two years	-	9	-	7
Between two to five years	-	-	-	-
	<b>9</b>	21	<b>7</b>	16
Less: Future finance charges	<b>(2)</b>	(5)	-	-
Present value of lease obligations	<b>7</b>	16	<b>7</b>	16
Less: Amount due within one year shown under current liabilities			<b>(7)</b>	(9)
Amount due after one year			-	7

## 22. AMOUNTS DUE TO DIRECTORS/MINORITY SHAREHOLDER OF A SUBSIDIARY

Amounts due to directors/minority shareholder of a subsidiary are unsecured, interest free and have no fixed terms of repayment.

## 23. SHARE CAPITAL

	Number of ordinary share	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each		
– at 31 March 2004 and at 31 March 2005	1,500,000,000	15,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each		
– at 1 April 2003	871,666,667	8,717
– issue of new shares on subscription	287,000,000	2,870
– exercise of share options	5,000	-
– at 31 March 2004	1,158,671,667	11,587
– issue of new shares on subscription	231,730,000	2,317
<b>– at 31 March 2005</b>	<b>1,390,401,667</b>	<b>13,904</b>

**Notes to Financial Statements**

31 March 2005

**23. SHARE CAPITAL – continued**

During the year, the following changes in the issued share capital at the Company took place:

The Company issued and allotted 231,730,000 new ordinary shares of HK\$0.01 each to a third party, Easeglory Holdings Limited, on 3 February 2005, at HK\$0.036 per share, representing a discount of approximately 74% to the closing price of HK\$0.14 per share as quoted on the Stock Exchange on the date of the subscription agreement. The net proceeds from the placing which amounted to approximately HK\$8.30 million were used to finance investments in environmental related projects in the PRC.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

Please refer to note 35 for the share consolidation effective after the balance sheet date.

**24. SHARE OPTION SCHEME****(a) Pre-listing share options**

Pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002, the Company may grant options at HK\$1 per offer to any directors, employees, consultants, and advisors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. All of these options have a duration of 10 years from and including 10 May 2002 subject to the terms of the scheme.

Details of the movements in the number of share options during the year under the Company's pre-listing share options scheme which are exercisable in three equal tranches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK\$0.14 per share are as follows:

Type of participants	Number of share options		
	Outstanding at 31 March 2004	Cancelled during the year	Outstanding at 31 March 2005
Employees	8,000,000	(8,000,000)	–
Advisor	2,400,000	–	<b>2,400,000</b>
Former employees	1,600,000	–	<b>1,600,000</b>
	12,000,000	(8,000,000)	<b>4,000,000</b>

**Notes to Financial Statements**

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**24. SHARE OPTION SCHEME – continued****(b) Post-listing share options**

Pursuant to the post-listing share option scheme also adopted by the Company on 20 April 2002, the Company may grant options at HK\$1 per offer to any directors, employees, any supplier of goods or services, any customers, any person or entity that provides research, development or other technical support or any shareholder of the Group or any investee or any holder of any securities issued by any member of the Group or any investee, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the post-listing share option scheme shall not exceed 10% of the issued share capital of the Company from time to time. No participant shall be granted an option, if exercised in full, would result in the total number of shares already issued under all the options granted to him or her that have been exercised and issuable under all the options granted to him or her that are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of shares in issue. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares. The share options are exercisable for a period not later than 10 years from the date of grant.

Details of the movements in the number of share options during the year under the Company's post-listing share option scheme which are exercisable in two equal tranches from 9 May 2003 and 9 May 2004, respectively, to 9 May 2005 at an exercise price of HK\$0.18 per share are as follows:

<b>Type of participant</b>	<b>Number of share options</b>
	<b>Outstanding at 31 March 2004 and 31 March 2005</b>
Advisor	7,145,000

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## Notes to Financial Statements

31 March 2005

## 25. RESERVES

## The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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.

## Notes to Financial Statements

31 March 2005

**26. ACQUISITION OF A SUBSIDIARY**

On 30 April 2004, the Group acquired the entire issued share capital of Youngdong Environmental Engineering Co., Ltd at a consideration of KRW580,000,000 (approximately HK\$3,866,000), which was satisfied in cash.

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Fixed assets	<b>457</b>	–
Intangible assets	<b>1</b>	–
Inventories	<b>778</b>	–
Trade and other receivables	<b>1,776</b>	–
Cash and bank balances	<b>785</b>	–
Trade and other payables	<b>(2,249)</b>	–
Net assets	<b>1,548</b>	–
Goodwill arising on acquisition	<b>2,318</b>	–
Total purchase price	<b>3,866</b>	–
Satisfied by:		
Cash consideration paid	<b>3,866</b>	–
Outflow of cash and cash equivalents in connection with the purchase of the subsidiary	<b>3,081</b>	–

The subsidiary acquired during the year contributed approximately HK\$24,493,000 to the Group's turnover and profit after tax of approximately HK\$1,648,000 to the Group for the year.

## Notes to Financial Statements

31 March 2005

**27. DISPOSAL OF SUBSIDIARIES**

In August 2004, the Group disposed of its subsidiaries, Beijing Grandy Green Technology Limited, a 65% owned subsidiary and United Consultancy Limited, a 50% owned subsidiary to the minority shareholders of the respective subsidiaries.

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Net assets disposed of:		
Fixed assets	<b>42</b>	–
Inventories	<b>5</b>	396
Trade and other receivables	<b>73</b>	1,271
Cash and bank balances	<b>485</b>	1
Trade and other payables	<b>(107)</b>	(696)
Minority interests	<b>(131)</b>	–
Net assets	<b>367</b>	972
Loss on disposal of subsidiaries	<b>(222)</b>	(972)
Consideration included in trade and other receivables	<b>145</b>	–
Analysis of outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash and bank balances disposed of	<b>(485)</b>	(1)

The subsidiaries disposed of during the year did not have any significant impact on the Group's cash flows or operating results.

**28. UNRECOGNISED DEFERRED TAXATION**

At the balance sheet date, the Group and the Company had unutilised tax losses of approximately HK\$40,024,000 (2004: HK\$35,371,000) and HK\$1,308,298 (2004: HK\$1,365,000) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely except for an amount of approximately HK\$2,630,000 (2004: HK\$5,587,000) which may be carried forward for a maximum of four years.

**Notes to Financial Statements**

31 March 2005

**29. OPERATING LEASE COMMITMENTS**

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>287</b>	1,189
In the second to fifth year inclusive	–	299
	<b>287</b>	1,488

**30. OTHER COMMITMENTS**

Pursuant to an exclusive right to distribute and sell and the right to use the enzyme-based materials worldwide except North America, South Korea and Japan, the Group was committed to pay to an independent third party 10% of the net profit after taxation of the relevant business for 30 years expiring October 2028. No payments were made during the year as the relevant business was operating at a loss in which the loss could be carried forward to set off against future profits of the relevant business.

The Company had no significant commitments at the balance sheet date.

**31. PLEDGE OF ASSETS**

At the balance sheet date, the Group had no pledged assets (2004: HK\$615,000). At 31 March 2004, the Group's trade receivables of approximately HK\$615,000 was pledged to a financial institution to secure the credit facilities granted to a subsidiary.

The Company had no pledged assets at the balance sheet date.

**32. CONTINGENT LIABILITIES**

At the balance sheet date, the Group and the Company had no significant contingent liabilities (2004: HK\$1,500,000). At 31 March 2004, the Company had given corporate guarantees of HK\$1,500,000 to banks to secure the credit facilities granted to its subsidiaries.



**Notes to Financial Statements***31 March 2005***33. RETIREMENT BENEFITS SCHEME**

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

**34. SIGNIFICANT RELATED PARTY AND CONNECTED TRANSACTIONS**

In addition to the transactions and balances detailed elsewhere in the financial statements, during the year, the Group had entered into the following significant transaction with related parties:

During the year, the Group's wholly owned subsidiary, Righttime Development Limited, acquired the entire share capital of Youngdong Environmental Engineering Co., Ltd from Key Engineering Co., Ltd ("Key Engineering"), a substantial shareholder of the Company, at a consideration of KRW 580 million (approximately HK\$3,866,000). The Directors considered that the transaction was determined on normal commercial terms and in the interest of the Company. Key Engineering is a connected person of the Company under the GEM Listing Rules. As such, the transaction also constituted a connected transaction under the GEM Listing Rules. For further details, please refer to the Company's circular dated 14 April 2004.

**35. SUBSEQUENT EVENTS**

Pursuant to the ordinary resolution passed by the shareholders in the Special General Meeting held on 11 May 2005, every five shares of HK\$0.01 each in the issued and un-issued ordinary share capital of the Company are consolidated into one consolidated share of HK\$0.05 each (the "Share Consolidation"). The Share Consolidation became effective on 12 May 2005.

## Notes to Financial Statements

31 March 2005

**36. PRINCIPAL SUBSIDIARIES**

Details of the Company's principal subsidiaries, all of which are wholly-owned limited liability companies, at 31 March 2005 are as follows:

<b>Name of subsidiary</b>	<b>Place of incorporation/ establishment/ operations</b>	<b>Nominal value of issued and fully paid ordinary share/ registered capital</b>	<b>Principal activities</b>
Grandy Environmental (H.K.) Limited	Hong Kong	HK\$3,010,000	Manufacture and sales of environmental protection products and provision of related services
Grandy Enviro-Tech Company Limited <sup>#</sup>	Hong Kong	HK\$10,000	Sales of environmental protection products
珠海市紫雲星環保 科技有限公司 (Zhuhai Grandy Star Environmental Technology Corporation)*	PRC	RMB5,000,000	Provision of environmental protection services for a term of 30 years commencing 14 November 2002
Youngdong Environmental Engineering Co., Ltd	Republic of Korea	KRW200,000,000	Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services

<sup>#</sup> Subsequent to the balance sheet date, the name of the subsidiary was changed to Grandy Trading and Services (H.K.) Limited.

\* This is a wholly foreign-owned enterprise established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

**37. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved and authorized for issue by the board of directors on 28 June 2005.

# Financial Summary

31 March 2005

	For the year ended 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Results</b>					
Turnover	<b>34,230</b>	18,578	28,318	26,322	7,118
(Loss)/profit before taxation	<b>(6,666)</b>	(39,447)	(11,694)	2,444	(1,174)
Taxation	<b>(440)</b>	–	10	(37)	–
(Loss)/profit before minority interests	<b>(7,106)</b>	(39,447)	(11,684)	2,407	(1,174)
Minority interests	<b>61</b>	4,718	309	–	–
Net (loss)/profit for the year	<b>(7,045)</b>	(34,729)	(11,375)	2,407	(1,174)
<b>As at 31 March</b>					
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Assets and liabilities</b>					
Total assets	<b>28,655</b>	27,126	50,974	22,056	2,689
Total liabilities	<b>(9,526)</b>	(9,402)	(3,976)	(16,216)	(3,157)
Minority interests	<b>(133)</b>	(325)	(4,916)	–	–
Shareholders' funds/(deficits)	<b>18,996</b>	17,399	42,082	5,840	(468)

The results and summary of assets and liabilities for each of the three periods ended 31 March 2002, which were extracted from the Company's prospectus dated 29 April 2002 and the 2002 annual report, have been prepared on a combined basis as if the current group structure had been in existence throughout those periods.