
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about this prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Grandy Corporation (the "Company"), you should at once hand this prospectus (as defined herein) and the accompanying PAL (as defined herein) and EAF (as defined herein) to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

A copy of this prospectus, together with copy of each of the PAL (as defined herein), the EAF (as defined herein) and the documents specified in the paragraph headed "Documents registered by the Registrar of Companies in Hong Kong" in Appendix II to this prospectus, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility as to the contents of any of these documents.

Dealings in the Shares (as defined herein) and the Rights Shares (as defined herein), in their nil-paid form and fully paid form, may be settled through the Central Clearing and Settlement System ("CCASS") and you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Securities Clearing Company Limited ("HKSCC") take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.



GRANDY CORPORATION

泓迪有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

RIGHTS ISSUE OF 172,465,166 RIGHTS SHARES AT HK\$0.06 PER RIGHTS SHARE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE

Financial Adviser to the Company



INCUB CORPORATE FINANCE LIMITED

Underwriter



Financial Services Group

華富嘉洛證券有限公司
Quam Securities Company Limited

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on 11 April 2006. The procedures for acceptance is set out on page 22 of this prospectus.

Shareholders should note that notwithstanding anything contained in the Underwriting Agreement (as defined herein), the Underwriter (as defined herein) may terminate the arrangement set out in the Underwriting Agreement by notice in writing to the Company at any time prior to 4:00 p.m. on 18 April 2006, if the Underwriter becomes aware of the fact that there shall develop, occur, exist or come into effect: (i) any new law or regulation or any change in existing laws or regulations in Hong Kong or any other place that is the place of incorporation of any member of the Group, or in which any member of the Group conducts or carries on business; or (ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions; or (iii) any significant change (whether or not permanent) in local, national or international securities market conditions (any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise) or exchange controls; or (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; and in the reasonable opinion of the Underwriter, such change has or would have a material and adverse effect on the business, financial or trading position or prospects of the Company or the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue. If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

It should be noted that the Shares have been dealt in on an ex-rights basis as from 21 March 2006. The Rights Shares in their nil-paid form will be dealt in from 29 March 2006 to 6 April 2006 (both dates inclusive). Such dealing will take place whilst the conditions of the Rights Issue remain are unfulfilled. Any Shareholder or other person dealing in the Shares and/or the Rights Shares in their nil-paid form from now up to the date on which all conditions of the Rights Issue are fulfilled or waived will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholder or other person contemplating buying or selling Shares and/or the Rights Shares in their nil-paid form during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

This prospectus will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

27 March 2006

* For identification purposes only

CHARACTERISTIC OF GEM

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up to date information on GEM-listed issuers.

SUMMARY OF THE RIGHTS ISSUE

The following information is derived from, and should be read in conjunction with, the full text of this prospectus.

| | | |
|--|---|--|
| Number of Rights Shares to be issued | : | 172,465,166 Rights Shares of HK\$0.05 each |
| Basis of the Rights Issue | : | One Rights Share for every two existing Shares held by the Qualifying Shareholders on the Record Date |
| Amount to be raised by the Rights Issue | : | Approximately HK\$10.35 million before expenses |
| Subscription Price | : | HK\$0.06 per Rights Share payable in full on acceptance |
| Right of excess application | : | Qualifying Shareholders will have the right to apply for Rights Shares in excess of their provisional allotments |
| Latest time for acceptance of and payment for Rights Shares and application for excess Rights Shares | : | 4:00 p.m. on 11 April 2006 |

TERMINATION OF THE UNDERWRITING AGREEMENT

Shareholders should note that notwithstanding anything contained in the Underwriting Agreement, the Underwriter may terminate the arrangement set out in the Underwriting Agreement by notice in writing to the Company at any time prior to the Latest Time for Termination, if the Underwriter becomes aware of the fact that there shall develop, occur, exist or come into effect:

- (i) any new law or regulation or any change in existing laws or regulations in Hong Kong or any other place that is the place of incorporation of any member of the Group, or in which any member of the Group conducts or carries on business; or
- (ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions; or
- (iii) any significant change (whether or not permanent) in local, national or international securities market conditions (any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise) or exchange controls; or
- (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change has or would have a material and adverse effect on the business, financial or trading position or prospects of the Company or the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

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DEFINITIONS

In this prospectus, the following expressions have the following meanings, unless the context requires otherwise:

| | |
|-----------------------|--|
| “Announcement” | the announcement of the Company dated 2 March 2006 in relation to the Rights Issue as published on the GEM website |
| “Associates” | has the meaning ascribed thereto in the GEM Listing Rules |
| “Board” | the board of Directors |
| “Business Day” | any day on which the Stock Exchange is open for the business in dealing securities |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Companies Ordinance” | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| “Company” | Grandy Corporation, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on GEM |
| “connected person(s)” | has the meaning ascribed thereto in the GEM Listing Rules |
| “Convertible Notes” | the series of unsecured convertible notes issued by the Company in the aggregate principal amount of HK\$18,000,000 on 11 January 2006 |
| “Director(s)” | the director(s) of the Company |
| “EAF(s)” | the form(s) of application for excess Rights Shares to be used by the Qualifying Shareholders in relation to the Rights Issue |
| “Easeglory” | Easeglory Holdings Limited, a company incorporated under the laws of British Virgin Islands, the entire issued shared capital of which is legally and beneficially owned by Mr. Yung |

DEFINITIONS

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| “Excluded Shareholder(s)” | Overseas Shareholders, to whom the Directors, after making enquiry and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Rights Shares |
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | The Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | Hong Kong Special Administrative Region of the People’s Republic of China |
| “Last Trading Date” | 28 February 2006, being the last trading day of the existing Shares prior to the release of the Announcement |
| “Latest Acceptance Date” | being 4:00 p.m. on 11 April 2006 or such other date and/or time as the Underwriter and the Company may agree as the latest date for acceptance and payment in respect of provisional allotments and applications for excess Rights Shares under the Rights Issue |
| “Latest Lodging Date” | being 4:00 p.m. on 22 March 2006 or such other date as the Underwriter and the Company may agree as the latest time for lodging transfer of existing Shares in order to be qualified for the Rights Issue |
| “Latest Practicable Date” | 21 March 2006, being the latest practicable date for ascertaining certain information for inclusion in this prospectus |
| “Latest Time for Termination” | being 4:00 p.m. on the third Business Day after the Latest Acceptance Date or such other time as may be agreed between the Underwriter and the Company |

DEFINITIONS

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|--------------------------------|--|
| “MOU” | the non-legally binding memorandum of understanding which the Company may enter into with a healthcare management company in the PRC |
| “Mr. Yung” | Mr. Yung Kwok Leong, the chairman and executive director of the Company and the legal and beneficial owner of the entire issued share capital of Easeglory |
| “Overseas Shareholders(s)” | the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong |
| “PAL(s)” | the provisional allotment letters to be used in connection with the Rights Issue |
| “PRC” | the People’s Republic of China, excluding Hong Kong for the purpose of this prospectus |
| “Pre-IPO Share Option Scheme” | the share option scheme adopted by the Company on 20 April 2002 which came into effect prior to the initial listing of the Shares on GEM on 10 May 2002 |
| “Post-IPO Share Option Scheme” | the share option scheme adopted by the Company on 20 April 2002 which only came into effect after the initial listing of the Shares on GEM on 10 May 2002 |
| “Prospectus Documents” | this prospectus, the PAL and the EAF |
| “Qualifying Shareholder(s)” | the Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date |
| “Record Date” | 27 March 2006, being the date by reference to which entitlements to the Rights Issue will be determined |

DEFINITIONS

| | |
|---------------------------------|--|
| “Registrar” | Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the Company’s Hong Kong branch share registrar |
| “Rights Issue” | the proposed issue of Rights Shares on the basis of one Rights Share for every two existing Shares to Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the Rights Issue |
| “Rights Share(s)” | 172,465,166 Rights Shares to be issued pursuant to the Rights Issue |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) of HK\$0.05 each in the share capital of the Company |
| “Share Option(s)” | the share option(s) granted under the Share Option Schemes |
| “Share Option Schemes” | the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Shortfall Underwritten Shares” | any Underwritten Shares not accepted by Shareholders or for which duly completed PAL or EAF (accompanied by cheques or banker’s cashier orders for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before the latest time for acceptance of and payment for Rights Shares and application for excess Rights Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |

DEFINITIONS

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|--------------------------|--|
| “Subscription Price” | subscription price of HK\$0.06 per Rights Share |
| “Underwriter” | Quam Securities Company Limited, a licensed corporation to carry on business in type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO |
| “Underwriting Agreement” | the underwriting agreement dated 28 February 2006 entered into between the Company, the Underwriter and Mr. Yung in relation to the Rights Issue |
| “Underwritten Shares” | 147,917,166 Rights Shares, being all Rights Shares after deducting the Rights Shares allotted to Mr. Yung and Easeglory on an assured basis which have been undertaken to be accepted and subscribed by them |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “%” | per cent. |

EXPECTED TIMETABLE

2006
(Note 1)

| | |
|--|-----------------------|
| Record Date | 27 March |
| Despatch of Prospectus Documents | 27 March |
| First day of dealings in nil-paid Rights Shares | 29 March |
| Latest time for splitting nil-paid Rights Shares | 4:00 p.m. on 31 March |
| Last day of dealings in nil-paid Rights Shares | 6 April |
| Latest time for acceptance of, and payment for Rights Shares and application for excess Rights Shares | 4:00 p.m. on 11 April |
| Latest time for the Rights Issue to become unconditional | 4:00 p.m. on 18 April |
| Announcement of results of acceptance of Rights Issue on or before | 19 April |
| Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares to be despatched on or before | 20 April |
| Certificates for fully-paid Rights Shares expected to be despatched on or before | 20 April |
| Dealings in fully-paid Rights Shares to commence on | 24 April |

Notes:

1. All times refer to Hong Kong local times.
2. Dates or deadlines specified in this prospectus for events in the timetable for (or otherwise in relation to) the Rights Issue are indicative only and may be varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published by way of announcement.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead, the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon. If the latest time for acceptance of and payment for the Rights Shares does not take place at 4:00 p.m. on 11 April 2006, the dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. An announcement will be made by the Company in such event.

LETTER FROM THE BOARD



GRANDY CORPORATION 泓迪有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

Executive Directors

Mr. Yung Kwok Leong

Mr. Chan Hon Chiu

Mr. Yeung Kam Yan

Independent Non-executive Directors

Mr. Chan Ping Kuen, Francis

Mr. Hsu Shiu Foo, William

Mr. Yu Chai Mei

Registered Office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

*Head Office and Principal Place
of Business in Hong Kong:*

Room 1902, 19th Floor

Sing Pao Building

No. 101 King's Road

North Point

Hong Kong

27 March 2006

To the Shareholders

Dear Sir or Madam,

**RIGHTS ISSUE OF 172,465,166 RIGHTS SHARES
AT HK\$0.06 PER RIGHTS SHARE ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES
HELD ON THE RECORD DATE**

INTRODUCTION

The Directors announced on 2 March 2006 that the Company proposed to raise not less than approximately HK\$10.35 million and not more than approximately HK\$10.37 million (before expenses) by way of a rights issue of not less than 172,465,166 Rights Shares and not more than

* For identification purposes only

LETTER FROM THE BOARD

172,865,166 Rights Shares at the Subscription Price per Rights Share on the basis of one Rights Share for every two existing Shares held on the Record Date. The Rights Issue will not be available to the Excluded Shareholders.

The Company is sending the Prospectus Documents to the Qualifying Shareholders only and this prospectus, for information only, to the Excluded Shareholders.

This prospectus sets out further information regarding the Rights Issue, including information on dealing in, transfer and acceptance of Rights Shares, and certain financial and other information of the Group.

RIGHTS ISSUE

Issue Statistics

| | | |
|---|---|---|
| Basis of Rights Issue | : | One Rights Share for every two existing Shares held on the Record Date on an assured basis. Qualifying Shareholders will be able to apply for excess Rights Shares at the Subscription Price which are not taken up by other Qualifying Shareholders, and for any entitlements of the Excluded Shareholders |
| Subscription Price | : | HK\$0.06 per Rights Share |
| Number of existing Shares in issue | : | 344,930,333 Shares |
| Number of Rights Shares | : | 172,465,166 Rights Shares |
| Number of Rights Shares undertaken to be taken up by Mr. Yung | : | Pursuant to the Underwriting Agreement, Mr. Yung has irrevocably undertaken to accept or procure acceptance of his or Easeglory's entitlements under the Rights Issue for 24,548,000 Rights Shares |

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represent 50% of the existing issued share capital of the Company immediately before the Record Date and approximately 33.33% of the issued share capital of the Company as enlarged by the Rights Shares.

LETTER FROM THE BOARD

As at the Latest Practicable Date, there are 4,550,000 outstanding Share Options, of which, 800,000 and 3,750,000 Share Options respectively were granted pursuant to the respective Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme. The Share Option holders under the Post-IPO Share Option Scheme have undertaken not to exercise their respective Share Options on or before the Record Date. No Share Option under the Pre-IPO Share Option Scheme has been exercised on or before the Latest Lodging Date. Accordingly, the number of issued Shares of the Company remains as 344,930,333 Shares and the number of Rights Shares to be issued under the Rights Issue is 172,465,166 Rights Shares.

As at the Latest Practicable Date, the Company had Convertible Notes in issue entitling the holders of which to convert a total number of 67,164,179 Shares at the conversion price of HK\$0.268 upon the exercise of the conversion rights attached to the Convertible Notes any time after the expiry of six months after the issue date, (i.e. 10 July 2006) and up to the close of business on the maturity date.

Save for the Share Options and the Convertible Notes, the Company has no other derivatives, options, warrants and conversion rights or other similar rights which are convertible into Shares.

The Company expects to raise approximately HK\$10.35 million before expenses through the Rights Issue.

Subscription price for the Rights Shares

The Subscription Price for the Rights Shares is HK\$0.06 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

- a) a discount of 68.42% to the closing price of HK\$0.19 per Share as quoted on GEM on the Last Trading Date;
- b) a discount of 67.74% to the average closing price of HK\$0.186 per Share as quoted on GEM for the 5 consecutive trading days up to and including 28 February 2006 the Last Trading Date;
- c) a discount of 67.91% to the average closing price of HK\$0.187 per Share as quoted on GEM for the 10 consecutive trading days up to and including the Last Trading Date;

LETTER FROM THE BOARD

- d) a discount of 59.18% to the theoretical ex-rights price of HK\$0.147 per Share based on the closing price of HK\$0.19 per Share as quoted on GEM on the Last Trading Date;
- e) a discount of 13.04% to the net asset value per Share of approximately HK\$0.069 based on the unaudited consolidated net asset value of the Group as at 30 September 2005 as per its interim report 2005/2006 and the then issued share capital; and
- f) a discount of approximately 84.81% to the closing price of HK\$0.395 per Share as quoted on GEM on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, (a) the low liquidity of the Shares in the market as indicated by the average daily trading volume of approximately 314,266 Shares for the last 30 trading days up to and including the Last Trading Date, representing approximately 0.091% of the existing issued share capital of the Company; (b) the unaudited consolidated net asset value per Share of the Group as at 30 September 2005 of HK\$0.069 as shown in the interim report 2005/2006 of the Company for the six months ended 30 September 2005; and (c) the recent financial performance of the Company as indicated by the Company only returning to a profitable position for the last two quarters after suffering from three years of financial losses since financial year ended 31 March 2003.

In view of the above, in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders, the Directors consider that the terms of the Rights Issue including the substantial discount are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully-paid, will rank *pari passu* with the existing Shares in issue in all respects. Holders of such Rights Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares in their fully-paid form.

Qualifying Shareholders

The Company is sending the Prospectus Documents to Qualifying Shareholders only.

To qualify for the Rights Issue, the Shareholder must be registered as a member of the Company on the Record Date and not be an Excluded Shareholder.

LETTER FROM THE BOARD

In order to be registered as a member of the Company on the Record Date, any transfer of Shares (together with the relevant share certificates) must have been lodged for registration with the Registrar on or before 4:00 p.m. on 22 March 2006, being the Latest Lodging Date.

Rights of Overseas Shareholders

The Prospectus Documents have not been registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than that in Hong Kong. If at the close of business on the Record Date, a Shareholder's address on the Company's register of members is in a place outside of Hong Kong, where the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Rights Shares to such Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Excluded Shareholders. The Company will send the Prospectus to Excluded Shareholders for their information only, but will not send the PAL or EAF to Excluded Shareholders.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders in nil-paid form, to be sold as soon as practicable after dealings in nil-paid Rights Shares commence, if a premium, net of expenses, can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to the relevant Excluded Shareholders in Hong Kong dollars pro rata to their respective shareholdings as soon as possible. The Company will keep individual amounts of less than HK\$100 for its own benefit. Any unsold Rights Shares will be available for excess application.

Based on the register of members as at the Record Date, there was no Shareholder whose registered address as appeared on the register of members of the Company is outside Hong Kong. Accordingly, there is no Excluded Shareholder for the purpose of the Rights issue.

Closure of register of members

The register of members of the Company has been closed from 23 March 2006 to 27 March 2006, both dates inclusive, for the purpose of, among other things, determining entitlements to participate in the Rights Issue. No transfer of Shares was registered during this period.

LETTER FROM THE BOARD

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders and any nil-paid Rights Shares provisionally allotted but not accepted by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for.

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis, but will give preference to topping-up odd lots to whole board lots of Shares. Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to the ultimate beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) to increase their chances of allotment of the excess Rights Shares prior to the Record Date.

Fractional entitlements to the Rights Shares

The Company will not allot fractions of Rights Shares (both nil-paid and fully-paid) and will round down such fractions to the nearest whole number. Rights Shares representing the aggregate of fractions of such Rights Shares will be provisionally allotted to a nominee of the Company which will arrange for the sale of such Rights Shares (both nil-paid and fully-paid) as soon as practicable after commencement of dealings on the Stock Exchange in Rights Shares in nil-paid form in respect of the Rights Shares in nil-paid form and commencement in dealings on the Stock Exchange in Rights Shares in fully-paid form in respect of Rights Shares in fully-paid form (as the case may be) and will keep the proceeds for the benefit of the Company (after deducting expenses of the Company, if any).

Share certificates for Rights Shares and refund cheques

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be sent by ordinary post to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Rights Shares on or before 20 April 2006 at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be sent by ordinary post on or before 20 April 2006 at their own risk.

Conditions of the Rights Issue

The Rights Issue is conditional upon, among other things, the following:

- (i) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant in principle (subject to allotment of Rights Shares) the listing of and permission to deal in all the Rights Shares, in nil-paid and fully-paid forms, either unconditionally or

LETTER FROM THE BOARD

- subject to such conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) by no later than the dates specified in such approval and not having withdrawn or revoked such listings and permissions on or before the proposed time for settlement;
- (ii) compliance with the requirements under the applicable laws and regulations of Hong Kong and the Cayman Islands;
 - (iii) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement;
 - (iv) the Shares remaining listed on the Stock Exchange at all times prior to the Latest Time for Termination and the current listing of the Shares not having been withdrawn or the trading of the Shares on the Stock Exchange not being suspended for more than ten consecutive trading days at any time prior to the Latest Time for Termination (excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or documents in connection with the Rights Issue); and
 - (v) the performance in full by Mr. Yung of his undertakings in respect of taking up its rights entitlements in full under the Underwriting Agreement.

In the event that the above conditions have not been satisfied or waived in whole or in part by the Underwriter by the relevant dates and times specified in the Underwriting Agreement, all liabilities of the parties under the Underwriting Agreement shall cease and determine and none of the parties shall have any claim against the other. In such case, the Rights Issue will not proceed. Save for conditions (iii) and (iv), no conditions can be waived.

UNDERWRITING ARRANGEMENT

Undertakings from Mr. Yung

Pursuant to the Underwriting Agreement, Mr. Yung, who is beneficially interested in 49,096,000 existing Shares, representing approximately 14.23% of the total issued share capital of the Company as at the Latest Practicable Date, has given an irrevocable undertaking to accept or procure acceptance of all the 24,548,000 Rights Shares to be provisionally allotted to him, or his nominee(s) as the holder of such Rights Shares pursuant to the Rights Issue. Assuming all the Rights Shares subject to the above undertakings have been fully allotted and issued to Mr. Yung and his nominee, Mr. Yung's total beneficial shareholdings after the Rights Issue would amount to 73,644,000 Shares representing approximately 14.23% of the total issued share capital of the Company as enlarged by the Rights Issue.

LETTER FROM THE BOARD

As at the Latest Practicable Date, neither Mr. Yung nor Easeglory has indicated whether they will apply for any of the excess Rights Shares in addition to their provisional entitlement under the Rights Issue.

Underwriting Agreement

The Rights Shares will be fully underwritten by the Underwriter in accordance with the terms of the Underwriting Agreement as described below.

| | | |
|---|---|---|
| Date | : | 28 February 2006 |
| Underwriter | : | Quam Securities Company Limited |
| Number of Rights Shares underwritten or undertaken to be accepted | : | 147,917,166 Rights Shares |
| Commission | : | 2.5% of the total Subscription Price of the Rights Shares to be underwritten by the Underwriter. The commission to be received by the Underwriter will be approximately HK\$220,000. The Directors considered that underwriting commission of 2.5% is comparable with the market rate and reasonable. |

The Underwriter and its ultimate beneficial owners do not have any shareholding in the Company and are third parties independent of the Company and its connected person.

Termination of the Underwriting Agreement

Notwithstanding anything contained in the Underwriting Agreement, the Underwriter may terminate the arrangement set out in the Underwriting Agreement by notice in writing to the Company at any time prior to the Latest Time for Termination, if the Underwriter becomes aware of the fact that there shall develop, occur, exist or come into effect:

- (i) any new law or regulation or any change in existing laws or regulations in Hong Kong or any other place that is the place of incorporation of any member of the Group, or in which any member of the Group conducts or carries on business; or
- (ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions; or

LETTER FROM THE BOARD

- (iii) any significant change (whether or not permanent) in local, national or international securities market conditions (any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise) or exchange controls; or
- (iv) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change has or would have a material and adverse effect on the business, financial or trading position or prospects of the Company or the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If the Underwriter terminate the Underwriting Agreement, the Rights Issue will not proceed.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and upon completion of the Rights Issue, assuming different levels of acceptance of the Rights Shares by the Qualifying Shareholders on or before the Record Date:

| Shareholders | At the Latest Practicable Date | | Immediately after the completion of the Rights Issue (assuming no Qualifying Shareholders shall take up his/her/its entitlements under, the Rights Issue except that Mr. Yung takes up all his entitlements (being 24,548,000 Rights Shares in aggregate)) | | Immediately after the completion of the Rights Issue (assuming all Qualifying Shareholders shall take up his/her/its entitlements under the Rights Issue) | |
|--|--------------------------------|---------------|--|---------------|---|---------------|
| | No. of Shares | Approximate % | No. of Shares | Approximate % | No. of Shares | Approximate % |
| Easeglory Holdings Limited & Mr. Yung Kwok Leong (Note 1) | 49,096,000 | 14.23% | 73,644,000 | 14.23% | 73,644,000 | 14.23% |
| Win Triple Limited & Mr. Lee Kun Hung (Note 2) | 48,230,000 | 13.98% | 48,230,000 | 9.32% | 72,345,000 | 13.98% |
| Top Rainbow Ltd. (Note 3) | 44,901,258 | 13.02% | 44,901,258 | 8.68% | 67,351,887 | 13.02% |
| Mr. Yeung Kam Yan (Note 4) | 3,795,237 | 1.10% | 3,795,237 | 0.73% | 5,692,855 | 1.10% |
| Mr. Chan Hon Chiu (Note 4) | 4,156,798 | 1.21% | 4,156,798 | 0.80% | 6,235,197 | 1.21% |
| Underwriter | - | - | 147,917,166 | 28.59% | - | - |
| Public | 194,751,040 | 56.46% | 194,751,040 | 37.65% | 292,126,560 | 56.46% |
| Total | 344,930,333 | 100% | 517,395,499 | 100% | 517,395,499 | 100% |

LETTER FROM THE BOARD

Notes:

1. 49,096,000 Shares of the Company are beneficially owned by Mr. Yung, who is an executive Director and the chairman, of which 46,346,000 Shares are held by Easeglory Holdings Limited which is 100% owned by Mr. Yung.
2. 48,230,000 Shares of the Company are beneficially owned by Mr. Lee Kun Hung of which 46,830,000 Shares are held by Win Triple Limited which is 100% owned by Mr. Lee Kun Hung .
3. The entire issued share capital of Top Rainbow Ltd. is owned by Mr. Yang Pei Gen.
4. Mr. Yeung Kam Yan and Mr. Chan Hon Chiu are executive Directors.

As at the Latest Practicable Date, Mr. Lee Kun Hung, Win Triple Limited, Top Rainbow Ltd. and the Directors (except Mr. Yung) have not indicated whether they will take up any Rights Shares entitled to them under the Rights Issue or any of the excess Rights Shares.

WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

The Shares have been dealt in on an ex-rights basis from 21 March 2006. Dealing in the Rights Shares in the nil-paid form will take place from 29 March 2006 to 6 April 2006 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled and/or, in respect of conditions that are waivable, waived (as the case may be) by the relevant dates and times specified in the Underwriting Agreement, or the Underwriting Agreement is terminated, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating buying or selling Shares from the date of this prospectus up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between 29 March 2006 and 6 April 2006 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder or other persons contemplating dealings in the Shares or nil-paid Rights Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

Shareholders and potential investors are advised to exercise caution when dealings in the Shares and the nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled.

LETTER FROM THE BOARD

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in the production, sourcing, sales and marketing, design and development of environmental protection products and ancillary services for combating environmental problems.

The estimated net proceeds of the Rights Issue will amount to approximately HK\$9.35 million (after deducting expenses including underwriting commission, professional fees, printing charges and sundry expenses). The Directors currently intend to use the net proceeds from the Rights Issue as to approximately HK\$0.5 million towards general working capital of the Group and the balance towards projects of investments in the healthcare sector which the Directors expect will bring synergistic effect and positive return to the existing environmental business and related projects of the Company. As disclosed in the previous announcement of the Company dated 1 December 2005 regarding the placing of unlisted Convertible Notes, the Group intends to continue to pursue its principal business and also intend to make investments in the healthcare sector in Hong Kong and the PRC. The Group is currently cooperating with a healthcare management company established in the PRC for the provision of environmentally-related services to certain hospitals in the PRC. In order to seek for more business opportunities and to maximize return to the Company in the long run, the Group is therefore, in negotiation with the shareholders of the healthcare management company who are independent third parties of the Company and its connected persons to enter into a MOU with a view to acquiring the whole or part of the equity stake in a healthcare management company. The Company will make further announcement disclosing the details of the proposed cooperation and investment in the healthcare management company as and when appropriate in accordance with the GEM Listing Rules.

The Directors have considered other alternative fund raising methods such as issue of new shares and bank borrowings and consider that the Rights Issue has the benefits of allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Rights Shares and participate in the future growth of the Group. Moreover, should Shareholders decide not to take up their entitlements under the Rights Issue, they can sell the nil-paid Right Shares in the market for economic benefit, if any.

The Directors believe that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

BUSINESS REVIEW AND PROSPECTS

The Board believes that the Group will benefit from the economic growth in both Hong Kong and the PRC and the increase in awareness of environmental protection among the general public, the outlook for the Group remains positive.

Management of the Company is constantly monitoring the Group's business operations and market position in order to improve the Group's earnings and asset base. The management will identify and reinforce business segments which have high growth potential and at the same time the management will scale down those business segments with less competitive edge. With the help from Mr. Yung Kwok Leong, the Company's Chairman, who has established networks in the PRC, the Group can facilitate its investment in the strong growth potential PRC markets at a relatively lower cost.

In view of greater concern about environmental problems and the increasing demand for environmental protection, the Group acquired a melamine materials production line in the Fujian Province, the PRC in September 2005 with a cash consideration of approximately HK\$6,250,000. Melamine materials are environmentally friendly raw materials used in the manufacture of household products such as tablewares and kitchenwares. With the acquisition, the Group expands in both its products range and market in the PRC pursuant to the Group's established objective of developing future business prospect of environmental products into the PRC market. The Directors expect that the production line will commence to generate revenue for the Group in January 2006. The slight delay in operation of the production line was due to the application for tax exemption permit from the relevant regulatory authorities.

In October and November 2005, the Company completed the placing of 55,600,000 new shares to three places and raised an aggregate principal amount of approximately HK\$7,000,000. The Directors intend to apply the net proceeds of approximately HK\$5,000,000 towards the Group's future investment in environmental related projects and the balance on other investment(s) and general working capital. Approximately HK\$3.37 million of the net proceeds has been applied for acquiring machineries for environmental related projects in the PRC.

On 11 January 2006, the Company completed the placing of the unlisted convertibles notes and raised an aggregate principal amount of HK\$18,000,000. The Directors intend to apply the net proceeds of approximately HK\$17,500,000, as to approximately one-fourth towards environmentally-related projects, approximately one-fourth towards general working capital of the Group and the balance towards projects or investments in the healthcare sector in Hong Kong and the PRC which have a high growth potential and promising future and are expected to bring positive return to the Company in the long term.

As mentioned under the section headed "Reasons for the Rights Issue and use of proceeds", the Group is currently cooperating with a healthcare management company established in the PRC for the provision of environmentally-related services to certain hospitals in the PRC. In order to seek for more business opportunities and to maximize return to the Company in the long run, the Group is therefore, in negotiation with the shareholders of the healthcare management company who are independent third parties of the Company and its connected persons to enter into a MOU with a view to acquiring the whole or part of the equity stake in a healthcare management company.

LETTER FROM THE BOARD

LISTING AND DEALINGS

Application has been made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid form. No securities of the Company are listed or dealt in on any other stock exchange and no application has been made or is currently proposed to be made for its shares to be listed or dealt in on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on GEM, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Rights Shares, in their nil-paid and fully-paid forms, will be traded in board lots of 20,000 Shares. It is expected that dealings in the Rights Shares in their nil-paid form will commence on 29 March 2006 and will end on 6 April 2006 (both dates inclusive). The fully-paid Rights Shares are expected to commence dealing on 24 April 2006.

Dealings in the Rights Shares will be subject to the payment of stamp duty in Hong Kong.

ADJUSTMENTS IN RELATION TO THE SHARE OPTION SCHEMES AND CONVERTIBLE SECURITIES

Pursuant to the terms of the Share Option Schemes and the Convertible Notes, the exercise prices and conversion prices of the respective Share Options and Convertible Notes will be adjusted in accordance with the Share Option Schemes and the Convertible Notes upon the Rights Issue becoming unconditional. The corresponding adjustments will be made to the number or nominal amount of Shares subject to the respective Share Options and Convertible Notes so far as unexercised and unconverted, and/or the subscription prices, and/or the method of exercise of the Share Options and the method of conversion of the Convertible Notes provided that such adjustments will be made on the basis that the proportion of the issued share capital to which a holder of the Share Options and/or Convertible Notes is entitled after such adjustments will remain the same as that to which he was entitled before such alteration and no Share will be issued at less than its nominal value. Such adjustments will be verified by the auditors of the Company that the adjustments are made on the basis that the proportion of the issued share capital to which a holder of the Share Options and/or Convertible Notes is entitled after the adjustments remain the same as that to which he was entitled before the alteration and in accordance with Rule 23.03(13) of the GEM Listing

LETTER FROM THE BOARD

Rules and the supplemental guidance issued by the Stock Exchange in September 2005. The holders of the Share Options and Convertible Notes shall refer to Section 8 of Appendix I for the required adjustments after the completion of the Rights Issue.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

In the last twelve months from the Announcement, the Company conducted a total of one placing of new shares and one placing of unlisted convertible notes, pursuant to which an aggregate gross amount of approximately HK\$25.23 million has been raised by the Company, with net proceeds of approximately HK\$24.50 million as disclosed in the respective announcements of the Company date 12 October 2005 and 1 December 2005. The following is a brief summary of the aforesaid placing:

| | First Placing of New Shares | Second Placing of unlisted Convertible Notes |
|--|---|--|
| Number of Shares Placed | 55,600,000 Shares | 67,164,179 Shares may be allotted and issued upon full conversion of the Notes |
| Completion Date of Placing | 16,000,000 Shares on 21 October 2005 39,600,000 Shares on 11 November 2005 | 11 January 2006 |
| Conversion Price/ Placing Price per Share | HK\$0.13 | HK\$0.268 |
| Gross Proceeds | approximately HK\$7.23 million | HK\$18 million |
| Net Proceeds | approximately HK\$7.00 million | HK\$17.50 million |
| Placees of Placing | Mr. Chan Fung, Mr. Lau Kam Chee and Fruitful Profits Limited | |
| Intended use of proceeds | approximately HK\$5.00 million will be applied towards the Group's future investment in environmentally related projects Balance will be applied towards other investment(s) and general working capital | Approximately HK\$4.38 million towards environmentally-related projects, approximately HK\$4.38 million towards general working capital of the Group and the balance towards projects or investments in the healthcare sector in Hong Kong and the PRC |
| Actual use of proceeds | approximately HK\$3.37 million has been applied for acquiring machineries for environmental related projects in the PRC and the balance will be applied in the way as originally intended | Not yet utilized, but will be applied in the way as originally intended |

LETTER FROM THE BOARD

PROCEDURES FOR ACCEPTANCE

A PAL is enclosed with this prospectus which entitles the Qualifying Shareholder to whom it is addressed to subscribe for the number of Rights Shares shown therein. If the Qualifying Shareholders wish to accept all the Rights Shares provisionally allotted to them as specified in the PAL, they must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 11 April 2006. All remittances must be made by cheques or cashier's orders in Hong Kong dollars. Cheques must be drawn on an account with, and by cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to **"Grandy Corporation – Rights Issue Account"** and crossed "Account Payee Only".

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by no later than 4:00 p.m. on 11 April 2006, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Qualifying Shareholders wish to accept only part of their provisional allotment or transfer a part of their rights to subscribe for the Rights Shares provisionally allotted to them under the PAL or to transfer their rights to more than one person, the entire PAL must be surrendered and lodged for cancellation by no later than 4:00 p.m. 31 March 2006 to the Registrar, who will cancel the original PAL and issue new PALs in the denominations required.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any PAL in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the provisional entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate or rescind the Underwriting Agreement or if the conditions of the Rights Issue are not fulfilled, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person without interest, by means of cheques to be despatched by ordinary post at the risk of such Qualifying Shareholders or such other persons on or before 20 April 2006

No receipt will be issued in respect of any acceptance monies received.

LETTER FROM THE BOARD

APPLICATION FOR EXCESS RIGHTS SHARES

If the Qualifying Shareholders wish to apply for any Rights Shares in addition to their provisional allotment, they must complete and sign the enclosed EAF in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 11 April 2006. All remittances must be made by cheques or cashier's orders in Hong Kong dollars. Cheques must be drawn on an account with, and cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "**Grandy Corporation – Excess Application Account**" and crossed "Account Payee Only". The Registrar will notify the Qualifying Shareholders of any allotment of the excess Rights Shares made to them, which allotment will be allocated on a fair and equitable basis to be decided at the sole discretion of the Directors but will give preference to topping up odd lots to whole board lots of the Shares.

If no excess Rights Shares are allotted to a Qualifying Shareholder, the amount tendered on application is expected to be returned to that Qualifying Shareholder in full on or before 20 April 2006. If the number of excess Rights Shares allotted to the Qualifying Shareholder is less than that applied for, the surplus application moneys are also expected to be returned to them on or before 20 April 2006.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any EAF in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

The EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or cashier's orders for amount due, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses by the Registrar.

GENERAL

Your attention is drawn to the information contained in the appendices to this prospectus.

Yours faithfully,
For and on behalf of the Board
Grandy Corporation
Yung Kwok Leong
Chairman

1. SHARE CAPITAL

(a) Authorized and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Rights Issue are and will be as follows:

As at the Latest Practicable Date

| | |
|-------------------------------|-------------------|
| <i>Authorised:</i> | <i>HK\$</i> |
| <u>600,000,000</u> Shares | <u>30,000,000</u> |
| <i>Issued and fully paid:</i> | |
| <u>344,930,333</u> Shares | <u>17,246,517</u> |

Upon completion of the Rights Issue

| | |
|----------------------------------|-------------------|
| <i>Authorised:</i> | <i>HK\$</i> |
| <u>600,000,000</u> Shares | <u>30,000,000</u> |
| <i>Issued and fully paid:</i> | |
| 344,930,333 Shares | 17,246,517 |
| <u>172,465,166</u> Rights Shares | <u>8,623,258</u> |
| <u>517,395,499</u> | <u>25,869,775</u> |

All the Shares and Rights Shares in their fully paid form to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

The Shares are listed on GEM. No part of the share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the share or loan capital of the Company being or proposed to be sought, on any other stock exchange.

Dealings in the Shares of the Company may be settled through CCASS and you should consult your stockbroker or other registered dealer of securities, bank manager, solicitors, professional accountant or other professional adviser for details of these settlement arrangements and how such arrangements may affect your rights and interest.

(b) Share Option Schemes

As at the Latest Practicable Date, there are 4,550,000 outstanding Share Options, of which, 800,000 and 3,750,000 Share Options were granted pursuant to the respective Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme. The Share Option holders under the Post-IPO Share Option Scheme have undertaken not to exercise their respective Share Options on or before the Record Date. No Share Option under the Pre-IPO Share Option Scheme has been exercised on or before the Latest Lodging Date. Accordingly, the number of issued Shares of the Company remains as 344,930,333 Shares and the number of Rights Shares to be issued under the Rights Issue is 172,465,166 Rights Shares. Details of the outstanding Share Options are as follows:

(i) Pre-IPO 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\$0.70 per share (after adjusting for the effects of the share consolidation approved on 11 May 2005) is as follows:

| Grantee | Number of share to be allotted and issued upon exercise of the outstanding Share Options |
|-----------------|---|
| Advisor | 480,000 |
| Former Employee | 320,000 |
| | <hr/> |
| | 800,000 |
| | <hr/> <hr/> |

(ii) Post-IPO Share Option Scheme

On 7 July 2005, the Company passed written resolutions pursuant to the Post-IPO Share Option Scheme adopted on 20 April 2002 to grant 15,000,000 share options to Directors and employees. It was resolved that share options be offered to the Directors and employees at the subscription price of HK\$0.102 per share with exercise period commencing from 7 July 2005 and ending on 6 July 2015.

| Grantee | Number of share to be allotted and issued upon exercise of the outstanding Share Options |
|------------------------|---|
| Directors and employee | 3,750,000 |

(iii) Convertible notes

The Company had issued the Convertible Notes on 11 January 2006 and the holders of these Convertible Notes are entitled to convert a total number of 67,164,179 Shares at the conversion price of HK\$0.268 upon the exercise of the conversion rights attached to the Convertible Notes any time after expiry of six months after the issue date, (i.e. 10 July 2006) and up to the close of business on the maturity date.

Except for the foregoing, the Company has no other options, warrants and conversion rights convertible into Shares. No share or loan capital of the Company has been issued or is proposed to be issued for cash (save for the Rights Issue) or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

No share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

There are no arrangements under which future dividends will be waived or agreed to be waived.

2. SUMMARY OF FINANCIAL INFORMATION

The following table summarises the results, assets and liabilities of the Group for the last three financial years ended 31 March 2005 as extracted from the relevant published financial statements of the Group.

Results

| | For the year ended 31 March | | |
|--------------------------------|------------------------------------|-----------------|-----------------|
| | 2005 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 34,230 | 18,578 | 28,318 |
| Loss before taxation | (6,666) | (39,447) | (11,694) |
| Taxation | (440) | – | 10 |
| Loss before minority interests | (7,106) | (39,447) | (11,684) |
| Minority interests | 61 | 4,718 | 309 |
| Net loss for the year | <u>(7,045)</u> | <u>(34,729)</u> | <u>(11,375)</u> |

Asset and liabilities

| | As at 31 March | | |
|--------------------|-----------------------|-----------------|-----------------|
| | 2005 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Total assets | 28,655 | 27,126 | 50,974 |
| Total liabilities | (9,526) | (9,402) | (3,976) |
| Minority interests | (133) | (325) | (4,916) |
| Shareholders funds | <u>18,996</u> | <u>17,399</u> | <u>42,082</u> |

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the two years ended 31 March 2005 and 31 March 2004 together with accompanying notes as extracted from the 2004/2005 Annual Report of the Company. References to page numbers in this appendix are to the page numbers of the 2004/2005 Annual Report of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2005

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

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

CONSOLIDATED BALANCE SHEET

At 31 March 2005

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

BALANCE SHEET*At 31 March 2005*

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Special reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|---------------------------------------|---|--|--------------------------|
| 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) |
| At 31 March 2005 | 13,904 | 56,022 | 2,935 | 355 | (54,220) | 18,996 |

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.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

| | 2005 | 2004 |
|--|-----------------|-----------------|
| <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before taxation | (6,666) | (39,447) |
| Adjustments for: | | |
| Interest income | (73) | (5) |
| Interest expenses | 288 | 102 |
| Amortisation of goodwill | 425 | 190 |
| Amortisation of intangible assets | 1 | 600 |
| Bad debt written off | 173 | – |
| Depreciation of fixed assets | 1,012 | 1,836 |
| Exchange difference on translation of financial statements of overseas subsidiaries | 294 | – |
| Loss on disposal of fixed assets | 264 | 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 | 222 | 972 |
| Allowance for bad and doubtful debts | 3,542 | 11,791 |
| Provision for obsolete inventories | 1,282 | – |
| | <hr/> | <hr/> |
| Operating cash flows before movements in working capital | 764 | (9,277) |
| Decrease/(increase) in inventories | 1,750 | (2,143) |
| Increase in trade and other receivables | (9,633) | (1,274) |
| (Decrease)/increase in trade and other payables | (424) | 4,204 |
| | <hr/> | <hr/> |
| Net cash used in operations | (7,543) | (8,490) |
| Overseas tax paid | (215) | – |
| Hong Kong profits tax paid | – | (27) |
| | <hr/> | <hr/> |
| Net cash used in operating activities | (7,758) | (8,517) |
| | <hr/> | <hr/> |

APPENDIX I**FINANCIAL INFORMATION**

| | <i>Note</i> | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|---|-------------|--------------------------------|--------------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 73 | 5 |
| Purchase of fixed assets | | (299) | (1,563) |
| Proceeds from disposal of fixed assets | | – | 351 |
| Purchase of other investments | | (131) | – |
| Purchase of a subsidiary (net of cash and cash equivalents) | 26 | (3,081) | – |
| Disposal of subsidiaries (net of cash and cash equivalents disposed of) | 27 | (485) | (1) |
| Decrease in pledged bank deposits | | – | 1,000 |
| Net cash used in investing activities | | <u>(3,923)</u> | <u>(208)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Interest paid | | (288) | (102) |
| Proceeds from issue of shares | | 8,342 | 10,046 |
| Issue costs of shares | | (67) | – |
| Capital contributed by minority owner of a subsidiary | | – | 128 |
| Repayment of finance leases | | (9) | (293) |
| Borrowings raised from directors | | 280 | 453 |
| Short-term bank loans (repaid)/raised (Repayment of)/borrowings raised from trust receipt loans | | (999) | 999 |
| | | <u>(1,091)</u> | <u>1,091</u> |
| Net cash generated from financing activities | | 6,168 | 12,322 |
| Net (decrease)/increase in cash and cash equivalents | | (5,513) | 3,597 |
| Cash and cash equivalents at the beginning of the year | | <u>8,649</u> | <u>5,052</u> |
| Cash and cash equivalents at the end of the year | | <u>3,136</u> | <u>8,649</u> |
| Analysis of the balances of cash and cash equivalents | | | |
| Cash and bank balances | | <u>3,136</u> | <u>8,649</u> |

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.

(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.

(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.

(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.

(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.

(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 nonmonetary 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.
- 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.

3. Turnover and revenue

| | 2005 | 2004 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover: | | |
| 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 | – |
| | <u>34,230</u> | <u>18,578</u> |
| Other operating income: | | |
| Interest income | 73 | 5 |
| Sundry income | 6 | 71 |
| | <u>79</u> | <u>76</u> |
| | <u>34,309</u> | <u>18,654</u> |

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.

APPENDIX I
FINANCIAL INFORMATION

| | Turnover | | Results | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong | 9,375 | 13,869 | 5,194 | 5,963 |
| PRC | 362 | 4,119 | 83 | (2,580) |
| Singapore | – | 386 | – | (15) |
| Malaysia | – | 204 | – | (7,361) |
| Korea | 24,493 | – | 11,397 | – |
| | <u>34,230</u> | <u>18,578</u> | 16,674 | (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 | | | <u>(7,045)</u> | <u>(34,729)</u> |

APPENDIX I**FINANCIAL INFORMATION***Balance sheet*

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

Other information

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

APPENDIX I
FINANCIAL INFORMATION

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

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

Business segments

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

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

5. Loss from operations

| | 2005 | 2004 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 |
| | <u>11,476</u> | <u>9,719</u> |
| Amortisation of goodwill included in administrative expenses | 425 | 190 |
| Amortisation of intangible assets included in administrative expenses | 1 | 600 |
| Auditors' remuneration | | |
| – current year | 293 | 401 |
| – under provision in prior years | 105 | 9 |
| Allowance for bad and doubtful debts | 3,542 | 11,791 |
| Bad debt written off | 173 | – |
| Cost of goods sold | 1,996 | 6,487 |
| Depreciation of fixed assets | | |
| – owned by the Group | 1,006 | 1,799 |
| – held under finance leases | 6 | 37 |
| Impairment in value of fixed assets included in administrative expenses | – | 1,303 |
| Loss on disposal of fixed assets | 264 | 240 |
| Operating lease rentals in respect of | | |
| – land and buildings | 1,368 | 1,371 |
| Provision for obsolete inventories | 1,282 | – |
| and after crediting: | | |
| Interest income | 73 | 5 |
| Rental income from hire of machinery and equipment | <u>50</u> | <u>30</u> |

6. Directors' remuneration

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

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.

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:

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

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

8. Finance costs

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

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.

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

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

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

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

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).

13. Fixed assets**The Group**

| | Furniture and fixtures <i>HK\$'000</i> | Leasehold improve- ments <i>HK\$'000</i> | Machinery and equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Office equipment <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------------|---|---|--|--------------------------------------|--|--------------------------|
| Cost | | | | | | |
| 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) |
| At 31 March 2005 | <u>268</u> | <u>701</u> | <u>1,156</u> | <u>433</u> | <u>2,042</u> | <u>4,600</u> |

APPENDIX I
FINANCIAL INFORMATION

| | Furniture and fixtures <i>HK\$'000</i> | Leasehold improve- ments <i>HK\$'000</i> | Machinery and equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Office equipment <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|------------------------------------|---|---|--|--------------------------------------|--|--------------------------|
| Depreciation and impairment | | | | | | |
| 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) |
| At 31 March 2005 | <u>97</u> | <u>243</u> | <u>554</u> | <u>289</u> | <u>1,075</u> | <u>2,258</u> |
| Net book values | | | | | | |
| At 31 March 2005 | <u><u>171</u></u> | <u><u>458</u></u> | <u><u>602</u></u> | <u><u>144</u></u> | <u><u>967</u></u> | <u><u>2,342</u></u> |
| At 31 March 2004 | <u><u>6</u></u> | <u><u>668</u></u> | <u><u>932</u></u> | <u><u>314</u></u> | <u><u>968</u></u> | <u><u>2,888</u></u> |

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 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Debt securities, unlisted | <u><u>131</u></u> | <u><u>–</u></u> |

15. Intangible assets

The Group

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

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

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

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

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

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

18. Inventories

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

19. Trade and other receivables

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

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 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Age | | |
| 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 |
| | <u>13,535</u> | <u>9,040</u> |
| <i>Less: Allowance for bad and doubtful debts</i> | <u>(2,810)</u> | <u>(1,982)</u> |
| | <u><u>10,725</u></u> | <u><u>7,058</u></u> |

20. Trade and other payables

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

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

| | The Group | |
|-----------------|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Age | | |
| 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 | – |
| | <u>3,926</u> | <u>2,475</u> |

21. Obligations under finance leases

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

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 |
| – at 31 March 2005 | <u>1,390,401,667</u> | <u>13,904</u> |

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 | – | 2,400,000 |
| Former employees | 1,600,000 | – | 1,600,000 |
| | <u>12,000,000</u> | <u>(8,000,000)</u> | <u>4,000,000</u> |

(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:

| Type of participant | Number of share options |
|----------------------------|---|
| | Outstanding at 31 March 2004 and 31 March 2005 |
| 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.

25. Reserves

The Company

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

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.

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.

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

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.

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.

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

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.

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:

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

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.

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.

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:

| Name of subsidiary | Place of incorporation/ establishment/ operations | Nominal value of issued and fully paid ordinary share/ registered capital | Principal activities |
|---|--|--|---|
| 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 [#] | 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 |

[#] 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.

4. INTERIM RESULTS

Set out below is the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2005 and for the nine months ended 31 December 2005 together with the comparative amounts as extracted from the 2005 interim report and the 2005 third quarterly report of the Company. The interim and the third quarterly financial reports have not been audited, but has been reviewed by the Company's audit committee:

UNAUDITED CONSOLIDATED INCOME STATEMENTS

For the three months and six months ended 30 September 2005

| | Notes | Three months ended 30 September | | Six months ended 30 September | |
|--|-------|------------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) |
| Turnover | 3&4 | 9,642 | 12,970 | 15,578 | 17,666 |
| Cost of sales | | (4,178) | (7,479) | (6,655) | (8,183) |
| Gross profit | | 5,464 | 5,491 | 8,923 | 9,483 |
| Other operating income | | 956 | 15 | 961 | 313 |
| Selling and distribution costs | | (771) | (1,609) | (1,057) | (1,876) |
| Administrative expenses | | (4,147) | (5,077) | (8,215) | (8,417) |
| Profit/(Loss) from operations | 5 | 1,502 | (1,180) | 612 | (497) |
| Finance costs | | (22) | (99) | (39) | (212) |
| Loss on disposal of subsidiaries | | – | (222) | – | (222) |
| Profit/(Loss) before taxation | | 1,480 | (1,501) | 573 | (931) |
| Taxation | 6 | (192) | (69) | (120) | (237) |
| Profit/(Loss) before minority interests | | 1,288 | (1,570) | 453 | (1,168) |
| Minority interests | | 24 | 11 | 47 | 28 |
| Net Profit/(Loss) for the period | | 1,312 | (1,559) | 500 | (1,140) |
| Earnings/(Loss) per share | 7 | | | | |
| – Basic | | <u>0.47 cents</u> | <u>(0.67) cents</u> | <u>0.18 cents</u> | <u>(0.49) cents</u> |
| – Diluted | | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30 September 2005

| | <i>Notes</i> | 30 September 2005 <i>HK\$'000</i> (Unaudited) | 31 March 2005 <i>HK\$'000</i> (Audited) |
|--|--------------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | | 2,763 | 2,342 |
| Other investments | | 121 | 131 |
| Goodwill | | 1,893 | 1,893 |
| | | <u>4,777</u> | <u>4,366</u> |
| Current assets | | | |
| Inventories | | 1,879 | 2,373 |
| Trade and other receivables | 8 | 19,338 | 18,780 |
| Bank balances and cash | | 2,697 | 3,136 |
| | | <u>23,914</u> | <u>24,289</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 8,127 | 8,470 |
| Obligations under finance leases | | | |
| – due within one year | | 2 | 7 |
| Amounts due to directors | | 601 | 664 |
| Amounts due to minority shareholder of a subsidiary | | 160 | 160 |
| Short-term loans | | 514 | – |
| Tax payable | | – | 225 |
| | | <u>9,404</u> | <u>9,526</u> |
| Net current assets | | <u>14,510</u> | <u>14,763</u> |
| Total assets less current liabilities | | 19,287 | 19,129 |
| Minority interests | | 85 | 133 |
| Net assets | | <u>19,202</u> | <u>18,996</u> |
| Capital and reserves | | | |
| Share capital | 10 | 13,904 | 13,904 |
| Reserves | | 5,298 | 5,092 |
| Shareholders' funds | | <u>19,202</u> | <u>18,996</u> |

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Special reserve* <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|--|---|--|--------------------------|
| At 1 April 2004 | 11,587 | 50,064 | 2,935 | (12) | (47,175) | 17,399 |
| Net loss for the period | – | – | – | – | (1,140) | (1,140) |
| At 30 September 2004 | 11,587 | 50,064 | 2,935 | (12) | (48,315) | 16,259 |
| 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 period | – | – | – | – | (5,905) | (5,905) |
| At 31 March 2005 | 13,904 | 56,022 | 2,935 | 355 | (54,220) | 18,996 |
| Exchange difference on translation of financial statements of overseas subsidiaries | – | – | – | (294) | – | (294) |
| Net profit for the period | – | – | – | – | 500 | 500 |
| At 30 September 2005 | <u>13,904</u> | <u>56,022</u> | <u>2,935</u> | <u>61</u> | <u>(53,720)</u> | <u>19,202</u> |

* The special reserve 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 reorganization in 2001.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2005

| | Six months ended | |
|---|------------------|-----------------|
| | 30 September | |
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Net cash from operating activities | 7,683 | 47 |
| Net cash used in investing activities | (7,366) | (3,570) |
| Net cash used in financing activities | (756) | (737) |
| | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | (439) | (4,260) |
| Cash and cash equivalents at 1 April | 3,136 | 8,649 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 30 September | <u>2,697</u> | <u>4,389</u> |

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. General

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on the GEM of the Stock Exchange.

The Company acts as an investment holding company while its subsidiaries are 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 businesses.

2. Basis of preparation

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRS in the preparation of financial statements for the period from 1 April 2005 onwards. The adoption of these new HKFRS has no material impact on the Group’s results of operations and financial position for the six months ended 30 September 2005 except the following:

Adoption of HKFRS 3 “Business Combination”

In prior years, positive goodwill was recognized as an asset which was amortised on a straight line basis over its useful life of not more than 20 years.

Following the adoption of HKFRS 3, the Group ceased annual amortization of positive goodwill, which arose from the acquisition of the subsidiary in the Republic of Korea, with its estimated useful economic life of 5 years. According to HKFRS 3, the positive goodwill should be tested for impairment annually. No retrospective adjustment has been made in respect of previously amortised goodwill.

The adoption of HKFRS 3 has increased the Group's earnings for the six months ended 30 September 2005 by approximately HK\$232,000 as positive goodwill is no longer amortised.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30 September 2005 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2005.

3. Turnover

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

4. Segment information

Business segments

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

Geographical segments

During the period under review, the Group's operations are located in Hong Kong, Mainland China (the "PRC") and the Republic of Korea. The Group's operation in Singapore has been inactive since 2004. The following table provides an analysis of the Group's geographical segment information:

| | Three months ended 30 September | | Six months ended 30 September | |
|--|------------------------------------|------------------|----------------------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| Turnover | | | | |
| – Hong Kong | 3,744 | 2,442 | 6,225 | 4,582 |
| – PRC | 1,658 | – | 1,658 | 362 |
| – Korea | 4,240 | 10,528 | 7,695 | 12,722 |
| – Singapore | – | – | – | – |
| | <u>9,642</u> | <u>12,970</u> | <u>15,578</u> | <u>17,666</u> |
| Results | | | | |
| – Hong Kong | 1,994 | 1,414 | 3,623 | 2,987 |
| – PRC | 97 | – | 97 | 82 |
| – Korea | 3,373 | 2,468 | 5,204 | 4,538 |
| – Singapore | – | – | – | – |
| | <u>5,464</u> | <u>3,882</u> | <u>8,924</u> | <u>7,607</u> |
| Unallocated other operating income | 956 | 15 | 961 | 313 |
| Unallocated corporate expenses | <u>(4,918)</u> | <u>(5,077)</u> | <u>(9,273)</u> | <u>(8,417)</u> |
| Profit/(Loss) from operations | 1,502 | (1,180) | 612 | (497) |
| Finance costs | (22) | (99) | (39) | (212) |
| Loss on disposal of subsidiaries | – | (222) | – | (222) |
| Profit/(Loss) before taxation | 1,480 | (1,501) | 573 | (931) |
| Taxation | <u>(192)</u> | <u>(69)</u> | <u>(120)</u> | <u>(237)</u> |
| Profit/(Loss) before minority interests | 1,288 | (1,570) | 453 | (1,168) |
| Minority interests | <u>24</u> | <u>11</u> | <u>47</u> | <u>28</u> |
| Net profit/(Loss) for the period | <u>1,312</u> | <u>(1,559)</u> | <u>500</u> | <u>(1,140)</u> |

5. Profit/(loss) from operations

| | Three months ended | | Six months ended | |
|---|--------------------|-----------|------------------|------------|
| | 30 September | | 30 September | |
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit/(Loss) from operations has been arrived at after charging: | | | | |
| Depreciation of property, plant and equipment | 213 | 183 | 433 | 409 |
| Amortisation of goodwill included in administrative expenses | <u>–</u> | <u>97</u> | <u>–</u> | <u>162</u> |

6. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits deriving from Hong Kong's operations during the period.

Provision for corporate income tax had been made at 17% for the net profit derived from operations in the Republic of Korea.

7. Earnings/(loss) per share

The calculation of basic earnings (2004: loss) per share for the three months ended 30 September 2005 was based on the net profit for the period of approximately HK\$1,312,000 (2004: loss HK\$1,559,000) and on the weighted average number of 278,080,333 shares (2004: 231,734,333 shares) in issue during the period.

The calculation of basic earnings (2004: loss) per share for the six months ended 30 September 2004 was based on the net profit of approximately HK\$500,000 (2004: loss HK\$1,140,000) and on the weighted average number of 278,080,333 shares (2004: 231,734,333 shares) in issue during the period after adjusting for the effects of the share consolidation approved on 11 May 2005. The basic loss per share for 2004 had been adjusted accordingly.

No diluted earnings per share has been presented as there was no dilutive potential ordinary shares outstanding for both periods.

8. Trade and other receivables

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

| | 30 September 2005 | 31 March 2005 |
|---|------------------------------|--------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade receivables | 10,356 | 10,725 |
| Deposits and prepayments | 7,688 | 306 |
| Other receivables | 1,294 | 7,749 |
| | <u>19,338</u> | <u>18,780</u> |
| Trade receivables | | |
| Age | | |
| 0 to 90 days | 4,389 | 3,804 |
| 91 to 180 days | 1,914 | 3,328 |
| 181 to 365 days | 2,120 | 1,735 |
| Over 365 days | 1,933 | 4,668 |
| | <u>10,356</u> | <u>13,535</u> |
| <i>Less:</i> Allowance for bad and doubtful debts | <u>–</u> | <u>(2,810)</u> |
| | <u>10,356</u> | <u>10,725</u> |

9. Trade and other payables

| | 30 September 2005 | 31 March 2005 |
|----------------|------------------------------|--------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables | 3,882 | 3,926 |
| Other payables | 4,245 | 4,544 |
| | <u>8,127</u> | <u>8,470</u> |

Payment terms with trade creditors are normally ranging from 90 to 120 days. The following is an aged analysis of trade payables as at the balance sheet date:

| | 30 September 2005 | 31 March 2005 |
|-----------------|------------------------------|--------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables | | |
| Age | | |
| 0 to 90 days | 2,727 | 1,665 |
| 91 to 180 days | 791 | 338 |
| 181 to 365 days | 70 | 1 |
| Over 365 days | 294 | 1,922 |
| | <u>3,882</u> | <u>3,926</u> |

10. Share capital

As at 30 September 2004, the total issued and fully paid share capital of the Company was HK\$11,586,717 divided into 1,158,671,667 shares of HK\$0.01 each. In February 2005, a total of 231,730,000 new shares of HK\$0.01 each were allotted and issued to Easeglory Holdings Limited.

On 12 May 2005, every five shares of HK\$0.01 each in the issued and un-issued share capital of the Company were consolidated into one consolidated share of HK\$0.05 each. As at 30 September 2005, the total issued and fully paid share capital of the Company was HK\$13,904,017 divided into 278,080,333 shares of HK\$0.05 each.

11. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: Nil).

UNAUDITED CONSOLIDATED INCOME STATEMENTS

For the three months and nine months ended 31 December 2005

| | Notes | Three months ended | | Nine months ended | |
|---|-------|--------------------|---------------------|-------------------|---------------------|
| | | 31 December | | 31 December | |
| | | 2005 | 2004 | 2005 | 2004 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Turnover | 3 | 8,803 | 8,173 | 24,381 | 25,839 |
| Cost of sales | | (3,045) | (3,584) | (9,700) | (11,767) |
| Gross profit | | 5,758 | 4,589 | 14,681 | 14,072 |
| Other operating income | | 46 | 14 | 1,007 | 327 |
| Selling and distribution costs | | (467) | (1,014) | (1,524) | (2,890) |
| Administrative expenses | | (4,705) | (4,911) | (12,920) | (13,328) |
| Profit/(Loss) from operations | | 632 | (1,322) | 1,244 | (1,819) |
| Finance costs | | (97) | 12 | (136) | (200) |
| Loss on disposal of subsidiaries | | – | – | – | (222) |
| Profit/(Loss) before taxation | | 535 | (1,310) | 1,108 | (2,241) |
| Taxation | 4 | (116) | 16 | (236) | (221) |
| Profit/(Loss) before minority interests | | 419 | (1,294) | 872 | (2,462) |
| Minority interests | | 26 | 26 | 73 | 54 |
| Net Profit/(Loss) for the period | | 445 | (1,268) | 945 | (2,408) |
| Earnings/(Loss) per share | 5 | | | | |
| – Basic | | <u>0.14 cents</u> | <u>(0.55) cents</u> | <u>0.32 cents</u> | <u>(1.04) cents</u> |
| – Diluted | | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2005

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Special reserve* <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|--|---|--|--------------------------|
| At 1 April 2004 | 11,587 | 50,063 | 2,935 | (12) | (47,174) | 17,399 |
| Net loss for the period | – | – | – | – | (2,408) | (2,408) |
| At 31 December 2004 | <u>11,587</u> | <u>50,063</u> | <u>2,935</u> | <u>(12)</u> | <u>(49,582)</u> | <u>14,991</u> |
| At 1 April 2005 | 13,904 | 56,022 | 2,935 | 355 | (54,220) | 18,996 |
| Issue of shares | 3,030 | 4,708 | – | – | – | 7,738 |
| Issuing expenses | – | (152) | – | – | – | (152) |
| Exchange difference on translation of financial statements of overseas subsidiaries | – | – | – | (308) | – | (308) |
| Net profit for the period | – | – | – | – | 945 | 945 |
| At 31 December 2005 | <u>16,934</u> | <u>60,578</u> | <u>2,935</u> | <u>47</u> | <u>(53,275)</u> | <u>27,219</u> |

* The special reserve 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 reorganization in 2001.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2005

1. General

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on the GEM of the Stock Exchange.

The Company acts as an investment holding company while its subsidiaries are 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 businesses.

2. Basis of preparation

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRS in the preparation of financial statements from 1 April 2005 onwards. The adoption of these new HKFRS has no material impact on the Group’s results of operations and financial position for the nine months ended 31 December 2005 except the following:

Adoption of HKFRS 3 “Business Combination”

In prior years, positive goodwill was recognised as an asset which was amortised on a straight line basis over its useful life of not more than 20 years.

Following the adoption of HKFRS 3, the Group ceased annual amortisation of positive goodwill, which arose from the acquisition of the subsidiary in the Republic of Korea, with its estimated useful economic life of 5 years. According to HKFRS 3, the positive goodwill should be tested for impairment annually. No retrospective adjustment has been made in respect of previously amortised goodwill.

The adoption of HKFRS 3 has increased the Group's earnings for the nine months ended 31 December 2005 by approximately HK\$348,000 as positive goodwill is no longer amortised.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 31 December 2005 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2005.

3. Turnover

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

4. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits deriving from Hong Kong's operations during the period.

Provision for corporate income tax had been made for the profits derived from operations in the Republic of Korea and the PRC.

5. Earnings/(loss) per share

The calculation of basic earnings (2004: loss) per share for the three months ended 31 December 2005 was based on the net profit for the period of approximately HK\$445,000 (2004: loss HK\$1,268,000) and on the weighted average number of 317,228,159 shares (2004: 231,734,333 shares) in issue during the period.

The calculation of basic earnings (2004: loss) per share for the nine months ended 31 December 2005 was based on the net profit of approximately HK\$945,000 (2004: loss HK\$2,408,000) and on the weighted average number of 291,177,060 shares (2004: 231,734,333 shares) in issue during the period after adjusting for the effects of the share consolidation approved on 11 May 2005. The basic loss per share for 2004 had been adjusted accordingly.

No diluted earnings per share has been presented as there was no dilutive potential ordinary shares outstanding for both periods.

6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months and nine months ended 31 December 2005 (2004: nil).

5. INDEBTEDNESS**Borrowings**

As at the close of business on 31 January 2006, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$17,122,882, details of which are set out below:

| | <i>HK\$</i> |
|---------------------------------------|-------------|
| Convertible notes (liability portion) | 16,696,424 |
| Obligations under finance lease | 426,458 |
| | <hr/> |
| | 17,122,882 |
| | <hr/> <hr/> |

The principal amount of the convertible notes outstanding as at 31 January 2006 is HK\$18,000,000.

Certain time deposits of the Group of approximately HK\$85,000 were pledged to a bank to secure overdraft facilities granted to the Group.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 January 2006, the Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 January 2006 up to the Latest Practicable Date.

6. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Group including the internally generated funds, the present bank and other facilities and the estimated net proceeds from the Rights Issue if the Rights Issue becomes unconditional, the Group will have sufficient working capital for at least twelve months from the date of this prospectus.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, the date to which the latest published audited financial statements of the Group were made up.

8. ADJUSTMENTS IN RELATION TO THE SHARE OPTION SCHEMES AND CONVERTIBLE SECURITIES

Pursuant to the terms of the Share Option Schemes and the Convertible Notes, the exercise prices and conversion prices of the respective Share Options and Convertible Notes will be adjusted in accordance with the Share Option Schemes and the Convertible Notes upon the Rights Issue becoming unconditional. The corresponding adjustments will be made to the number or nominal amount of Shares subject to the respective Share Options and Convertible Notes so far as unexercised and unconverted, and/or the subscription prices, and/or the method of exercise of the Share Options and the method of conversion of the Convertible Notes provided that such adjustments will be made on the basis that the proportion of the issued share capital to which a holder of the Share Options and/or Convertible Notes is entitled after such adjustments will remain the same as that to which he was entitled before such alteration and no Share will be issued at less than its nominal value.

The adjustments to the exercise prices and conversion prices of the respective Share Options and Convertible Notes are set out below:

| | |
|---|--|
| <p>(i) Prior to the effect of the Rights Issue the original exercise price per Share and the number of Share subject to the outstanding Share Options under the Share Option Schemes</p> | <p>New exercise price per Share and the number of Shares subject to the outstanding Share Options after the Rights Issue under the Share Option Schemes</p> |
| <p>Pre-IPO Share Option Scheme:</p> <p>800,000 Shares exercisable at HK\$0.700 each</p> <p>Post-IPO Share Option Scheme:</p> <p>3,750,000 Shares exercisable at HK\$0.102 each</p> | <p>Pre-IPO Share Option Scheme:</p> <p>1,034,400 Shares exercisable at HK\$0.541 each</p> <p>Post-IPO Share Option Scheme:</p> <p>4,848,750 Shares exercisable at HK\$0.079 each</p> |
| <p>(ii) Prior to the effect of the Rights Issue the original conversion price per Share and the number of conversion Shares subject to the Convertible Notes:</p> | <p>New conversion price per Share and the number of conversion Shares after the Rights Issue subject to the Convertible Notes:</p> |
| <p>67,164,179 Shares exercisable at HK\$0.268 each</p> | <p>86,956,521 Shares exercisable at HK\$0.207 each</p> |

The adjustments have been reviewed by HLB Hodgson Impey Cheng, the Company's auditors, in accordance with the supplemental guidance issued by the Stock Exchange in September 2005, the terms of the Share Option Schemes and the Placing Agreement in respect of the issue of Convertible Notes. A copy of the letter is available for inspection at the principal place of business of the Company in Hong Kong.

9. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 13 of Appendix 1B and Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Rights Issue on the net tangible assets of the Group as if the Rights Issue had taken place on 30 September 2005.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Rights Issue.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net assets of the Group as at 30 September 2005, adjusted as described below:

| | Unaudited consolidated net tangible assets of the Group as at 30 September 2005 | Estimated net proceeds from the Rights Issue | Unaudited pro forma adjusted consolidated net tangible assets of the Group | Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share |
|--|--|---|---|---|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| | <i>(Note a)</i> | <i>(Note b)</i> | | |
| Before completion of the Rights Issue | <u>17,309</u> | | | HK\$0.0622/ Share <i>(Note c)</i> |
| After completion of the Rights Issue | <u>17,309</u> | 9,350 | <u>26,659</u> | HK\$0.0515/ Share <i>(Note d)</i> |

Notes:

- (a) The unaudited consolidated net tangible assets of the Group as at 30 September 2005 is calculated based on the unaudited consolidated net assets of the Group as at 30 September 2005 of approximately HK\$19,202,000 deducted goodwill of approximately HK\$1,893,000 as at 30 September 2005 as extracted from the unaudited consolidated interim report of the Group for the six months ended 30 September 2005.
- (b) The estimated net proceeds from the issue of 172,465,166 Rights Shares are based on the Subscription Price of HK\$0.06 per Rights Share after deducting the related expenses of approximately HK\$1 million.
- (c) The calculation is based on 278,080,333 Shares in issue as at 30 September 2005 assuming no Share Options have been exercised.
- (d) The calculation is based on 517,395,499 Shares comprising 344,930,333 Shares in issue immediately before Rights Issue and 172,465,166 Rights Shares to be issued.

10. LETTER ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from HLB Hodgson Impey Cheng in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as set out in this appendix.



Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 March 2006

The Board of Directors
Grandy Corporation
Room 1902 19/F Sing Pao Building
101 King's Road
North Point
HONG KONG

Dear Sirs

**Grandy Corporation (the “Company”)
and its subsidiaries (collectively referred to herein as the “Group”)
Comfort letter on unaudited pro forma statement of adjusted
consolidated net tangible assets**

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Grandy Corporation (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on page 85 under the heading of “Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets” in Section 9 of Appendix I of the Company’s prospectus dated 27 March 2006 in connection with the proposed rights issue of one rights share for every two existing shares held on the record date (the “Rights Issue”). The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue might have affected the relevant financial information of the Group as at 30 September 2005.

RESPONSIBILITIES

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group in accordance with Rule 7.31 and paragraph 13 of Appendix 1B of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“the GEM Listing Rules”).

It is our responsibility to form an opinion, as required by Rule 7.31(7) of the GEM Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statement of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted consolidated net tangible assets with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets with the Directors of the Company.

Our work does not constitute an audit or review in accordance with Hong Kong Statements on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma statement of adjusted consolidated net tangible assets.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared on the bases set out in the first paragraph of this letter for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group at 30 September 2005 or at any future date.

OPINION

In our opinion:

- (a) the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

Yours faithfully

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong

RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (1) the information contained in this prospectus 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 prospectus misleading; and
- (3) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

DIRECTORS AND SENIOR MANAGEMENT**Executive Directors**

Mr. Yung Kwok Leong, aged 41, the Chairman of the Group, and a director of Able Developments Limited, Prime Source Trading Limited, Prime Source (Fujian) Chemical Co. Ltd., 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 46, 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 20 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. Mr. Yeung is the authorized representative of the Company. In addition, Mr. Yeung is currently an independent non-executive director of IA International Holdings Limited.

Independent non-executive Directors

Mr. Chan Ping Kuen, Francis, aged 47, was appointed as an independent non-executive Director in September 2004. 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 20 years of experience in auditing, accounting and financial management and previously worked for an international accounting firm and a number of companies listed in Hong Kong and in the United States.

Mr. Chan was previously an independent non-executive director of AGL MediaTech Holdings Limited and Kinetana International Biotech Pharma Limited, both of which are companies listed on GEM. Mr. Chan is currently an independent non-executive director of China Elegance (Holdings) Limited and Earnest Investments Holdings Limited which are both listed on the Main Board. Mr. Chan is also the executive director of FX Creations International Holdings Limited which is listed on GEM.

Mr. Hsu Shiu Foo, William, aged 55, was appointed as an independent non-executive Director on 2 November 2001. Mr. Hsu is an Associate Professor at the School of Business at Brigham Young University, Hawaii. Mr. Hsu has over 15 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, Hawaii, a master degree from Cornell University, New York, in the United States and a doctoral degree in business administration from the University of Western Sydney in Australia. Mr. Hsu was previously an independent non-executive director of Kinetana International Biotech Pharma Limited and is currently an independent non-executive director of KanHan Technologies Group Limited, both companies are listed on the GEM of the Stock Exchange.

Mr. Yu Chai Mei, aged 50, was appointed as an independent non-executive Director on 2 November 2001. Mr. 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. Mr. Yu possesses extensive knowledge in pollution treatment and environmental monitoring. Mr. Yu obtained his

doctoral degree in Chemistry at the University of Idaho, in the United States. Mr. Yu has made contributions by advising the Group on development potentials of the technology in photocatalytic oxidation, an oxidation process that is catalysed under the supply of light source (UV light) (“PCO”) 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.

Senior Management

Mr. Leung Chi Kin, aged 50, 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. To Hang Ming, aged 47, 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 41, 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 16 years of experience in handling accounting and company secretarial functions.

Mr. Hyung Kyu Kim, aged 41, 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 12 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.

The business address of the Directors and senior management is Room 1902, 19/F Sing Pao Building, No. 101 King’s Road, North Point, Hong Kong.

PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

| | |
|---|--|
| Registered office | Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies |
| Principal place of business in Hong Kong | Room 1902 19/F Sing Pao Building No. 101 King's Road North Point, Hong Kong. |
| Authorized representatives | CHAN Hon Chiu YEUNG Kam Yan |
| Company Secretary | CHAN Siu Wing Raymond, CPA, CPA (Australia) |
| Qualified Accountant | CHAN Siu Wing Raymond, CPA, CPA (Australia) |
| Compliance Officer | CHAN Hon Chiu |
| Financial adviser to the Company in relation to the Rights Issue | INCU Corporate Finance Limited 1602 Ruttonjee House Ruttonjee Centre 11 Duddell Street Central, Hong Kong |
| Underwriter | Quam Securities Company Limited Room 3208 Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong |

| | |
|--|---|
| Legal Advisers to the Company in relation to the Rights Issue | <i>On Hong Kong Law:</i> D.S. Cheung & Co. 1910-1913, Hutchison House 10 Harcourt Road Central Hong Kong |
| Auditors | HLB Hodgson Impey Cheng Chartered Accountants Certified Public Accountants 31/F Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong |
| Principal Bankers | Standard Chartered Bank 12/F, Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong |
| Principal Share Registrar and Transfer Office | Bank of Butterfield International (Cayman) Limited Butterfield House, 68 Fort Street P.O. Box 705, George Town Grand Cayman, Cayman Islands British Virgin Indies |
| Hong Kong Branch Share Registrar and Transfer Office | Tengis Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong |

DISCLOSURE OF INTERESTS

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange:

(i) *Interests in Shares:*

| Name of Director | Nature of interest | Number of Shares | Position | Approximate percentage of the total issued Shares | Approximate percentage of shareholding upon completion of the Rights Issue |
|------------------|------------------------------|------------------|----------|---|--|
| Yung Kwok Leong | Corporate interest (Note) | 69,519,000 | Long | 20.15% | 13.44% |
| | Personal interest | 4,125,000 | Long | 1.20% | 0.79% |
| Chan Hon Chiu | Personal interest | 4,156,798 | Long | 1.21% | 0.80% |
| Yeung Kam Yan | Personal interest | 3,795,237 | Long | 1.10% | 0.73% |

Note: These Shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong.

(ii) Interests in Share Options:

On 7 July 2005, the Company granted options to certain eligible persons, including the Directors, to subscribe for Shares under the Post-IPO Share Option Scheme at an exercise price of HK\$0.102 per Share. The details of the interests of the Directors as at the Latest Practicable Date were as follows:

| Name of Director | Nature of interest | Exercise Period | Number of underlying Shares in respect of which Share Options were granted | Number of underlying Shares in respect of which Share Options were outstanding as at the Latest Practicable Date | Position | Approximate percentage of the total issued Share (assuming the Share Options are exercised in full) |
|------------------|--------------------|----------------------------|--|--|----------|---|
| Chan Hon Chiu | Personal interest | 7 July 2005 to 6 July 2015 | 1,250,000 | 1,250,000 | Long | 0.36% |
| Yeung Kam Yan | Personal interest | 7 July 2005 to 6 July 2015 | 1,250,000 | 1,250,000 | Long | 0.36% |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Substantial Shareholders:

| Name of Shareholder | Number of Shares | Position | Capacity | Approximate percentage of the total issued Shares | Approximate percentage of shareholding upon completion of the Rights Issue |
|---|------------------|----------|---|---|--|
| Lee Kun Hung (Note 1) | 48,230,000 | Long | Beneficial owner and interest of a controlled corporation | 13.98% | 9.32% |
| Win Triple Limited (Note 1) | 46,830,000 | Long | Beneficial owner | 13.58% | 9.05% |
| Easeglory Holdings Limited (Note 2) | 69,519,000 | Long | Beneficial owner | 20.15% | 13.44% |
| Yung Muk Ying (Note 2) | 73,644,000 | Long | Interest of spouse | 21.35% | 14.23% |
| Top Rainbow Ltd. (Note 3) | 44,901,258 | Long | Beneficial owner | 13.02% | 8.68% |
| Yang Pei Gen (Note 3) | 44,901,258 | Long | Interest of a controlled corporation | 13.02% | 8.68% |
| Lu Jin Ming (Note 3) | 44,901,258 | Long | Interest of spouse | 13.02% | 8.68% |
| Quam Securities Company Limited (Note 4) | 148,317,166 | Long | Beneficial owner | 43.00% | 28.67% |

Notes: 1 48,230,000 Shares are beneficially owned by Mr. Lee Kun Hung of which 46,830,000 Shares are held by Win Triple Limited which is 100% owned by Mr. Lee Kun Hung.

2. The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive Director and the chairman of the Company. Ms. Yung Muk Ying is deemed to be interested in 73,644,000 Shares by virtue of her being the spouse of Mr. Yung Kwok Leong.
3. The issued share capital of Top Rainbow Ltd. is 100% beneficially owned by Mr. Yang Pei Gen. Ms. Lu Jin Ming is deemed to be interested in the Company by virtue of her being the spouse of Mr. Yang Pei Gen.
4. 148,317,166 Shares represent the maximum number of Rights Shares Quam Securities Company Limited as underwriter is required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, Quam Securities Company Limited is deemed to be interested in 148,317,166 Shares under the SFO.

(ii) *Other persons who are required to disclose their interests:*

| Name of Shareholder | Number of Shares | Position | Capacity | Approximate percentage of the total issued Shares |
|--------------------------------|------------------|----------|---------------------|---|
| Lau Kam Chee (<i>Note 1</i>) | 23,600,000 | Long | Beneficial interest | 6.84% |
| Lam Yuen Yin (<i>Note 1</i>) | 23,600,000 | Long | Interest of spouse | 6.84% |
| Li Hua (<i>Note 2</i>) | 25,328,358 | Long | Beneficial interest | 7.34% |

Note 1: Ms. Lam Yuen Yin is deemed to be interested in 23,600,000 Shares by virtue of her being the spouse of Mr. Lau Kam Chee.

Note 2: Ms. Li Hua is interested in 16,000,000 shares and is deemed to be interested in 9,328,358 shares to be allotted and issued upon full conversion of the convertible notes subscribed by her pursuant to the Placing Agreement dated 25 November 2005.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

EXPERT AND CONSENT

The following are the qualifications of the experts who have been named in this document or have given opinions, letters or advice which are contained in this prospectus:

| Name | Qualification |
|-------------------------|---|
| HLB Hodgson Impey Cheng | Chartered Accountants Certified Public Accountants |

As at the Latest Practicable Date, HLB Hodgson Impey Cheng did not have any beneficial interest in the share capital of the Company or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company and have any interest, either directly or indirectly, in any assets which had been, since 31 March 2005, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to the Group.

HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and/or references to its names, in the form and context in which it respectively appears.

MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the member of the Group which was not determinable by such member of the Group within one year without payment of compensation, other than statutory compensation.

MATERIAL CONTRACTS

The following contracts have been entered into by the Company and its subsidiary (not being contracts entered into in the ordinary course of business) after the date two years immediately preceding the date of this prospectus and are or may be material:

- (a) the subscription agreement dated 18 January 2005 entered into among the Company, Easeglory Holdings Limited and Mr. Yung Kwok Leong in respect of Easeglory Holdings Limited's subscription for 46,346,000 consolidated Shares of the Company;
- (b) the acquisition agreement dated 26 August 2005 entered into between Fujian Worldshine Development Co., Ltd and Prime Source (Fujian) Chemical Co., Ltd (an indirect wholly owned subsidiary of the Company established in the PRC) in relation to the acquisition of the Production line (as defined therein);
- (c) the agreement dated 10 October 2005 entered into among the Company, Fruitful Profits Limited and Lam Hing Lun in respect of Fruitful Profits Limited's subscription for 16,000,000 Shares of the Company;
- (d) the agreement dated 10 October 2005 entered into between the Company and Mr. Lau Kam Chee in respect of Mr. Lau Kam Chee's subscription for 23,600,000 Shares of the Company;
- (e) the agreement dated 10 October 2005 entered into between the Company and Mr. Chan Fung in respect of Mr. Chan Fung's subscription for 16,000,000 Shares of the Company;
- (f) a lease dated 26 September 2005 entered into between the Prime Source (Fujian) Chemical Co., Ltd. and Fujian Worldshine Development Co., Ltd in relation to the letting by Fujian Worldshine Development Co., Ltd to Prime Source (Fujian) Chemical Co., Ltd. of approximately 1,600m² of part of a factory situated at Xitianwei County, Licheng District, Putian, Fujian Province, the PRC;
- (g) the placing agreement dated 25 November 2005 entered into between the Company and Hantec Capital Limited in relation to the placing of unlisted convertible notes in the principal amount of HK\$15 million to HK\$20 million; and
- (h) the Underwriting Agreement.

COMPETING INTERESTS

None of the Directors and management shareholders (as defined in GEM Listing Rules), and their respective associates had any interest in business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee 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 to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises the three independent non-executive directors of the Company. Further details of the members of the audit committee are set out in the paragraph headed “Directors and senior management” in this appendix.

MISCELLANEOUS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Group since 31 March 2005, being the date to which the latest published audited accounts of the Group were made up.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Group.

The English text of the Prospectus Documents shall prevail over the Chinese text in the case of any inconsistency.

EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission, printing, registration, legal, professional and accounting charges are estimated to amount to approximately HK\$1 million and will be payable by the Company.

DOCUMENTS REGISTERED BY THE REGISTRAR OF COMPANIES IN HONG KONG

Copies of the Prospectus Documents and the written consent by HLB Hodgson Impey Cheng have been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at Rooms 1902, 19/F, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong from the date of this prospectus up to and including 18 April 2006:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2005 and 31 March 2004;
- (c) the unaudited interim report of the Company for the six months ended 30 September 2005;
- (d) the unaudited third quarterly report of the Company for the nine months ended 31 December 2005;
- (e) the material contracts as referred to in the paragraph headed "Material Contracts" in this Appendix II to this prospectus;
- (f) the letter from HLB Hodgson Impey Cheng in connection with the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group after completion of the Rights Issue, the text of which are reproduced in Appendix I to this prospectus;
- (g) the written consent referred to in the paragraph headed "Expert and Consent" in this Appendix II;
- (h) the circular of the Company dated 23 September 2005 in relation to acquisition of the Production Line (as defined therein);
- (i) the circular of the Company dated 25 October 2005 in relation to leasing of premises;
- (j) the circular of the Company dated 15 December 2005 in relation to the placing of unlisted convertible notes; and
- (k) the letter issued by HLB Hodgson Impey Cheng dated 27 March 2006 for the adjustments in relation to the Share Option Schemes and Convertible Securities.