Grandy Corporation

泓迪有限公司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2006

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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

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 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 Exchange. 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 of GEM-listed issuers.

This announcement, for which the directors ("the Directors") of Grandy Corporation (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange for the purpose of giving information with regard to Grandy Corporation. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *for identification purpose only*

FINANCIAL SUMMARY

Summary of the results of the Group for the financial year ended 31 March 2006 is as follows:

- Turnover was approximately HK$41.09 million, representing an increase of approximately 20% as compared to a turnover of approximately HK$34.23 million for the previous year.

- Gross profit was approximately HK$21.81 million, representing an increase of approximately 17% as compared to a gross profit of approximately HK$18.69 million for the previous year.

- Net profit attributable to equity holders was approximately HK$3.19 million, representing an increase of profitability of approximately 145% as compared to a net loss attributable to equity holders of approximately HK$7.05 million for the previous year.

- The Board does not recommend the payment of a final dividend for the year ended 31 March 2006 (2005: Nil).

CHAIRMAN'S STATEMENT

For and on behalf of the board of directors (the "Board") of Grandy Corporation (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2006.

Benefited from the economic growth and growth in demand for environmental protection products and services in both Hong Kong and the People's Republic of China (the "PRC"), the Group's revenue for the year ended 31 March 2006 increased approximately 20% over that of the year ended 31 March 2005, which was itself a major turn-around after several loss-making years. Net profit attributable to the equity holders of the Group reached a record high of approximately HK$3.19 million.

In view of greater concern about environmental problems and the increasing demand for environmental protection products, the Group acquired a melamine materials production line in the Fujian Province, the PRC in September 2005 with a cash consideration of approximately HK$6.25 million. Melamine materials are environmental friendly raw materials used in the manufacture of household products. With the acquisition, the Group expanded 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.

In October and November 2005, the Company completed the placing of 55,600,000 new shares to three placees at HK$0.13 per share and raised an aggregate amount of approximately HK$7.00 million. We intend to apply the net proceeds of approximately HK$5.00 million towards the Group's future investment in environmental related projects and the balance on other investments 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$18.00 million. We intend to apply the net proceeds of approximately HK$17.00 million, as to approximately one-fourth towards environmental 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 run.

On 11 April 2006, the Company completed the issue of 172,465,166 rights shares at HK$0.06 per rights share and raised an aggregate principal amount of HK$10.35 million. We currently intend to use the net proceeds from the rights issue as to approximately HK$0.50 million towards general working capital of the Group and the balance towards projects or investments in the healthcare sector which we expect will bring synergistic effect and positive return to the existing environmental business and the related projects of the Company.

On 5 June 2006, the Company completed the placing of 103,414,000 non-listed warrants to two subscribers at an issue price of HK$0.02 per warrant and raised an initial amount of approximately HK$2.06 million. Upon full exercises of the subscription rights attaching to the warrants by the warrants holders approximately HK$64.1 million will be raised at an initial subscription price of HK$0.62 per warrant.

On 12 June 2006, the Board announced that Grand Brilliant Corporation Limited, a wholly-owned subsidiary of the Company, entered into the conditional Sale and Purchase Agreement with Mr. Wu Wendong, to acquire the shareholding held by the ultimate controlling shareholder in Day View Group Limited which indirectly holds 51% interests in a hospital management company in Shanghai, Shanghai Humanity Hospital Management Company Limited. The total consideration of the proposed acquisition, comprising a combination of cash and shares of the Company, was HK$96.86 million.

On 15 June 2006, the Board announced that a special resolution will be proposed at an extraordinary general meeting, which will be held on 12 July 2006, to approve the change of the Company's name from "Grandy Corporation" to "Hua Xia Healthcare Holdings Limited".

The year under review is a year full of developments within the Group. Our Group has been deploying resources effectively in launching new products and services, identifying new business partners as well as other investment opportunities aiming at improving both the Group's earning base and asset base.

Appreciation

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

Yung Kwok Leong
Chairman

Hong Kong,
27 June 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	7	**41,088**	34,230
Cost of sales		**(19,281)**	(15,539)
Gross profit		**21,807**	18,691
Other revenue	7	**40**	79
Other income	8	**3,465**	–
Selling and distribution expenses		**(1,986)**	(2,017)
Administrative expenses		**(18,408)**	(17,912)
Provision for impairment on trade and other receivables		**(964)**	(3,715)
Provision for obsolete inventories		**–**	(1,282)
Loss on disposal of subsidiaries		**–**	(222)
Profit/(loss) from operations	8	**3,954**	(6,378)
Finance costs		**(299)**	(288)
Profit/(loss) before taxation		**3,655**	(6,666)
Taxation	9	**(561)**	(440)
Profit/(loss) for the year		**3,094**	(7,106)
Attributable to:			
Equity holders of the Company		**3,191**	(7,045)
Minority interest		**(97)**	(61)
		3,094	(7,106)
Dividends	12	**–**	–
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
– basic	11	**HK0.73 cents**	(HK2.05 cents)
– diluted	11	**HK0.63 cents**	N/A

CONSOLIDATED BALANCE SHEET

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**14,585**	2,342
Available-for-sale investments		**138**	131
Goodwill		**1,893**	1,893
		16,616	4,366
Current assets			
Inventories		**3,250**	2,373
Trade and other receivables	*4*	**30,211**	18,780
Pledged bank deposits		**93**	–
Cash and bank balances		**8,992**	3,136
		42,546	24,289
Total assets		**59,162**	28,655
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital		**17,247**	13,904
Reserves		**13,735**	5,092
		30,982	18,996
Minority interests		**36**	133
Total equity		**31,018**	19,129

	Notes	**2006** **HK$'000**	2005 HK$'000 (Restated)
LIABILITIES			
Current liabilities			
Trade and other payables	*6*	**9,591**	8,470
Obligations under finance leases-due within one year		**111**	7
Amounts due to directors		**655**	664
Amount due to minority shareholder of a subsidiary		**160**	160
Tax payable		**568**	225
		11,085	9,526
Long-term liabilities			
Convertible notes		**16,762**	–
Obligations under finance leases-due after one year		**297**	–
		17,059	–
Total liabilities		**28,144**	9,526
Total equity and liabilities		**59,162**	28,655
Net current assets		**31,461**	14,763
Total assets less current liabilities		**48,077**	19,129

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 March 2006

	Attributable to the equity holders of the Company										
	Share Capital *HK$'000*	**Share premium** *HK$'000*	**Special reserve** *HK$'000* *(Note (a))*	**Translation reserve** *HK$'000*	**Share-based payment reserve** *HK$'000*	**Convertible notes reserves** *HK$'000*	**Statutory enterprise expansion fund** *HK$'000* *(Note (c))*	**Statutory reserve** *HK$'000* *(Note (b))*	**Accumulated losses** *HK$'000*	**Minority interest** *HK$'000*	**Total equity** *HK$'000*
At 1 April 2004, as previously reported as equity	11,587	50,064	2,935	(12)	–	–	–	–	(47,175)	–	17,399
At 1 April 2004, as previously separately reported as minority interests	–	–	–	–	–	–	–	–	–	325	325
At 1 April 2004, as restated	11,587	50,064	2,935	(12)	–	–	–	–	(47,175)	325	17,724
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	355	–	–	–	–	–	–	355
Release upon disposal of subsidiaries	–	–	–	12	–	–	–	–	–	(131)	(119)
Net loss recognised directly in equity	–	–	–	367	–	–	–	–	–	(131)	236
Net loss for the year	–	–	–	–	–	–	–	–	(7,045)	(61)	(7,106)
Total loss for the year	–	–	–	367	–	–	–	–	(7,045)	(192)	(6,870)
Issue of shares	2,317	6,025	–	–	–	–	–	–	–	–	8,342
Issuing expenses	–	(67)	–	–	–	–	–	–	–	–	(67)
Total equity at 31 March 2005 and 1 April 2005, as restated	13,904	56,022	2,935	355	–	–	–	–	(54,220)	133	19,129
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	98	–	–	–	–	–	–	98
Net income recognised directly in equity	–	–	–	98	–	–	–	–	–	–	98
Net profit for the year	–	–	–	–	–	–	–	–	3,191	(97)	3,094
Total income for the year	–	–	–	98	–	–	–	–	3,191	(97)	3,192
Issue of shares	2,780	–	–	–	–	–	–	–	–	–	2,780
Premium arising on issue of shares	–	4,448	–	–	–	–	–	–	–	–	4,448
Issuing expenses	–	(627)	–	–	–	–	–	–	–	–	(627)
Share-based payment expenses	–	–	–	–	449	–	–	–	–	–	449
Exercise of share options	563	336	–	–	(336)	–	–	–	–	–	563
Premium arising on exercise of share options	–	585	–	–	–	–	–	–	–	–	585
Equity component of convertible notes	–	–	–	–	–	499	–	–	–	–	499
Transfer to reserve	–	–	–	–	–	–	37	37	(74)	–	–
Total equity at 31 March 2006	17,247	60,764	2,935	453	113	499	37	37	(51,103)	36	31,018

Note:

(a) 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.

(b) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

(c) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall appropriate 5% to 10% of its net profit after taxation as the statutory enterprise expansion fund. The directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman, British West Indies. The principal place of business of the Company in Hong Kong is located at Room 1902, 19/F., Sing Pao Building, No.101 King's Road, North Point, Hong Kong.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in the financial statements.

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 adopted these new and revised standards and interpretations of HKFRSs in its financial statements for the year ended 31 March 2006, which are relevant to its operations. The financial statements for the year ended 31 March 2005 have been restated in accordance with the relevant requirements. A summary of the effect on initial adoption of these new and revised HKFRSs is as follows:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets

The adoption of new and revised HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 33, 37, 38 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. The impact of adopting the other HKFRSs is summarised as follows:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

– The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

  Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or redeemed (in which case it is released directly to retained earnings).

  In prior year, convertible notes were stated at face value. The finance cost was accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible note were charged to the income statement in the year of issue. Retrospective application is required for adoption of HKAS 32. As the Group had no convertible notes at 31 March 2005, no prior year adjustment is required.

– The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 April 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in share-based payment reserve. The share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. In prior years, no amount was recognised when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 April 2005 were expensed retrospectively in the income statement of the respective periods.

  The outstanding share options at 31 March 2005 are all granted before 7 November 2002 and rested before April 2005, no prior year adjustment is required.

– The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 March 2005, positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 5 years and was subject to impairment testing when there were indications of impairment.

  In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 April 2005 and the accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 March 2006 onwards, goodwill is tested annually for impairment.

  The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

– The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale. As the Group had no investment properties at 31 March 2005 and 2006, no adjustments are required.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS16 – initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations; and

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investment in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

– HKFRS 3 – prospectively after 1 April 2005.

(i) Effect on the consolidated balance sheet as at 1 April 2005

	HKAS 32 Financial instruments	**HKFRS 3 Business combination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Other investments	(131)	–	(131)
Available-for-sale financial assets	131	–	131
Accumulated amortisation	(3,796)	–	(3,796)
Goodwill	3,796	–	3,796
	–	–	–

(ii) Effect on the consolidated income statement for the year ended 31 March 2006

	HKAS 39 Financial instruments	HKFRS 2 Share-based payment	Total
	HK$'000	*HK$'000*	*HK$'000*
Increase in administrative expenses	–	449	449
Increase in provision of impairment loss of trade and other receivables	964	–	–
Decrease in allowances for bad and doubtful debts	(964)	–	–
	–	449	449
Decrease in basic earnings per share	–	HK0.10 cents	HK0.10 cents
Decrease in diluted earnings per share	–	HK0.09 cents	HK0.09 cents

(iii) Effect on the consolidated balance sheet as at 31 March 2006

	HKAS 39 Financial instruments	HKFRS 2 Share-based payment	Total
	HK$'000	*HK$'000*	*HK$'000*
Increase in convertible notes reserve	499	–	499
Increase in share-based payment reserve	–	113	113
	499	113	612

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosure
HK (IFRIC) – Int 4	Determining whether an Arrangement contain a Lease
HK (IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives

HKAS 1 (Amendment) – Presentation of Financial Statements – Capital Disclosures introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKAS 1 from annual periods beginning 1 January 2007.

HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at 31 March 2005 and 2006.

HKAS 39 (Amendment) – The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on or after 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment) – Financial Guarantee requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

HKFRS 7 – Financial Instruments: Disclosures introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32 – Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

3. 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 Hong Kong, Mainland China (the "PRC") and Korea, representing the basis on which the Group reports its primary segment information. The following table provides on analysis of the Group's geographical segment information.

	Turnover		Results	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**12,614**	9,375	**5,812**	5,194
PRC	**12,919**	362	**8,211**	83
Korea	**15,555**	24,493	**8,299**	11,397
	41,088	34,230	**22,322**	16,674
Unallocated other revenue			**40**	79
Unallocated corporate expenses			**(18,408)**	(22,909)
Profit/(loss) from operations			**3,954**	(6,156)
Finance costs			**(299)**	(288)
Loss on disposal of a subsidiary			**–**	(222)
Profit/(loss) before taxation			**3,655**	(6,666)
Taxation			**(561)**	(440)
Profit/(loss) for the year			**3,094**	(7,106)

Balance sheet

	Segment assets		Segment liabilities	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**27,079**	18,619	**3,976**	3,955
PRC	**18,102**	813	**3,686**	2,400
Singapore	**–**	–	**200**	200
Korea	**3,003**	6,559	**3,112**	2,964
	48,184	25,991	**10,974**	9,519
Unallocated	**10,978**	2,664	**17,170**	7
	59,162	28,655	**28,144**	9,526

Other information

	Capital additions		Depreciation and amortisation	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**990**	–	**571**	889
PRC	**12,216**	–	**496**	295
Korea	**479**	314	**560**	254
	13,685	314	**1,627**	1,438

	Loss on disposal of property, plant and equipment		Provision for impairment loss on trade and other receivables	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)
Hong Kong	**13**	–	**207**	2,363
PRC	**–**	264	**–**	873
Korea	**–**	–	**757**	479
	13	264	**964**	3,715

Business segments

The Group is engaged in: (1) environmental and environmental-related businesses including (i) installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services, (ii) the manufacture and sales of environmental protection products; (2) manufacture and sales of melamine and its related 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		Manufacture and sale of melamine and its related products		Unallocated		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**8,682**	9,737	**25,164**	24,493	**7,242**	–	**–**	–	**41,088**	34,230
Segment assets	**2,604**	11,704	**20,819**	6,559	**19,286**	–	**16,453**	10,392	**59,162**	28,655
Capital additions	**501**	–	**479**	314	**12,216**	–	**489**	–	**13,685**	314

4. TRADE AND OTHER RECEIVABLES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**15,538**	10,725
Deposits made to suppliers	**267**	306
Deposits paid under a non-legally binding memorandum of understanding	**10,000**	–
Deposits paid	**1,409**	7,187
Prepayments	**1,554**	367
Other receivables	**1,443**	195
	30,211	18,780

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 receivables 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	
	2006	2005
	HK$'000	*HK$'000*
Age		
0 to 90 days	**11,403**	3,804
91 to 180 days	**427**	3,328
181 to 365 days	**1,287**	1,735
Over 365 days	**5,987**	4,668
	19,104	13,535
Less: Provision for impairment losses of trade receivables *(Notes (b))*	**(3,566)**	(2,810)
	15,538	10,725

Notes:

(a) The carrying amounts of trade receivables approximate to their fair values.

(b) The movements in provision for impairment losses of trade receivables were as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
At 1 April 2005/2004	**2,810**	1,982
Release upon disposal of subsidiary	**–**	(103)
Provision for impairment losses for the year	**756**	931
At 31 March 2006/2005	**3,566**	2,810

5. RESERVES

The Company

	Share premium	Share-based payment reserve	Contributed surplus	Convertible notes reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 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	56,022	–	1,452	–	(71,787)	(14,313)
Premium arising on issue of shares	4,448	–	–	–	–	4,448
Issuing expenses	(627)	–	–	–	–	(627)
Share-based payment expenses	–	449	–	–	–	449
Exercise of share options	336	(336)	–	–	–	–
Premium arising on exercise of share options	585	–	–	–	–	585
Equity component of convertible notes	–	–	–	499	–	499
Net loss for the year	–	–	–	–	(25,535)	(25,535)
At 31 March 2006	**60,764**	**113**	**1,452**	**499**	**(97,322)**	**(34,494)**

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

6. TRADE AND OTHER PAYABLES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Trade payables	**4,757**	3,926
Value-added tax payables	**432**	191
Other payables	**4,402**	4,353
	9,591	8,470

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

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Age		
0 to 90 days	**4,333**	1,665
91 to 180 days	**68**	338
181 to 365 days	**5**	1
Over 365 days	**351**	1,922
	4,757	3,926

Note: The carrying amounts of trade payables approximate to their fair values.

7. TURNOVER AND REVENUE

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the installation of environmental analyses and measurement services, the sale of environmental protection products and provision of related services and manufacture of melamine and its related products. An analysis of the Group's turnover and other revenue is as follows:–

	2006	2005
	HK$'000	*HK$'000*
Turnover:		
Manufacture and sales of environmental protection products	**8,682**	9,737
Manufacture and sales of melamine and its related products	**7,242**	–
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services	**25,164**	24,493
	41,088	34,230
Other revenue:		
Interest income	**35**	73
Sundry income	**5**	6
	40	79
	41,128	34,309

8. PROFIT/(LOSS) FROM OPERATIONS

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) from operations has been arrived at after charging:		
Directors' remuneration	**337**	151
Other staff's retirement benefits scheme contributions	**910**	1,125
Other staff costs	**9,695**	10,200
	10,942	11,476
Amortisation of goodwill included in administrative expenses	**–**	425
Amortisation of intangible assets included in administrative expenses	**–**	1
Auditors' remuneration – current year	**341**	293
– under provision in prior years	**–**	105
Provision for impairment losses of trade and other receivables	**964**	3,542
Provision for obsolete inventories	**–**	1,282
Bad debt written off	**–**	173
Cost of goods sold	**11,542**	1,996
Depreciation of property, plant and equipment		
– owned by the Group	**1,586**	1,006
– held under finance leases	**41**	6
Loss on disposal of property, plant and equipment	**13**	264
Operating lease rentals in respect of land and buildings	**925**	1,368
Development costs	**1,108**	–
and after crediting:		
Other income:		
Bad debt recovered	**916**	–
Reversal of provision of obsolete inventories	**254**	–
Reversal of trade payables	**2,285**	–
Net exchange gain	**10**	–
	3,465	–
Rental income from hire of machinery and equipment	**–**	50

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.

	2006	2005
	HK$'000	*HK$'000*
Current tax		
Provision for the year – PRC	**574**	–
Provision for the year – overseas	**–**	289
(Over)/Under provision in previous year – Hong Kong	**(13)**	151
	561	440

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

For the year ended 31 March 2006

	Hong Kong		PRC		Korea		Total	
	HK$'000		*HK$'000*		*HK$'000*		*HK$'000*	
Profit/(loss) before taxation	(2,172)		7,493		(1,666)		3,655	
Tax at applicable income tax rate	(380)	(17.5%)	2,473	33.0%	(238)	(14.3%)	1,855	50.8%
Tax effect of expenses and income not deductible or taxable for tax purposes	(101)	(4.6%)	(1,899)	(25.3%)	238	14.3%	(1,762)	(48.2%)
Tax effect of tax losses not recognised	481	22.1%	–	–	–	–	481	13.2%
Over provision in previous years	(13)	(0.6%)	–	–	–	–	(13)	(0.4%)
Others	–	–	–	–	–	–	–	–
Tax charge and effective tax rate for the year	(13)	(0.6%)	574	7.7%	–	–	561	15.4%

For the year ended 31 March 2005

	Hong Kong		PRC		Korea		Total	
	HK$'000		*HK$'000*		*HK$'000*		*HK$'000*	
Profit/(loss) before taxation	(6,770)		(1,564)		1,668		(6,666)	
Tax at applicable income tax rate	(1,185)	(17.5%)	(516)	(33.0%)	342	20.5%	(1,359)	(20.4%)
Tax effect of expenses and income not deductible or taxable for tax purposes	302	4.4%	516	33.0%	(53)	(3.2%)	765	11.4%
Tax effect of tax losses not recognised	959	14.2%	–	–	–	–	959	14.4%
Under provision in previous years	151	2.2%	–	–	–	–	151	2.3%
Others	(76)	(1.1%)	–	–	–	–	(76)	(1.1%)
Tax charge and effective tax rate for the year	151	2.2%	–	–	289	17.3%	440	6.6%

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 March 2006, net loss of approximately HK$25,535,000 (2005: HK$21,297,000) has been dealt with in the financial statements of the Company.

11. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net profit for the year of approximately HK$3,191,000 (2005: loss of approximately HK$7,045,000) and the weighted average number of 438,751,909 (2005: 344,119,576 (restated)) shares in issue during the year after adjusting for the effects of the right issues on 11 April 2006. The basic loss per share for 2005 has been adjusted accordingly.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible notes and share options.

The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expenses less the tax effect.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) attributable to equity holders of the Company	**3,191**	(7,045)
Interest expense on convertible notes (net of tax)	**203**	–
Profit/(loss) used to determine diluted earnings per share	**3,394**	(7,045)

	2006	2005
		(Restated)
Weighted average number of ordinary shares in issue	**438,751,909**	344,119,576
Adjustments for assumed exercise of share options	**1,544,406**	–
Adjustments for assumed conversion of convertible notes	**96,716,418**	–
Weighted average number of ordinary shares of diluted earnings per share	**537,012,733**	344,119,576

	2006	2005
Diluted earnings per share	**HK0.63 cents**	N/A

No diluted loss per share has been presented for the year ended 31 March 2005 as share option outstanding during the year ended 31 March 2005 had an anti-dilutive effect on basic loss per share.

12. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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 in, particularly, the PRC and Korea.

Results of the Group for the year ended 31 March 2006 have shown improvement in turnover compared with 31 March 2005. Turnover of the Group for the year was approximately HK$41.09 million in comparison with HK$34.23 million in 2005, representing an increase of approximately 20%. Net profit attributable to equity holders for the year ended 31 March 2006 was HK$3.19 million in comparison with a net loss of HK$7.05 million in 2005, representing an increase of profitability of approximately 145%.

The improvement in revenue for the year ended 31 March 2006 was mainly driven by the contribution in turnover by the trading of environmental friendly household products and the environmental protection consultancy services to hospitals in the PRC. The turnover of these new lines of products and services represented approximately HK$17.88 million equivalent to approximately 44% of the Group's turnover for the year ended 31 March 2006.

The net profit attributable to equity holders was achieved by a combination of successes in the Group's new products and services as well as the significant decrease of the provision for impairment on trade receivables for the Group during the year under review.

Waste Water Treatment Businesses

The Group's waste water treatment businesses for government and commercial projects are mainly carried out through Youngdong Environmental Engineering Co. Ltd. ("Youngdong") in Korea. Youngdong's turnover for the year ended 31 March 2006 totalled approximately HK$15.55 million (2005: HK$24.50 million). The decrease in turnover was due to the drop in new waste water treatment contracts in Korea.

The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks since December 2004. Other waste water treatments such as grease trap and under sink maintenance have been routinely carried out to commercial sectors in Hong Kong. The turnover for this division of business for the year ended 31 March 2006 recorded approximately HK$0.89 million (2005: HK$0.21 million).

Energy Saving Products

The Group's energy saving division recorded a turnover of approximately HK$3.26 million for the year ended 31 March 2006 (2005: HK$4.30 million). The decrease in turnover was due to intense market competition and fall in demand for the products.

Enzyme Treatments

The Group's enzyme treatments division recorded a turnover of approximately HK$3.05 million for the year ended 31 March 2006 (2005: HK$4.20 million). The decrease in turnover was due to keen competition in the industry of environmental protection products.

Nano Products

Turnover for the nano products for the year ended 31 March 2006 was approximately HK$0.46 million (2004: HK$0.40 million).

Trading of Environmental Friendly Household Products

In July 2005, the Group had commenced a new business line of trading of household products made from the environmental friendly melamine materials which are widely used in environmental conscious countries. The turnover recorded in this line of business for the year ended 31 March 2006 was approximately HK$9.80 million. Management is of the view that the trend of these products is positive and will experience a continuous growth.

Manufacture of Melamine Materials and Related Products

On 5 September 2005, the Group had completed the acquisition of a production line through the wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., incorporated in the Fujian Province, the PRC. The production line comprises machineries and other supporting equipment such as storage tanks, grinding machines, electrical distributors and pipelines for the production of melamine materials. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The production line has commenced operation since February 2006 and generated HK$2.40 million revenue for the Group.

Environmental Protection Consultancy Services

In October 2005, the Group entered into the service agreements with hospitals in the PRC to provide professional consulting services in the areas of environmental protection such as energy saving, waste water treatments, and improvement on the hospitals' air and water quality. In addition to rendering environmental protection services for hospitals, the Group subcontracts its services to a hospital management company in the PRC to provide hospital management services. The turnover recorded in these services for the year ended 31 March 2006 was approximately HK$5.68 million. Management is of the view that the trend of these services is positive and will experience a continuous growth.

FUTURE PROSPECTS

Under the environment of fast economic growth in the PRC and more people becoming aware of the importance of health, the directors believe that the healthcare market in the PRC provides abundant business opportunities for the Group in the future while the Group will continue to pursue its principal business in the environmental business. Therefore, the directors believe that potential investments in healthcare sector in the PRC will provide a stable income source to the Group and will bring synergistic effect and positive return to the existing environmental business of the Company.

While developing the business in the healthcare market in the PRC, the Group will continue to pursue its principal business in the environmental business in order to maximise greater return for the Company and the shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had total cash and bank balances of approximately HK$8.99 million as at 31 March 2006 (2005: HK$3.14 million). The increase in cash and bank balances were mostly due to the completion of placements of shares and unlisted convertible notes which raised in aggregate approximately HK$24.00 million for the Company. During the year, the Group injected approximately HK$15.00 million as capital contribution into Prime Source (Fujian) Chemical Co. Ltd., the wholly-owned subsidiary of the Company incorporated in the Fujian Province, the PRC. Thus, the Group recorded a net positive cash balance of approximately HK$8.99 million as at 31 March 2006 as compared to a net positive cash balance of approximately HK$3.14 million as at 31 March 2005.

The Group recorded total current assets of approximately HK$42.55 million as at 31 March 2006 (2005: HK$24.29 million) and total current liabilities of approximately HK$ 11.09 million as at 31 March 2006 (2005: HK$9.53 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 3.84 as at 31 March 2006 (2005: 2.55).

CONTINGENT LIABILITIES

As at 31 March 2006, the Group had no material contingent liabilities (2005: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations were mainly in Hong Kong dollars, Korean Won and Renminbi. As the risk on exchange rate difference was considered to be minimal, the Group did not employ any financial instrument for hedging purposes.

CHARGES ON GROUP ASSETS

Bank deposits of approximately HK$0.93 million were pledged as collateral for bank loans and guarantees for checking accounts in Youngdong.

.

SEGMENT INFORMATION

During the year, the revenue of the Group was principally generated from the manufacture, sales and consultancy of environmental protection products and services. Geographically, the Group has expanded business operations into the Fujian Province, the PRC in September 2005 through the wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd. Financial information in respect of these operations is presented in note 5 to the financial statements.

CAPITAL STRUCTURE

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

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. In October and November 2005, the Company completed the placing of 55,600,000 new shares to three placees at HK$0.13 per share. On 7 July 2005, the Company passed written resolutions pursuant to the share option scheme adopted on 20 April 2002 to grant 15,000,000 share options at the subscription price of HK$0.102 per share to Directors and employees. 11,250,000 share options were exercised by the Directors and employees during the year.

As at 31 March 2006, the total issued share capital of the Company was HK$17,246,517 divided into 344,930,333 ordinary shares of HK$0.05 each.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

EMPLOYEE INFORMATION

As at 31 March 2006, the Group had 156 (2005: 65) full time employees as shown in the following table:

Location	**Number of Staff**
Hong Kong	31
Fujian	94
Dongguan	1
Korea	30

For the year ended 31 March 2006, staff costs (including Directors emoluments) amounted to approximately HK$8.39 million (2005: HK$11.50 million). The reduction of staff costs was due to the cost cutting measures and relatively low labour costs in the PRC. The increase in number of staff was mainly due to the establishment of a manufacturing plant in the Fujian Province. The Group remunerates its employees based on individual performance and qualification. Apart from the basic remuneration, staff benefits include the contribution to the Mandatory Provident Fund Scheme and bonus.

CORPORATE GOVERNANCE REPORT

Introduction

Subject to the deviations as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximise the interests of shareholders during the year under review.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors throughout the year ended 31 March 2006.

Board of Directors and Board Meeting

The board members for the year ended 31 March 2006 and up to date of this report were:

Executive director:

Mr. Yung Kwok Leong *(Chairman)*
Chan Hon Chiu (Resigned on 1 April 2006)
Yeung Kam Yan (Resigned on 25 April 2006)
Shum Ngai Pan (Appointed on 25 April 2006)
Chen Jin Shan (Appointed on 25 April 2006)
Weng Jiaxing (Appointed on 25 April 2006)

Independent non-executive director:

Mr. Chan Francis Ping Kuen
Mr. Hsu Shiu Foo, William
Prof. Yu Chai Mei

The Board is currently composed of four executive directors (including the Chairman) and three independent non-executive directors with a balance of skills and experience appropriate for the requirements of the Group. The Board is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transaction, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of directors to the management include the preparation of annual and interim accounts for the Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other directors are set out on pages 11 and 12. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position as to carry out his or her duties effectively and efficiently. Mr. Yung Kwok Leong is the chairman of the Board and an executive director. There is no relationship among the members of the Board.

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separated. There is no separation of the role and chief executive officer in the Company. Mr. Yung Kwok Leong currently assumes the role of both the Chairman and the Chief Executive Officer ("CEO"). Mr. Yung has substantial experience that is essential to fulfilling the role of the Chairman. At the same time, Mr. Yung has the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the CEO in the day-to-day management of the Group. The Board believes that there is no need to segregate the roles of the Chairman and the CEO as control procedures are in place to perform the check and balance function. The Board does not believe that the separation of the roles of the Chairman and the CEO will improve the corporate performance. However, the Board will consider the aggregation of the roles of the Chairman and the CEO in compliance with the GEM Listing Rules as and when appropriate.

Under the code provision A.4.2, every director should be subject to retirement by rotation every three years. In order to comply with this code, the existing Articles of Association will be proposed at the forecoming annual general meeting to make the necessary amendments.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualifications to carry out their duties so as to protect the interests of shareholders. Mr. Chan Francis Ping Kuen, Mr. Hsu Shiu Foo, William and Prof. Yu Chai Mei are the independent non-executive directors.

All of them have been appointed as independent non-executive directors for a term of one year commencing 27 September 2004 and 10 May 2002 respectively and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association, provided that the appointment may be terminated by the Company or the independent non-executive director with a written notice of not less than one month unless both parties agree otherwise.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

The Board held a regular board meeting for each quarter to consider and approve the Group's results announcement. Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required.

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the Board for the year ended 31 March 2006 and up to the date of this report were as follows:

Directors	**Attendance**
Mr. Yung Kwok Leong *(Chairman)*	2/4
Mr. Chan Hon Chiu (Resigned on 1 April 2006)	4/4
Mr. Yeung Kam Yan (Resigned on 25 April 2006)	3/4
Mr. Chan Francis Ping Kuen	4/4
Mr. Hsu Shiu Foo, William	4/4
Prof. Yu Chai Mei	4/4
Shum Ngai Pan (Appointed on 25 April 2006)	1/4
Chen Jin Shan (Appointed on 25 April 2006)	0/4
Weng Jiaxing (Appointed on 25 April 2006)	0/4

REMUNERATION COMMITTEE

The remuneration committee was established on 3 June 2005 in compliance with the code provision. The chairman of the committee is Mr. Chan Francis Ping Kuen, and other members include Mr. Hsu Shiu Foo, William and Prof. Yu Chai Mei, all of them are the independent non-executive directors of the Company.

The role and function of the remuneration committee include the determination of the specific remuneration package of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of non-executive directors. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year, no meeting was held but a resolution in writing from the remuneration committee members was passed on 24 April 2006 to consider and approve the emoluments of the new executive directors.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company.

The Board is empowered under the Company's Bye Laws to appoint any person as a director either to fill a casual vacancy or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

However, the Board will consider the formation of the nomination committee as and when appropriate.

There was no nomination of directors during the year. After the year end date, on 24 April 2006, the Board had nominated Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing as executive directors of the Company respectively with effect from 25 April 2006.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors. During the year under review, the Group is required to pay an aggregate of approximately HK$0.40 million (2005: HK$0.32 million) to the external auditors for their services in audit. The Company was required to pay an aggregate of approximately HK$0.10 million to the external auditors for their works in connection with the Rights Issue during the year.

AUDIT COMMITTEE

The Company established an audit committee on 2 November 2001, with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports, quarterly reports and give advice and comments thereon to the directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises three members, including Mr. Chan Francis Ping Kuen, Mr. Hsu Shiu Foo, William and Prof. Yu Chai Mei. All of them are the independent non-executive directors. The chairman of the audit committee is Mr. Chan Francis Ping Kuen.

The audit committee held four meetings during the year under review. Details of the attendance of the audit committee meetings for the year ended 31 March 2006 and up to the date of this report were as follows:

Members	**Attendance**
Mr. Chan Francis Ping Kuen	4/4
Mr. Hsu Shiu Foo, William	4/4
Prof. Yu Chai Mei	4/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 March 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

On behalf of the Board of
Grandy Corporation
Yung Kwok Leong
Chairman

Hong Kong, 27 June 2006

As at the date of this announcement, the executive Directors are Mr. Yung Kwok Leong, Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing. The independent non-executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei.

This announcement will remain on the GEM website on the "Latest Company Announcements" page and on the website of the Company at www. grandy.com.hk for at least 7 days from the date of its posting.