THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other 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 circular and accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the same or transfer was effected for transmission to the purchaser or the transferee.

This Circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

GRANDY CORPORATION
泓迪有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

MAJOR TRANSACTION INVOLVING ACQUISITION OF EQUITY INTERESTS IN AND SHAREHOLDERS' LOAN OF DAY VIEW GROUP LIMITED

A notice convening an extraordinary general meeting (the "**EGM**") of the Company to be held on Tuesday, 15 August 2006 at 11:00 a.m. at Room 1902, 19th Floor, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong is set out on pages 139 to 140 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at Room 1902, 19th Floor, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

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

28 July 2006

* *for identification purpose only*

CHARACTERISTICS 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. 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.

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares and the Sale Loan in accordance with the terms contained in the Agreement
"Adjustments"	adjustments in relation to the Pre-IPO Scheme, Post-IPO Scheme and Convertible Notes, upon the Rights Issue becoming unconditional, as detailed in section 8 of the appendix to the Prospectus Document
"Agreement"	the conditional sale and purchase agreement dated 12 June 2006 entered into between Grand Brilliant and the Vendor relating to the Acquisition
"Annual Report 2005/06"	annual report for the year ended 31 March 2006 of the Company dated 27 June 2006
"associates"	has the same meaning ascribed to such term under the GEM Listing Rules
"Board"	board of Directors
"Business Day"	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	Grandy Corporation, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
"Completion"	completion of the sale and purchase of the Sale Shares and Sale Loan in accordance with the terms and conditions of the Agreement
"Completion Date"	the date of Completion
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration Shares"	126,000,000 new Shares to be issued by the Company as part of the total consideration for the Acquisition payable under the Agreement

"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, details of which have been set out in the circular of the Company dated 15 December 2005
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the purpose of approving, among other matters, the Acquisition and the transaction contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Grand Brilliant"	Grand Brilliant Corporation Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hospital Management Company"	Shanghai Humanity Hospital Management Company Limited (上海博愛醫院管理股份有限公司), a company established in the PRC, which together with its associates, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons under the GEM Listing Rules
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons in accordance with the GEM Listing Rules

"Latest Practicable Date"	26 July 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Committee"	the listing committee appointed by GEM for consideration of application for listing and the granting of listing
"Minority Shareholder"	the beneficial owner of 14.2% interests in the Target, a company incorporated in the British Virgin Islands
"MOU"	the non-legally binding memorandum of understanding dated 30 March 2006 entered into between Grand Brilliant, the Vendor and Hospital Management Company setting out the basic understanding in relation to a proposed acquisition, details of which have been set out in the announcement of the Company dated 30 March 2006
"PRC"	the People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Pre-IPO Scheme"	the pre-listing share option scheme conditionally approved and adopted by the Company on 20 April 2002
"Post-IPO Scheme"	the post-listing share option scheme conditionally approved and adopted by the Company on 20 April 2002
"Profit Guarantee"	the profit guarantee provided by the Vendor under the Agreement in respect of the audited consolidated net profit after taxation and extraordinary or exceptional items of the Target Group for the year ending 31 March 2007 will not be less than HK$13 million
"Prospectus Documents"	the prospectus and other corresponding forms despatched on 27 March 2006 to the Shareholders in relation to the Rights Issue of 172,465,166 Rights Shares at HK$0.06 per Right Share on the basis of one Rights Share for every two existing shares of the Company held on the Record Date (as defined in the Prospectus Documents)

"Sale Loan"	76% of all obligations, liabilities and debts owing or incurred by the Target to its existing shareholders comprising the Vendor and the Minority Shareholder, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
"Rights Issue"	the proposed issue of Rights Shares on the basis of one Rights Share for every two then existing shares of the Company, to Qualifying Shareholders (as defined in the Prospectus Document) held on the Record Date by way of rights or to holders of nil-paid Rights Shares at the Subscription Price (as defined in the Prospectus Document), pursuant to the terms and conditions of the Rights Issue
"Rights Share(s)"	172,465,166 new Shares issued pursuant to the Rights Issue
"Sale Shares"	760 shares of US$1.00 each in the share capital of the Target, representing 76% of the issued share capital of the Target and is legally and beneficially owned by the Vendor
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Shanghai Humanity Hospital"	Shanghai Humanity Hospital Company Limited(上海博愛醫院有限公司), a privately-run hospital established in Shanghai, the PRC which, together with its associates, to the best of Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons under the GEM Listing Rules
"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 Pre-IPO Scheme and/or the Post-IPO Scheme
"Share Option Schemes"	together, the Pre-IPO Scheme and the Post-IPO Scheme
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target"	Day View Group Limited, a company incorporated in the British Virgin Islands which is 85.8% beneficially owned by the Vendor before Completion
"Target Group"	together, the Target and its subsidiaries, including Hospital Management Company upon Completion
"Target Group Reorganisation"	the restructuring of the Target Group prior to Completion which includes, among other matters: (i) the transfer of 51% equity interests in Hospital Management Company to Shine Concord Enterprises Limited, a wholly owned subsidiary of the Target and having completed the transformation of Hospital Management Company into a sino-foreign enterprise in the PRC; and (ii) the registered capital of Hospital Management Company having been increased from RMB20,000,000 (equivalent to approximately HK$19,230,769) to RMB30,000,000 (equivalent to approximately HK$28,846,154) and the Vendor having fulfilled his contribution obligation on such increase in registered capital
"Vendor"	Mr. Wu Wendong, the ultimate controlling shareholder of the Target which will indirectly hold 51% interests in Hospital Management Company upon completion of the Target Group Reorganisation
"HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent.

For the purpose of this circular, unless otherwise specified, conversion of RMB into HK$ is based on the approximate exchange rate of HK$1.00 to RMB1.04. The exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rates at all.

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
Ms. Shum Ngai Pan
Mr. Chen Jin Shan
Mr. Weng Jiaxing

Independent non-executive Directors:
Mr. Chan Francis Ping Kuen
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

28 July 2006

To the Shareholders, holders of Convertible Notes and warrants

Dear Sir or Madam,

MAJOR TRANSACTION INVOLVING ACQUISITION OF EQUITY INTERESTS IN AND SHAREHOLDERS' LOAN OF DAY VIEW GROUP LIMITED

INTRODUCTION

By an announcement of the Company dated 15 June 2006, the Board announced that Grand Brilliant, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor pursuant to which Grand Brilliant has agreed to acquire from the Vendor, the Target which comprises the Sale Shares and the Sale Loan, for a total consideration of HK$96.86 million.

* *for identification purpose only*

The purpose of this circular is to provide you with further information on the Acquisition and to set out the notice of EGM.

THE AGREEMENT

Date: 12 June 2006

Parties: (i) Grand Brilliant, a wholly-owned subsidiary of the Company

(ii) Vendor, who currently owns 85.8% direct interest in the Target and upon completion of the Target Group Reorganisation, will own 51% indirect interests in Hospital Management Company, the main operating subsidiary of the Target

The remaining 14.2% interests in the Target is beneficially owned by a Minority Shareholder. Each of the Vendor, the Minority Shareholder, Hospital Management Company and the other shareholders of the remaining 49% interests in Hospital Management Company and their respective ultimate beneficial owners, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of each other, the Company and its connected persons in accordance with the GEM Listing Rules.

Assets to be acquired

Pursuant to the Agreement, Grand Brilliant has agreed to acquire and the Vendor has agreed to sell the following:

(a) the Sale Shares, being 760 shares of US$1.00 each in the share capital of the Target, representing 76% of the issued share capital of the Target; and

(b) the Sale Loan, being 76% of all obligations, liabilities and debts owing or incurred by the Target to its existing shareholders comprising the Vendor and the Minority Shareholder, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion.

Except for the shareholder's loan owed to the Vendor and the Minority Shareholder, the Target and its wholly owned subsidiary, Shine Concord Enterprises Limited, being company through which Hospital Management Company is owned upon completion of the Target Group Reorganisation, are investment holdings companies which have not been carrying on any businesses since their incorporation. Hospital Management Company will be the main operating subsidiary of the Target. Details of the Target Group are set out under the sub-heading "Group Structure" and further elaborated under the heading "INFORMATION OF THE TARGET GROUP" below.

Based on the audited accounts of Hospital Management Company, the audited net asset value of Hospital Management Company amounted to RMB21 million (equivalent to approximately HK$20.19 million) as at 31 December 2005. 76% of the audited net asset value of Hospital Management Company would be approximately RMB15.96 million (equivalent to approximately HK$15.35 million) as at 31 December 2005.

At the time of entering into of the Agreement, the Target owed the Vendor and the Minority Shareholder in aggregate of approximately HK$10 million and 76% of which is approximately HK$7.6 million.

Consideration

The total consideration for the sale and purchase of the Sale Shares and Sale Loan is HK$96.86 million which shall be settled by Grand Brilliant in the following manner:

(i) as to HK$10 million as deposit which has been paid by Grand Brilliant as earnest money pursuant to the MOU;

(ii) as to HK$76.86 million by procuring the Company to allot and issue the Consideration Shares at an issue price of HK$0.61 per Consideration Share, credited as fully paid upon Completion; and

(iii) as to the remaining HK$10 million by cash upon Completion.

As disclosed in the announcement of the Company in relation to the discloseable transaction and disclosure pursuant to Rule 17.15 of the GEM Listing Rules and resignation of director and changes in compliance officer and authorized representative dated 30 March 2006, HK$10 million as deposit for the Acquisition has been financed from the Company's net proceeds from the issue of the Convertible Notes. The remaining HK$10 million to be payable by cash upon Completion will be financed from both the net proceeds from the Rights Issue and internal resources of the Company.

The issue price of HK$0.61 per Consideration Share represents:

(i) a discount of approximately 18.67% to the closing price of HK$0.75 per Share as quoted on the Stock Exchange on 12 June 2006, being the date of the Agreement;

(ii) a discount of approximately 17.57% to the average closing price of approximately HK$0.74 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 12 June 2006, being the date of the Agreement;

(iii) a discount of approximately 17.79% to the average closing price of approximately HK$0.742 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 12 June 2006, being the date of the Agreement;

(iv) a discount of approximately 8.82% to the average closing price of approximately HK$0.669 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including 12 June 2006, being the date of the Agreement;

(v) a premium of approximately 1.16% over the average closing price of approximately HK$0.603 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including 12 June 2006, being the date of the Agreement;

(vi) a premium of approximately 30.90% to the average closing price of approximately HK$0.466 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including 12 June 2006, being the date of the Agreement;

(vii) a discount of approximately 23.75% to the closing price of HK0.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(viii) a premium of approximately 1,084.47% over the unaudited pro forma adjusted consolidated net tangible asset value per Share of HK$0.0515 based on the unaudited consolidated management accounts of the Group as of 30 September 2005 and adjusted by the net proceeds from the rights issue as disclosed in the prospectus of the Company dated 27 March 2006 and the existing issued Shares as at the Latest Practicable Date.

The total consideration for the sale and purchase of the Sale Shares and Sale Loan represents a price earning multiple of 9.8 times of the Guaranteed Profit (as defined herein) and approximately 4.2 times of the audited net asset value of Hospital Management Company as at 31 December 2005 attributable to the Company. The price earning multiple of 9.8 times is arrived at by dividing the total consideration of HK$96.86 million by HK$9.88 million, being Guaranteed Profit attributable to the Company. The total consideration to the audited net asset value of Hospital Management Company attributable to the Company of approximately 4.2 times represents a quotient of HK$96.86

million, being the total consideration for the Acquisition, over approximately HK$23 million, being entitlement of the Company under the Acquisition which comprises the summation of the audited net asset value of Hospital Management Company of RMB15.96 million (equivalent to approximately HK$15.35 million) as at 31 December 2005 and approximately HK$7.6 million loan as at the date of Agreement owed by the Target to the Vendor and the Minority Shareholder attributable to the Company. The loan of HK$7.6 million will be assigned to Grand Brilliant as part of the Sale Loan upon Completion.

The total consideration, including the issue price per Consideration Share, was determined after arm's length negotiation between Grand Brilliant and the Vendor after having considered: (i) the Profit Guarantee given by the Vendor; (ii) the Directors' belief that the Acquisition 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; (iii) the market prices of the Shares as stated above; (iv) the premium over the net asset value per Share as stated above; and (v) the P/E ratios of a number of listed companies engaging in the healthcare sector ranging from about 10.44 to 20.49 times.

In addition, in consideration for the issue price per Consideration Share, the Directors and the Vendor have also taken into account that: (i) there is no immediate cash outlay; (ii) a lock-up period for the Consideration Shares; (iii) the fluctuation in the price of the Shares as indicated above; and (iv) the liquidity of the Shares.

The Directors (including the independent non-executive Directors) consider the total consideration and the issue price of HK$0.61 per Consideration Share for the Acquisition to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

As regards, Hospital Management Company, which is going to be the main operating subsidiary of the Target Group, provides mainly services to hospitals in the PRC. The Directors consider that the prospect of a servicing business lies on its earning potential, rather than on its net asset value, as such, comparison with the price earning multiple is a more reasonable reference rather than comparison with the net asset value of the Target Group. Given the potential of the healthcare business in the PRC and price earning multiple of 9.8 times of the Guaranteed Profit falling on the low end of the P/E ratio range of the companies within the industry as disclosed above, the Directors consider a price earning multiple of 9.8 times of the Guaranteed Profit is justified. The Company further explains the reasons for the Acquisition under the heading "REASONS FOR THE ACQUISITION" below.

Profit Guarantee

Pursuant to the Agreement, the Vendor has guaranteed and warranted to Grand Brilliant that the audited consolidated net profit after taxation and extraordinary or exceptional items of the Target Group for the year ending 31 March 2007 (the "**Net Profit**") shall not be less than HK$13 million (the "**Guaranteed Profit**"). If the Guaranteed Profit is not achieved, an indemnity amount equivalent to the difference between the actual Net Profit and the Guaranteed Profit shall be payable by the Vendor to Grand Brilliant.

The Target has a year end date of 31 March whereas Hospital Management Company has a year end date of 31 December. The Hospital Management Company has recorded an audited profit after taxation of approximately HK$0.53 million and an audited loss after taxation of approximately HK$0.26 million for the year ended 31 December 2005 and 31 December 2004 respectively. The businesses of Hospital Management Company took off since early 2005. As the number of secured contracts of Hospital Management Company has increased in 2005, Hospital Management Company has turned around its operation from suffering losses into making profit in 2005. In view of the aforesaid, the Vendor is confident in the potential of Hospital Management Company and willing to provide the Guaranteed Profit.

Conditions Precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

(a) all necessary consents and approvals required to be obtained on the part of Grand Brilliant and the Vendor in respect of the sale and purchase of the Sale Shares and the Sale Loan and the matters contemplated thereunder having been obtained;

(b) the warranties given by the Vendor under the Agreement remaining true and accurate in all respects;

(c) the Listing Committee granting the listing of and permission to deal in the Consideration Shares;

(d) the passing by the Shareholders at the EGM of necessary resolution(s) to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendor credited as fully paid;

(e) the obtaining of a PRC legal opinion (in form and substance satisfactory to Grand Brilliant) in relation to the legality of Hospital Management Company's incorporation, Hospital Management Company operating as a going concern and the transaction contemplated under the Agreement;

(f) Grand Brilliant being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;

(g) completion of the Target Group Reorganisation; and

(h) delivery of a set of audited accounts for the three years ended 31 December 2005 of Hospital Management Company.

Only conditions (b) and (f) are waivable by Grand Brilliant in writing under the Agreement. Grand Brilliant has no current intention to waive any of the waivable conditions above.

The Agreement provides that should the satisfaction of all the above conditions, if not waived by Grand Brilliant, not occur on or before 120 days from the date of the Agreement or such later date as Grand Brilliant and the Vendor may agree in writing, the Agreement shall terminate.

Completion

Completion shall take place at 4:00 p.m. on the third Business Day after all conditions of the Agreement having been fulfilled or waived or such later date as may be agreed between the Vendor and Grand Brilliant.

The Company will issue to the Vendor the Consideration Shares on the date of Completion.

TERMS OF CONSIDERATION SHARES

126,000,000 Consideration Shares will be issued at an issue price of HK$0.61 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the shares of the Company then in issue which includes the right to receive all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Consideration Shares represent: (i) approximately 22.18% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 18.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

Non-disposal of Consideration Shares

The Vendor undertakes to and covenants with Grand Brilliant that, it will not, within the period commencing on the date of Completion and ending on the date falling six months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of any of the Consideration Shares except with the prior written consent of Grand Brilliant.

Application for listing

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company before and immediately after Completion:

Shareholders	Shareholdings as at the Latest Practicable Date and before Completion		Shareholdings immediately after issue of Consideration Shares upon Completion	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*
Easeglory Holdings Limited & Mr. Yung Kwok Leong *(Note 1)*	126,929,000	22.34%	126,929,000	18.29%
Top Rainbow Ltd. *(Note 2)*	67,351,887	11.85%	67,351,887	9.70%
Ms. Shum Ngai Pan *(Note 3)*	3,600,000	0.63%	3,600,000	0.52%
Mr. Weng Jiaxing *(Note 3)*	3,750,000	0.66%	3,750,000	0.54%
The Vendor	–	–	126,000,000	18.15%
Public	366,507,071	64.52%	366,507,071	52.80%
Total	568,137,958	100%	694,137,958	100%

Notes:

1. 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.

2. The issued share capital of Top Rainbow Ltd. is 100% beneficially owned by Mr. Yang Pei Gen.

3. Ms. Shum Ngai Pan and Mr. Weng Jiaxing are executive Directors.

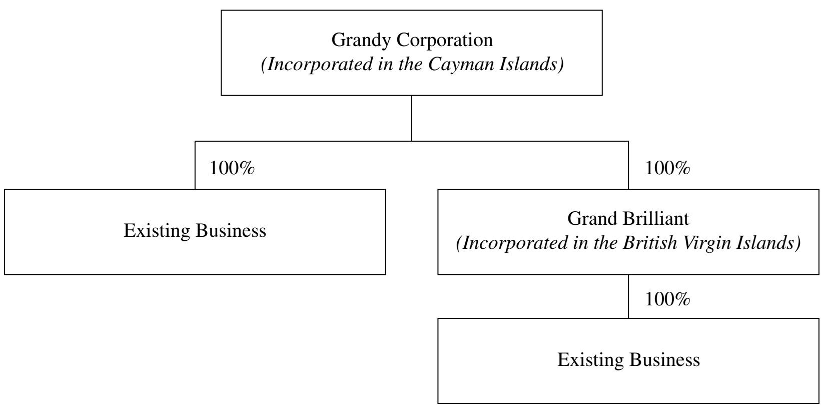
The Vendor will become a new substantial shareholder (as defined under the GEM Listing Rules) of the Company as a result of the allotment and issue of Consideration Shares to him upon Completion.

The issue of the Consideration Shares upon Completion will not result in a change of control of the Company (as defined in the Hong Kong Code on Takeovers and Mergers).

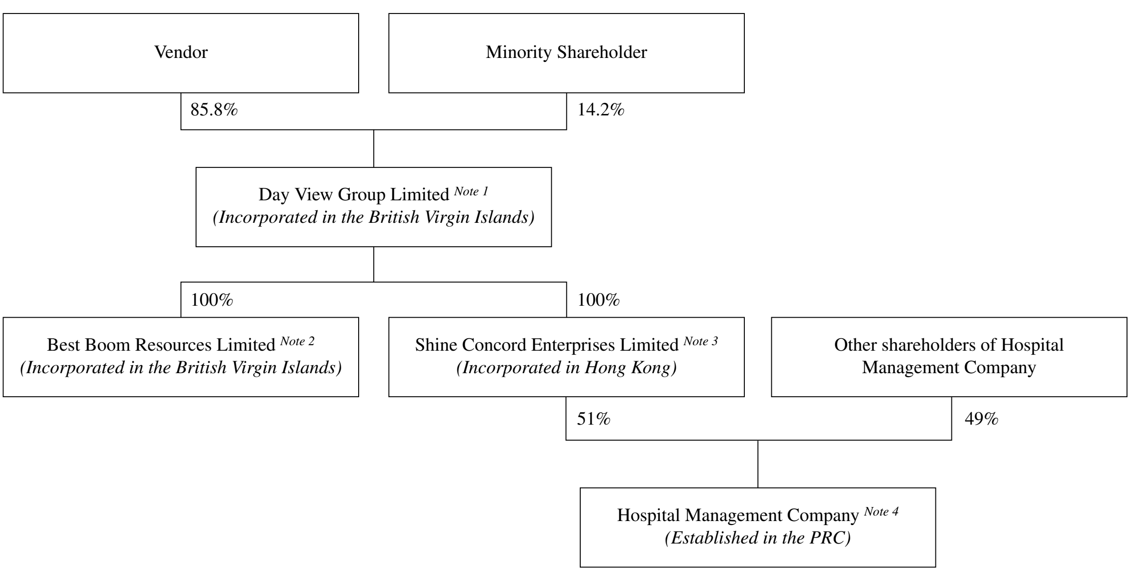
Group Structure

The diagram below shows separately the structure of the Group and the Target Group immediately before Completion (assuming the Target Group Reorganisation having been completed):

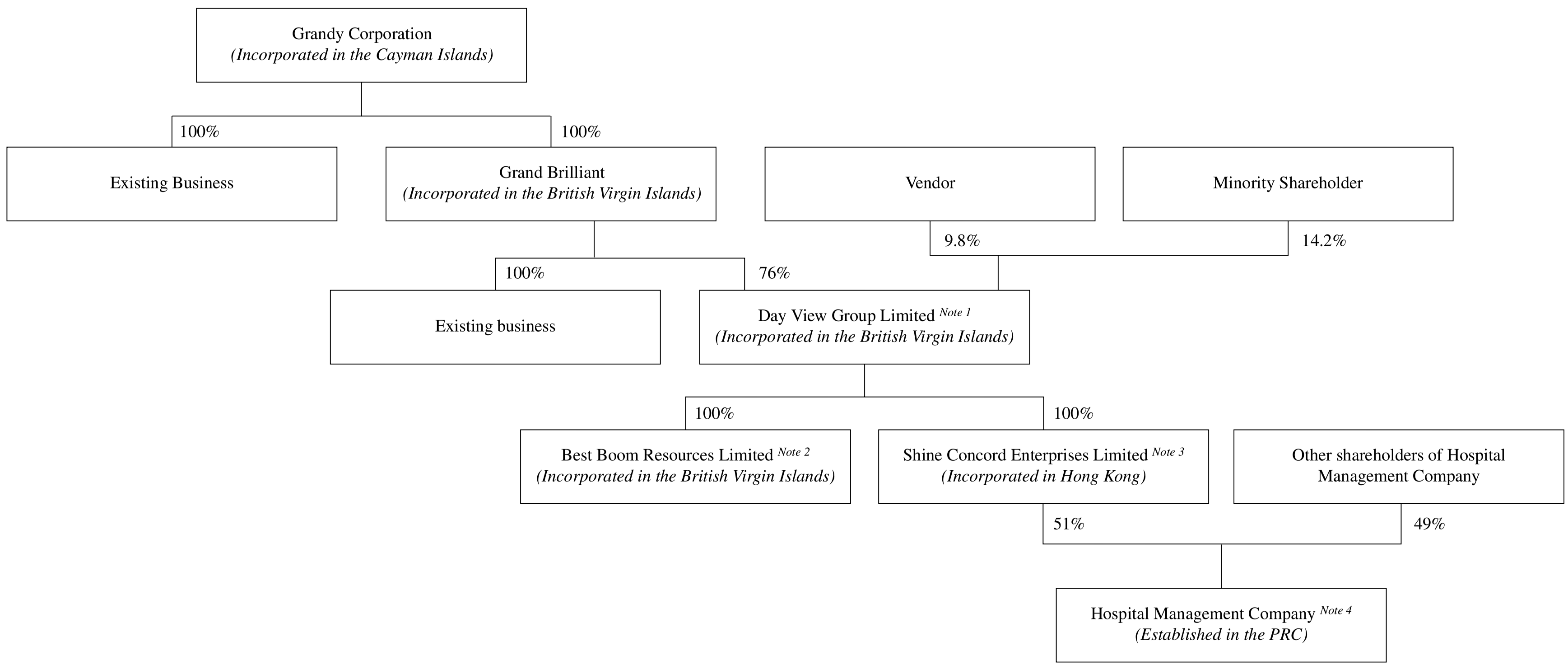
Structure of the Group:



Structure of the Target Group:



The diagram below shows the structure of the Group immediately after Completion:



Notes:

1. The Target is an investment holding company established solely for the purpose of holding Shine Concord Enterprises Limited.

2. Best Boom Resources Limited is a company incorporated in the British Virgin Islands on 26 September 2005 and intends to carry on principal business of the provision of consultancy services in aspects of hospital management including overall packaging, planning, logistics and procurement and administrative support but has yet commenced its business since its incorporation.

3. Shine Concord Enterprises Limited is a company incorporated in Hong Kong on 24 August 2005 as an investment holding company solely for the purpose of holding the interests of Hospital Management Company.

4. Hospital Management Company is a company established in the PRC on 3 August 2001. In accordance with its business license, Hospital Management Company is principally engaged in the business of healthcare management and training and consultancy for mainly hospitals in the PRC. The business of Hospital Management Company is further elaborated under the heading "INFORMATION OF THE TARGET GROUP" below.

CHANGE IN COMPOSITION OF THE BOARD

Upon Completion, the Vendor has no present intention to nominate any representative to the Board as a result of the Acquisition.

INFORMATION OF THE TARGET GROUP

Background information

The Target Group comprises the Target, being the immediate holding company, and two wholly-owned subsidiaries of Best Boom Resources Limited and Shine Concord Enterprises Limited with the latter owning 51% of Hospital Management Company upon completion of the Target Group Reorganisation. While the Target and Shine Concord Enterprises Limited are holding companies only, Best Boom Resources Limited intends to carry on principal business of the provision of consultancy services in aspects of hospital management including overall packaging, planning, logistics and procurement and administrative support. As at the Latest Practicable Date, apart from owing loan to the Vendor and the Minority Shareholder, the Target, Shine Concord Enterprises Limited and Best Boom Resources Limited have not been carrying out operations since their incorporation.

Hospital Management Company, the main operating subsidiary of the Target Group, was founded in 2001 which engages principally in the business of healthcare management and training and consultancy for mainly hospitals in the PRC. The services provided by the Target Group include advising on the management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support.

According to the audited accounts of Hospital Management Company for the 2 years ended 31 December 2005 (which were prepared in accordance with the generally accepted accounting principles in Hong Kong) provided by the Vendor, Hospital Management Company recorded an audited profit before taxation of approximately RMB0.67 million (equivalent to approximately HK$0.64 million) and audited profit after taxation of approximately RMB0.55 million (equivalent to approximately HK$0.53 million) for the year ended 31 December 2005 and audited loss before taxation of approximately RMB0.27 million (equivalent to approximately HK$0.26 million) and audited loss after taxation of approximately RMB0.27 million (equivalent to approximately HK$0.26 million) for the year ended 31 December 2004. Hospital Management Company has also recorded an audited net asset value of approximately RMB21 million (equivalent to approximately HK$20.19 million) as at 31 December 2005; and an audited net asset value of approximately RMB20 million (equivalent to approximately HK$19.23 million) as at 31 December 2004.

According to the audited accounts of Hospital Management Company for one month ended 31 January 2006 provided by the Vendor, Hospital Management Company recorded an audited profit before taxation of RMB249,473 for the period, audited profit after taxation of RMB167,147 for the period and audited net assets value of RMB20,773,081 as at 31 January 2006.

Management discussion and analysis of the results of Hospital Management Company

Set out below is a summary of the key financial data of Hospital Management Company, which are extracted from the accountants' report on Hospital Management Company as contained in Appendix I to this circular prepared based on the generally accepted accounting principles in Hong Kong.

	For the year ended 31 December			For one month ended 31 January
	2003	**2004**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB*
	(audited)	(audited)	(audited)	(audited)
Results				
Turnover – management fee income	321,300	113,400	845,739	280,652
Profit before tax	(69,722)	(270,974)	670,878	249,473
Tax	(901)	–	(116,907)	(82,326)
Net profit for the year/period	(70,623)	(270,974)	553,971	167,147

	As at 31 December			As at 31 January
	2003	**2004**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB*
	(audited)	(audited)	(audited)	(audited)
Assets and liabilities				
Non-current assets	57,769	44,746	31,723	30,638
Current assets	20,352,007	20,106,271	20,858,724	21,245,530
Current liabilities	86,839	99,054	284,513	503,087
Non-current liabilities	–	–	–	–
Net assets	20,322,937	20,051,963	20,605,934	20,773,081

Financial and business performance

Year ended 31 December 2003

Turnover for the year amounted to approximately RMB321,300. There was no direct services cost incurred in the year. During the year, the major administrative expenses of approximately RMB 391,626 included salaries and allowances. Hospital Management Company has recorded a net loss of approximately RMB70,623 as Hospital Management Company was still at a start-up stage.

Year ended 31 December 2004

Turnover for the year amounted to approximately RMB113,400 which represented a decrease of approximately 64.7% as compared to that of 2003. There was no direct services cost incurred in the year. During the year, the major administrative expenses of approximately RMB385,699 included salaries and allowances. Hospital Management Company was still at a start-up stage for the year and a net loss of RMB270,974 has been recorded, which represented an increase of 2.84 times to that of last year. The decrease in turnover and increase in net loss were mainly due to decrease in the amount of management fee income from existing customers resulting from less services being provided to customers during the year.

Year ended 31 December 2005

Turnover for the year amounted to approximately RMB845,739. The turnover increased by 6.46 times as compared to that of last year. There was no direct services cost incurred in the year. Due to the increase in the number of secured contracts of Hospital Management Company in 2005, both turnover and gross profit have been increased during the year. During the year, the major administrative expenses of approximately RMB175,987 included salaries and allowances. Hospital Management Company has also implemented and benefited from the cost-effectiveness measures to reduce administrative expenses mainly by reduction of redundant staff. Hospital Management Company has recorded a net profit of approximately RMB553,971 with the net profit margin of 65.5%, due to the business growth and decrease in administrative expenses by 54%.

The Directors noted that as at 31 December 2005, Hospital Management Company has recorded other receivables of RMB12,400,000. According to the management of Hospital Management Company, such RMB12,400,000 represented provision of funding as working capital for certain hospitals with which management consultancy services agreements have been secured. With a view to enlarging its customer base by securing more consultancy services agreements from more hospitals with prospects but poorly run, the management of Hospital Management Company has agreed, on those special occasions, to provide such funding to those hospitals that have prospects but requiring financial support for their operations. The management of Hospital Management Company believed that upon the provision of their services, those poorly run hospitals would improve on their operation efficiency and Hospital Management Company may gradually obtain repayments from them. Hospital Management Company has the right to demand payment of those other receivables from the relevant hospitals with a prior 15-days written notice.

The Directors consider the views of the management of Hospital Management Company to be fair and reasonable and they consider it would only be in promising circumstances such provision of funding as working capital for hospitals would be provided in the future.

For one month ended 31 January 2006

Hospital Management Company recorded an audited turnover of approximately RMB280,652. The direct services cost incurred for the period and the gross profit amounted to RMB8,775 and 271,877 respectively. As more customers had been secured in year 2005, the turnover in 2006 increased substantially in the first month as compared with the corresponding one month in year 2005 as there had been increases in management fee income from new customers. During the one-month period, the major administrative expenses of approximately RMB22,405 were salaries and allowances. Hospital Management Company has recorded an audited net profit of approximately RMB167,147 with a net profit margin of 59.6%, mainly due to business growth.

As at 31 January 2006, Hospital Management Company has recorded other receivables of RMB13,000,000 which represented an increase of RMB600,000 of provision of funding as working capital for certain hospitals from RMB12,400,000 as at 31 December 2005.

Capital structure

Hospital Management Company's capital structure as at 31 December 2005 consisted of shareholders' equity of RMB20,000,000 as registered capital and RMB605,934 as reserves.

On 18 April 2006, Hospital Management Company has applied for a reconstitution from a PRC joint stock limited liability company to a sino-foreign joint venture company, with its registered capital increased from RMB20,000,000 to RMB 30,000,000 as part of the reconstitution scheme.

Liquidity and financial resources

As at 31 December 2005, cash and bank balances amounted to approximately RMB5,435,022.

Hospital Management Company has recorded no long-term liabilities and no bank borrowings as at 31 December 2005.

Number of employees and remuneration policies

As at 31 December 2005, Hospital Management Company has about five employees. Total salary and allowances amounted to about RMB124,770 in 2005 compared to approximately RMB286,905 and approximately RMB277,730 in 2004 and 2003 respectively. Hospital Management Company's remuneration policy includes a bonus scheme that is based on performance.

Board representation of the Target Group

Upon Completion, the Company intends to obtain a majority control over the Target Group (including Hospital Management Company) by nominating its representatives to the board of the Target Group (including Hospital Management Company) and as senior management.

Existing business of the Target Group

As a result of the Acquisition, the Directors expect to expand the customer base, operation scale and variety of services provided by the Target Group in order to meet the market demand.

With the business expansion, the Directors believe that new senior members will be recruited to strengthen the management team and to develop businesses in the near future while existing management team will be retained to ensure a smooth transition.

FINANCIAL EFFECT OF THE ACQUISITION

(1) Net tangible assets / net asset value

The principal activities of the Target Group are the provision of the healthcare management and training consultancy services for mainly hospitals in the PRC. The total consideration for the acquisition of the Target Group is HK$96.86 million in cash and Consideration Shares.

As at 31 March 2006, the unaudited pro forma net tangible assets of the Enlarged Group after taking into account of the acquisition of the Target Group were about HK$26,865,000. After the Acquisition, the unaudited pro forma net assets of the Enlarged Group is about HK$117,749,000. The increase in net assets of the Enlarged Group is mainly attributable to the goodwill arising from acquisition of the Target Group.

Upon Completion, 126,000,000 Consideration Shares will be issued. As a result, the issued share capital will be enlarged and net asset value of the Company will be increased.

(2) Earnings

The Group recorded an audited consolidated profit attributable to Shareholders of approximately HK$3,191,000 for the year ended 31 March 2006. Hospital Management Company recorded an audited net profit after tax of RMB553,971 (approximately HK$532,664) for the year ended 31 December 2005. Given the track record, earnings ability, management skill of Hospital Management Company and the synergies to be realized by the Group from the Acquisition, the Acquisition is expected to enhance the revenue and earnings base of the Group and the Enlarged Group looks forward to business opportunities in the healthcare sector in the PRC.

(3) Liabilities

Since Hospital Management Company has minimal current liabilities, no long-term liabilities and no bank borrowings as at 31 December 2005, the liabilities of the Enlarged Group upon Completion will not be materially adversely affected by the Acquisition.

REASONS FOR THE ACQUISITION

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.

Prior to entering into of the MOU and the Agreement, the Group has been cooperating with Hospital Management Company for the provision of healthcare management services (including environmentally-related services) to certain hospitals in the PRC. Moreover, in order to explore more business opportunities in the healthcare sector in the PRC and in view of the established business relationship with the Vendor, the Company has entered into the MOU with the Vendor and Hospital Management Company on 30 March 2006 in relation to the proposed acquisition of the whole or part of the equity interests held by the Vendor in Hospital Management Company, by Grand Brilliant. Further to the MOU, Grand Brilliant decided to enter into the Agreement with the Vendor to secure equity interests in Hospital Management Company. While developing the business in the healthcare sector, the Group will continue to pursue its principal business in the environmental business.

Upon Completion, the Target will become a non wholly-owned subsidiary of the Group and the accounts of the Target will be consolidated into the accounts of the Group. The Directors consider that the Acquisition will enhance the Group's overall business performance, strengthen its revenue bases and diversify its business risk through the synergistic effect. Taking into account of the benefits of the Acquisition as described above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As disclosed in the section headed "Management Discussion and Analysis" of the Annual Report 2005/06, 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 Enlarged 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 Enlarged Group and will bring synergistic effect and positive return to the existing environmental business of the Group.

As noted under the section headed "Reasons for the Acquisition", the Group has been cooperating with Hospital Management Company for the provision of healthcare management services (including environmentally-related services) to certain hospitals in the PRC. Given such cooperation, the Directors began to explore further business opportunities in the healthcare sector in the PRC. After carrying out some preliminary market analysis and assessment on the market potentials in this sector as well as having established business connections with expertise in the healthcare sector in the PRC as detailed in the paragraphs below, the Directors believe that there are great market potentials in the provision of healthcare management services (including environmentally-related services) to certain hospitals in the PRC as well as other upcoming business opportunities in the healthcare sector in the PRC.

The Directors believe that the healthcare market in the PRC provides vast business opportunities for the Enlarged Group in the future. According to the Ministry of Health of the PRC and the World Health Organization, the healthcare expenditure was approximately RMB515 billion and RMB762 billion in 2001 and 2004 respectively, representing a growth of approximately 50% during those years. Despite the recent growth in the healthcare expenditure in the PRC, the healthcare expenditure in the PRC, as represented by the total healthcare expenditure as a percentage of gross domestic product and healthcare expenditure per capita, still lag far behind from that of the other developed countries, like Japan and the United States with reference to the World Health Report 2006 issued by the World Health Organization. The respective total health care expenditures as a percentage of gross domestic product of China, Japan and the United States in 2003 are 5.6%, 7.9% and 15.2%. The respective healthcare expenditures per capita of China, Japan and the United States in 2003 are US$83, US$2,853 and US$6,035.

Moreover, as far as the Directors are aware, the healthcare market in the PRC has long been predominated by state-run hospitals which are highly bureaucratic and poorly managed. Current insufficiencies of state-run hospitals included severe shortage of governmental funds and assistance; and over-control by the government leading to uneven distributions of healthcare resources. There are approximately 60,000 hospitals in the PRC of which, only approximately 18,000 are of county level (i.e. with 50 beds or above) which are predominated by state-run hospitals. According to the standard of the World Health Organization, demand for healthcare organizations with reference to the population of the PRC, the minimum number of healthcare organizations in the PRC should be approximately 36,000 (with 50 beds or above), representing a shortage of at least 18,000 healthcare organizations in the PRC. After China's entry into the WTO, restrictions on foreign investment in the healthcare industry have been gradually loosening and foreign investors may take up to 70% shareholdings of joint venture hospitals which represents huge business opportunities for foreign investments in the PRC. Meanwhile, the favourable factors for such growth in the healthcare sector in the PRC include (i) the economic growth of the PRC; (ii) liberalization of the healthcare market in the PRC; (iii) the rising demand for high quality healthcare services of the middle and high income groups in the PRC; (iv) the restriction on foreign direct investment in the healthcare market in the PRC being greatly loosened in recent years; and (v) increasing health consciousness and better healthcare knowledge of the general public. Therefore, many global investors as well as the Directors considered this is a right timing to enter into the healthcare market in the PRC.

The current insufficiencies in the state-run and/or most of the privately-run hospitals, the government policies for encouraging foreign investment in the healthcare sector in the PRC and the increase in health consciousness and better hygiene knowledge lead to the establishment of healthcare management consultancy companies to improve the quality of services of these poorly managed state-run or even the privately-owned hospitals in the PRC.

In view of the existing customers' network, professional know-how, hospital management experience in the PRC as well as strong business and government connections of the key personnel and shareholders of Hospital Management Company, the Directors decided to secure equity interests held by the Vendor in Hospital Management Company as a further step to explore such business opportunities in the healthcare sector in the PRC and to enjoy the benefits arising from the comparative advantages of Hospital Management Company in the sector.

The Target Group is principally engaged in the business of healthcare management and training and consultancy for mainly hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. Upon Completion, the Enlarged Group intends to expand further into the healthcare market in the PRC and secure more management consultancy contracts in the short-to-medium terms by adopting the following strategies:

1) expanding its scale of operation including recruitment of experts for the provision of advisory services to hospitals in the PRC;

2) securing more customers in the PRC by provision of its services;

3) formulating plans for sourcing and procurement of advanced healthcare equipment and technology on behalf of hospitals/customers;

4) providing world-class standard healthcare management in the PRC with top-notch healthcare expertise; and

5) providing logistics support on pharmaceutical sourcing and procurement to hospitals in the PRC.

The Directors believe that by leveraging on the insights, extensive connections and aggressiveness of the Target Group, the Enlarged Group will be able to benefit from the liberalisation of the healthcare market in the PRC as it will become one of the first-movers in the management of privately-run hospitals in the PRC.

Riding on the established network and management expertise of the Target Group, the Directors also intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials) and to consider undertaking those businesses which are complimentary to the existing business as a further step to the Acquisition in order to benefit from the growth in the healthcare sector and enhance Shareholders' returns in the long-run.

In this regard, on 12 July 2006, the Company announced that Grandy Brilliant has entered into a non-legally binding letter of intent with Ms. Zhuang Yan Qiu in relation to the proposed acquisition of the whole or part of equity interests to be indirectly held by Ms. Zhuang Yan Qiu in Shanghai Humanity Hospital. Under the letter of intent, both Grand Brilliant and Ms. Zhuang Yan Qiu will proceed to the negotiation for a legally binding formal agreement on or before 30 September 2006 (or such a later date to be agreed by the parties).

IMPLICATIONS UNDER THE GEM LISTING RULES

The Acquisition constitutes a major acquisition pursuant to Rule 19.06(3) of the GEM Listing Rules. Accordingly, the Acquisition and any transactions contemplated thereby, including the allotment and issue of the Consideration Shares are subject to the approval of the Shareholders at the EGM. The Directors are not aware of any Shareholders who are interested in the Acquisition and are required to abstain from voting at the EGM.

EGM

Set out on pages 139 to 140 is a notice convening the EGM to be held at Room 1902, 19th Floor, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong on Tuesday, 15 August 2006 at 11:00 a.m. at which ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Acquisition and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at Room 1902, 19th Floor, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

RECOMMENDATION

The Board considers that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Grandy Corporation
Yung Kwok Leong
Chairman

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Cheung & Siu.

Cheung & Siu **Certified Public Accountants**
張、蕭會計師事務所

28 July 2006

The Board of Directors
Grandy Corporation
Room 1902, 19 Floor, Sing Pao Building,
No. 101 King's Road,
North Point, Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding上海博愛醫院管理股份有限公司(hereafter referred to as "SHH") for each of the three years ended 31st December, 2003, 2004 and 2005 and the one month ended 31st January, 2006 (the "Relevant Periods") for inclusion in the circular of Grandy Corporation (the "Company") dated 28 July 2006 (the "Circular") in connection with the proposed acquisition of, among others, 76% in the entire share capital of Day View Group Limited ("Day View"), by Grand Brilliant Corporation Limited, a wholly-owned subsidiary of the Company.

Day View is the immediate holding company of Shine Concord Enterprises Limited ("Shine Concord") since Day View acquired 1 share, representing the entire issued capital of Shine Concord on 24th March, 2006. Shine Concord will become the immediate holding company of SHH upon completion of the agreement dated 18th April, 2006 (the "Share Transfer Agreement") in relation to the acquisition of 51% equity interest of SHH, which is described more fully in the section headed "Letter from the Board" in this circular.

The statutory financial statements of SHH for each of the three years ended 31st December, 2003, 2004 and 2005 were audited by Shanghai Shangshen Certified Public Accountants Co., Ltd. (上海上審會計師事務所), certified public accountants registered in the People's Republic of China (the "PRC"). No statutory audited financial statements have been prepared for SHH for the one month ended 31st January, 2006.

For the purpose of this report, the directors of SHH have prepared the financial statements of SHH for the Relevant Periods ("HKFRS financial statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of SHH are responsible for preparing the HKFRS financial statements which give a true and fair view. In preparing these HKFRS financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed independent audit procedures on the HKFRS financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information set out in section A to B below (the "Financial Information") has been prepared based on the HKFRS financial statements. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of SHH are responsible for the Financial Information. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of SHH for the Relevant Periods and of the balance sheets of SHH as at 31st December, 2003, 2004 and 2005 and 31st January, 2006.

A. FINANCIAL INFORMATION

INCOME STATEMENT

		One month ended 31st January,		Year ended 31st December,		
		2006	2005	2005	2004	2003
	Notes	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
TURNOVER	*5*	280,652	63,167	845,739	113,400	321,300
Cost of sales		(8,775)	–	–	–	–
Gross profit		271,877	63,167	845,739	113,400	321,300
Other revenue	*5*	1	–	1,126	1,325	604
Administrative expenses		(22,405)	(34,500)	(175,987)	(385,699)	(391,626)
PROFIT/(LOSS) BEFORE TAXATION		249,473	28,667	670,878	(270,974)	(69,722)
Tax	*8*	(82,326)	(9,460)	(116,907)	–	(901)
NET PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS		167,147	19,207	553,971	(270,974)	(70,623)
DIVIDENDS		–	–	–	–	–

BALANCE SHEET

		As at 31st January,	As at 31st December,		
		2006	**2005**	**2004**	**2003**
	Notes	*RMB*	*RMB*	*RMB*	*RMB*
NON-CURRENT ASSETS					
Property, plant and equipment	*9*	30,638	31,723	44,746	57,769
CURRENT ASSETS					
Accounts receivable		318,333	101,000	–	–
Prepayments, deposits and other receivables	*10*	14,417,112	13,322,702	8,011,000	8,001,000
Due from related companies	*11*	6,160,000	2,000,000	12,010,000	11,073,194
Cash and bank balances		350,085	5,435,022	85,271	1,277,813
Total current assets		21,245,530	20,858,724	20,106,271	20,352,007
CURRENT LIABILITIES					
Accrued liabilities and other payables		303,854	167,606	99,054	86,839
Tax payables		199,233	116,907	–	–
Total current liabilities		503,087	284,513	99,054	86,839
NET CURRENT ASSETS		20,742,443	20,574,211	20,007,217	20,265,168
TOTAL ASSETS LESS CURRENT LIABILITIES		20,773,081	20,605,934	20,051,963	20,322,937
Net assets		20,773,081	20,605,934	20,051,963	20,322,937
EQUITY					
Issued capital	*12*	20,000,000	20,000,000	20,000,000	20,000,000
Reserves		773,081	605,934	51,963	322,937
Total equity		20,773,081	20,605,934	20,051,963	20,322,937

STATEMENTS OF CHANGES IN EQUITY

	Issued capital	Statutory surplus reserve	Statutory public welfare fund	Retained profits/ (accumulated losses)	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Total equity at 1st January, 2003	20,000,000	70,898	35,500	287,162	20,393,560
Net loss for the year	–	–	–	(70,623)	(70,623)
Total equity at 31st December, 2003 and at 1st January, 2004	20,000,000	70,898	35,500	216,539	20,322,937
Net loss for the year	–	–	–	(270,974)	(270,974)
Total equity at 31st December, 2004 and at 1st January, 2005	20,000,000	70,898	35,500	(54,435)	20,051,963
Net profit for the year	–	–	–	553,971	553,971
Transfer to reserve	–	21,237	10,619	(31,856)	–
Total equity at 31st December, 2005 and at 1st January, 2006	20,000,000	92,135	46,119	467,680	20,605,934
Net profit for the period	–	–	–	167,147	167,147
At 31st January, 2006	20,000,000	92,135	46,119	634,827	20,773,081

In accordance with relevant rules and regulation in the PRC and the articles of association of SHH, SHH is required to allocate 10% of its profit after tax (after deducting accumulated losses incurred in previous years), to the Statutory Surplus Reserve (the "SSR") until such reserve reaches 50% of the registered capital of SHH. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association of SHH, the SSR may be capitalised as share capital, provided the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with relevant rules and regulation in the PRC and the articles of association of SHH, SHH is required to allocate 5% of its profit after tax (after deducting accumulated losses incurred in previous years), to the statutory Public Welfare Fund (the "PWF") which is a non-distributable reserve other than in the event of liquidation of SHH. The PWF must be used for capital expenditure on staff welfare facilities.

CASH FLOW STATEMENTS

	One month ended 31st January, 2006	2005	Year ended 31st December, 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
OPERATING ACTIVITIES					
Profit/(loss) before tax	167,147	19,207	670,878	(270,974)	(69,722)
Adjustments for:					
Depreciation	1,085	1,085	13,023	13,023	10,773
Interest income	(1)	–	(1,126)	(1,325)	(604)
Operating cash flows before movements in working capital	168,231	20,292	682,775	(259,276)	(59,553)
Increase in accounts receivable	(217,334)	–	(101,000)	–	–
Increase in prepayments, deposits and other receivables	(1,094,410)	(63,167)	(5,311,702)	(10,000)	–
Increase in accrued liabilities and other payables	136,248	3,121	68,552	12,215	62,730
Increase in tax payable	82,327	9,460	–	–	–
Cash generated from/(used in) operations	(924,938)	(30,294)	(4,661,375)	(257,061)	3,177
PRC tax paid	–	–	–	–	(901)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	(924,938)	(30,294)	(4,661,375)	(257,061)	2,276
INVESTING ACTIVITIES					
Interest received	1	–	1,126	1,325	604
Purchases of Non-current assets	–	–	–	–	(68,542)
Decrease/(increase) in amounts due from related companies	(4,160,000)	–	10,010,000	(936,806)	873,800
Decrease in amount due from a shareholder	–	–	–	–	400,000
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	(4,159,999)	–	10,011,126	(935,481)	1,205,862
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(5,084,937)	(30,294)	5,349,751	(1,192,542)	1,208,138
Cash and cash equivalents at beginning of year/period	5,435,022	85,271	85,271	1,277,813	69,675
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	350,085	54,977	5,435,022	85,271	1,277,813
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	350,085	54,977	5,435,022	85,271	1,277,813

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

SHH is a joint stock limited liability company incorporated in the People's Republic of China ("PRC") and is principally engaged in the provision of hospital management services in the PRC.

The address of SHH's registered office is located at 上海市宜山路1009號創新大廈16樓.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Financial Information of SHH has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, has been applied in preparing these financial statements. This is the first set of SHH's financial statements prepared in accordance with HKFRS. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. SHH has adopted all these new HKFRSs in preparing the Financial Information throughout the Relevant Periods.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined net of any depreciation, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

(b) Related parties

A party is considered to be related to SHH if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, SHH; (ii) has an interest in SHH that gives it significant influence over SHH; or (iii) has joint control over the SHH;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of SHH or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of SHH, or of any entity that is a related party of SHH.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment 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 situations 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and fixtures	19%
Office equipment	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

(d) Accounts receivable

Accounts receivable is initially recognized at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate allowance for estimated irrecoverable amounts is recognised in the income statement when there is objective evidence that the asset is impaired.

(e) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(f) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of SHH's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(g) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(h) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(i) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to SHH and when the revenue can be measured reliably, on the following bases:

(i) from the rendering of services, on the percentage of completion basis; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(j) Foreign currencies

These financial statements are presented in Renminbi, which is SHH's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying accounting policies, the management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of services rendered for the Relevant Periods.

An analysis of SHH's turnover and other revenue for the Relevant Periods is as follows:

	One month ended 31st January,		Year ended 31st December,		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Turnover					
Management fee income	280,652	63,167	845,739	113,400	321,300
Other revenue					
Interest income	1	–	1,126	1,325	604
	280,653	63,167	846,865	114,725	321,904

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

Profit/(loss) from operating activities is arrived at after charging:

	One month ended 31st January,		Year ended 31st December,		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Cost of services provided	8,775	–	–	–	–
Depreciation	1,085	1,085	13,023	13,023	10,773
Auditors' remuneration	–	–	12,000	2,000	–
Staff cost (excluding directors' remuneration – note 7)					
Salaries and allowances	4,800	25,595	124,770	286,905	277,730

7. DIRECTORS' REMUNERATION

Directors' remuneration is set out below:

	One month ended 31st January,		Year ended 31st December,		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and benefits in kind	–	–	–	–	–
Retirement scheme contributions	–	–	–	–	–
	–	–	–	–	–

8. TAX

	One month ended 31st January,		Year ended 31st December,		
	2006	2005	2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Current year provision					
Hong Kong	–	–	–	–	–
Overseas	82,326	9,460	116,907	–	901
Deferred tax	–	–	–	–	–
Tax charge for the year/period	82,326	9,460	116,907	–	901

No provision for Hong Kong profits tax has been made as SHH did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

Taxes on profits assessable outside Hong Kong have been calculated at the rates of taxes applicable in the respective jurisdictions, based on existing legislation, interpretations and practices in respect thereof, during each of the Relevant Periods.

In accordance with the relevant tax rules and legislation in the PRC, SHH is entitled to enjoy corporate income tax exemptions and reductions, which include exemption from paying corporate income tax for one years starting from the beginning year. The tax holiday has been expired and the applicable statutory tax rate is 33% for 2005.

There are no material unprovided deferred tax assets and liabilities at the respective balance sheet dates.

9. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures *RMB*	Office equipment *RMB*	Total *RMB*
Cost:			
At 1st January, 2003	–	–	–
Additions	55,792	12,750	68,542
At 31st December, 2003 and 1st January, 2004	55,792	12,750	68,542
Additions	–	–	–
At 31st December, 2004 and 1st January, 2005	55,792	12,750	68,542
Additions	–	–	–
At 31st December, 2005 and 1st January, 2006	55,792	12,750	68,542
Additions	–	–	–
At 31st January, 2006	55,792	12,750	68,542
Accumulated depreciation:			
At 1st January, 2003	–	–	–
Charge for the year	8,834	1,939	10,773
At 31st December, 2003 and 1st January, 2004	8,834	1,939	10,773
Charge for the year	10,600	2,423	13,023
At 31st December, 2004 and 1st January, 2005	19,434	4,362	23,796
Charge for the year	10,600	2,423	13,023
At 31st December, 2005 and 1st January, 2006	30,034	6,785	36,819
Charge for the year	883	202	1,085
At 31st January, 2006	30,917	6,987	37,904
Net book value:			
At 31st January, 2006	24,875	5,763	30,638
At 31st December, 2005	25,758	5,965	31,723
At 31st December, 2004	36,358	8,388	44,746
At 31st December, 2003	46,958	10,811	57,769

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31st January, 2006	As at 31st December, 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*
Prepayments	1,050,586	546,873	–	–
Deposits	366,526	375,829	11,000	1,000
Other receivables	13,000,000*	12,400,000	8,000,000	8,000,000
	14,417,112	13,322,700	8,011,000	8,001,000

* Included provision of funding to PRC hospitals in respect of certain contracted management consultancy service agreements in the amount of RMB13,000,000.

11. DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies are as follows:

	As at 31st January, 2006	As at 31st December, 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*
上海博愛醫院有限公司	2,000,000	2,000,000	–	373,194
上海東晟物貿公司	–	–	12,010,000	10,700,000
上海博愛健康投資有限公司	4,160,000	–	–	–
	6,160,000	2,000,000	12,010,000	11,073,194

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

Mr. Chen Ben Ting, director of SHH, has interest in the above companies.

Maximum amount outstanding during the Relevant Periods are as follows:

	As at 31st January, 2006	As at 31st December, 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*
上海博愛醫院有限公司	2,000,000	2,000,000	373,194	373,194
上海東晟物貿公司	–	12,010,000	12,200,000	10,700,000
上海博愛健康投資有限公司	4,160,000	–	–	–
	6,160,000	14,010,000	12,573,194	11,073,194

12. ISSUED CAPITAL

	As at 31st January, 2006	As at 31st December, 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*
Registered, issued and fully paid: (20,000,000 shares of RMB1 each)	20,000,000	20,000,000	20,000,000	20,000,000

The following movements in issued share capital took place during the period ended 31st December, 2002:

(i) On 18th July, 2001, 20,000,000 shares were issued for cash at par for working capital of SHH.

13. RELATED PARTY TRANSACTIONS

	One month ended 31st January,		Year ended 31st December,		
	2006	**2005**	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Management fee income received/ receivable from a related company	80,000	63,167	758,000	–	200,000

Management fee income was charged at rates mutually agreed between SHH and the related company in which a director has beneficial interest.

14. OPERATING LEASE COMMITMENTS

SHH leases an office premise under operating lease arrangements, with a lease negotiated for terms of two years.

At the balance sheet date, SHH had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31st January,	As at 31st December,		
	2006	**2005**	**2004**	**2003**
	RMB	*RMB*	*RMB*	*RMB*
Within one year	1,086,582	1,071,001	–	–
In the second to fifth years, inclusive	1,168,365	1,168,365	–	–
	2,254,947	2,239,366	–	–

15. CAPITAL COMMITMENTS

	As at 31st January, 2006	As at 31st December, 2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*
Capital commitments in respect of the fixed assets contracted for but not provided in the financial statements	42,854	572,854	–	–
Commitments for provision of funding to two PRC hospitals in respect of certain contracted management consultancy service agreements	–	600,000	–	–

16. FINANCIAL RISK AND MANAGEMENT

SHH's overall risk management programme seeks to minimise potential adverse effects on the financial performance of SHH.

(i) Interest rate risk

SHH has no interest-bearing borrowing. Interest income derived from interest-bearing assets was insignificant. SHH's income and cash flows are substantially independent of changes in market interest rates.

(ii) Foreign currency risk

SHH does not have any significant financial instrument or transactions denominated in foreign currency.

(iii) Credit risk

SHH has no significant concentration of credit risk. It has policies in place to ensure that credit periods are given to customers on terms that are appropriate to their credit history.

(iv) Liquidity risk

SHH aims to manage its operating cash flows and the availability of funding to meet its payment and funding needs. As part of its overall liquidity management, SHH maintains sufficient level of cash to meet its working capital requirements.

17. SUBSEQUENT EVENTS

On 18th April, 2006, Shine Concord entered into a share transfer agreement to acquire a 51% equity interest in SHH. Shine Concord is incorporated in Hong Kong and wholly owned by Day View Group Limited. Shine Concord will become the immediately holding company of SHH upon completion of the share transfer agreement, which is described more fully in the section headed "Letter from the Board" in this circular.

On 18th April, 2006, SHH made an application for reconstitution from a PRC joint stock limited liability company to a sino-foreign joint venture company, with its issued capital increased from RMB20,000,000 to RMB30,000,000 as part of the reconstitution scheme. Completion of the reconstitution is subject to the approval of the PRC government departments.

18. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for SHH in respect of any period subsequent to 31st January, 2006.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountant, Cheung & Siu:

Cheung & Siu **Certified Public Accountants**
張、蕭會計師事務所

28 July 2006

The Board of Directors
Grandy Corporation
Room 1902, 19 Floor, Sing Pao Building,
No. 101 King's Road,
North Point, Hong Kong

Dear Sirs,

Shine Concord Enterprises Limited ("Shine Concord") was incorporated in Hong Kong with limited liability on 24th August, 2005, and is wholly owned by Day View Group Limited ("Day View").

Best Boom Resources Limited ("Best Boom") was incorporated in the British Virgin Islands on 26th September, 2005 with limited liability under The International Business Companies Act (CAP. 291) of the British Virgin Islands, and is wholly owned by Day View.

Day View was incorporated in the British Virgin Islands on 1st February, 2006 with limited liability under the BVI Business Companies Act, 2004 of the British Virgin Islands.

On 18th April, 2006, Shine Concord entered into a share transfer agreement (the "Share Transfer Agreement") to acquire a 51% equity interest in 上海博愛醫院管理股份有限公司 ("SHH"), a company registered in the People's Republic of China on 3rd August, 2001, as described more fully in the section headed "Letter From The Board" in this circular. Accordingly, Shine Concord will become the immediate holding company of SHH upon completion of the Share Transfer Agreement.

On 12th June, 2006, Grand Brilliant Corporation Limited, a wholly-owned subsidiary of Grandy Corporation ("the Company"), entered into a conditional sale and purchase agreement (the "Acquisition Agreement") to acquire, among others, 76% of the entire issued share capital of Day View, as described more fully in the section headed "Letter From The Board" in this circular. Accordingly, Day View will become a subsidiary of the Company upon completion of the Acquisition Agreement.

Day View has not carried out any business activities since its incorporation, apart from having issued 1,000 shares at par of US$1 each for cash, acquisition of 1 share in the capital of Shine Concord, acquisition of 1 share in Best Boom, and the procurement of a shareholder loan of HK$10,000,000 for the use of Shine Concord for acquiring 51% equity interest in SHH. Incorporation expenses amounting to approximately HK$9,600 were borne by the then sole shareholder of Day View. No statutory audited financial statements have been prepared for Day View up to the date of this report.

Shine Concord has not carried out any business activities since its incorporation, apart from having issued 1 share at par of HK$1 each for cash and the procurement of a shareholder loan from Day View in the amount of HK$10,000,000 for acquiring 51% equity interest in SHH. Incorporation expenses amounting to approximately HK$9,600 were borne by the then sole shareholder of Day View. No statutory audited financial statements have been prepared for Shine Concord up to the date of this report.

Best Boom has not carried out any business activities since its incorporation, apart from having issued 1 share at par of US$1 each for cash. Incorporation expenses amounting to approximately HK$7,500 were borne by the then sole shareholder of Day View. No statutory audited financial statements have been prepared for Best Boom up to the date of this report.

Yours faithfully,
Cheung & Siu
Certified Public Accountants
Hong Kong

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 upon Completion are and will be as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
2,000,000,000	Shares	100,000,000
Issued and fully paid:		
568,137,958	Shares	28,406,897

Upon Completion

Authorised:		*HK$*
2,000,000,000	Shares	100,000,000
Issued and fully paid:		
568,137,958	Shares	28,406,897
126,000,000	Consideration Shares	6,300,000
694,137,958		34,706,897

All the Shares and Consideration 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.

(b) Share Option Schemes

As at the Latest Practicable Date, there are 43,534,400 outstanding Share Options, which were granted pursuant to the Share Option Schemes:

(i) Pre-IPO 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$0.541 per share (after Adjustments and 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	620,640
Former Employee	413,760
	1,034,400

(ii) Post-IPO Scheme

On 12 July and 24 July 2006 respectively, the Company passed board resolutions pursuant to the Post-IPO Scheme adopted on 20 April 2002 to grant a total of 42,500,000 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$0.83 and HK$0.82 per share respectively with a 10 year exercise period each commencing from 12 July and 24 July 2006 respectively.

Grantee	**Number of share to be allotted and issued upon exercise of outstanding Share Options**
Directors and employees	42,500,000

(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 those Convertible Notes into a total of 86,956,521 Shares (after Adjustments) at the conversion price of HK$0.207 (after Adjustments) upon the exercise of the conversion rights attached to the Convertible Notes at 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. On 12 July and 20 July 2006 respectively, a total of HK$9,500,000 Convertible Notes had been converted into a total of 45,893,709 Shares. As at the Latest Practicable Date, there are a total of 41,062,812 Shares equivalent to HK$8,500,000 convertible notes outstanding for conversion.

(iv) Non-listed warrants

The Company has issued an aggregate of 103,414,000 warrants at an issue price of HK$0.02 per warrant on 5 June 2006. The warrants entitle the subscribers thereto to subscribe for new Shares at an initial subscription price of HK$0.62 per new Share for a period of 18 months commencing from the date of issue of the warrants.

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 Consideration Shares) 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 2006 as extracted from the relevant published financial statements of the Group.

Results

	For the year ended 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	41,088	34,230	18,578
Profit/(loss) before taxation	3,655	(6,666)	(39,447)
Taxation	(561)	(440)	–
Profit/(loss) for the year	3,094	(7,106)	(39,447)
Attributable to:			
Equity holders of the Company	3,191	(7,045)	(34,729)
Minority interests	(97)	(61)	(4,718)
	3,094	(7,106)	(39,447)

Asset and liabilities

	As at 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	59,162	28,655	27,126
Total liabilities	28,144	(9,526)	(9,402)
Total equity	31,018	19,129	17,724

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the three years ended 31 March 2006 together with accompanying notes as extracted from the 2005/06 Annual Report of the Company. References to page numbers in this appendix are to the page numbers of the 2005/06 Annual Report of the Company.

CONSOLIDATED INCOME STATEMENT

For the three years ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000	2004 HK$'000
Turnover	20	41,088	34,230	18,578
Cost of sales		(19,281)	(15,539)	(8,916)
Gross profit		21,807	18,691	9,662
Other revenue	20	40	79	76
Other income	21	3,465	–	–
Selling and distribution expenses		(1,986)	(2,017)	(1,864)
Administrative expenses		(18,408)	(17,912)	(21,315)
Provision for impairment on trade and other receivables		(964)	(3,715)	(11,791)
Impairment in value of intangible assets		–	–	(10,007)
Impairment in value of goodwill		–	–	(3,134)
Provision for obsolete inventories		–	(1,282)	–
Loss on disposal of subsidiaries		–	(222)	(972)
Profit/(loss) from operations	21	3,954	(6,378)	(39,345)
Finance costs	24	(299)	(288)	(102)
Profit/(loss) before taxation		3,655	(6,666)	(39,447)
Taxation	25	(561)	(440)	–
Profit/(loss) for the year		3,094	(7,106)	(39,447)
Attributable to:				
Equity holders of the Company		3,191	(7,045)	(34,729)
Minority interests		(97)	(61)	(4,718)
Net Profit/(loss) for the year	26	3,094	(7,106)	(39,447)
Dividends	28	–	–	–
Earnings/(loss) per share	27			
– basic		HK0.73 cents	(HK$2.05 cents)	(HK$0.18 cents)
– diluted		HK0.63 cents	N/A	N/A

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

CONSOLIDATED BALANCE SHEET

		At 31 March		
		2006	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*6*	14,585	2,342	2,888
Available-for-sale investments	*7*	138	131	–
Goodwill	*9*	1,893	1,893	–
		16,616	4,366	2,888
Current assets				
Inventories	*11*	3,250	2,373	4,575
Trade and other receivables	*12*	30,211	18,780	11,014
Pledged bank deposit		93	–	–
Cash and bank balances		8,992	3,136	8,649
		42,546	24,289	24,238
Less: **Current liabilities**				
Trade and other payables	*15*	9,591	8,470	6,663
Obligations under finance leases – due within one year	*16*	111	7	9
Amounts due to directors	*17*	655	664	473
Amount due to minority shareholder of a subsidiary	*17*	160	160	160
Secured short-term bank loans		–	–	999
Trust receipt loans		–	–	1,091
Tax payable		568	225	–
		11,085	9,526	9,395
Net current assets		31,461	14,763	14,843
Total assets less current liabilities		48,077	19,129	17,731
Non-current liabilities				
Convertible Notes	*18*	16,762	–	–
Obligations under finance leases – due after one year	*16*	297	–	7
Minority interests		36	133	325
Net assets		30,982	18,996	17,399
Capital and reserve:				
Share capital	*13*	17,247	13,904	11,587
Reserves		13,735	5,092	5,812
Shareholders' funds		30,982	18,996	17,399

BALANCE SHEET

		At 31 March		
		2006	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Interests in subsidiaries	*10*	–	–	–
Current assets				
Prepayments		53	113	113
Amounts due from subsidiaries		–	–	4,699
Bank balances		38	7	7,950
		91	120	12,762
Less: **Current liabilities**				
Accruals and other payables		576	378	149
Tax payable		–	151	–
		576	529	149
Net current (liabilities)/assets		(485)	(409)	12,613
Net (liabilities)/assets		(485)	(409)	12,613
Capital and reserve:				
Share capital	*13*	17,247	13,904	11,587
Reserves	*14*	(34,494)	(14,313)	1,026
Shareholders' (deficits)/funds		(17,247)	(409)	12,613

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$'000	Minority interests HK$'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.

CONSOLIDATED CASH FLOW STATEMENT

For the three years ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxation		3,655	(6,666)	(39,447)
Adjustments for:				
Interest income		(35)	(73)	(5)
Interest expenses		299	288	102
Amortisation of goodwill		–	425	190
Amortisation of intangible assets		–	1	600
Bad debt written off		–	173	–
Bad debt recovered		(916)	–	–
Depreciation of property, plant and equipment		1,627	1,012	1,836
Exchange difference on translation of financial statements of overseas subsidiaries		(107)	294	–
Loss on disposal of property, plant and equipment		13	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
Provision for impairment on trade and other receivables		964	3,542	11,791
Provision for obsolete inventories		–	1,282	–
Reversal of trade payables		(2,285)	–	–
Reversal of provision for obsolete inventories		(254)	–	–
Share-based payment expenses		449	–	–
Operating cash flows before movements in working capital		3,410	764	(9,277)
Increase/(decrease) in inventories		(623)	1,750	(2,143)
Increase in trade and other receivables		(11,479)	(9,633)	(1,274)
Increase/(decrease) in trade and other payables		3,248	(424)	4,204
Net cash used in operations		(5,444)	(7,543)	(8,490)
Overseas tax paid		(67)	(215)	–
Hong Kong profits tax paid		(151)	–	(27)
Net cash used in operating activities		(5,662)	(7,758)	(8,517)

	Note	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		35	73	5
Purchase of property, plant and equipment		(13,685)	(299)	(1,563)
Proceeds from disposal of property, plant and equipment		–	–	351
Purchase of available-for-sale investments		–	(131)	–
Purchase of subsidiaries (net of cash and cash equivalents)	26	–	(3,081)	–
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	27	–	(485)	(1)
Increase/(decrease) in pledged bank deposits		(93)	–	1,000
Net cash used in investing activities		(13,743)	(3,923)	(208)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid		(53)	(288)	(102)
Proceeds from issue of shares		7,228	8,342	10,046
Issue costs of shares		(627)	(67)	–
Proceeds from exercise at share options		1,148	–	–
Borrowing from finance lease		408	–	–
Proceeds from issue of Convertible notes		18,000	–	–
Issue costs of Convertible notes		(827)	–	–
Capital contributed by minority owner of a subsidiary		–	–	128
Repayment of finance leases		(7)	(9)	(293)
Borrowings raised from directors		–	280	453
Repayment to directors		(9)	–	–
Short-term bank loans (repaid)/raised		–	(999)	999
(Repayment of)/borrowings raised from trust receipt loans		–	(1,091)	1,091
Net cash generated from financing activities		25,261	6,168	12,322
Net increase/(decrease) in cash and cash equivalents		5,856	(5,513)	3,597
Cash and cash equivalents at the beginning of the year		3,136	8,649	5,052
Cash and cash equivalents at the end of the year		8,992	3,136	8,649
Analysis of the balances of cash and cash equivalents				
Cash and bank balances		8,992	3,136	8,649

NOTES TO FINANCIAL STATEMENTS

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.

Judgments 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 Note 4 to 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 years, 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 vested before 1 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 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 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:

– HKAS 16 – 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 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.

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

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention and modified the revaluation of available-for-sale financial assets, which are carried at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2006. 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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

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.

Investment 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.

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.

Interest income is recognised on a time-proportion basis using effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Leased assets

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.

Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment 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 situations 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 property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, 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 $33^1/_3$%
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.

Intangible assets

Operation rights and intellectual property

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

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.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are at least tested annually for impairment and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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 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 investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference 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.

Investments

Before adoption of the new HKFRSs, the Group classified the investment in unlisted debt securities into other investments.

Investment in debts

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.

From 1 April 2005 onward, the Group classifies its investment in the following categories depends on the purpose of such investment were acquired. Management determines the classification of its investments at initial recognition and re-evaluate this designation at every reporting date.

i. Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months from the balance sheet date. The Group did not hold any investments in this category as at the balance sheet date.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loan and receivables included loan receivables, convertible notes receivables and trade receivables.

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group did not hold any investments in this category as at the balance sheet date.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. The Group did not hold any investments in this category as at the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period that arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial assets is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest rate method. The equity component is recognised in the convertible notes reserve until either the notes are converted or redeemed.

If the notes are converted, the convertible notes reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible notes reserve is released directly to accumulated losses.

Foreign currencies

i. Functional and presentation currency

Items included in the financial statements of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company and the Group.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined income statements.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

iii. Group companies

The results and financial positions of all the companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing rate;

(b) Income and expenses are translated at average exchange rates; and

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

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.

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.

Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the income statement as incurred.

iii. 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.

iv. *Share-based payment expenses*

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognised the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

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.

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 financial expenses, and corporate revenue.

3. Financial risk management

Financial risk factors

The Group's activities expense it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risks

(i) Foreign exchange risk

The Group operates mainly in Hong Kong, the PRC and Korea and majority of transactions are dominated in Hong Kong dollars, Renminbi and Korea Won. Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars and Renminbi are pegged to United States dollars and the foreign exchange exposure between them are considered limited.

(ii) Price risk

The Group is not exposed to commodity price risk.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products, provision of services and installation of wastewater treatment system are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(c) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(d) Cash flow and fair value interest rate risk

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used form long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(e) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(f) Measurement of convertible notes

On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible notes reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

(g) Measurement of fair value of equity-settled transactions

The Company operates share option schemes under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

5. 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

6. Property, plant and equipment

The Group

	Furniture and fixtures *HK$'000*	Leasehold improvements *HK$'000*	Machinery and equipment *HK$'000*	Motor vehicles *HK$'000*	Office equipment *HK$'000*	Total *HK$'000*
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 a subsidiary	(9)	–	(28)	–	(18)	(55)
Transferred to inventories	–	–	(76)	–	–	(76)
Disposals	(323)	(2,794)	–	(306)	(14)	(3,437)
At 31 March 2005 and at 1 April 2005	268	701	1,156	433	2,042	4,600
Additions	137	455	12,205	596	292	13,685
Exchange difference	320	–	–	181	402	903
Disposals	–	–	–	–	(46)	(46)
At 31 March 2006	725	1,156	13,361	1,210	2,690	19,142
Depreciation and improvement						
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 a subsidiary	(2)	–	(9)	–	(2)	(13)
Transferred to inventories	–	–	(19)	–	–	(19)
Written back on disposals	(323)	(2,794)	–	(41)	–	(3,158)
At 31 March 2005 and at 1 April 2005	97	243	554	289	1,075	2,258
Provided for the year	267	217	524	142	477	1,627
Written back on disposals	–	–	–	–	(33)	(33)
Exchange difference	146	–	–	174	385	705
At 31 March 2006	510	460	1,078	605	1,904	4,557
Net book values						
At 31 March 2006	215	696	12,283	605	786	14,585
At 31 March 2005	171	458	602	144	967	2,342

At the balance sheet date, the net book value of property, plant and equipment held under finance leases was approximately HK$449,000 (2005: HK$17,000).

At 31 March 2005, certain of the Group's machinery and equipment with an aggregate cost and accumulated depreciation of approximately HK$984,000 and HK$443,000 respectively were held for use under operating leases.

7. Available-for-sale investments

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted debt securities, at fair value	138	131

8. Intangible assets

The Group

	Operation rights	**Intellectual property**	**Organisation costs**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 April 2004	10,000	770	–	10,770
Arising from acquisition of a subsidiary	–	–	1	1
At 31 March 2005 and at 31 March 2006	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 and at 31 March 2006	10,000	770	1	10,771
Carrying values				
At 31 March 2006	–	–	–	–
At 31 March 2005	–	–	–	–

The operation rights of HK$10,000,000 represents 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 right of modification and manufacturing of the relevant machinery in Hong Kong and certain cities in the PRC.

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 estimated useful life of the intellectual property upon acquisition is 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 for the year ended 31 March 2004.

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

9. Goodwill

The Group

	HK$'000 (Restated)
Cost	
At 1 April 2004	3,371
Arising from acquisition of a subsidiary during the year *(Note 30)*	2,318
At 31 March 2005, as previously reported	5,689
Elimination of accumulated amortisation upon adoption of HKFRS 3	(3,796)
At 1 April 2005, as restated and 31 March 2006	1,893
Amortisation and impairment	
At 1 April 2004	3,371
Amortised during the year	425
At 31 March 2005, as previously reported	3,796
Elimination of accumulated amortisation upon adoption of HKFRS 3	(3,796)
At 1 April 2005, as restated and 31 March 2006	–
Carrying value	
At 31 March 2006	1,893
At 31 March 2005	1,893

In prior years, goodwill was amortised on a straight line basis over its estimated useful economic life of 5 years. Following the adoption of HKFRS 3 with effect from 1 April 2005, the Group no longer amortised goodwill. In accordance to the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 April 2005 has been eliminated against the cost of goodwill as at that date.

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the location of operation and business segment as follows:–

	2006	**2005**
	HK$'000	*HK$'000*
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services in Korea	1,893	1,893

The recoverable amount of CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flow beyond five-year period is extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

Gross margin	62% to 65%
Growth rate	6% to 22%
Discount rate	5%

Management determined the budget gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are calculated in accordance with the total amounts and terms of signed contracts. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

10. Interests in subsidiaries

	The Company	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at costs	1,527	1,527
Less: Impairment in value	(1,527)	(1,527)
	–	–
Advance to a subsidiary	13,000	13,000
Less: Provision for advance to a subsidiary	(13,000)	(13,000)
	–	–

The advance to a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Details of the Company's principal subsidiaries at 31 March 2006 are set out in note 39.

11. Inventories

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	896	95
Work in progress	410	3
Finished goods	1,944	2,275
	3,250	2,373

12. 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 *(Note 38)*	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

13. Share capital

	Number of ordinary share	**Amount**
		HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1 April 2004 and at 31 March 2005	1,500,000,000	15,000
– share consolidation *(Note (a))*	(1,200,000,000)	–
Ordinary shares of HK$0.05 each		
– increase in authorised share capital *(Note (b))*	300,000,000	15,000
	600,000,000	30,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1 April 2004	1,158,671,667	11,587
– issue of new shares on subscription *(Note (c))*	231,730,000	2,317
– at 31 March 2005	1,390,401,667	13,904
– share consolidation *(Note (a))*	(1,112,321,334)	–
Ordinary shares of HK$0.05 each		
– issue of new share on subscription *(Note (d))*	55,600,000	2,780
– exercise of share options *(Note 19)*	11,250,000	563
– at 31 March 2006	344,930,333	17,247

Notes:

(a) 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 HK$0.05 each (the "Share Consolidation"). The Share Consolidation became effective on 12 May 2005.

(b) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 8 November 2005, the authorised share capital of the Company has been increased from HK$15,000,000 divided into 300,000,000 shares of HK$0.05 each to HK$30,000,000 divided into 600,000,000 shares of HK$0.05 each by the creation of an additional 300,000,000 un-issued shares of HK$0.05 each.

(c) 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.

(d) On 12 October 2005 and 11 November 2005, the Company issued and allotted 16,000,000, 23,600,000 and 16,000,000 new ordinary shares of HK$0.05 each to three independent third parties, Mr. Chan Fung, Mr. Lau Kam Chee and Fruitful Profits Limited at a subscription price of HK$0.13 per share respectively. The subscription price represented a discount of approximately 19.25% to the closing price of HK$0.161 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$7.00 million were used to finance the Group's future investment in environmental related projects in the PRC, other potential investments and the general working capital of the Group.

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

Please refer to Note 38 for rights issue effective after the balance sheet date.

14. 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.

15. 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.

16. Obligations under finance leases

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable under finance leases:				
Within one year	142	9	111	7
In the second to fifth years	380	–	297	–
	522	9	408	7
Less: Future finance charges	(114)	(2)		
Present value of lease obligations	408	7		
Less: Amount due within one year shown under current liabilities	(111)	(7)		
Amount due after one year	297	–		

Notes: The carrying amounts of obligations under finance lease approximate to their fair values.

17. Amount due to directors/minority shareholder of a subsidiary

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

18. Convertible notes

On 25 November 2005, the Company entered into a placing agreement with an independent placing agent, Hantec Capital Limited (the "Placing Agent"), to place on a best endeavours basis of certain unsecured convertible notes in the aggregate principal amount of more than HK$15,000,000 and up to HK$20,000,000 to placees (the "Placing Agreement").

On 11 January 2006, completion of the Placing Agreement took place. An aggregate principal amount of HK$18,000,000 (the "Convertible Notes") have been placed through the Placing Agent and issued by the Company to 13 independent placees (the "Notes Holder"). The Convertible Notes mature at the third anniversary of the issue date.

The Convertible Notes, if fully subscribed for and issued, are convertible into a total of approximately 67,164,179 new ordinary shares of the Company at the initial conversion price of HK$0.268 per ordinary share (subject to adjustments).

On 11 April 2006, the Company completed the issue of 172,465,166 rights shares. Pursuant to the terms of the Convertible Notes, the conversion prices of the Convertible Notes were shares after the rights issue adjusted accordingly. The new conversion price per share and the number of conversion subject to the Convertible Notes was 86,956,521 shares exercisable at HK$0.207 each. Please refer to Notes 38 for rights issue effective after the balance sheet date.

The fair values of the liability component and the equity conversion component were determined at issuance of the Convertible Notes.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in other reserves.

The Convertible Notes recognised in the balance sheet was calculated as follows:

	The Group and the Company	
	2006	**2005**
	HK$'000	*HK$'000*
Face value of Convertible Notes issued on 11 January 2006	18,000	–
Equity component	(499)	–
Liability component on initial recognition at 11 January 2006	17,501	–
Transaction costs	(827)	–
Amortised cost on initial recognition at 11 January 2006	16,674	–
Interest expense	246	–
Interest payable	(158)	–
Amortised cost at 31 March 2006	16,762	–

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.73% to the liability component.

19. 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 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 trenches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK$0.014 per share are as follows:

	Number of share options			
Type of participants	**Outstanding at 31 March 2005**	**Lapsed during the year**	**Outstanding at 31 March 2006**	**Date of grant**
Advisor	2,400,000	(1,920,000)	480,000	26 April 2002
Former employees	1,600,000	(1,280,000)	320,000	26 April 2002
Total	4,000,000	(3,200,000)	800,000	

As at 31 March 2006, 800,000 share options are exercisable

(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 form 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 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 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 are as follows:

Type of Participants	Outstanding at 31 March 2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 March 2006	Date of grant	Exercise price per share	Exercise period
	Number of share options							
Directors								
Mr. Yung Kwok Leong	–	2,750,000	(2,750,000)	–	–	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
Mr. Chan Hon Chiu	–	1,250,000	–	–	1,250,000	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
Mr. Yeung Kam Yan	–	1,250,000	–	–	1,250,000	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
	–	5,250,000	(2,750,000)	–	2,500,000			
Advisor *(Note (ii))*	7,145,000	–	–	(7,145,000)	–	8 July 2002	HK$0.18	Note (i)
Employee	–	9,750,000	(8,500,000)	–	1,250,000	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
	7,145,000	15,000,000	(11,250,000)	(7,145,000)	3,750,000			

Notes:

(i) The share options are exercisable in two equal trenches from 9 May 2003 and 9 May 2004, respectively, to 9 May 2005.

(ii) 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 employee share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 January 2005 were expensed retrospectively in the income statement of the respective periods.

(iii) Share options granted under the pre-listing share options scheme are not expensed as the options were all granted and vested before 7 November 2002 and not subject to requirements of HKFRS 2.

(iv) The estimated fair value of each option granted on 7 July 2005 is approximately HK$0.0299.

The fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006
Stock asset price	HK$0.102
Exercise price	HK$0.102
Expected volatility	10.23%
Expected life	10 years
Risk-free rate	3.13%
Expected dividend yield	0%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily prices over the one year immediately preceding the grant date. The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares set out as above.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(v) As at 31 March 2006, 3,750,000 share options are exercisable.

(vi) On 11 April 2006, the Company completed the issue of 172,465,166 rights shares. Pursuant to the terms of the pre-listing and post-listing share options schemes, the exercise prices of the share options were adjusted accordingly. The new exercise price per share and the number of shares subject to the outstanding share options after the rights issue under the pre-listing and post-listing share option schemes are 1,034,400 shares exercisable at HK$0.541 each and 4,848,750 shares exercisable at HK$0.079 each respectively. Please refer to Note 38 for rights issue effective after the balance sheet date.

20. 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

21. Profit/(loss) from operations

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) from operations has been arrived at after charging:		
Directors' remuneration *(Note 22)*	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

22. Directors' remuneration

The remuneration of every director for the year ended 31 March 2006 and 2005 are set out below:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	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*
Executive Directors										
Yung Kwok Leong	–	–	83	–	–	–	–	–	83	–
Chan Hon Chiu (resigned on 1 April 2006)	–	–	37	–	–	–	–	–	37	–
Yeung Kam Yan (resigned on 25 April 2006)	–	–	37	–	–	–	–	–	37	–
	–	–	157	–	–	–	–	–	157	–
Independent Non-Executive Directors										
Chan Francis Ping Kuen	60	31	–	–	–	–	–	–	60	31
Hsu Shiu Foo, William	60	60	–	–	–	–	–	–	60	60
Yu Chai Mei	60	60	–	–	–	–	–	–	60	60
	180	151	–	–	–	–	–	–	180	151
	180	151	157	–	–	–	–	–	337	151

For the year ended 31 March 2006, basic salaries and allowances and bonus paid to each of the two executive directors, Mr. Chan Hon Chiu and Mr. Yeung Kam Yan were HK$12.

For the year ended 31 March 2005, basic salaries and allowances and bonus paid to the three executive directors, Mr. Chan Hon Chiu, Mr. Yeung Kam Yan and Mr. Tsui Tai Hoi were HK$12, HK$12 and HK$4 respectively.

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.

The other benefits represented the equity-settled Share-based payment expenses for share options granted to the directors amounted to approximately HK$157,000 (2005: HK$ Nil).

23. Employees' emoluments

No executive director of the Company included in the aggregate emoluments of the five highest paid individuals (2005: Nil). The aggregate emoluments of the five (2005: five) highest paid individuals are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries and allowances	1,644	1,444
Retirement benefits scheme contributions	201	82
Equity-settled share-based payment	–	–
	1,845	1,526

No share options granted to the above five highest paid individuals.

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

24. Finance costs

	2006	2005
	HK$'000	*HK$'000*
Interest on		
– bank and other borrowings wholly repayable within five years	40	137
– bank overdraft	–	147
– finance leases	13	4
– convertible notes	246	–
	299	288

25. 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%

26. 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.

27. 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.

28. Dividends

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

29. Pledged assets

As 31 March 2006, certain bank deposits of the Group were pledged as collateral for bank loans and guarantees for checking accounts (2005: Nil). The Company had not pledged any assets at the balance sheet date.

30. 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 KWR580,000,000 (approximately HK$3,866,000), which was satisfied in cash.

	2006	**2005**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	–	457
Intangible assets	–	1
Inventories	–	778
Trade and other receivables	–	1,776
Cash and bank balances	–	785
Trade and other payables	–	(2,249)
Net assets	–	1,548
Goodwill arising on acquisition *(Note 9)*	–	2,318
Total purchase price	–	3,866
Satisfied by:		
Cash consideration paid	–	3,866
Outflow of cash and cash equivalents in connection with the purchase of the subsidiary	–	3,081

The subsidiary acquired during the year ended 31 March 2005 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 ended 31 March 2005.

31. 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.

	2006	**2005**
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	42
Inventories	–	5
Trade and other receivables	–	73
Cash and bank balances	–	485
Trade and other payables	–	(107)
Minority interests	–	(131)
Net assets	–	367
Loss on disposal of subsidiaries	–	(222)
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	–	(485)

The subsidiaries disposed of during the year ended 31 March 2005 and did not have any significant impact on the Group's cash flows or operating results.

32. Unrecognised deferred taxation

At the balance sheet date, the Group and the Company has unutilized tax losses of approximately HK$40,505,000 (2005: HK$40,024,000) and HK$2,985,000 (2005: HK$1,308,000) respectively available to set off against future assessable profits. No deferred tax asset has been recognized in respect of the unutilised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

33. 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	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	568	287
In the second to fifth year inclusive	366	–
Over five years	58	–
	992	287

34. 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 other significant commitments at the balance sheet date.

35. Contingent liabilities

At the balance sheet date, the Group and the Company had no significant contingent liabilities.

36. 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.

37. 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:

(a) Key management personnel

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in Note 22 and 23, is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Short-term employee benefits	180	151
Share-based payment	157	–
	337	151

(b) During the year ended 31 March 2005, the Group's wholly owned subsidiary, Rightime 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 was a connected person of the Company under the GEM Listing Rules. As such, the transaction also constituted connected transaction under the GEM Listing Rules. For further details, please refer to the Company's circular dated 14 April 2004.

38. Subsequent events

(a) On 2 March 2006, Company proposed to raise not less than approximately HK$10,350,000 and not more than approximately HK$10,370,000 (before expenses) by way of a rights issue of not less than 172,465,166 rights shares and not more than 172,865,166 rights shares at a subscription price of HK$0.06 each on the basis of one rights share for every two existing shares held on the record date. The rights issue was completed on 11 April 2006 and 172,465,166 rights shares were issued. The rights shares rank pari passu with the existing shares in issue in all respects. The net proceeds from the right issue were approximately HK$9,350,000. The Directors intend to use approximately HK$0.50 million towards general working capital of the Group and the balance towards projects of investments in the healthcare sector. For further details, please refer to the Company's announcements dated 15 March 2006, 27 March 2006 and 19 April 2006 respectively.

(b) On 30 March 2006, a wholly-owned subsidiary of the Company, Grand Brilliant Corporation Limited ("Grand Brilliant"), entered into a non-legally binding memorandum of understanding (the "MOU") with two independent third parties, Mr. Wu Wendong (the "Vendor") and Shanghai Humanity Hospital Management Company Limited (the "Hospital Management Company"). Under the MOU, it is proposed that Grand Brilliant will acquire the whole or part of the equity interests held by the Vendor in the registered capital of Hospital Management Company. Both Grand Brilliant and the Vendor will proceed to negotiate for a legally-binding formal agreement on or before 30 June 2006 (or such later date to be agreed by the relevant parties). It was also agreed that the Vendor will not, prior to 30 June 2006 (or such other date to be agreed by the parties), negotiate with any third party for the disposal of such equity interest in Hospital Management Company. A refundable deposit of HK$10,000,000 has been paid by Grand Brilliant to Hospital Management Company as earnest money.

On 12 June 2006, Grand Brilliant, a wholly-owned subsidiary of the Company entered into a conditional Sale and Purchase Agreement with the Vendor to acquire the 760 shares of US$1.00 each of Day View Group Limited (the "Target") and all 76% of all obligations, liabilities and debts owing or incurred by the Target to its existing shareholders, including the Vendor and a minority shareholder. The total consideration amounted to approximately HK$96,860,000 and will be satisfied by the following manner:

(i) HK$10,000,000 as deposit which has already been paid by Grand Brilliant pursuant to the MOU as earnest money;

(ii) approximately HK$76,860,000 by procuring the Company to allot and issue shares at an issue price of HK$0.61 per share; and

(iii) HK$10,000,000 by cash

For further details, please refer to the Company's announcements dated 31 March 2006 and 16 June 2006 respectively.

(c) On 20 April 2006, the Directors proposed to increase the authorised share capital of the Company from HK$30,000,000 divided into 600,000,000 shares of HK$0.05 each to HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each by the creation of an additional 1,400,000,000 unissued shares of HK$0.05 each. The increase in authorised share capital was approved by the shareholders at the special general meeting held on 9 May 2006.

For further details, please refer to the Company's announcement dated 20 April 2006.

(d) On 8 May 2006, banking facility in aggregate of HK$10,000,000 was granted to two wholly owned subsidiaries of the Company, Grandy Trading and Services (H.K) Limited and Grand Motion Investments Limited by a bank in Hong Kong. The amount was secured by an unlimited amount corporate guarantee executed by the Company and all monies charge over accounts receivables of Grandy Trading and Services (H.K.) Limited. No facilities were drawn down as at the date of approval of these financial statements.

(e) On 18 May 2006, the Company entered into a conditional warrant placing agreements with Triumph Sky Finance Limited and Happy Woodstock Limited (the "Subscribers") in relation to a private placing of 51,707,000 warrants to each of the Subscribers, making up an aggregate of 103,414,000 warrants collectively, at an issue price of HK$0.02 per warrant. The warrant placing was completed on 5 June 2006 and 103,414,000 warrants had been issued. The net proceeds from the warrant placing of approximately HK$1.50 million will be applied as general working capital of the Group. The warrants entitle the Subscribers to subscribe for new Shares at an initial subscription price of HK$0.62 per new share for a period of 18 months commencing from the date of issue of the 103,414,000 warrants. A total fund of approximately HK$64.10 million will be raised upon full exercise of the subscription rights attaching to the warrants by the holders of warrants.

For further details, please refer to the Company's announcements dated 22 May 2006 and 5 June 2006 respectively.

(f) On 15 June 2006, the Board announces 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".

For further details, please refer to the Company's announcements dated 16 June 2006 and 19 June 2006 respectively.

39. Principal subsidiaries

Details of the Company's principal subsidiaries, all of which are wholly-owned limited liability companies, at 31 March 2006 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 Trading and Services (H.K.) Limited (formerly know as 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) #**	The PRC	RMB5,000,000	Provision of environmental protection services for a term of 30 years commencing 14 November 2002
Youngdong Environmental Engineering Co., Ltd.*	Korea	KWR200,000,000	Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analysis and measurement services

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Principal activities
Grand Brilliant Corporation Limited	British Virgin Islands	HK$1	Provision of environmental management and consultancy services
柏源(福建)化工有限公司** (Prime Source (Fujian) Company Limited)	The PRC	HK$15,000,000	Manufacture and sales of melamine and its related products

\# *This is a wholly foreign-owned enterprise established in the PRC and had been applied for voluntary winding up and pending for authorisation document from government authorities.*

* *Audited by member firm of HLB International.*

** *Audited by another Hong Kong Certified Public Accountants*

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.

40. Non-cash transactions

During the year ended 31 March 2006, the Group settled the purchase consideration of a motor vehicles of approximately HK$490,000 by finance lease.

41. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on 27 June 2006.

4. INDEBTEDNESS

Borrowings

As at the close of business on 31 May 2006, the Group had outstanding borrowings of approximately HK$17,132,000 details of which are set out below:

	HK$'000
Convertible Notes (liability portion)	16,743
Obligations under finance lease	389
	17,132

The principal amount of the Convertible Notes outstanding as at 31 May 2006 is HK$18,000,000. On 12 July and 20 July 2006 respectively, the Convertible Notes in the amount of HK$9,500,000 have been converted to ordinary Shares. The principal amount of the Convertible Notes outstanding as at the Latest Practicable Date is HK$8,500,000.

In June and July 2006 respectively, two separate payments in the amount of approximately HK$9,000 each have been issued to settle the finance lease.

Certain time deposits of the Group of approximately HK$5,085,000 have been pledged to banks to secure banking facilities and short-term loan granted to the Group. No short-term loan was drawn down as at 31 May 2006 and up to the Latest Practicable Date.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 May 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 contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Group since 31 May 2006 and up to the Latest Practicable Date.

5. 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, the Group will have sufficient working capital for at least twelve months from the date of this circular.

6. 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 2006, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31st Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 July 2006

The Directors
Grandy Corporation
Room 1902, 19th Floor
Sing Pao Building
101 King's Road
North Point
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Pro Forma Financial Information") of Grandy Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Day View Group Limited (the "Target") and its subsidiaries (the "Target Group") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of 76% issued share capital of the Target and the sale loan (the "Proposed Acquisition"), might have affected the financial information presented for inclusion as Appendix IV of the circular of the Company dated 28 July 2006 (the "Circular"). The basis of preparation for the Pro Forma Financial Information is set out on page 124 to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 7.31 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") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion as required by the GEM Listing Rules, on the Pro Forma Financial Information 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 Pro Forma Financial Information beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 March 2006 or any future date.

OPINION

In our opinion:

- the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Rule 7.31 of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

1. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of the Enlarged Group as if the Acquisition has been completed on 31 March 2006 for the pro forma consolidated balance sheet. The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of the Target Group and the Sale Loan at a consideration of HK$96,860,000 which shall be satisfied by deposit already paid, cash and allotment and issue of the shares of the Company.

The accompanying unaudited pro forma financial information of the Enlarged group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the Accountant's Reports on the Hospital Management Company and the Target as set out in Appendix I and Appendix II, the historical financial information on the Group as set out in Appendix III and other financial information included elsewhere in this Circular.

ASSETS

	The Group	Hospital Management Company	Pro-forma adjustments		Total
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets					
Property, plant and equipment	14,585	29			14,614
Available-for-sale investments	138	–			138
Goodwill	1,893	–	88,991	*(1(iv))*	90,884
	16,616	29			105,636
Current assets					
Inventories	3,250	–			3,250
Trade and other receivables	30,211	14,169	(10,000)	*(1(i)(a))*	34,380
Amount due from related companies	–	5,923	–		5,923
Pledged bank deposits	93	–			93
Cash and bank balances	8,992	337	(9,808)	*(1(vii))*	(479)
	42,546	20,429			43,167
Total assets	59,162	20,458			148,803
Equity:					
Capital and reserves attributable to the Company's equity holders					
Share capital	17,247	18,868	(12,568)	*(1(ii))*	23,547
Reserves	13,735	1,106	69,454	*(1(iii))*	84,295
	30,982	19,974			107,842
Minority interests	36	–	9,871	*(1(v))*	9,907
Total equity	31,018	19,974			117,749

	The Group	Hospital Management Company	Pro-forma adjustments		Total
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
LIABILITIES					
Current liabilities					
Trade and other payables	9,591	292			9,883
Obligations under finance leases due within one year	111	–			111
Amounts due to directors	655	–			655
Amount due to minority shareholder of a subsidiary	160	–	26	*(1(viii))*	186
Tax payable	568	192			760
	11,085	484			11,595
Long-term liabilities					
Loans due to minority shareholders	–	–	2,400	*(1(vi))*	2,400
Convertible notes	16,762	–			16,762
Obligations under finance leases due after one year	297	–			297
	17,059	–			19,459
Total liabilities	28,144	484			31,054
Total equity and liabilities	59,162	20,458			148,803
Net current assets	31,461	19,945			31,572
Total assets less current liabilities	48,077	19,974			137,208

Notes:

1. Under HKFRS 3 Business Combinations ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of the Target Group. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Target Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Target Group at the date of completion. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

The adjustments reflect the following:

(i) the total consideration is approximately HK$96,860,000 which is to be satisfied by in the following manner:

(a) HK$10,000,000 as deposit which has already been paid by Grand Brilliant pursuant to the MOU as earnest money on 31 March 2006;

(b) HK$76,860,000 by procuring the Company to allot and issue the Consideration Shares at an issue price of HK$0.61 per Consideration Share. On completion, the share capital and share premium of the Company will increase by approximately HK$6,300,000 and HK$70,560,000 respectively; and

(c) HK$10,000,000 by cash.

(ii) the pro forma adjustment of the share capital represented results of the increase of approximately HK$6,300,000 in share capital described in note 1(i)(b) above and the elimination of share capital of the Target Group on consolidation.

(iii) the pro forma adjustment of reserves represented the results of the increase of approximately HK$70,560,000 in share premium as described in note 1(i)(b) above and the elimination of the pre-acquisition reserves of the Target Group on consolidation.

(iv) goodwill of approximately HK$88,991,000 arising from the acquisition of the Target Group, which is derived from the consideration of HK$96,860,000 minus the 76% net assets of the Target Group of approximately HK$353,000 and the Sale Loan acquired of HK$7,600,000. For the purpose of preparing the Pro Forma financial Information of the Enlarged Group, the carrying value of the net assets of the Target Group and of the Sale Loan as per the Accountant's Report as set out in Appendix I of the Circular is taken to be their fair value. No impairment of goodwill is required.

(v) the pro forma adjustment of minority interests represented the results of the minority shareholders' share of 24% nets assets of approximately HK$353,000 of the Target Group and the share of 49% net assets of the Hospital Management Company of approximately HK$19,974,000 as at 31 January 2006.

(vi) the pro forma adjustment represented the shareholders' loans of HK$10,000,000 less the Sale Loan of HK$7,600,000 to be assigned to the Group according to the Agreement as described in note 1(iv) above and HK$2,400,000 to the minority shareholders of the Target Group.

(vii) the proforma adjustment represented payment of the consideration of HK$10,000.000 as described in note 1(i)(c) above and the cash balance of approximately HK$192,000 of the intermediate holding company of the Target Group.

(viii) the proforma adjustment represented the amounts due to the minority shareholders of the Target Group companies upon restructuring.

2. 172,465,166 ordinary Shares of HK$0.05 each were issued pursuant to the rights issue. The net proceeds from the rights issue was appropiximately HK$9,350,000. The rights issue was completed in April 2006.

Pursuant to HKFRS 3, HKAS 36 Impairment of Assets and HKAS 38 Intangible Assets, amortization of positive goodwill will be ceased and will be tested annually for impairment, as well as when there is indication of impairment.

1. RESPONSIBILITY STATEMENT

This circular, 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 circular 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 circular misleading; and

(3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. 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	Capacity	Number of Shares	Position	Approximate percentage of the total issued share capital of the Company as at the Latest Practicable Date
Yung Kwok Leong *Note 1*	Interest in controlled corporation *Note 1*	122,804,000	Long	21.62%
	Beneficial owner	4,125,000	Long	0.72%
Shum Ngai Pan *Note2*	Beneficial owner	3,600,000	Long	0.63%
Weng Jiaxing *Note2*	Beneficial owner	3,750,000	Long	0.66%

Notes:

1. 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.

2. Ms. Shum Ngai Pan and Mr. Weng Jiaxing are executive Directors.

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.

(ii) Interests in Share Options:

Name of Directors	**Number of Share Options outstanding as at the Latest Practicable Date** *(Note 1)*	**Percentage of total issued share capital**
Yung Kwok Leong	2,450,000	0.43%
Shum Ngai Pan	2,800,000	0.49%
Weng Jiaxing	2,700,000	0.48%
Chen Jin Shan	5,200,000	0.92%

Note:

1. The exercise price of the Share Options is HK$0.83 per Share with exercise period commencing from 13 July 2006 and ending on 12 July 2016 pursuant to the Post-IPO Scheme.

(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 of 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 to the total issued share capital of the Company as at the Latest Practicable Date
Easeglory Holdings Limited *(Note 1)*	122,804,000	Long	Beneficial owner	21.62%
Yung Muk Ying *(Note 1)*	126,929,000	Long	Interest of spouse	22.34%
Top Rainbow Ltd. *(Note 2)*	67,351,887	Long	Beneficial owner	11.85%
Yang Pei Gen *(Note 2)*	67,351,887	Long	Interest in controlled corporation	11.85%
Lu Jin Ming *(Note 2)*	67,351,887	Long	Interest of spouse	11.85%
The Vendor	126,000,000	Long	Beneficial owner	22.18%

Notes:

1. 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 126,929,000 Shares by virtue of her being the spouse of Mr. Yung Kwok Leong.

2. 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.

3. These Shares represent the total Consideration Shares that Mr. Wu Wendong is entitled as the Vendor pursuant to the Acquisition and he is the ultimate beneficial owner of the 126,000,000 Consideration Shares.

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

Name of Shareholder	Number of Shares	Position	Capacity	Approximate percentage to the total issued shares capital of the Company as at the Latest Practicable Date
Happy Woodstock Limited *(Note1)*	51,707,458	Long	Beneficial owner	9.10%
Ng Chung Kit, Francisco *(Note1)*	51,707,000	Long	Interest in controlled corporation	9.10%
	2,415,458	Long	Beneficial owner	0.43%
Tsang Po Yee *(Note1)*	54,122,458	Long	Interest of spouse	9.53%
Triumph Sky Finance Limited *(Note2)*	51,707,000	Long	Beneficial owner	9.10%
Guo Xu *(Note2)*	51,707,000	Long	Interest in controlled corporation	9.10%
Zhou Ya Ping *(Note2)*	51,707,000	Long	Interest of spouse	9.10%

Notes:

1. Happy Woodstock Limited ("Happy Woodstock") is a company incorporated in the British Virgins Islands which is a subscriber of 51,707,000 non-listed warrants under the private placing of non-listed warrants as disclosed in the announcement of the Company dated 22 May 2006 conferring rights to Happy Woodstock to subscribe for 51,707,000 Shares. Happy Woodstock is wholly-owned by Mr. Ng Chung Kit, Francisco and he is deemed to be interested in these Shares. By virtue of Ms. Tsang Po Yee being the spouse of Mr. Ng Chung Kit, Francisco, she is deemed to be interested in 54,122,458 Shares as well as 2,415,458 Shares are beneficially owned by Mr. Ng Chung Kit, Francisco.

2. Triumph Sky Finance Limited ("Triumph Sky") is a company incorporated in the British Virgins Islands which is a subscriber of 51,707,000 non-listed warrants under the private placing of non-listed warrants as disclosed in the announcement of the Company dated 22 May 2006 conferring rights to Triumph Sky to subscribe for 51,707,000 Shares. Triumph Sky is wholly-owned by Mr. Guo Yu and he is deemed to be interested in these Shares. By virtue of Ms. Zhou Ya Ping being the spouse of Mr. Guo Xu, she is deemed to be interested in 51,707,000 Shares as well.

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.

3. DIRECTOR'S SERVICE CONTRACTS

Ms. Shum Ngai Pan, being an executive Director, has entered into a letter of appointment with the Company on 25 April 2006. Brief particulars of her service agreement are set out below:

(a) the term of the letter of appointment shall be for an initial term of one year commencing from 25 April 2006 and Ms. Shum will be subject to retirement and re-election at the next annual general meeting of the Company; and

(b) the letter of appointment would continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Chen Jin Shan, being an executive Director, has entered into a letter of appointment with the Company on 25 April 2006. Brief particulars of his service agreement are set out below:

(a) the term of the letter of appointment shall be for an initial term of one year commencing from 25 April 2006 and Mr. Chen will be subject to retirement and re-election at the next annual general meeting of the Company; and

(b) the letter of appointment would continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Weng Jiaxing, being an executive Director, has entered into a letter of appointment with the Company on 25 April 2006. Brief particulars of his letter of appointment are set out below:

(a) the term of the letter of appointment shall be for an initial term of one year commencing from 25 April 2006 and Mr. Weng will be subject to retirement and re-election at the next annual general meeting of the Company; and

(b) the letter of appointment would continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Chan Francis Ping Kuen being an independent non-executive Director, has also entered into a letter of appointment with the Company for a period of one year commencing from 27 September 2004 which would continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Both Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei have entered into non-executive director's contracts as independent non-executive Directors for an initial term of one year commencing from 22 April 2002 which would continue thereafter until terminated by either party giving to the other party not less than one months' notice in writing.

Save as disclosed herein, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminated by the employer within one year without payment of compensation other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management Shareholders (as defined in the GEM Listing Rules) or their respective associates has any interest in business which competes or may compete with the business of the Group.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) after the date two years immediately preceding the date of this circular 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 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 a production line;

(c) the agreement dated 10 October 2005 entered into among the Company, Fruitful Profits Limited and Mr. Lam Hing Lun in respect of Fruitful Profits Limited's subscription of 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 of 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 of 16,000,000 shares of the Company;

(f) a lease dated 26 September 2005 entered into between 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 1,600m^2 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 the Convertible Notes in the aggregate principal amount of HK$15 million to HK$20 million;

(h) the underwriting agreement dated 28 February 2006 entered into between the Company and Quam Securities Company Limited in relation to the underwriting of not less than 147,917,166 Rights Shares to not more than 148,317,166 Rights Shares under the Rights Issue;

(i) the MOU;

(j) the warrant placing agreement dated 18 May 2006 entered into between the Company and two subscribers in relation to a private placing of 51,707,000 warrants to each of the subscriber, making up an aggregate of 103,414,000 warrants collectively, at an issue price of HK$0.02 per warrant;

(k) the Agreement; and

(l) the non-legally binding letter of intent dated 12 July 2006 entered into between Grand Brilliant and Ms. Zhuang Yan Qiu setting out the basic understanding in relation to the proposed acquisition of equity interests in a hospital as disclosed in the announcement of the Company dated 12 July 2006.

7. INTEREST IN CONTRACTS AND ASSETS

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors and the experts referred to in the paragraph headed "Qualification and consent of experts" in this appendix has any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 March 2006, the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

8. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. QUALIFICATION AND CONSENT OF EXPERTS

The followings are the respective qualifications of the experts who have been named in this circular or have given their opinions, letters or advice which are contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Cheung & Siu	Certified Public Accountants

As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and Cheung & Siu is not interested in any Shares or shares in any member of the Group nor do any of them have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares or shares in any member of the Group.

Each of HLB Hodgson Impey Cheng and Cheung & Siu has given and has not withdrawn their respective written consent to the issue of this circular with the inclusion herein of their respective opinion, letter or advice and/or references to its name, in the form and context in which they respectively appear.

10. MISCELLANEOUS

(a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

(b) The head office and principal place of business of the Company in Hong Kong is at Room 1902, 19th Floor, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Mr. Chan Siu Wing, Raymond, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Practising Accountant in Australia, with over 15 years of accounting and company secretarial experiences.

(e) The compliance officer of the Company is Mr. Yung Kwok Leung who is also an executive Director and the Chairman of the Company.

(f) 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, interim and quarterly reports and given advice and comments thereon to the Directors and (ii) to review and supervise the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive Directors, namely, Mr. Chan Francis Ping Kuen, Mr. Hsu Shiu Foo William, Mr. Yu Chai Mei with Mr. Chan acting as the chairman of the audit committee:

Independent non-executive Directors

Mr. Chan Francis Ping Kuen, 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 of the Stock Exchange. Mr. Chan is also an 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.

(g) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

11. PROCEDURES FOR DEMANDING A POLL

The following sets out the procedures by which Shareholders may demand a poll at the EGM.

Pursuant to article 66(1) of the Company's articles of association, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded (i) by the chairman of the meeting; or (ii) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or (iii) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or (iv) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company in Hong Kong at Room 1902, 19th Floor, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this circular up to and including the date of the EGM and at the EGM:

(a) the memorandum and articles of associations of the Company;

(b) the annual report of the Company for each of the two years ended 31 March 2006;

(c) the accountants' report of Hospital Management Company, the text of which is set out in Appendix I to this circular;

(d) the accountants' report of the Target, the text of which is set out in Appendix II to this circular;

(e) the letter from HLB Hodgson Impey Cheng in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(f) the written consents of the experts referred to in the paragraph headed "Qualification and consent of experts" in this Appendix;

(g) the material contracts on referred to in the paragraph headed "Material Contracts" in this Appendix V to this circular; and

(h) this circular.

GRANDY CORPORATION
泓迪有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Grandy Corporation (the "**Company**") will be held at Room 1902, 19th Floor, Sing Pao Building, No. 101 King's Road, North Point, Hong Kong on Tuesday, 15 August 2006 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement (the "**Agreement**") dated 12 June 2006 and entered into between Grand Brilliant Corporation Limited, a wholly owned subsidiary of the Company and Mr. Wu Wendong (the "**Vendor**") in relation to the sale and purchase of 760 shares of US$1.00 each in the share capital of Day View Group Limited (the "**Target** "), representing 76% of the entire issued share capital of the Target, and 76% of all obligations, liabilities and debts owing or incurred by the Target to its existing shareholders on completion of the Agreement, at a total consideration of HK$96.86 million (a copy of which has been produced to the Meeting marked "A" and signed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) the allotment and issue of an aggregate of 126,000,000 new ordinary shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.05 each in the share capital of the Company credited as fully paid at an issue price of HK$0.61 per Consideration Share to the Vendor pursuant to the Agreement be and is hereby approved;

* *for identification purpose only*

(c) any one or more directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary or expendient for the implementation of and giving effect (including the allotment and issue of the Consideration Shares pursuant to the Agreement) to the Agreement and the transactions contemplated thereunder.

On behalf of the Board
Grandy Corporation
Yung Kwok Leong
Chairman

Hong Kong, 28 July 2006

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

Notes:

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of the Company, vote in his/her/its stead. A proxy need not be a member of the Company but must be present in person to represent the member.

2. A form of proxy for use at the Meeting (or at any adjournment thereof) is enclosed with the circular of the Company dated 28 July 2006. In order to be valid, the form of proxy attached to this circular must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the Company's principle place of business in Hong Kong at Room 1902, 19th Floor, Sing Pao Building, No.101 King's Road, North Point, Hong Kong not less than 48 hours before the time for holding the Meeting or at any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the above Meeting or any adjournment thereof should he/she/it so wish.

3. Where there are joint holders of any share of the Company, any one of such holders may vote at the Meeting either personally or by proxy in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such holders be present at the Meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.