Grandy Corporation

(Incorporated in the Cayman Islands with limited liability)

2003/04 Annual Report

Environmental protection always pays...

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EXECUTIVE DIRECTORS

Tsui Tai Hoi Raymond *(Managing Director)*
Yeung Kam Yan
Chan Hon Chiu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hsu Shiu Foo William
Yu Chai Mei

COMPLIANCE OFFICER

Tsui Tai Hoi Raymond

COMPANY SECRETARY

Wong Chun Kit Wilfred, *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES

Tsui Tai Hoi Raymond
Yeung Kam Yan

QUALIFIED ACCOUNTANT

Wong Chun Kit Wilfred, *FCCA, AHKSA*

AUDIT COMMITTEE

Hsu Shiu Foo William
Yu Chai Mei

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681GT
George Town, Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

10/F Luk Kwok Centre
72 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited
G/F BEA Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank
Hang Seng Bank

SPONSOR

Hantec Capital Limited

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

STOCK CODE

8143

On behalf of the board of directors (the "Board"), I would like to present the annual report of Grandy Corporation (formerly known as Grandy Applied Environmental Technology Corporation, the "**Company**") and its subsidiaries (collectively the "**Group**") for the financial year ended 31st March, 2004.

Since the Company's listing on 10th May, 2002, the Group has focused on its geographical expansion plans by incorporation of subsidiaries in Malaysia, Beijing, Zhuhai and Singapore. The financial year ended 2003 has been a year of investment with the opening of four overseas offices with a view to pave way for growth in markets and revenues.

Unexpectedly, occurrence of the Severe Acute Respiratory Syndrome ("**SARS**") during the period from March 2003 to May 2003 throughout the region coupled with the much slower than expected implementations of environmentally friendly government policies and measures in both the Hong Kong Special Administrative Region ("**HKSAR**") of the People's Republic of China ("**PRC**") and in the PRC have resulted in a significant fall in the revenue and significant increase in losses of the Group for the financial year ended 2004 compared to both our forecasts and to 2003.

The immediate impacts of SARS led to change in uses of funds of almost all property management companies (who are being the major customers of the Group's businesses in the HKSAR) as a high proportion of their fixed budgets have to be used for unplanned purchases of cleansing and sanitary related items e.g. face masks, cleaning gloves, sterilizing liquids and chemicals and the employment of additional workers to clean the buildings and public areas on a more frequent basis and to higher sanitary standards.

The financial year ended 2004 has been a very difficult year for the Group in terms of its core environmental businesses which the Group focused on before listing of the Company on 10th May, 2002. For the HKSAR markets, our enzyme business has reduced compared to 2003 mainly due to SARS. Sales related to the energy saving businesses for the HKSAR saw some growth but was not enough to compensate for its corresponding fall in sales compared to the previous year when a few major contracts are concluded for certain overseas customers.

We anticipate that the businesses for the financial year ending 31st March, 2005 will still be difficult and we will take all necessary measures and steps to control our costs and to improve our sales. Details of our plans will be summarized under section headed "Management Discussion and Analysis".

Tsui Tai Hoi Raymond
Chairman

Hong Kong, 28th June, 2004

FINANCIAL HIGHLIGHTS

Summary of the results of the Group for the financial year ended 31st March, 2004 are as follows:

– Turnover was approximately HK$18.6 million, representing a decrease of 34.4% compared to a turnover of HK$28.3 million for the previous year;

– Gross profit was approximately HK$9.7 million, representing a fall of 33% compared to the previous year when a operating profit of HK$14.4 million was recorded; and

– Loss after taxation and minority interests was approximately HK$34.7 million, representing an increase of 205.3% compared to the previous year when a loss after taxation and minority interests of HK$11.4 million was recorded.

In particular, the below mentioned factors accounted for the deterioration of results in 2004.

A significant increase in provisions for bad and doubtful debts from approximately HK$2 million in 2003 to approximately HK$11.8 million in 2004. Most of these provisions for bad and doubtful debts related to sales made in 2003 when the new operations commenced in overseas and as a result of the need for market expansion and therefore granting of comparative favorable credit terms to new customers.

The food waste project that we acquired in 2002 has failed to produce the anticipated results due to change in priority of government funding. For more details, please refer to the relevant paragraphs in the paragraph headed "Food Waste Treatment Project" under section headed "Business Review" below.

One-off losses arising from scaling down and disposals of overseas subsidiaries set up since August 2002 due to the re-emphasis on improvement of bottom lines and asset base via merger and acquisition activities to be advised by the Group's second largest shareholder i.e. Key Engineering Co., Ltd. ("**Key Engineering**").

BUSINESS REVIEW

The Group is principally engaged in the production, sourcing, sales and marketing of environmental protection products and services for combating environmental problems including energy wastage, waste handling and treatment for pollutions of both air and water.

Results of the Group for the year ended 31st March, 2004 have shown a significant setback compared to the previous year. Turnover of the Group fell to approximately HK$18.6 million mainly because most operating subsidiaries established have failed to achieve their business targets and our group credit policies have tightened in the face of a significant level of provisions for bad debts already made. As a result of the fall in turnover and provisions made in relation to closure of certain operating subsidiaries, loss attributable to the shareholders increased to approximately HK$34.7 million.

Apart from the immediate impacts of SARS on results for first half of the year, the poor performance is also linked to over-expansion within a short period (i.e. incorporation of 4 subsidiaries within 9 months) and insufficient monitoring on the level of expenses against forecasted business targets in respect of the major operating subsidiaries, in particular those established outside the HKSAR.

Taking the opportunities of working with a new business partner, Spackman Group (who has profound experiences in corporate governance and merger and acquisition activities), the Company has embarked on a different business development strategies as explained below.

Re-focus of business development strategies

In view of the losses incurred for year ended 31st March, 2003 and for the nine months ended 31st December, 2003 and a placing of new shares to Key Engineering (a company listed in KOSDAQ in the Republic of Korea and a member of the Spackman Group) in November 2003, the Board has decided to re-focus the Group's business expansion strategies by closure and/or scaling down of the majority of existing loss-making operating subsidiaries and to acquire only profit-making operations to improve our bottom lines.

The decision is made with an aim to cut down possible future further losses to be incurred by the existing loss-making operating subsidiaries as the marketing of our existing core products (e.g. Uyama Enzyme, Light Eco Energy Saver System) are much more difficult than the management of the Company anticipated when incorporation of these subsidiaries are being proposed.

Steps have therefore been taken since late December 2003 to achieve this objective. As at the date of this report, the Group has already disposed of its subsidiary in Malaysia. The subsidiaries in Beijing and Singapore will soon be disposed of and/or wound up either in the first quarter or second quarter of the financial year ending 31st March, 2005. The subsidiary incorporated in Zhuhai will be scaled down and kept as our window for the Southern China markets to (a) maintain on going existing businesses and relationships; and (b) to capitalize on future opportunities that may have arisen in relation to promotion of products and services to be introduced by our profit-making subsidiaries already acquired or to be acquired.

Provisions and write offs of approximately HK$4.7 million have been recorded in the results for the year ended 31st March, 2004 due to the scaling down and disposals of the overseas subsidiaries.

Food waste treatment project

Before we acquire the project, we understand from reliable sources that there will be approximately HK$100 millions of funding from the HKSAR government to promote the use of environmentally friendly methods to deal with food wastes and in fact an implementation programme has been running in fifteen housing estates in Shatin using the machines and technologies of our project.

Unfortunately, this funding programme has not been continued due to change in funding priority of the relevant government department. At the date of this report, the Group's management is unable to ascertain when will the programme in the HKSAR be continued again even though similar programmes have been actively supported by the government in Beijing since 2002 and also by government in Taipei recently.

Despite the Group management's belief that the food waste project will generate reasonable returns for the Group in the longer term, the management has agreed to a full provision of the intangible assets (i.e. approximately HK$9.3 million operation rights and approximately HK$3.1 million goodwill arising from the acquisition of the project) associated with the food waste project on grounds of prudence without valid and conclusive evidence that there will be sufficient revenue in the shorter term to cover the amortization of the related intangibles.

Currently, the management is focusing on promotion of the food waste machines and technologies in the education sectors including both primary and secondary schools and tertiary education institutes in the HKSAR.

Acquisitions of operations with track records

In line our re-focus in business expansion strategies and with the business knowledge, networks and connections brought by Spackman Group and Key Engineering, the Group has identified certain operations in the Republic of Korea ("**Korea**") as potential targets for acquisitions. Apart from possible synergies associated with Key Engineering, the Group management believes that Korea is a good choice for potential acquisitions considering (a) it has developed industrial and technology base as well as domestic markets for environmental and environmental-related businesses; (b) its close proximity to the PRC markets; (c) technologies and products offered by Korea are competitive compared to similar technologies and products from Europe or America.

In April 2004, the Group has completed its acquisition of Youngdong Environmental Engineering Co., Ltd* ("**Youngdong**"), which is a company involving mainly in environmental and environmental-related businesses.

* *for identification purpose only*

The core businesses of Youngdong include the installation, engineering and management of waste water treatment systems and environmental facilities and the provision of environmental analysis and measurement services. Prior to acquisition by the Group, Youngdong's operations are mainly focused in Korea. After the acquisition, the Group management is now liaising with the management of Youngdong on the best ways to introduce Youngdong's technologies, products and services into the PRC markets. For further details of this acquisition, please refer to the announcement and the circular of the Company dated on 24th March, 2004 and 14th April, 2004 respectively.

The Group is currently negotiating the terms of another acquisition in Korea with the target company engaging mainly in energy saving and related businesses. For further details of this acquisition, please refer to the announcement of the Company dated on 18th June, 2004.

FUTURE PLANS AND PROSPECTS

In a nutshell, the Group is planning to dispose its loss-making operations and develop profit-making operations through mergers and acquisitions.

In respect of specific environmental protection related products and services, the Group management will focus in the areas of waste treatment, waste water treatment and energy saving and their related operations as shortage of water resources and energy are two of the most important unresolved issues for the current central government in the PRC.

As long as the Group can provide cost effective technologies, products and solutions to resolve these two issues, the Group's management believe that there are immense business opportunities in the PRC. It is with the above aims that the Group is eyeing on the potentials in Korea. The Group's management believe that Korea technologies, products and solutions are among those available that can best fit in the gaps in the PRC markets in terms of cost effectiveness and competitiveness.

Waste Water Treatment. Following the continuing growth in population and industrialization processes in the PRC, shortage in water resources and energy will inevitably only attract more and more attention of the policy makers as well as decision makers.

To take one example, many cities (including even a lot of the coastal cities) in the PRC are still using fresh water to flush toilets and this has added to the overall burdens of demands for fresh water. One feasible solution is to use water from the comparatively less polluted channels (e.g. water from the bath basin, water from the kitchen) to be recycled for the purposes of flushing toilets. The Group's management therefore believe that waste water recycling and treatment will be much needed to resolve the water shortage problems in the PRC.

Energy Saving. As regard the energy shortage, it is already public knowledge that interruptions (whether it is pre-scheduled or due to malfunctions of the systems) to electricity supply for both residential and industrial users have almost been treated as part of their normally daily lives.

To take one example, the municipal government of Shanghai has been restricting property management companies to turn on the advertising and/or decorative lightings outside their buildings during the electricity consumption peak period in the summer months when most residents and users will turn on their air-conditioning systems. The central government in the PRC has recently approved the major electricity companies to increase their tariffs throughout most part of the country and this is seen also as one measure to reduce the gap between demand and supply of electricity.

As a result, the Group management is in the process of identifying suitable energy saving technologies that we foresee can capture the huge business opportunities in the PRC markets.

Nano Products. As a direct impact of SARS, the community is putting more and more emphasis on personal hygiene standards and sanitary measures to protect our health. In response to this demand and the fact that we found it increasing difficult to promote our enzyme products (which has lacked the sterilizing functions that are being requested by most users nowadays), we have worked with a inventor and manufacturer in Guangzhou and jointly designed a new product using nano technologies that combined the characteristics of (i) removal of unpleasant bad odors (one major function of our enzyme products); and (ii) removal of most commonly known germs, bacteria and/or viruses.

Similar to our existing enzyme products, the new nano product is mainly designed for uses in flushing water tanks and garbage rooms. We have started to launch the products in February 2004 and so far responses from our major customers are positive.

After the first few months of trial running and demonstrations, the new product is anticipated to generate revenue starting from the second quarter of the financial year ending 31st March, 2005. We anticipate that the nano products will have higher potential compared to the existing enzyme products since the sterilization function (in addition to removal of bad odors) is a very strong selling point under the current sentiments of the users.

Closure of Beijing Office, Malaysia Office and Singapore Office. As a direct result of our re-focus on business development strategies, the Group's management have decided to close the Beijing Office, the Malaysia Office and the Singapore Office.

For Beijing Office, we have discussed and agreed with our joint venture partner to sell the existing paid up capital to the joint venture partner. For Malaysia Office, we have transferred our share capital to the General Manager of our Malaysian operations who is interested to take up the operations. For Singapore Office, we are still negotiating with the local management to identify the best possible ways to close the office.

Formalities for disposal of the Malaysia have been completed while the documentations relating to closure of the Beijing Office are in progress and are anticipated to be completed very soon in the second quarter of the financial year ending 31st March, 2005. The losses and potential losses connected with the disposals have been provided for in the results for the year ended 31st March, 2004.

Scale down of Dongguan Office. Even though the Dongguan Office have also not performed well, the Group's management have decided to scale down its operations instead of closing the office considering (a) there are on going businesses of our energy saving products; and (b) the maintenance costs can be kept to a minimum (e.g. much lower traveling costs compared to traveling to the three offices mentioned above); and (c) it may be used as our window for the Southern China markets and for potential promotion of the new products to be identified in the future (e.g. from subsidiary acquired or to be acquired).

Costs Rationalization Measures. Running parallel with our strategies on re-focus of business development are a series of costs reduction measures already taken in Hong Kong included the followings:

- Reduction in headcounts for the Hong Kong operations to 31 compared to 41 at same period in the previous year.
- Reduction in individual employee's salary.
- Management shareholders receiving only a notional salary of HK$1 effective from 1st October, 2003.
- Cancellation of staff benefits which are not mandatory e.g. medical insurance

Further measures to be implemented include planned cut in office rental and use of salesmen purely on commission basis with no basic salary to reduce fixed staff costs as a percentage of turnover. The Group's management is currently identifying opportunities for re-location of the office to a site with lower overall costs soonest possible.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK$8,649,000 as at 31st March, 2004 (2003: HK$6,359,000). After deducting interest-bearing bank loans and overdrafts of approximately HK$2,090,000 as at 31st March, 2004 (2003: HK$306,000), the Group recorded a net positive cash balance of approximately HK$6,559,000 as at 31st March, 2004 as compared to a net positive cash balance of approximately HK$6,053,000 as at 31st March, 2003.

The interest-bearing bank loans at 31st March, 2004 were applied to finance the purchase of the inventories of the Group. The gearing ratio of the Group, as calculated by dividing the total interest-bearing debts by the total asset value of the Group, was approximately 0.077 as at 31st March, 2004. The comparative gearing ratio was approximately 0.006 as at 31st March, 2003 and the higher gearing ratio at 31st March, 2004 is mainly caused by decrease in financial resources as a direct result of the losses incurred by the Group.

The Group recorded total current asset of approximately HK$24.2 million as at 31st March, 2004 (2003: HK$31.9 million) and total current liability of approximately HK$9.4 million as at 31st March, 2004 (2003: HK$3.8 million). The current ratio of the Group, calculated by dividing the current asset by the current liability, was approximately 2.58 as at 31st March, 2004 (2003: 8.38). The fall in the current ratio was mainly due to the losses incurred by the Group.

The Group recorded a decrease in shareholders' funds of approximately HK$24.7 million which was attributable to losses incurred for the year and increases in issued share capital of the Company due to placing of new shares to Key Engineering.

FOREIGN EXCHANGE EXPOSURE

As at 31st March, 2004, the Group had three overseas subsidiaries in Beijing, Singapore and Zhuhai.

However, the Group's management considered that there is no exposure (2003: HK$4,124,000) for the Group since sufficient provisions have been made at 31st March, 2004 for the respective receivables and net assets of these subsidiaries in view of our plans to close or scale down their activities.

CHARGES ON GROUP ASSETS

Apart from two photocopiers and a trade receivable of HK$615,440 which were used as collaterals for their corresponding finance leases and bank loan, the Group had no other charges on its assets as at 31st March, 2004.

CONTINGENT LIABILITIES

As at 31st March, 2004, the Company has given corporate guarantees of approximately HK$1,500,000 (2003: HK$10,500,000) to banks to secure credit facilities granted to its subsidiaries.

SEGMENT INFORMATION

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

CAPITAL STRUCTURE

As at 31st March, 2003, the total issued share capital of the Company was HK$8,716,667 divided into 871,666,667 shares of HK$0.01 each.

During the current year, a total of 287,005,000 shares credited as fully paid were allotted and issued to Key Engineering (287,000,000 shares) and an option holder (5,000 shares) respectively. For further details of the placing of new shares to Key Engineering, please refer to the announcement and the circular of the Company dated on 7th October, 2003 and 21st October, 2003 respectively.

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

MATERIAL ACQUISITION OF A SUBSIDIARY

On 24th March, 2004, Rightime Development Limited (a wholly owned subsidiary of the Company, referred to as "**Rightime**") entered into a sale and purchase agreement with Key Engineering (the Company's second largest shareholder and a connected person of the Company under the GEM Listing Rules) under which and subject to the terms and conditions thereof, Rightime acquired a 100% interest in Youngdong from Key Engineering for an aggregate consideration of KWR 580 million in cash.

Youngdong is a company incorporated in the Republic of Korea and is principally engaged in installation, engineering and management of waste water treatment systems and environmental facilities and the provision of environmental analysis and measurement services.

The acquisition was completed on 30th April, 2004. For further details of this acquisition, please refer to the announcement and the circular of the Company dated on 24th March, 2004 and 14th April, 2004 respectively.

EMPLOYEE INFORMATION

As at 31st March, 2004, the Group had 52 (2003: 82) full time employees as shown in the following table:

Location	Number of Staff
Hong Kong	31
Beijing	5
Dongguan	14
Singapore	2

For the year ended 31st Mach, 2004, staff cost (including Directors' emoluments) amounted to approximately HK$9.7 million (2003: HK$10.5 million). The decrease was attributable to both a reduction in headcounts and in the level of individual salaries as explained in the paragraph under "Costs Rationalization Measures" above. The Group remunerates its employees based on individual performance. Apart from the basic remuneration, staff benefits include medical insurance and retirement benefits under the Mandatory Provident Fund Scheme etc.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As explained under sections headed "Business Review" and "Future Plans and Prospects" above, the Group has re-focused its business development strategies and therefore many business objectives proposed at the time of listing have been re-assessed and revised during the second half of financial year ended 31st March, 2004.

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

For comparisons of business objectives with actual business progress for the six months periods ended on 30th September, 2002 and on 31st March, 2003, please refer to the 2003 Annual Report of Grandy Corporation. For comparisons of business objectives with actual business progress for the six months period ended on 30th September, 2003, please refer to the Half-year Report of Grandy Corporation for the financial year ended 31st March, 2004.

Business objectives for the period from 1st October, 2003 to 31st March, 2004 as stated in the Prospectus of the Company dated 29th April, 2002	Actual business progress for the period from 1st October, 2003 to 31st March, 2004
1. Geographical expansion	
• Organize seminars and workshops for potential customers in the PRC and Malaysia	Seminars held on crystallization and process improvement to key clients of the Beijing Grandy Green Technology Limited.
• Appoint additional agent(s) in the PRC for the Group's expansion in the Guizhou Province, Fujian Province and Jiangxi Province of the PRC	Not carried out as the Group is in the process of re-assessment of the performance of existing agents.
• Appoint agent(s) to develop the Group's business in Vietnam	Not carried out due to more urgent priorities on re-focus of business development strategies and cost rationalization measures.
2. Improvement of existing products and sourcing of new products	
Water Quality Improvement • Commence further development of the auto-dosing system	Not carried out as the focus is shifted to marketing of a new nano product which does not require auto-dosing system as a result of the foreseen difficulties encountered for the marketing of enzymes.

Business objectives for the period from 1st October, 2003 to 31st March, 2004 as stated in the Prospectus of the Company dated 29th April, 2002	Actual business progress for the period from 1st October, 2003 to 31st March, 2004
• Conduct practical evaluation of the performance of bio-farm technology in different water systems	Plan postponed as priority is given to the marketing of evaluation of the new nano product.
• Launch photocatalytic oxidation ("PCO") technology products to the market of waste treatment	Plan postponed due to focus on marketing of existing products as a measure to save unnecessary product development costs.
• Conduct feasibility studies for the further applications of waste water recycling treatment models	Plan postponed due to focus on marketing of existing products as a measure to save unnecessary product development costs.
Air Quality Improvement	
• Commence research in widening the application	Objective postponed due to new opportunities on indoor air sterilization based on ozone and to cut down unnecessary product development costs.
• Commence development of new types of PCO reactor	Objective postponed due to new opportunities on indoor air sterilization based on ozone and to cut down unnecessary product development costs.
Energy Saving	
• Compact Heat Exchangers	
Commence sourcing of appropriate Compact Heat Exchanger devices for customers to enhance energy efficiency	Objective postponed in favor of process improvement projects, oil/gas well boosting technology.
• Chemical processing improvement technology	
Set up pilot scale facilities for processing improvement	Consultancy project in progress with key client, one of top 100 chemical producers in the PRC.

Business objectives for the period from 1st October, 2003 to 31st March, 2004 as stated in the Prospectus of the Company dated 29th April, 2002	Actual business progress for the period from 1st October, 2003 to 31st March, 2004
3. Establishment of product development and evaluation capabilities	
• Continue collaboration programmes	Collaboration programmes ceased due to focus on existing profitable businesses and plan to re-focus business development strategies.
• Search for appropriate location for the setting up of a collaborative research centre in the PRC for chemical processing improvement technology	Collaboration programmes ceased due to focus on existing profitable businesses and plan to re-focus business development strategies.
• Conduct collaboration programme with local university/institution	Collaboration programmes ceased due to focus on existing profitable businesses and plan to re-focus on business development strategies.
• Form strategic alliance with institution/ university in the PRC for the Group's application analysis and product development activities	Strategic alliance ceased due to re-focus on business development strategies.
• Continue Innovation and Technology Fund ("ITF") programme application	ITF programmes ceased due to cost rationalization measures.
4. Marketing and brand building	
• Sponsor and organize environmental related education programmes	None carried out to date as focus remained on sales and re-focus of business development strategies.
• Advertise the Group's products and services in journals and magazines	None carried out to date as focus remained on sales and re-focus of business development strategies.
• Participate in different environmental related exhibitions	No participation during the period as a cost control measure.

Business objectives for the period from 1st October, 2003 to 31st March, 2004 as stated in the Prospectus of the Company dated 29th April, 2002	Actual business progress for the period from 1st October, 2003 to 31st March, 2004
• Expand existing sales and marketing team	The sales and marketing team has been reorganized to cut down fixed costs by the use of a higher portion of salesmen purely on commission basis.
• Maintain the Group's website	The Group's website redesigned in December 2003 to give more investor related information and a precise and concise layout.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERINGS

A comparison of the planned uses of proceeds from the initial public offering against the actual uses is set out below:

	Planned amount to be used up to 31st March, 2004 as disclosed in the prospectus dated 29th April, 2002	Actual amount used up to 31st March, 2004
	HK$ million	*HK$ million*
Geographical expansion	3.20	4.60
Improvement of existing products and sourcing of new products	3.86	3.27
Establishment of application analysis and product development capabilities	5.50	3.85
Marketing and brand building	1.20	1.00
Redemption of the convertible notes	10.00	10.00
General working capital	15.24	21.28
	39.00	44.00

As a result of the changes in business development strategies and also the losses incurred by the Group for the financial years ended 31st March, 2003 and 31st March, 2004, the use of proceeds of the Company has been revised.

As at 31st March, 2004, the proceeds of approximately HK$44 million from the initial public offering had all been used up.

EXECUTIVE DIRECTORS

Mr Tsui Tai Hoi Raymond, aged 47, the Managing Director and one of the founders of the Group, is responsible for the business development, strategic planning, marketing and overall management of the Group. Prior to setting up the Group, Mr Tsui has over 15 years' experience in the financial sector including foreign exchange and private equity investments. Mr Tsui served as managing director of Top Rank Investment Ltd., Top Rank Securities Ltd. and Evershine International Investment Ltd. respectively. Mr Tsui holds a bachelor of business administration degree from the City University of New York, the US.

Mr Yeung Kam Yan, aged 52, the Project Director and one of the founders of the Group, is in charge of the marketing and business development of the Group. Mr Yeung is a member of the Air & Waste Management Association – Hong Kong Section. Mr Yeung has over eight years of experience in accounting, sales and marketing in different international companies including Olivetti (Hong Kong) Ltd. from 1979 to 1982, O.P.D Limited from 1982 to 1985 and Henry Boot Far East Limited from 1986 to 1990. Mr Yeung also operated his own trading and investment business in the PRC from 1990 to 1998 before establishment of the Group.

Mr Chan Hon Chiu, aged 44, the Marketing Director, is responsible for the sales and marketing functions of Group. Mr Chan joined the Group in April 2000. Prior to joining the Group, Mr Chan worked as an operation manager for a building cleaning services provider namely Reliance Services (HK) Limited from 1991 to 1993 and was appointed as a director of two cleaning and waste disposal services providers namely Sanki Rampart Environmental Services Limited and Jamek International Limited was a partner of Rampart Environmental Service engaged in cleaning and waste disposal services from 1993 to 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Hsu Shiu Foo William, aged 53, was appointed as an independent non-executive Director in November 2001. Mr Hsu is a lecturer at Brigham Young University, Hawaii. Mr Hsu has over 10 years' global business experience in tourism and related fields in various international corporations. Mr Hsu holds a bachelor of arts degree from Brigham Young University, Hawaii and a master's degree in professional studies (hotel administration) from Cornell University, New York, the US. Mr Hus was an independent non-executive director of Honko International Holdings Limited, the shares of which was listed on the Main Board of the Hong Kong Stock Exchange, from 1996 to 2001.

Prof. Yu Chai Mei, aged 48, was appointed as an independent non-executive Director in November 2001. Mr Yu is the Professor of the Department of Chemistry and the Director of Studies in Environmental Science Programme of the Chinese University of Hong Kong. Prof. Yu possesses extensive knowledge on photocatalytic degradation of pollutants, development and application of methods for trace analysis and design of innovative experiments for analytical and environmental chemistry. Prof. Yu obtained his doctoral degree in Chemistry at the University of Idaho, the US. Prof. Yu has made contributions to Group by advising the Group on development potentials of PCO technology and has helped the Group to carry out research on the functions of PCO reactors in the early stage of the Group's business development.

SENIOR MANAGEMENT

Mr Hoang George Tan Van, aged 49, is a senior manager of the production and warehousing section and one of the founders of the Group. Mr Hoang is responsible for production and quality controls of the Group. Mr Hoang was a technology development officer for 廣西南寧金星科技開發有限公司 from 1992 to 1998. Mr Hoang was mainly responsible for research on applications of enzymes in air and water quality improvements.

Mr Leung Chi Kin, aged 48, is a senior manager of the engineering section and one of the founders of the Group. Mr Leung is responsible for the design of environmental systems, site servicing and other operational tasks of the Group. Prior to joining the Group, Mr Leung was appointed as a director of United Tech Engineering Ltd. engaged in the business of general trading and mechanical engineering from 1995 to 1999.

Mr Mio Kwok Man, aged 43, is the senior manager of the retail section of the Group. Mr Mio is responsible for the business development and distribution of the Group. Mr Mio has over two years of experience in quality control and planning and operation for hygiene and cleaning services. Mr Mio joined the Group in August 2000. During the period from 1988 to 1994, Mr Mio worked for Ploykinq Services Ltd. as operations manager. During the period from 1994 to 1997, Mr Mio worked for a hygiene services company namely Swan Hygiene Services Ltd. as quality control and planning manager. During the period from 1997 to 2000, Mr Mio worked for Baguio Cleaning Services Ltd., a company engaging in building cleaning services, as marketing and operations manager.

Mr To Hang Ming, aged 45, is a senior manager of the business development section of the Group. Mr To is responsible for marketing and business development of the Group. Mr To holds a degree in business-economics from the University of California, Los Angeles in the US. During the period from 1990 to 1994, Mr To worked as a chief dealer of the foreign exchange department in Dresdner Bank and was responsible for foreign exchange dealings. During the period from 1995 to 2000, Mr To worked as a foreign exchange manager of the foreign exchange department of Republic National Bank of New York and was responsible for foreign exchange dealings. Apart from gaining social and marketing skills, such working experience enables him to build up his clientele and connections. Mr To joined the Group in June 2000.

Mr Wong Chun Kit, aged 41, is the financial controller and company secretary of the Group. Mr Wong is responsible for the Group's financial controls and treasury functions. Mr Wong holds a bachelor of arts degree from the University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr Wong worked for Messrs Chu & Chu and Messrs Ernst & Young (both being Certified Public Accountants firm) during the period from 1986 to 1995 prior to working as an internal control manager during the period from 1996 to 1997 for Continental Enterprises Limited which is engaged in the agricultural commodities trading businesses. Mr Wong then worked as assistant financial controller during the period from 1997 to 2001 for a project investment and management company, namely Sadance Enterprises Ltd., focusing on private equity investments in various projects in the PRC before joining the Group in August 2001.

The directors present their annual report and the audited financial statements for the year ended 31st March, 2004.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the Company's shareholders in an extraordinary general meeting held on 9th January, 2004, the name of the Company was changed from Grandy Applied Environmental Technology Corporation to Grandy Corporation.

PRINCIPAL ACTIVITIES

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 as detailed in note 32 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 29.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 19 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 33 and note 21 to the financial statements respectively.

The Company's reserves available for distribution represent the share premium and contributed surplus less deficit which in aggregate amounted to approximately HK$1.0 million as at 31st March, 2004. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Tsui Tai Hoi, Raymond *(Managing Director)*	
Yeung Kam Yan	
Chan Hon Chiu	
Leung Chi Kin	*(resigned on 10th December, 2003)*
Hoang Tan Van, George	*(resigned on 10th December, 2003)*
To Hang Ming	*(resigned on 10th December, 2003)*

Non-executive directors:

Ko Ji Hwan	*(appointed on 10th December, 2003 and resigned on 4th June, 2004)*
Martin Andrew Mohabeer	*(appointed on 10th December, 2003 and resigned on 4th June, 2004)*
On Suk In	*(appointed on 10th December, 2003 and resigned on 4th June, 2004)*
Kong Li Szu	*(resigned on 13th May, 2003)*

Independent non-executive directors:

Hsu Shiu Foo, William
Yu Chai Mei

In accordance with Article 87 of the Company's Articles of Association, Mr. Chan Hon Chiu will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

All the executive directors have each entered into a service contract with the Company for an initial term of two years commencing on 10th May, 2002 which will continue thereafter until terminated by either party giving to the other party not less than six months' notice in writing during the initial term and three months' notice in writing during any renewed term after the first two years.

Both independent non-executive directors have been appointed for an initial term of one year commencing on 10th May, 2002 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2004, the interests or short positions of the directors and their associates in the ordinary shares of the Company and their associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Hong Kong Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rules 5.46 to 5.66 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long position:

Long positions in ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Tsui Tai Hoi, Raymond *(Note)*	Interest of a controlled corporation	416,769,983	35.97%
Yeung Kam Yan *(Note)*	Interest of a controlled corporation	416,769,983	35.97%
Chan Hon Chiu *(Note)*	Interest of a controlled corporation	416,769,983	35.97%

Note:

These shares refer to the same block of shares held by Achieve Century Limited, a company incorporated in the British Virgin Islands. Approximately 53.87% and approximately 46.13% of the issued share capital of Achieve Century Limited are respectively owned by Tipmax Limited and Star Wave Limited, both companies being incorporated in the British Virgin Islands.

Tipmax Limited is beneficially wholly-owned by Mr. Tsui Tai Hoi, Raymond, whereas Star Wave Limited is owned as to approximately 13.51% by Mr. Yeung Kam Yan and approximately 10.81% by Mr. Chan Hon Chiu.

Pursuant to the Company's pre-listing share option scheme, each of the six executive directors and an independent non-executive director Professor Yu Chai Mei were granted 8,000,000 and 2,400,000 share options respectively on 26th April, 2002 to subscribe for ordinary shares in the Company at an exercise price of HK$0.14 per share exercisable in three equal trenches from 10th November, 2002, 10th May, 2003 and 10th May, 2004, respectively, to 9th May, 2012. None of these options granted were exercised since the date of grant. On 31st January, 2004, all these share options granted to these directors were cancelled. Details of the share option scheme are set out in note 20 to the financial statements.

Save as disclosed above, none of the directors nor any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st March, 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the following persons or corporations, in addition to the directors stated under the paragraph headed "Directors' interests and short positions in shares and underlying shares", has relevant interests in the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

SUBSTANTIAL SHAREHOLDERS – continued

Long positions in shares in the Company

Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Achieve Century Limited	Beneficial owner	416,769,983	35.97%
Tipmax Limited *(Note a)*	Interest of a controlled corporation	416,769,983	35.97%
Star Wave Limited *(Note a)*	Interest of a controlled corporation	416,769,983	35.97%
Key Engineering Co., Ltd.	Beneficial owner	287,000,000	24.77%
Genesis Southstar Ltd.	Beneficial owner	60,000,000	5.18%
Littauer Technologies Co., Ltd. *(Note b)*	Interest of a controlled corporation	60,000,000	5.18%
PML Associates Limited *(Note b)*	Interest of a controlled corporation	60,000,000	5.18%
Mr. Chan Sio Peng *(Note b)*	Interest of a controlled corporation	60,000,000	5.18%
Top Accurate Limited	Beneficial owner	59,229,995	5.11%
Mr. Ma She Shing, Albert *(Note c)*	Interest of a controlled corporation	59,229,995	5.11%

Notes:

(a) These companies were deemed to have interests in 416,769,983 shares of the Company by virtue of their equity interests in Achieve Century Limited.

(b) These parties were deemed to have interests in 60,000,000 shares by virtue of their equity interests in Genesis Southstar Ltd..

(c) Mr. Ma She Shing, Albert was deemed to have interests in 59,229,995 shares by virtue of his equity interest in Top Accurate Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31st March, 2004.

SHARE OPTIONS

Details of the share option schemes are set out in note 20 to the financial statements.

(a) Pre-listing share option scheme

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

	Number of share options			
Type of participants	**Outstanding at 1.4.2003**	**Reclassified during the year**	**Cancelled during the year**	**Outstanding at 31.3.2004**
Name of director:				
Tsui Tai Hoi, Raymond	8,000,000	–	(8,000,000)	–
Yeung Kam Yan	8,000,000	–	(8,000,000)	–
Leung Chi Kin	8,000,000	–	(8,000,000)	–
Hoang Tan Van, George	8,000,000	(8,000,000)	–	–
Chan Han Chiu	8,000,000	–	(8,000,000)	–
To Hang Ming	8,000,000	–	(8,000,000)	–
Yu Chai Mei	2,400,000	–	(2,400,000)	–
	50,400,000	(8,000,000)	(42,400,000)	–
Employees	24,800,000	6,400,000	(23,200,000)	8,000,000
Advisor	2,400,000	–	–	2,400,000
Former employees	–	1,600,000	–	1,600,000
	77,600,000	–	(65,600,000)	12,000,000

The total number of shares in respect of which options are issuable under this pre-listing share option scheme was 12,000,000, representing approximately 1% of the issued share capital of the Company at 31st March, 2004.

(b) Post-listing share option scheme

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

	Number of share options		
Type of participant	**Outstanding at 1.4.2003**	**Exercised during the year**	**Outstanding at 31.3.2004**
Advisor	7,150,000	5,000	7,145,000

The total number of shares in respect of which options are issuable under this post-listing share option scheme is 7,145,000, representing approximately 0.6% of the issued share capital of the Company at 31st March, 2004.

DIRECTORS' INTERESTS IN CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 42% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 22% of the Group's total sales.

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

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

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

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

PRE-EMPTIVE RIGHTS

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

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year ended 31st March, 2004 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 2nd November, 2001, with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports, quarterly reports and give advice and comments thereon to the directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. Quarterly meetings were held during the year. The audited financial results for the year ended 31st March, 2004 have been discussed and reviewed by the members of the audit committee.

COMPETING INTEREST

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

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Hantec Capital Limited (the "Sponsor"), as at 31st March, 2004, neither the Sponsor nor its directors or employees or associates (as referred to in Rules 6.36 and 18.63 of the GEM Listing Rules) had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 26th April, 2002 entered into between the Company and the Sponsor, the Sponsor has been retained for a fee as the continuing sponsor of the Company until 31st March, 2005.

AUDITORS

Except for the year ended 31st March, 2002 in which Messrs. Ernst & Young acted as auditors of the Company, Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

TSUI TAI HOI, RAYMOND
MANAGING DIRECTOR

Hong Kong, 28th June, 2004

Deloitte.
德勤

TO THE SHAREHOLDERS OF GRANDY CORPORATION
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28th June, 2004

Consolidated Income Statement

For the year ended 31st March, 2004

	NOTES	2004 HK$	2003 HK$
Turnover	4	18,578,214	28,318,430
Cost of sales		(8,915,682)	(13,893,650)
Gross profit		9,662,532	14,424,780
Other operating income		76,456	394,048
Selling and distribution costs		(1,864,301)	(2,253,361)
Administrative expenses		(21,315,027)	(20,846,648)
Allowance for bad and doubtful debts		(11,791,283)	(2,024,952)
Impairment in value of intangible assets		(10,007,048)	–
Product development costs written off		–	(911,359)
Impairment in value of goodwill		(3,133,987)	–
Loss from operations	5	(38,372,658)	(11,217,492)
Finance costs	8	(101,637)	(476,675)
Loss on disposal of a subsidiary		(972,238)	–
Loss before taxation		(39,446,533)	(11,694,167)
Taxation	9	–	10,031
Loss before minority interests		(39,446,533)	(11,684,136)
Minority interests		4,717,881	309,356
Net loss for the year		(34,728,652)	(11,374,780)
Loss per share – Basic	10	(3.53) cents	(1.38) cents

Consolidated Balance Sheet

At 31st March, 2004

	NOTES	2004 HK$	2003 HK$
Non-current assets			
Property, plant and equipment	11	**2,888,044**	5,171,956
Intangible assets	12	**–**	10,607,144
Goodwill	13	**–**	3,323,587
		2,888,044	19,102,687
Current assets			
Inventories	15	**4,574,940**	2,827,366
Trade and other receivables	16	**11,013,891**	22,685,099
Pledged bank deposits		**–**	1,000,000
Bank balances and cash		**8,648,840**	5,358,649
		24,237,671	31,871,114
Current liabilities			
Trade and other payables	17	**6,662,968**	3,153,853
Obligations under finance leases due within one year	18	**8,772**	131,599
Amounts due to directors		**473,151**	21,324
Amount due to minority shareholder of a subsidiary		**160,000**	160,000
Taxation		**–**	26,969
Secured short-term bank loans		**999,082**	–
Trust receipt loans		**1,090,800**	–
Bank overdrafts – secured		**–**	306,204
		9,394,773	3,799,949
Net current assets		**14,842,898**	28,071,165
Total assets less current liabilities		**17,730,942**	47,173,852
Non-current liabilities			
Obligations under finance leases due after one year	18	**6,680**	176,459
Minority interests		**325,227**	4,915,608
Net assets		**17,399,035**	42,081,785

At 31st March, 2004

	NOTE	2004 HK$	2003 HK$
Capital and reserves			
Share capital	19	**11,586,717**	8,716,667
Reserves		**5,812,318**	33,365,118
Shareholders' funds		**17,399,035**	42,081,785

The financial statements on pages 29 to 63 were approved and authorised for issue by the Board of Directors on 28th June, 2004 and are signed on its behalf by:

TSUI TAI HOI, RAYMOND
MANAGING DIRECTOR

YEUNG KAM YAN
DIRECTOR

BALANCE SHEET

At 31st March, 2004

	NOTES	2004 HK$	2003 HK$
Non-current assets			
Interests in subsidiaries	14	**282**	14,527,257
Current assets			
Accounts receivables		**112,500**	232,500
Amounts due from subsidiaries		**4,698,720**	25,373,374
Bank balances		**7,950,012**	432,731
		12,761,232	26,038,605
Current liabilities			
Accounts payables		**148,938**	91,200
Amount due to a subsidiary		**31**	8
		148,969	91,208
Net current assets		**12,612,263**	25,947,397
Net assets		**12,612,545**	40,474,654
Capital and reserves			
Share capital	19	**11,586,717**	8,716,667
Reserves	21	**1,025,828**	31,757,987
Shareholders' funds		**12,612,545**	40,474,654

TSUI TAI HOI, RAYMOND
MANAGING DIRECTOR

YEUNG KAM YAN
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st March, 2004

	Share capital HK$	Share premium HK$	Special reserve HK$	Translation reserve HK$	Deficit HK$	Total HK$
At 1st April, 2002	86,667	3,888,697	2,935,416	–	(1,070,976)	5,839,804
Issue of shares	2,316,667	54,800,000	–	–	–	57,116,667
Expenses incurred in connection with the issue of shares	–	(9,487,788)	–	–	–	(9,487,788)
Capitalisation on bonus issue of shares	6,313,333	(6,313,333)	–	–	–	–
Exchange differences arising from translation of financial statements of overseas operations, net of minority interests' share	–	–	–	(12,118)	–	(12,118)
Net loss for the year	–	–	–	–	(11,374,780)	(11,374,780)
At 31st March, 2003	8,716,667	42,887,576	2,935,416	(12,118)	(12,445,756)	42,081,785
Issue of shares	2,870,050	7,175,850	–	–	–	10,045,900
Exchange differences arising from translation of financial statements of overseas operations, net of minority interests' share	–	–	–	2	–	2
Net loss for the year	–	–	–	–	(34,728,652)	(34,728,652)
At 31st March, 2004	**11,586,717**	**50,063,426**	**2,935,416**	**(12,116)**	**(47,174,408)**	**17,399,035**

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

Consolidated Cash Flow Statement

For the year ended 31st March, 2004

	NOTES	2004 HK$	2003 HK$
Operating activities			
Loss before taxation		**(39,446,533)**	(11,694,167)
Adjustments for:			
Interest income		**(5,073)**	(381,687)
Interest expenses		**101,637**	476,675
Amortisation of goodwill		**189,600**	47,400
Amortisation of intangible assets		**600,096**	162,856
Depreciation of property, plant and equipment		**1,836,143**	1,259,707
Loss on disposal of property, plant and equipment		**239,953**	58,074
Impairment in value of property, plant and equipment		**1,302,573**	–
Impairment in value of intangible assets		**10,007,048**	–
Product development costs written off		**–**	911,359
Impairment in value of goodwill		**3,133,987**	–
Loss on disposal of a subsidiary		**972,238**	–
Allowance for bad and doubtful debts		**11,791,283**	2,024,952
Operating cash flows before movements in working capital		**(9,277,048)**	(7,134,831)
Increase in inventories		**(2,143,185)**	(642,838)
Increase in trade and other receivables		**(1,274,355)**	(10,403,311)
Decrease in amount due from former ultimate holding company		**–**	60,953
Decrease in amount due from a related company		**–**	10,574
Decrease in amount due from a director		**–**	118,483
Increase in trade and other payables		**4,204,948**	563,293
Cash used in operations		**(8,489,640)**	(17,427,677)
Hong Kong Profits Tax paid		**(26,969)**	–
Net cash used in operating activities		**(8,516,609)**	(17,427,677)
Investing activities			
Interest received		**5,073**	381,687
Purchase of property, plant and equipment		**(1,563,362)**	(4,403,231)
Proceeds from disposal of property, plant and equipment		**351,472**	–
Purchase of intangible assets		**–**	(770,000)
Purchase of subsidiaries (net of cash and cash equivalents)	22	**–**	(6,135,800)
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	23	**(1,045)**	–
Repayment from a director		**–**	2,000,000
Decrease in pledged bank deposits		**1,000,000**	13,431
Net cash used in investing activities		**(207,862)**	(8,913,913)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2004

	2004	2003
	HK$	*HK$*
Financing activities		
Interest paid	**(101,637)**	(152,147)
Proceeds from issue of shares	**10,045,900**	53,200,000
Expenses incurred in connection with the issue of shares	**–**	(9,487,788)
Redemption of convertible notes	**–**	(12,000,000)
Capital contributed by minority owner of a subsidiary	**127,500**	770,644
Repayment of finance leases	**(292,606)**	(153,000)
Borrowings raised from (repayment to) directors	**451,827**	(150,094)
Borrowings raised from minority shareholder of a subsidiary	**–**	160,000
Short-term bank loans raised	**999,082**	–
Borrowings raised from (repayment of) trust receipt loans	**1,090,800**	(1,677,000)
Net cash from financing activities	**12,320,866**	30,510,615
Net increase in cash and cash equivalents	**3,596,395**	4,169,025
Cash and cash equivalents at 1st April	**5,052,445**	883,420
Cash and cash equivalents at 31st March	**8,648,840**	5,052,445
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**8,648,840**	5,358,649
Bank overdrafts	**–**	(306,204)
	8,648,840	5,052,445

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time the Hong Kong Financial Reporting Standard ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. The adoption of this revised SSAP 12 has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements. These changes have not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries as well as enterprises controlled by the Company made up to 31st March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its estimated useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

Turnover

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

Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Service revenue is recognised when the services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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

Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of inception of the leases. Any outstanding principal portion of the leasing commitments is shown as an obligations 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

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

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture and fixtures	20%
Machinery and equipment	20% to $33^1/_3$%
Motor vehicles	20%
Office equipment	20%

Assets held under finance leases are depreciated on the same basis as assets owned by the Group or over the period of the leases, if shorter.

Operation rights and intellectual property

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

Product development costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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 differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group 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 profit 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 is realised. Deferred tax is charged or credited to 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.

Foreign currencies

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

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Geographical segments

The Group's operations are located in Hong Kong, Mainland China (the "PRC"), Singapore and Malaysia, representing the basis on which the Group reports its primary segment information. The following table provides an analysis of the Group's geographical segment information.

	Turnover		**Results**	
	2004	2003	**2004**	2003
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**13,868,976**	11,714,861	**5,963,773**	5,343,691
PRC	**4,118,907**	6,285,405	**(2,580,463)**	927,630
Singapore	**385,875**	–	**(15,409)**	–
Malaysia	**204,456**	10,324,404	**(7,360,953)**	3,875,146
Inter-segment sales elimination	**–**	(6,240)	**–**	–
	18,578,214	28,318,430	**(3,993,052)**	10,146,467
Unallocated other operating income			**76,456**	394,048
Unallocated corporate expenses			**(21,315,027)**	(20,846,648)
Impairment in value of intangible assets			**(10,007,048)**	–
Product development costs written off			**–**	(911,359)
Impairment in value of goodwill			**(3,133,987)**	–
Loss from operations			**(38,372,658)**	(11,217,492)
Finance costs			**(101,637)**	(476,675)
Loss on disposal of a subsidiary			**(972,238)**	–
Loss before taxation			**(39,446,533)**	(11,694,167)
Taxation			**–**	10,031
Loss before minority interests			**(39,446,533)**	(11,684,136)
Minority interests			**4,717,881**	309,356
Net loss for the year			**(34,728,652)**	(11,374,780)

Inter-segment sales were charged at the prevailing market rate.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Geographical segments – continued

BALANCE SHEET

	Segment assets		Segment liabilities	
	2004	2003	**2004**	2003
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**15,018,952**	27,764,762	**4,155,721**	2,620,908
PRC	**3,451,681**	6,267,680	**2,940,264**	143,556
Singapore	**–**	–	**200,134**	–
Malaysia	**6,242**	10,582,710	**–**	570,713
	18,476,875	44,615,152	**7,296,119**	3,335,177
Unallocated	**8,648,840**	6,358,649	**2,105,334**	641,231
	27,125,715	50,973,801	**9,401,453**	3,976,408

OTHER INFORMATION

	Capital additions		Depreciation and amortisation	
	2004	2003	**2004**	2003
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**415,158**	18,673,983	**2,406,897**	1,406,385
PRC	**1,042,715**	1,213,537	**146,448**	40,599
Singapore	**95,301**	–	**44,500**	–
Malaysia	**10,188**	189,110	**27,994**	22,979
	1,563,362	20,076,630	**2,625,839**	1,469,963

4. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Geographical segments – continued

OTHER INFORMATION – continued

	Loss on disposal of property, plant and equipment		Allowance for bad and doubtful debts	
	2004	2003	**2004**	2003
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**49,977**	58,074	**454,085**	24,952
PRC	**–**	–	**3,708,651**	2,000,000
Singapore	**50,802**	–	**204,547**	–
Malaysia	**139,174**	–	**7,424,000**	–
	239,953	58,074	**11,791,283**	2,024,952

	Impairment in value of property, plant and equipment		Impairment in value of intangible assets		Impairment in value of goodwill	
	2004	2003	**2004**	2003	**2004**	2003
	HK$	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
Hong Kong	**1,302,573**	–	**9,298,000**	–	**3,133,987**	–
PRC	**–**	–	**709,048**	–	**–**	–
	1,302,573	–	**10,007,048**	–	**3,133,987**	–

5. LOSS FROM OPERATIONS

	2004	2003
	HK$	*HK$*
Loss from operations has been arrived at after charging:		
Directors' remuneration *(note 6)*	1,579,541	2,776,282
Other staff's retirement benefits scheme contributions	341,950	274,160
Other staff costs	7,797,554	7,417,714
	9,719,045	10,468,156
Amortisation of goodwill included in administrative expenses	189,600	47,400
Amortisation of intangible assets included in administrative expenses	600,096	162,856
Auditors' remuneration		
– current year	400,665	541,374
– under(over)provision in prior years	9,340	(40,714)
Cost of goods sold	6,486,514	6,909,203
Depreciation of property, plant and equipment		
– owned by the Group	1,799,106	1,159,282
– held under finance leases	37,037	100,425
Impairment in value of property, plant and equipment included in administrative expenses	1,302,573	–
Loss on disposal of property, plant and equipment	239,953	58,074
Operating lease rentals in respect of		
– land and buildings	1,370,647	1,326,681
– machinery and equipment	–	248,970
Research and development costs	–	228,148
and after crediting:		
Interest income	5,073	381,687
Rental income from hire of machinery and equipment	30,400	378,800

6. DIRECTORS' REMUNERATION

	2004	2003
	HK$	*HK$*
Fees for		
– executive directors	**–**	–
– independent non-executive directors	**120,000**	107,096
– other non-executive director	**–**	–
	120,000	107,096
Other emoluments for non-executive directors	**–**	–
Other emoluments for executive directors		
– basic salaries and allowances	**1,260,036**	2,388,386
– bonus	**157,505**	210,000
– retirement benefits scheme contributions	**42,000**	70,800
	1,459,541	2,669,186
Total directors' remuneration	**1,579,541**	2,776,282

For the year ended 31st March, 2004, basic salaries and allowances and bonus paid to each of the five executive directors and the remaining executive director were HK$202,507 and HK$405,006 respectively while contributions to retirement benefits scheme in respect of each of the six executive directors was HK$7,000. Also, for the year ended 31st March, 2004, the fees paid to each of the two independent non-executive director was HK$60,000.

For the year ended 31st March, 2003, basic salaries and allowances and bonus paid to each of the five executive directors and the remaining executive director were HK$374,516 and HK$725,806 respectively while contributions to retirement benefits scheme in respect of each of the six executive directors was HK$11,800. Also, for the year ended 31st March, 2003, the fees paid to each of the two independent non-executive director was HK$53,548.

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

7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2003: three) executive director(s) of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining four (2003: two) highest paid individuals are as follows:

	2004	2003
	HK$	*HK$*
Basic salaries and allowances	**1,559,444**	1,046,000
Retirement benefits scheme contributions	**41,390**	24,000
	1,600,834	1,070,000

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

8. FINANCE COSTS

	2004	2003
	HK$	*HK$*
Interest on		
– bank borrowings wholly repayable within five years	**(70,581)**	(33,778)
– convertible notes, including accretion of premium payable upon the final redemption of the convertible notes	**–**	(420,966)
– finance leases	**(31,056)**	(21,931)
	(101,637)	(476,675)

9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the year. The credit in 2003 represented overprovision in prior year.

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Beijing is entitled to exemption from PRC income tax for three years commencing from their first profit-making year of operation and thereafter, the subsidiary will be entitled to a 50% relief from PRC income tax for the following three years. No provision for PRC income tax has been made in the financial statements as the PRC subsidiaries had no assessable profit for the year.

9. TAXATION – continued

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

	2004		2003	
	HK$	**%**	*HK$*	%
Loss before taxation	**(39,446,533)**		(11,694,167)	
Tax at the applicable income tax rate	**6,903,143**	**17.5**	1,871,067	16.0
Tax effect of expenses not deductible for tax purposes	**(3,089,259)**	**(7.8)**	(203,865)	(1.7)
Tax effect of income not taxable for tax purposes	**1**	**–**	–	–
Tax effect of tax losses not recognised	**(4,379,376)**	**(11.1)**	(2,216,136)	(19.0)
Utilisation of tax losses previously not recognised	**426,363**	**1.1**	68,574	0.6
Effect of different tax rates of subsidiaries operating in other jurisdictions	**647,613**	**1.6**	226,583	1.9
Overprovision in prior years	**–**	**–**	10,031	0.1
Others	**(508,485)**	**(1.3)**	253,777	2.2
Tax effect and effective tax rate for the year	**–**	**–**	10,031	0.1

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK$34,728,652 (2003: HK$11,374,780) and the weighted average number of 983,323,092 (2003: 822,269,406) shares in issue during the year.

No diluted loss per share has been presented as the exercise price of the Company's share options was higher than the average market price of the Company's shares during the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
THE GROUP						
COST						
At 1st April, 2003	361,180	2,856,846	1,161,340	917,502	1,425,610	6,722,478
Additions	27,402	700,432	391,121	–	444,407	1,563,362
Transferred to inventories	–	–	(162,058)	–	(10,558)	(172,616)
Disposals	(56,394)	(61,857)	(130,707)	(379,964)	(160,583)	(789,505)
At 31st March, 2004	**332,188**	**3,495,421**	**1,259,696**	**537,538**	**1,698,876**	**7,323,719**
DEPRECIATION AND IMPAIRMENT						
At 1st April, 2003	58,446	776,102	56,790	217,686	441,498	1,550,522
Provided for the year	72,918	971,910	304,807	139,716	346,792	1,836,143
Transferred to inventories	–	–	(16,736)	–	(1,408)	(18,144)
Eliminated on disposals	(12,291)	(17,514)	(17,003)	(132,988)	(55,623)	(235,419)
Impairment in value	206,520	1,096,053	–	–	–	1,302,573
At 31st March, 2004	**325,593**	**2,826,551**	**327,858**	**224,414**	**731,259**	**4,435,675**
NET BOOK VALUES						
At 31st March, 2004	**6,595**	**668,870**	**931,838**	**313,124**	**967,617**	**2,888,044**
At 31st March, 2003	302,734	2,080,744	1,104,550	699,816	984,112	5,171,956

At the balance sheet date, the net book value of property, plant and equipment held under finance leases was HK$22,889 (2003: HK$358,816).

Also, at the balance sheet date, certain of the Group's machinery and equipment with an aggregate cost and accumulated depreciation of HK$1,060,080 (2003: HK$1,135,800) and HK$265,020 (2003: HK$56,790) respectively were held for use under operating leases.

11. PROPERTY, PLANT AND EQUIPMENT – continued

During the year, the directors conducted a review on the Group's property, plant and equipment and determined that some leasehold improvements and furniture and fixtures were impaired as the directors decided to relocate the office in the foreseeable future. Accordingly, an impairment in value of HK$1,302,573 were recognised in the income statement.

12. INTANGIBLE ASSETS

	Operation rights	Intellectual property	Product development costs	Total
	HK$	*HK$*	*HK$*	*HK$*
THE GROUP				
COST				
At 1st April, 2002	–	–	911,359	911,359
Acquired on acquisition of subsidiaries	10,000,000	–	–	10,000,000
Additions	–	770,000	–	770,000
Write-off	–	–	(911,359)	(911,359)
At 31st March, 2003 and 31st March, 2004	**10,000,000**	**770,000**	**–**	**10,770,000**
AMORTISATION AND IMPAIRMENT				
Amortised for the year and balance at 31st March, 2003	140,400	22,456	–	162,856
Amortised for the year	561,600	38,496	–	600,096
Impairment in value	9,298,000	709,048	–	10,007,048
At 31st March, 2004	**10,000,000**	**770,000**	**–**	**10,770,000**
CARRYING VALUES				
At 31st March, 2004	**–**	**–**	**–**	**–**
At 31st March, 2003	9,859,600	747,544	–	10,607,144

12. INTANGIBLE ASSETS – continued

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, operation 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 operation rights is amortised on a straight line basis over the remaining term of the rights acquired.

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

During the year, 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.

13. GOODWILL

	HK$
THE GROUP	
COST	
Arising from acquisition during the year and balance at 31st March, 2003 and 31st March 2004	3,370,987
AMORTISATION AND IMPAIRMENT	
Amortised during the year and balance at 31st March, 2003	47,400
Amortised during the year	189,600
Impairment in value	3,133,987
At 31st March, 2004	**3,370,987**
CARRYING VALUE	
At 31st March, 2004	–
At 31st March, 2003	3,323,587

Goodwill is amortised on a straight line basis over its estimated useful economic life of 20 years.

13. GOODWILL – continued

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

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK$	*HK$*
Unlisted shares, at cost	**1,527,257**	1,527,257
Less: Impairment in value	**(1,526,975)**	–
	282	1,527,257
Advance to a subsidiary	**13,000,000**	13,000,000
Less: Allowance for advance to a subsidiary	**(13,000,000)**	–
	282	14,527,257

Details of the Company's principal subsidiaries at 31st March, 2004 are set out in note 32.

15. INVENTORIES

	THE GROUP	
	2004	2003
	HK$	*HK$*
Raw materials	**188,320**	233,906
Work in progress	**155,601**	28,461
Finished goods	**4,231,019**	2,564,999
	4,574,940	2,827,366

16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2004	2003
	HK$	*HK$*
Trade receivables	**7,058,478**	17,013,383
Deposits made to suppliers	**3,278,746**	4,189,465
Other receivables	**676,667**	1,482,251
	11,013,891	22,685,099

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

	THE GROUP	
	2004	2003
	HK$	*HK$*
Age		
0 to 90 days	**1,880,482**	3,090,436
91 to 180 days	**3,209,793**	870,157
181 to 365 days	**2,958,096**	15,077,742
Over 365 days	**991,852**	–
	9,040,223	19,038,335
Less: Allowance for bad and doubtful debts	**(1,981,745)**	(2,024,952)
	7,058,478	17,013,383

17. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004	2003
	HK$	*HK$*
Trade payables	**2,475,376**	951,755
Other payables	**4,187,592**	2,202,098
	6,662,968	3,153,853

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

	THE GROUP	
	2004	2003
	HK$	*HK$*
Age		
0 to 90 days	**433,503**	752,701
91 to 180 days	**717,072**	–
181 to 365 days	**1,324,801**	197,163
Over 365 days	**–**	1,891
	2,475,376	951,755

18. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	HK$	*HK$*	***HK$***	*HK$*
Amount payable under finance leases:				
Within one year	**12,204**	153,627	**8,772**	131,599
Between one to two years	**9,253**	114,324	**6,680**	100,776
Between two to five years	**–**	85,843	**–**	75,683
	21,457	353,794	**15,452**	308,058
Less: Future finance charges	**6,005**	45,736	**–**	–
Present value of lease obligations	**15,452**	308,058	**15,452**	308,058
Less: Amount due within one year shown under current liabilities			**8,772**	131,599
Amount due after one year			**6,680**	176,459

19. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$
Authorised:		
Ordinary shares of HK$0.01 each		
– balance at 1st April, 2002	39,000,000	390,000
– increase in authorised share capital	1,461,000,000	14,610,000
– at 31st March, 2003 and 31st March, 2004	1,500,000,000	15,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st April, 2002	8,666,667	86,667
– issue of new shares on listing	190,000,000	1,900,000
– bonus issue of shares	631,333,333	6,313,333
– issue of new shares for acquisition	41,666,667	416,667
– at 31st March, 2003	871,666,667	8,716,667
– issue of new shares on subscription	287,000,000	2,870,000
– exercise of share options	5,000	50
– at 31st March, 2004	1,158,671,667	11,586,717

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

(a) Pursuant to the ordinary resolutions passed by the Company's shareholders in the extraordinary general meeting held on 7th November, 2003, the Company issued and allotted 287,000,000 new ordinary shares of HK$0.01 each of the Company to a third party Key Engineering Co., Ltd. on 10th November, 2003, at HK$0.035 per share, representing a discount of approximately 53.95% to the closing price of HK$0.076 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$9.90 million were used as to approximately HK$1.98 million for general working capital purposes while the rest of the net proceeds of approximately HK$7.92 million is being held by the Group for potential acquisitions of and investments in business which may enhance the operational and financial performance of the Group's business activities in the waste management sector.

(b) In December 2003, 5,000 shares options were exercised at a subscription price of HK$0.18 per share, resulting in the issue of 5,000 ordinary shares of HK$0.01 each in the Company.

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

20. SHARE OPTIONS

(a) Pre-listing share options

Pursuant to the pre-listing share option scheme adopted by the Company on 20th April, 2002, the Company may grant options at HK$1 per offer to any directors, employees, consultants and advisors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. All of these options have a duration of 10 years from and including 10th 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 10th November, 2002, 10th May, 2003 and 10th May, 2004, respectively, to 9th May, 2012 at an exercise price of HK$0.14 per share are as follows:

	Number of share options					
Type of participants	**Granted during the year**	**Lapsed during the year**	**Outstanding 31.3.2003**	**Reclassified during the year**	**Cancelled during the year**	**Outstanding at 31.3.2004**
Directors	50,400,000	–	50,400,000	(8,000,000)	(42,400,000)	**–**
Employees	27,200,000	(2,400,000)	24,800,000	6,400,000	(23,200,000)	**8,000,000**
Advisor	2,400,000	–	2,400,000	–	–	**2,400,000**
Former employees	–	–	–	1,600,000	–	**1,600,000**
	80,000,000	(2,400,000)	77,600,000	–	(65,600,000)	**12,000,000**

20. SHARE OPTIONS – continued

(b) Post-listing share options

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

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

	Number of share options			
Type of participant	**Granted during the year**	**Outstanding at 31.3.2003**	**Exercised during the year**	**Outstanding at 31.3.2004**
Advisor	7,150,000	7,150,000	5,000	**7,145,000**

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

21. RESERVES

	Share premium *HK$*	Contributed surplus *HK$*	Deficit *HK$*	Total *HK$*
THE COMPANY				
At 1st April, 2002	3,888,697	1,452,415	(835,476)	4,505,636
Premium arising on issue of shares	54,800,000	–	–	54,800,000
Expenses incurred in connection with the issue of shares	(9,487,788)	–	–	(9,487,788)
Capitalisation on bonus issue of shares	(6,313,333)	–	–	(6,313,333)
Net loss for the year	–	–	(11,746,528)	(11,746,528)
At 31st March, 2003	42,887,576	1,452,415	(12,582,004)	31,757,987
Premium arising on issue of shares	7,175,850	–	–	7,175,850
Net loss for the year	–	–	(37,908,009)	(37,908,009)
At 31st March, 2004	**50,063,426**	**1,452,415**	**(50,490,013)**	**1,025,828**

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

22. PURCHASE OF SUBSIDIARIES

	2004	2003
	HK$	*HK$*
Net assets acquired:		
Property, plant and equipment	–	1,135,800
Intangible assets	–	10,000,000
Minority interests	–	(4,454,320)
Net assets	–	6,681,480
Goodwill arising on acquisition	–	3,370,987
	–	10,052,467
Satisfied by:		
Cash consideration paid	–	6,135,800
Issue of Company's new shares	–	3,916,667
	–	10,052,467
Outflow of cash and cash equivalents in connection with the purchase of subsidiaries	–	(6,135,800)

The subsidiaries acquired in 2003 did not have any significant impact on the Group's cash flows or operating results.

23. DISPOSAL OF SUBSIDIARIES

In December 2003, the Group disposed of its subsidiary, Grandy Environmental (Malaysia) Sdn. Bnd. to independent third parties.

	2004	2003
	HK$	*HK$*
Net assets disposed of:		
Inventories	**395,611**	–
Trade and other receivables	**1,271,417**	–
Bank balances and cash	**1,045**	–
Trade and other payables	**(695,833)**	–
Net assets	**972,240**	–
Loss on disposal of a subsidiary	**(972,238)**	–
Consideration included in trade and other receivables	**2**	–
Analysis of outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Bank balances and cash disposed of	**(1,045)**	–

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

24. MAJOR NON-CASH TRANSACTIONS

In 2003, the Group entered into a finance lease in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$396,612.

A portion of the consideration for the acquisition of subsidiaries in 2003 was satisfied by the issue of the Company's new shares.

25. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company has unutilised tax losses of approximately HK$35,371,000 (2003: HK$10,269,000) and HK$1,365,000 (2003: Nil) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely except an amount of approximately HK$5,587,000 (2003: Nil) which may be carried forward for a maximum of four years.

26. 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	
	2004	2003
	HK$	*HK$*
Within one year	**1,189,049**	1,105,298
In the second to fifth year inclusive	**299,189**	1,328,973
	1,488,238	2,434,271

27. 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 was 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.

28. PLEDGE OF ASSETS

At the balance sheet date, the Group's trade receivables of HK$615,440 (2003: Nil) was pledged to a financial institution to secure the credit facilities granted to a subsidiary.

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

29. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given corporate guarantees of HK$1,500,000 (2003: HK$10,500,000) to banks to secure the credit facilities granted to its subsidiaries.

30. 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.

31. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to 31st March 2004:

(a) In April 2004, the Group acquired from a substantial shareholder Key Engineering Co., Ltd. the entire issued share capital of Youngdong Environmental Engineering Co., Ltd., which was incorporated in the Republic of Korea and engaged in environmental and environmental-related businesses, including but not limited to installation, engineering and management of wastewater treatment systems and environmental facilities and the provision of environmental analysis and measurement services, for a cash consideration of KRW580 million (approximately HK$4 million).

(b) In June 2004, the Group conditionally contracted to acquired from an independent third party the entire issued share capital of Sebics Korea Co., Ltd. which was incorporated in the Republic of Korea and engaged in energy saving and energy saving – related businesses, including, but not limited to, the installation, development, and manufacture of energy saving products, for a consideration of HK$20,465,255 which will be satisfied by allotting and issuing of an aggregate 240,767,705 shares of HK$0.01 each in the share capital of the Company, at a price of HK$0.085 per share.

32. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned limited liability companies, at 31st March, 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary Share/ registered capital	Principal activities
Grandy Environmental (H.K.) Limited	Hong Kong	HK$3,010,000	Manufacture and sales of environmental protection products and provision of related services
Grandy Enviro-Tech Company Limited	Hong Kong	HK$10,000	Sales of environmental protection products
珠海市紫雲星環保科技有限公司 (Zhuhai Grandy Star Environmental Technology Corporation)*	PRC	RMB5,000,000	Provision of environmental protection services for a term of 30 years commencing 14th November, 2002

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

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

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

Financial Summary

	20.1.1999 to 31.3.2000 HK$	1.4.2000 to 31.3.2001 HK$	1.4.2001 to 31.3.2002 HK$	1.4.2002 to 31.3.2003 HK$	**1.4.2003 to 31.3.2004 HK$**
RESULTS					
Turnover	2,203,903	7,117,653	26,321,680	28,318,430	**18,578,214**
(Loss) profit before taxation	(2,304,196)	(1,174,212)	2,444,432	(11,694,167)	**(39,446,533)**
Taxation	–	–	(37,000)	10,031	**–**
(Loss) profit before minority interests	(2,304,196)	(1,174,212)	2,407,432	(11,684,136)	**(39,446,533)**
Minority interests	–	–	–	309,356	**4,717,881**
Net (loss) profit for the year	(2,304,196)	(1,174,212)	2,407,432	(11,374,780)	**(34,728,652)**

	As at 31st March, 2000 HK$	2001 HK$	2002 HK$	2003 HK$	**2004 HK$**
ASSETS AND LIABILITIES					
Total assets	1,396,315	2,688,865	22,055,700	50,973,801	**27,125,715**
Total liabilities	(3,690,511)	(3,157,273)	(16,215,896)	(3,976,408)	**(9,401,453)**
Minority interests	–	–	–	(4,915,608)	**(325,227)**
(Deficiency) balance of shareholders' funds	(2,294,196)	(468,408)	5,839,804	42,081,785	**17,399,035**

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