

Grandy Corporation
(Incorporated in the Cayman Islands with limited liability)



2004/05
Third Quarterly Report

Environmental protection
always pays.....

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This report for which the directors of Grandy Corporation collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Grandy Corporation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

BUSINESS REVIEW

Grandy Corporation (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the marketing, design and development of environmental protection technology in the areas of energy-saving, enzyme treatments and waste water treatment. The Group aims to capture growth in the expanding environmental protection market in the People's Republic of China ("PRC") and parts of Asia by supplying cost-effective environmental protection products and services for reducing electricity consumption and for purifying the air and water systems of our clients in the commercial, industrial, governmental and retail sectors.

Results of the Group for the three months ended 31 December 2004 have shown improvement in turnover compared with the corresponding period of the previous year. Turnover of the Group in the three months under review was approximately HK\$8,173,000 in comparison with approximately HK\$6,341,000 for the same period of the previous year, representing an increase of approximately 28.9%. Net loss attributable to shareholders for the three months under review was approximately HK\$1,268,000 in comparison with a net loss of HK\$480,000 for the corresponding period of the previous year.

The improvement in revenues for the three months ended 31 December 2004 is mainly driven by the continued growth in turnover from Youngdong Environmental Engineering Co., Ltd (the Group's wholly owned subsidiary established and operating in the Republic of Korea and referred to as "**Youngdong**" below) which was partly set off by decreases in revenue from energy-saving businesses in Hong Kong and from overseas subsidiaries (two of the four overseas subsidiaries at 31 December 2003 had been disposed of during 2004 as part of the change in business development strategies as detailed in our annual report for the year ended 31 March 2004). The turnover of Youngdong accounted for approximately HK\$5,602,000, equivalent to approximately 68.5% of the Group's turnover for the three months ended 31 December 2004. The decrease in turnover for energy saving businesses in Hong Kong is mainly due to two one-off contracts recorded in the three months ended 31 December 2003.

There is a slight increase in loss for the period under review to approximately HK\$1,268,000 in comparison with that for the same period of the previous year which was approximately HK\$480,000 even though the loss has been slightly reduced from the previous quarter ended 30 September 2004 which was approximately HK\$1,559,000. Despite the implementation of

cost-cutting and business-promotion measures that are designed to bring the Group back into profit and restore growth, a net loss was recorded for the three months ended 31 December 2004 mainly because of the low turnover and gross profits from energy saving businesses in Hong Kong as fluctuations in turnover and gross profits on a quarterly basis can be significant depending on the respective time required (ranging from three months to over six months) to conclude and finish each individual contract.

During the three months ended 31 December 2004, Youngdong recorded after tax loss of approximately HK\$45,000 mainly due to increases in staff costs such as double pay and costs of outsourcing certain contracts.

New Strategic Shareholder. As explained in the Company's announcement dated on 20 January 2005 and in accordance with the terms of a subscription agreement dated on 18 January 2005, the Company has allotted and issued 231,730,000 new shares of the Company to an independent investor, Easeglory Holdings Limited ("**Easeglory**") on 3 February 2005 at an subscription price of HK\$0.036 per share.

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

Easeglory is beneficially owned by Mr. Yung Kwok Leong ("**Mr. Yung**"), a HK resident. Mr. Yung has over twenty years of business experience in the PRC, in particular, the Fujian Province and the Southern China Region. The Directors anticipated that the introduction of Mr. Yung, via placing of the above shares for cash, would not only improve the cash positions of the Group, but also help to strengthen the Group's business networks in the PRC which is one of the most attractive markets as well as business centres in the Region today.

Waste Water Treatment Projects. Turnover is mainly derived through Youngdong, the Group's wholly owned subsidiary in the Republic of Korea. Turnover for the three months ended 31 December 2004 amounted to approximately HK\$5,602,000. It is anticipated that the turnover from Youngdong will still account for a significant portion of the Group's turnover in the coming year.

Energy-saving Products. Contracts for implementation of energy-saving solutions in the quarter under review of approximately HK\$1,524,000 have been completed by the Group in the three months ended 31 December 2004.

Enzyme Treatments. Contracts for air and water quality improvement undertaken for the Group's prestigious clients in the commercial and residential property management sectors of approximately HK\$1,017,000 have been completed by the Group in the three months ended 31 December 2004.

Nano Products. Turnover from the nano products for the three months ended 31 December 2004 was approximately HK\$111,000 and this accounted for less than 5% of the Group's total turnover of approximately HK\$2,570,000 from Hong Kong for the three months ended 31 December 2004. However, the trend is positive as turnover from nano products experienced continuous growth on a quarterly basis in the nine months ended 31 December 2004.

Food Waste Treatment and Management. As explained in our previous reports, the development of food waste treatment and management businesses in Hong Kong is much slower than our expectations partially due to government budget deficits (which caused withholding of funds originally planned for the food waste projects) and also partially due to the general lack of environmental protection initiatives.

To tackle the issue encountered in our marketing of the product and services, our marketing team will (a) spend more time in explaining to our potential customers that food waste treatment will likely be a future solution to be selected by the government as all existing landfills are expected to be exhausted within next 15 years and (b) offer a more cost effective choice to our customers to induce them to start to use our product and services at an early stage.

Indoor Air Quality (IAQ) Services. Due to re-focus of our business development strategies and cessation of two joint ventures originally aimed at the IAQ businesses, turnover from this business line has been very insignificant even though we are still providing the services to our customers via the use of sub-contractors.

FUTURE PROSPECTS

As explained in the section headed "New Strategic Investor" above, the Company's management anticipated that the Company could capitalise on the business networks of Mr. Yung in the PRC market for the promotion of the products of the Group and thus capture more business opportunities.

With the established networks of Mr. Yung in the PRC, the Group's expansion in the PRC market can thus be facilitated at a relatively low cost (e.g. via the referral of business associates with already established relationships) and this will be very crucial at an early stage of business developments in the PRC markets especially given that the current expenses of marketing in major cities are getting much higher and higher.

Outlook. With the cost reduction in Hong Kong, cessation and/or disposals of loss-making joint ventures and subsidiaries and introduction of strategic investors, the Group's management is confident that the Group will gradually recover from its failures in the past two years and outlook for shareholders of the Company is still positive on a longer term.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") announced the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 31 December 2004, together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover		8,173	6,341	25,839	16,173
Cost of sales		(3,584)	(2,754)	(11,767)	(7,902)
Gross profit		4,589	3,587	14,072	8,271
Other operating income		14	–	327	23
Selling and distribution costs		(1,014)	(208)	(2,890)	(1,247)
Administrative expenses		(4,911)	(3,900)	(13,328)	(16,256)
Allowance for bad and doubtful debts		–	–	–	(8,442)
Loss from operations		(1,322)	(521)	(1,819)	(17,651)
Finance costs		12	(55)	(200)	(125)
Loss on disposal of subsidiaries		–	–	(222)	–
Loss before taxation		(1,310)	(576)	(2,241)	(17,776)
Taxation	3	16	–	(221)	–
Loss before minority interests		(1,294)	(576)	(2,462)	(17,776)
Minority interests		26	96	54	513
Net loss for the period		(1,268)	(480)	(2,408)	(17,263)
Loss per share					
– Basic (HK cents)	4	(0.11)	(0.05)	(0.21)	(1.86)

Condensed consolidated statement of changes in equity (Unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 April 2003	8,717	42,888	2,935	(12)	(12,446)	42,082
Issue of shares	2,870	7,175	–	–	–	10,045
Net loss for the period	–	–	–	–	(17,263)	(17,263)
At 31 December 2003	<u>11,587</u>	<u>50,063</u>	<u>2,935</u>	<u>(12)</u>	<u>(29,709)</u>	<u>34,864</u>
At 1 April 2004	11,587	50,063	2,935	(12)	(47,174)	17,399
Net loss for the Period	–	–	–	–	(2,408)	(2,408)
At 31 December 2004	<u>11,587</u>	<u>50,063</u>	<u>2,935</u>	<u>(12)</u>	<u>(49,582)</u>	<u>14,991</u>

Notes:

1. Basis of Preparation

The unaudited condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

2. Principal Accounting Policies

The unaudited condensed consolidated financial information has been prepared under the historical cost convention.

The accounting policies adopted for the preparation of these unaudited condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004.

3. Taxation

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

Provision for corporate income tax had been made at 27% for the net profit derived from operations in the Republic of Korea.

4. Loss per share

The calculation of basic loss per share for the three months ended 31 December 2004 is based on the unaudited net loss for the period of approximately HK\$1,268,000 (2003: HK\$480,000) and the weighted average number of 1,158,671,667 (2003: 1,033,885,634) ordinary shares in issue during the period.

The calculation of basic loss per share for the nine months ended 31 December 2004 is based on the unaudited net loss for the period of approximately HK\$2,408,000 (2003: HK\$17,263,000) and the weighted average number of 1,158,671,667 (2003: 925,936,285) shares in issue during the period.

No diluted loss per share has been presented for the three months and nine months ended 31 December 2004 and 31 December 2003 as the exercise price of the Company's share options was higher than the average market price of the Company's shares during the periods.

5. Interim dividend

The directors do not recommend the payment of an interim dividend for the three months and nine months ended 31 December 2004 (2003: nil).

DISCLOSURE OF INTERESTS

A. Directors and Chief Executives

As at 31 December 2004, the interests of the directors (the "Directors") and chief executives of the Company and their respective associates had interests in the shares of the Company (the "Shares") and underlying Shares as recorded in the register maintained by the Company under Section 352 of the Securities and Futures Ordinance ("SFO") as follows:

Name of Director	Number of Shares	Capacity/Nature of Interest	Approximate percentage of the issued share capital (%)
Mr. Chan Hon Chiu	20,783,993	Beneficial owner	1.79
Mr. Yeung Kam Yan	25,976,186	Beneficial owner	2.24

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Directors and chief executives of the Company or their respective associates (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transaction by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred therein. Nor any of the Directors and the chief executives of the Company (including their spouses and children under the age of 18) had, as at 31 December 2004, any interest in, or had been granted any right to subscribe for the securities of the Company's associated corporations within the meaning of the SFO, or had exercised any such rights.

B. Substantial Shareholders

So far as was known to any Director, as at 31 December 2004, the following parties, other than the Directors and chief executives of the Company, had interests in the Shares representing 10% or more of the voting power at any general meeting of the Company as recorded in the register maintained by the Company under Section 336 of the SFO:

Name of Shareholders	Number of Shares	Capacity	Approximate percentage of the issued share capital (%)
Key Engineering Co., Ltd.	347,000,000	Beneficial owner	29.95
Top Rainbow Ltd.	224,506,294	Beneficial owner	19.38
Mr. Yang Pei Gen (<i>Note 1</i>)	224,506,294	Interest in a controlled corporation	19.38

Note:

- I. Mr. Yang Pei Gen was deemed to have interests in 224,506,294 Shares by virtue of his equity interests in Top Rainbow Ltd.

On 3 February 2005, 231,730,000 new shares have been allotted and issued to Easeglory Holdings Limited, who became the second largest shareholder of the Company holding approximately 16.67% of the enlarged issued share capital after allotment and issuance of the new shares. Easeglory was beneficially owned by Mr. Yung Kwok Leong. As a result, the shareholding percentages of the above corporations and person have been diluted to 24.96%, 16.15% and 16.15% respectively. Details of the dilution effects can also be found in the Company's announcement dated on 20 January 2005.

Save as disclosed above, as at 31 December 2004, no persons, other than the Directors and chief executives of the Company whose interests are set out in section A above, had interests or short positions in Shares or underlying Shares representing 10% or more of the voting power at any general meeting of the Company as recorded in the register required to be kept under Section 336 of the SFO, or who is interested in 10% or more of the voting power at any general meeting of any other members of the Group.

C. Certain Other Persons

As at 31 December 2004, the following persons who are required to disclose their interests pursuant to the Part XV of the SFO, other than the Directors and chief executives of the Company, had interests in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholders	Number of Shares	Capacity	Approximate percentage of the issued share capital (%)
Top Accurate Limited	59,229,995	Beneficial owner	5.11
Mr. Albert Ma (<i>Notes 1</i>)	59,229,995	Interest in a controlled corporation	5.11

Note:

- I. Mr. Albert Ma was deemed to have interests in 59,229,995 Shares by virtue of his equity interest in Top Accurate Limited.

On 3 February 2005, 231,730,000 new shares have been allotted and issued to Easeglory Holdings Limited, who became the second largest shareholder of the Company holding approximately 16.67% of the enlarged issued share capital after allotment and issuance of the new shares. Easeglory was beneficially owned by Mr. Yung Kwok Leong. As a result, the shareholding percentages of the above corporation and person have been diluted to 4.26% and 4.26% respectively. Details of the dilution effects can also be found in the Company's announcement dated on 20 January 2005.

Save as disclosed above, as at 31 December 2004, no other persons who were required to disclose their interests pursuant to Part XV of the SFO, other than the Directors and chief executives of the Company whose interests are set out in section A above, had registered any interests or short position in any Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

OUTSTANDING SHARE OPTIONS

As at 31 December 2004, options to subscribe for an aggregate of 11,145,000 Shares granted pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002 and the post-listing share option scheme after listing were outstanding, details of which are as follows:

(a) Pre-listing share option scheme

Options to subscribe for an aggregate of 80,000,000 shares of the Company at an exercise price of HK\$0.14 each were granted on 26 April 2002 and these options related to the options granted to seven Directors (including the Directors as disclosed above), one technical adviser and five employees of the Group at the date of grant. The options will vest in three equal tranches on 10 November 2002, 10 May 2003 and 10 May 2004 respectively. The options, if not otherwise exercised, will lapse on 9 May 2012. The total number of outstanding options in respect of which shares are issuable under this pre-listing share option scheme is 4,000,000, representing approximately 0.3% of the issued share capital of the Company at 31 December 2004.

(b) Post-listing share option scheme

Options to subscribe for an aggregate of 7,150,000 Shares of an exercise price of HK\$0.18 each were granted on 8 July 2002 to an independent advisor. Half of the options are exercisable from 9 May 2003 to 9 May 2005 and the remainder from 9 May 2004 to 9 May 2005. The closing market price of the Shares immediately before the date of grant is HK\$0.173. The total number of outstanding options in respect of which shares 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 31 December 2004.

The Directors consider that it is not necessary to state the value of the share options granted during the period on the ground that the market price of the Shares were constantly lower than the exercise price of the options after the date of grant. Furthermore, the information based on the speculative assumptions for valuing the options would not be useful to the shareholders and may be misleading to the shareholders.

COMPETING INTERESTS

None of the directors or management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes 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 31 December 2004, neither the Sponsor nor its directors or employees or associates (as referred to in Rules 6.35 and 18.75 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 26 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 31 March 2005.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Company's audit committee (the "Audit Committee") were prepared and adopted with reference to Rules 5.28 to 5.33 of the GEM Listing Rules.

The primary duties of the Audit Committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the directors; and (ii) to review and supervise the financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors of the Company.

The Audit Committee had a meeting to review the Group's results for the nine months ended 31 December 2004.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 31 December 2004, the Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the nine months ended 31 December 2004.

On behalf of the Board
Grandy Corporation
Chan Hon Chiu
Executive Director

Hong Kong, 8 February 2005

At the date of this report, the Executive Directors of the Company are Mr. Chan Hon Chiu and Mr. Yeung Kam Yan. The Independent non-executive Directors are Mr. Chan Ping Kuen, Francis, Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei.