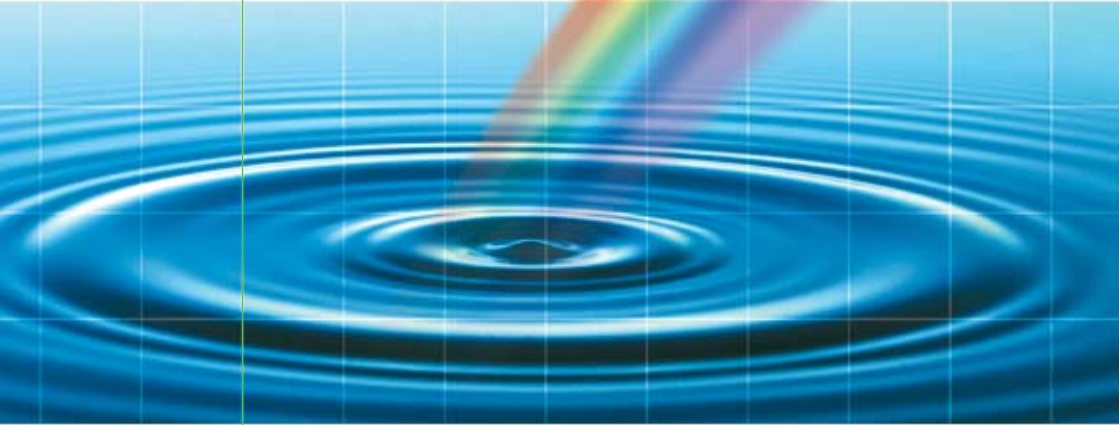




Grandy Corporation

(Incorporated in the Cayman Islands with limited liability)

Protect our environment
• *for better future*



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

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (“the Directors”) of Grandy Corporation (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

FINANCIAL SUMMARY

1. Turnover of the Group was HK\$15,578,000 for the six months ended 30 September 2005, representing a decrease of approximately 12% from the corresponding period in the previous fiscal year.
2. For the six months ended 30 September 2005, gross profit of the Group was HK\$8,923,000 as compared to the gross profit of HK\$9,483,000 recorded in the corresponding period in the previous fiscal year.
3. Net profit of the Group for the six months ended 30 September 2005 amounted to approximately HK\$500,000 as compared to net loss of approximately HK\$1,140,000 for the corresponding period in the previous fiscal year.
4. Earnings per share of the Group for the six months ended 30 September 2005 was HK\$0.18 cents (2004: Loss 0.49 cents).
5. The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: Nil).

CONSOLIDATED INTERIM RESULTS (UNAUDITED)

The Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 September 2005 together with the unaudited comparative figures for the corresponding periods in 2004 are presented as follows:

Unaudited Consolidated Income Statements

For the three months and six months ended 30 September 2005

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

Unaudited Consolidated Balance Sheet

As at 30 September 2005

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

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2005

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve* <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	11,587	50,064	2,935	(12)	(47,175)	17,399
Net loss for the period	-	-	-	-	(1,140)	(1,140)
At 30 September 2004	11,587	50,064	2,935	(12)	(48,315)	16,259
Issue of shares	2,317	6,025	-	-	-	8,342
Issuing expenses	-	(67)	-	-	-	(67)
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	355	-	355
Release upon disposal of subsidiaries	-	-	-	12	-	12
Net loss for the period	-	-	-	-	(5,905)	(5,905)
At 31 March 2005	13,904	56,022	2,935	355	(54,220)	18,996
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	(294)	-	(294)
Net profit for the period	-	-	-	-	500	500
At 30 September 2005	13,904	56,022	2,935	61	(53,720)	19,202

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

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2005

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. General

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

The Company acts as an investment holding company while its subsidiaries are engaged in the production, sourcing, sales and marketing, design and development of environmental products and ancillary services for combating environmental problems in the areas of energy-saving, enzyme treatments and waste water treatment businesses.

2. Basis of Preparation

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

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

Adoption of HKFRS 3 "Business Combination"

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

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

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

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

3. Turnover

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

4. Segment Information

Business segments

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

Geographical segments

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

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

5. Profit/(Loss) from Operations

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

6. Taxation

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

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

7. Earnings/(Loss) Per Share

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

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

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

8. Trade and Other Receivables

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

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

9 Trade and Other Payables

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

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

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

10. Share Capital

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

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

11. Interim Dividend

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 September 2005, results of the Group have shown an improvement in business performance in comparison with results for the corresponding period in the previous fiscal year. The Group recorded a turnover of approximately HK\$15,578,000 (2004: HK\$17,666,000) and a net profit of approximately HK\$500,000 (2004: loss HK\$1,140,000).

Operating expenses for the period decreased by 10% to approximately HK\$9,272,000 as compared to approximately HK\$10,923,000 for the corresponding period in the previous fiscal year. Such decrease was mainly attributable to the stringent cost control and the sizeable reduction of rental expense after relocating to the new office in Hong Kong in May 2005.

Despite a slight decrease in turnover, the Group recorded a net profit of approximately HK\$500,000. Profit attributable to shareholders was due to the improvement of profit margin from the wholly-owned subsidiary, Youngdong Environmental Engineering Co. Ltd (“Youngdong”) in the Republic of Korea. Youngdong’s turnover accounted for approximately 49% of the Group’s overall turnover and approximately 58% of the Group’s gross profit. Moreover, a new business line of trading environmental friendly household products was established in July 2005 which generated revenue totalled approximately HK\$2,894,000 for the Group for the three months ended 30 September 2005.

BUSINESS REVIEW AND OUTLOOK

Waste Water Treatment Businesses

Currently, the Group’s waste water treatment businesses are mainly carried out through Youngdong in the Republic of Korea. Youngdong’s turnover for the period under review totalled approximately HK\$7,695,000 (2004: HK\$12,722,000). Despite a drop in turnover, the gross profit has been increased by approximately 15% as compared to the corresponding period in the previous fiscal year. Such increase was mainly attributable to the reduction of the raw material costs and outsourcing charges.

The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks. Other waste water treatments such as grease trap and under sink maintenance have been routinely carried out to commercial sectors in Hong Kong. The turnover for this division of business for the six months ended 30 September 2005 totalled approximately HK\$391,000.

Energy Saving Products

The Group's energy saving division recorded a turnover of approximately HK\$2,737,000 for the six months ended 30 September 2005 (2004: HK\$2,056,000), representing an increase of approximately 33%. The increase in sales was mainly due to success in the development of marketing network during the first two quarters of 2005.

Enzyme Treatments

The Group's enzyme treatments division recorded a turnover of approximately HK\$1,622,000 for the six months ended 30 September 2005 (2004: HK\$2,121,000), representing a decrease of approximately 24%.

Nano Products

Turnover for the nano products for the six months ended 30 September 2005 was approximately HK\$231,000 (2004: HK\$107,000), representing an increase of approximately 116%. Management is of the view that the trend of these products is positive and will experience a continuous growth.

Food Waste Treatment and Management

Turnover for the food waste treatment and management businesses for the six months ended 30 September 2005 was approximately HK\$8,000 (2004: HK\$271,000). The significant decrease in turnover was mainly due to the decrease in demand as a result of the withholding of funds originally planned for the food waste projects by the government agency.

Trading of Environmental Friendly Household Products

In July 2005, the Group had commenced a new business line of trading of environmental friendly household products such as tablewares and kitchenwares which are made from the environmental friendly melamine materials and are widely used in environmental conscious countries. The turnover generated in this line of business from overseas countries and the PRC for the three months ended 30 September 2005 totalled HK\$2,894,000. Management is of the view that the trend of these products is positive and will experience a continuous growth.

Future Prospects

The management believes that with the continual improvement of the macro economic environment and the increase in awareness of environmental protection among the general public, the outlook for the Group remains positive. The management will continue working towards the goal of maximizing the returns for the shareholders through strengthening the competitiveness of the Group's business. With the help from Mr. Yung Kwok Leong, the Company's Chairman, who has established networks in the PRC, the Group can facilitate its expansion in the PRC markets at a relatively lower cost. As a result, the management is devoting more efforts to the identification of new products and services and new business partners as well as other investment opportunities aiming at improving both the Group's earning base and asset base.

On 10 October 2005, the Company entered into the subscription agreements to allot and issue 55,600,000 new ordinary shares of HK\$0.05 each to 3 independent third parties, namely, Mr. Chan Fung, Mr. Lau Kam Chee and Fruitful Profits Limited respectively, at HK\$0.13 per share, representing a discount of approximately 19.25% to the closing price of HK\$0.16 per share as quoted on the Stock Exchange on date of the subscription agreements. The net proceeds from the placing of about HK\$7,000,000 will be applied towards the Group's future investment in environmental related projects, other potential investment(s) and the general working capital of the Group.

Business and Geographical Expansion

On 5 September 2005, the Group had completed the acquisition of a production line through the wholly-owned subsidiary incorporated in the Fujian Province, the PRC. The production line comprises machineries and other supporting equipment such as storage tanks, grinding machines, electrical distributors and pipelines for the production of melamine materials. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The consideration for the production line was RMB6,500,000 (equivalent approximately to HK\$6,250,000). The Directors expect that the production line will commence to generate revenue for the Group as soon as it is put into operation, which is expected in December 2005.

Liquidity and Financial Resources

The Group had total cash and bank balances of approximately HK\$2,697,000 as at 30 September 2005 (31 March 2005: HK\$3,136,000). With interest-bearing short term loans amounted to HK\$514,000 (31 March 2005: Nil), the Group recorded a net cash balance of approximately HK\$2,183,000 as at 30 September 2005 (31 March 2005: HK\$3,136,000).

The Group recorded total current assets of approximately HK\$23,914,000 as at 30 September 2005 (31 March 2005: HK\$24,289,000) and total current liabilities of approximately HK\$9,404,000 as at 30 September 2005 (31 March 2005: HK\$9,526,000). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, is 2.54 as at 30 September 2005 (31 March 2005: 2.55).

On 25 August 2005, the Group injected HK\$7,000,000 as capital contribution into one subsidiary which was incorporated in the Fujian Province, the PRC on 30 May 2005. The wholly-owned subsidiary has a registered capital of HK\$15,000,000. The Group will inject the remaining HK\$8,000,000 capital commitment in accordance with the relevant laws and requirements. Through the subsidiary, the Group acquired a production line for HK\$6,250,000 for the manufacture and sale of melamine materials in September 2005. The management believes that the acquisition of the production line will help to improve the Group's financial performance in the long term.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 September 2005 (31 March 2005: Nil).

Treasury Policies

The Group generally finances its operations with internal resources.

Foreign Currency Exposure

During the six months ended 30 September 2005, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations were mainly in Hong Kong dollars, Korean Won and Renminbi. As the risk on exchange rate difference was considered to be minimal, the Group did not employ any financial instrument for hedging purposes.

Employee Information

As at 30 September 2005, the Group had 62 (31 March 2005: 65) full time employees. During the six months ended 30 September 2005, the staff costs, including directors' remuneration, totalled approximately HK\$4,299,000 (2004: HK\$4,474,000). The Group's employment and remuneration policies remained the same as detailed in its Annual Report for the year ended 31 March 2005.

DISCLOSURE OF INTERESTS

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

As at 30 September 2005, the following Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Number of shares held	Position	Approximate percentage of issued share capital
Yung Kwok Leong	Corporate interest (Note 1)	46,346,000	Long	16.67%
	Personal Interest (Note 2)	2,750,000	Long	0.99%
Chan Hon Chiu	Personal interest (Note 3)	5,406,798	Long	1.94%
Yeung Kam Yan	Personal interest (Note 4)	5,045,237	Long	1.81%

Note:

1. These shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgins Islands with limited liability, with its entire issued share capital being owned by Mr. Yung Kwok Leong.
2. 2,750,000 shares represent shares to be allotted and issued upon full exercise of the options granted to Mr. Yung Kwok Leong on 7 July 2005 under the share option scheme of the Company.
3. Amongst 5,406,798 shares, 4,156,798 shares of which represent interests beneficially held by Mr. Chan Hon Chiu and the balance of 1,250,000 shares represent shares to be allotted and issued upon full exercise of the options granted to him on 7 July 2005 under the share option scheme of the Company.
4. Amongst 5,045,237 shares, 3,795,237 Shares of which represent interests beneficially held by Mr. Yeung Kam Yan and the balance of 1,250,000 Shares represent shares to be allotted and issued upon full exercise of the options granted to him on 7 July 2005 under the share option scheme of the Company.

Save as disclosed above, as at 30 September 2005, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Directors' rights to acquire shares or debentures

Save as disclosed under the heading "SHARE OPTIONS" below, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the Directors nor the chief executive, nor and of 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.

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

So far as is known to the Directors, as at 30 September 2005, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Number of shares held	Position	Approximate percentage of issued share capital
Key Engineering Co., Ltd.	66,830,000	Long	24.03%
Easeglory Holdings Limited (Note 1)	46,346,000	Long	16.67%
Yung Muk Ying (Note 1)	49,096,000	Long	17.66%
Top Rainbow Ltd. (Note 2)	44,901,258	Long	16.15%
Yang Pei Gen (Note 2)	44,901,258	Long	16.15%
Lu Jin Ming (Note 2)	44,901,258	Long	16.15%

Note:

1. The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive Director and the chairman of the Company. Ms. Yung Muk Ying is deemed to be interested in 49,096,000 shares which comprise of 46,346,000 shares held by Easeglory Holdings Limited and 2,750,000 shares to be allotted and issued upon full exercise of the options granted to Mr. Yung Kwok Leong on 7 July 2005 under the share option scheme of the Company by virtue of her being the spouse of Mr. Yung Kwok Leong.
2. The issued share capital of Top Rainbow Ltd. is 100% beneficially owned by Mr. Yang Pei Gen. Ms. Lu Jin Ming is deemed to be interested in the Company by virtue of her being the spouse of Mr. Yang Pei Gen.

Save as disclosed above, as at 30 September 2005, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTIONS

Details of share options to subscribe for shares in the Company granted to participants under two share option schemes of the Company during the six months ended 30 September 2005 were as follows:

(a) Pre-listing share option scheme

A summary of the pre-listing share options which are exercisable in three equal tranches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK\$0.70 per share (after adjusting for the effects of the share consolidation approved on 11 May 2005) is as follows:

Type of participants	Number of share options (after adjusting for the effects of the share consolidation approved on 11 May 2005)		
	Outstanding at 1 April 2005	Lapsed/ cancelled during the period	Outstanding at 30 September 2005
Advisor	480,000	–	480,000
Former employee	320,000	–	320,000
	<u>800,000</u>	<u>–</u>	<u>800,000</u>

The total number of shares in respect of which options are issuable under this pre-listing share option scheme was 800,000, representing approximately 0.29% of the issued share capital of the Company at 30 September 2005. None of the options has been exercised during the period.

(b) Post-listing share option scheme

On 9 May 2005, an aggregate of 1,429,000 share options granted to an independent advisor in July 2002 at an exercise price of HK\$0.90 were lapsed.

On 7 July 2005, the Company passed written resolutions pursuant to the share option scheme adopted on 20 April 2002 to grant 15,000,000 share options to Directors and employees as incentives and rewards for their contributions to the success of the Group. It was resolved that share options be offered to the Directors and employees at the subscription price of HK\$0.102 per share with exercise period commencing from 7 July 2005 and ending on 6 July 2015.

Details of the movements in the number of share options during the period under the Company's post-listing scheme are as follows:

Type of participants	Number of share options (after adjusting for the effects of the share consolidation approved on 11 May 2005)			
	Outstanding at 1 April 2005	Grant on 7 July 2005	Lapsed during the period	Outstanding at 30 September 2005
Advisor	1,429,000	–	(1,429,000)	–
Directors	–	5,250,000	–	5,250,000
Employees	–	9,750,000	–	9,750,000
	<u>1,429,000</u>	<u>15,000,000</u>	<u>(1,429,000)</u>	<u>15,000,000</u>

The total number of shares in respect of which options are issuable under this post-listing share option scheme was 15,000,000, representing approximately 5.39% of the issued share capital of the Company at 30 September 2005. None of Directors, employees and advisor of the Company had exercised their share options during the six months ended 30 September 2005.

(c) Valuation of share options

The options granted to Directors, employees and advisor are not recognised in the financial statements until they are exercised. The Directors consider that it is not appropriate to state the value of share options during the six months ended 30 September 2005 on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Chan Hon Chiu and Mr. Yeung Kam Yan, being executive Directors, has entered into a service agreement with the Company. Brief particulars of these service agreements are set out below:

- (a) the term of each of the service agreement shall be for an initial term of two years commencing from 10 May 2002 and will continue thereafter; and
- (b) each of the service agreement may be terminated by either party giving to the other not less than six months' written notice during the initial term and three months' written notice during any renewed term after the first two years.

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

Both Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei were appointed by letters of appointment as independent non-executive Directors for an initial term of one year commencing from 10 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 herein, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

COMPETING INTERESTS

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

PRE-EMPTIVE RIGHTS

There is no provision for the 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 September 2005, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

CORPORATE GOVERNANCE

During the six months ended 30 September 2005, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 2 November 2001, with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules.

The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports 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 held a meeting to review the Group's results for the six months ended 30 September 2005.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2005.

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

Hong Kong, 11 November 2005