Grandy Corporation

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

Protect our environment for better future

Annual Report

2005/06

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.

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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 in order to obtain up-to-date information on 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 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 enquires, 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.

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Corporate Information

EXECUTIVE DIRECTORS
Yung Kwok Leong *(Chairman)*
Shum Ngai Pan
Chen Jin Shan
Weng Jiaxing

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chan Francis Ping Kuen
Hsu Shiu Foo, William
Yu Chai Mei

COMPLIANCE OFFICER
Yung Kwok Leong

AUTHORISED REPRESENTATIVES
Yung Kwok Leong
Shum Ngai Pan

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Chan Siu Wing Raymond, *CPA, CPA (Australia)*

AUDIT COMMITTEE
Chan Francis Ping Kuen
Hsu Shiu Foo, William
Yu Chai Mei

REMUNERATION COMMITTEE
Chan Francis Ping Kuen
Hsu Shiu Foo, William
Yu Chai Mei

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1902
19/F., Sing Pao Building
No.101 King's Road
North Point, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Butterfield International (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS
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Industrial and Commercial Bank of China (Asia) Limited
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AUDITORS
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
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Central, Hong Kong

STOCK CODE
8143

WEBSITE
www.grandy.com.hk

Chairman's Statement

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

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

In view of greater concern about environmental problems and the increasing demand for environmental protection products, the Group acquired a melamine materials production line in the Fujian Province, the PRC in September 2005 with a cash consideration of approximately HK$6.25 million. Melamine materials are environmental friendly raw materials used in the manufacture of household products. With the acquisition, the Group expanded in both its products range and market in the PRC pursuant to the Group's established objective of developing future business prospect of environmental products into the PRC market.

In October and November 2005, the Company completed the placing of 55,600,000 new shares to three placees at HK$0.13 per share and raised an aggregate amount of approximately HK$7.00 million. We intend to apply the net proceeds of approximately HK$5.00 million towards the Group's future investment in environmental related projects and the balance on other investments and general working capital. Approximately HK$3.37 million of the net proceeds has been applied for acquiring machineries for environmental related projects in the PRC.

On 11 January 2006, the Company completed the placing of the unlisted convertibles notes and raised an aggregate principal amount of HK$18.00 million. We intend to apply the net proceeds of approximately HK$17.00 million, as to approximately one-fourth towards environmental related projects, approximately one-fourth towards general working capital of the Group and the balance towards projects or investments in the healthcare sector in Hong Kong and the PRC, which have a high growth potential and promising future and are expected to bring positive return to the Company in the long run.

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

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

Chairman's Statement

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

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

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

APPRECIATION

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

Yung Kwok Leong
Chairman

Hong Kong, 27 June 2006

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

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

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

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

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

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

BUSINESS REVIEW

The Group is principally engaged in the production, sourcing, sales and marketing, design and development of environmental protection products and ancillary services for combating environmental problems in, particularly, the PRC and Korea.

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

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

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

Management Discussion and Analysis

Waste Water Treatment Businesses

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

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

Energy Saving Products

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

Enzyme Treatments

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

Nano Products

Turnover for the nano products for the year ended 31 March 2006 was approximately HK$0.46 million (2005: HK$0.40 million).

Trading of Environmental Friendly Household Products

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

Management Discussion and Analysis

Manufacture of Melamine Materials and Related Products

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

Environmental Protection Consultancy Services

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

FUTURE PROSPECTS

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

Management Discussion and Analysis

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

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

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

CHARGES ON GROUP ASSETS

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

SEGMENT INFORMATION

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

CAPITAL STRUCTURE

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

On 12 May 2005, every five shares of HK$0.01 each in the issued and un-issued share capital of the Company were consolidated into one consolidated share of HK$0.05 each. In October and November 2005, the Company completed the placing of 55,600,000 new shares to three placees at HK$0.13 per share. On 7 July 2005, the Company passed written resolutions pursuant to the share option scheme adopted on 20 April 2002 to grant 15,000,000 share options at the subscription price of HK$0.102 per share to Directors and employees. 11,250,000 share options were exercised by the Directors and employees during the year.

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

Management Discussion and Analysis

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

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

EMPLOYEE INFORMATION

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

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

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

Directors' and Senior Management's Profiles

EXECUTIVE DIRECTORS

Mr. Yung Kwok Leong, aged 41, the Chairman of the Group, and a director of Able Developments Limited, Prime Soruce Trading Limited, Prime Source (Fujian) Chemical Co., Ltd., Grand Brilliant Corporation Limited, Grand Motion Investments Limited, Grandy Trading and Services (H.K.) Limited, Grandy Environmental (HK) Limited, Grandy Kindness Food Waste Management Limited, Grandy Kindness Food Waste Technology Limited, Cortina Developments Limited, Allbright Holdings Limited, Worlday Investments Limited, Rightime Development Limited, Citilink Pacific Group Limited and Green Jade Asia Limited respectively, which are wholly owned subsidiaries of the Company. Mr. Yung, being a registered economist in the Fujian Province in the PRC, has business experience in the manufacture, sale and distribution of environmental-related raw materials and related products, such as melamine materials and household wares as well as other business areas in the PRC for over 20 years.

Ms. Shum Ngai Pan, aged 33, holds a Master's Degree in Business Administration. She has over 7 years of managerial experience in private companies engaged in the healthcare and environmental protection sectors. Ms. Shum has been appointed as an executive director of the Company on 25 April 2006. Ms. Shum is also a director of Prime Source (Fujian) Chemical Co., Ltd.

Mr. Chen Jin Shan, aged 38, holds a bachelor's degree in finance and accounting. Mr. Chen has over 10 years of accounting experience in private companies. He had also been a project manager for more than 6 years in an accounting firm. Mr. Chen has been appointed as an executive director of the Company on 25 April 2006. He is currently an independent non-executive director of Citychamp Dartong Company Limited which is listed on the Shanghai Stock Exchange.

Mr. Weng Jiaxing, aged 30, holds a bachelor's degree in finance. Mr. Weng has over 10 years of managerial experience in private companies engaged in merchandise trading and healthcare sector. Mr. Weng has been appointed as an executive director of the Company on 25 April 2006. Mr. Weng is also a director of Prime Source (Fujian) Chemical Co., Ltd.

Directors' and Senior Management's Profiles

INDEPEDNENT NON-EXECUTIVE DIRECTORS

Mr. Chan Francis Ping Kuen, aged 47, was appointed as an independent non-executive Director in September 2004. Mr. Chan is a member of The Institute of Chartered Accountants in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan holds a bachelor degree in economics from the University of Sydney. Mr. Chan has over 20 years of experience in auditing, accounting and financial management and previously worked for an international accounting firm and a number of companies listed in Hong Kong and in the United States.

Mr. Chan was previously an independent non-executive director of Global Solution Engineering Limited (formerly named as AGL MediaTech Holdings Limited) and Kinetana International Biotech Pharma Limited, both of which are companies listed on GEM. Mr. Chan is currently an independent non-executive director of China Elegance (Holdings) Limited and Earnest Investments Holdings Limited which are both listed on the Main Board. Mr. Chan is also the executive director of FX Creations International Holdings Limited which is listed on GEM.

Mr. Hsu Shiu Foo, William, aged 55, was appointed as an independent non-executive Director on 2 November 2001. Mr. Hsu is an Associate Professor at the School of Business at Brigham Young University, Hawaii. Mr. Hsu has over 15 years' global business experience in tourism and related fields in various international corporations. Mr. Hsu holds a bachelor of arts degree from the Brigham Young University, Hawaii, a master degree from Cornell University, New York, in the United States and a doctoral degree in business administration from the University of Western Sydney in Australia. Mr. Hsu was previously an independent non-executive director of Kinetana International Biotech Pharma Limited and is currently an independent non-executive director of KanHan Technologies Group Limited, both companies are listed on the GEM of the Stock Exchange.

Prof. Yu Chai Mei, aged 50, was appointed as an independent non-executive Director on 2 November 2001. Prof. Yu is a Professor in the Department of Chemistry and the Director of Studies in Environmental Science Programme of The Chinese University of Hong Kong. Prof. Yu possesses extensive knowledge in pollution treatment and environmental monitoring. Prof. Yu obtained his doctoral degree in Chemistry at the University of Idaho, in the United States. Prof. Yu has made contributions by advising the Group on development potentials of the technology in photocatalytic oxidation, an oxidation process that is catalysed under the supply of light source (UV light) ("PCO") and has helped the Group carry out research on the functions of PCO reactors in the early stage of the Group's business development.

Directors' and Senior Management's Profiles

SENIOR MANAGEMENT

Mr. Fang Hai Feng Benson, aged 30, holds a certificate of Business Management. Mr. Fang is the General Manager of Prime Source (Fujian) Chemical Co., Ltd. since May 2005. He has more than 8 years of management experience in the manufacturing industry.

Mr. Chi Rui Xiong George, aged 39, holds a professional certificate of Chemistry Study. Mr. Chi is the Factory Manager of Prime Source (Fujian) Chemical Co., Ltd. since May 2005. He has more than 15 years of management experience in the manufacturing industry.

Ms. Liu Dan Sophy, aged 28, holds a Bachelor's degree in Economics with major in accounting. Ms. Liu is the Finance Manager of Prime Source (Fujian) Chemical Co., Ltd. since May 2005. She has more than 4 years of accounting and audit experience.

Mr. Chan Siu Wing Raymond, aged 41, is the financial controller and company secretary of the Group. Mr. Chan is responsible for the Group's financial and treasury functions. Mr. Chan is a member of the Certified Practising Accountant in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has more than 16 years of experience in handling accounting and company secretarial functions and joined the Company in June 2005.

Mr. Hyung Kyu Kim, aged 41, is the senior Finance Manager of the Korean operations. Mr. Kim is responsible for the financial functions of Youngdong. Mr. Kim graduated from Seoul National Univerity and obtained a bachelor's degree in art from the department of international economics. Mr. Kim has over 12 years working experience in the areas of finance and asset management. Prior to joining the Group in June 2004, he worked in Hong Kong and Singapore.

Corporate Governance Report

INTRODUCTION

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS AND BOARD MEETING

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

Executive director:

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

Independent non-executive director:

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

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

Corporate Governance Report

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

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

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

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

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

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

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

The Board held a full board meeting for each quarter.

Corporate Governance Report

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

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

REMUNERATION COMMITTEE

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

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

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

NOMINATION OF DIRECTORS

No nomination committee was established by the Company.

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

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

Corporate Governance Report

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

AUDITORS' REMUNERATION

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

AUDIT COMMITTEE

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

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

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

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

Report of the Directors

The directors present their annual report and the audited financial statements of the Group for the year ended 31 March 2006.

DATE OF INCORPORATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 28 May 2001 under the Companies Law (Revised) of the Cayman Islands.

The shares of the Company were listed on the GEM of the Stock Exchange on 10 May 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are principally engaged in the production, sourcing, sales and marketing, design and development of environmental protection products and ancillary services for combating environmental problems in the areas of energy-saving, enzyme treatments and waste water treatment as detailed in note 39 of the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 32% of the Group's total sales and sales to the largest customer included therein amounted to approximately 10%.

The aggregate purchases during the year attributable to the Group's five largest suppliers were approximately 65% of the Group's total purchases and purchases from the largest supplier included therein amounted to approximately 37%.

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.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2006 and the state of the Company's and the Group's affairs as at 31 March 2006 are set out in the financial statements on pages 29 to 32.

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 13 to the financial statements.

Report of the Directors

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out on page 68 and in note 14 to the financial statements and in the consolidated statement of changes in equity respectively.

The Company had no distributable reserves as at 31 March 2006. 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 6 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:

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

Independent non-executive directors

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

In accordance with Article 87 of the Company's Articles of Association, Mr. Hsu Shiu Foo, William, the independent non-executive director, will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with the Article 86 of the Articles of Association, Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing, the executive directors, will hold office until the conclusion of the Annual General Meeting and, being eligible, offer themselves for re-election.

Report of the Directors

Each of Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing has entered into service contracts separately with the Company for a period of one year commencing 25 April 2006 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Chan Francis Ping Kuen has 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. All the other independent non-executive directors, namely Mr. Hsu Shiu Foo, William and Prof. Yu Chai Mei, have been appointed for an initial term of one year commencing on 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 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 IN SHARES, UNDERLYING SHARES AND DEBENTURES

Disclosure Of Interests

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

As at 31 March 2006, the following directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange:

(i) Interests in Shares:

Name of Director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued shares
Yung Kwok Leong	Corporate interest (Note)	69,519,000	Long	20.15%
	Personal interest	4,125,000	Long	1.20%
Chan Hon Chiu	Personal interest	4,156,798	Long	1.21%
Yeung Kam Yan	Personal interest	3,795,237	Long	1.10%

Note: These shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong.

Report of the Directors

(ii) Interests in Share Options:

On 7 July 2005, the Company granted options to certain eligible persons, including the directors, to subscribe for shares under the Post-IPO Share Option Scheme at an exercise price of HK$0.102 per share (adjusted to HK$0.079 after the rights issue became unconditional on 18 April 2006). The details of the interests of the Directors on 31 March 2006 and after the rights issue became unconditional on 18 April 2006 were as follows:

Name of Director	Nature of interest	Exercise period	Number of underlying shares in respect of which share options were granted	Number of underlying shares in respect of which share options were outstanding as at 31 March 2006	Number of underlying shares in respect of which share options were outstanding after the rights issue became unconditional on 18 April 2006	Position
Chan Hon Chiu	Personal interest	7 July 2005 to 6 July 2015	1,250,000	1,250,000	1,616,250	Long
Yeung Kam Yan	Personal interest	7 July 2005 to 6 July 2015	1,250,000	1,250,000	1,616,250	Long

Save as disclosed above, as at 31 March 2006, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above under the heading "Directors' interests in shares, underlying shares and debentures", 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 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

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

As at 31 March 2006, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Substantial Shareholders:

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Lee Kun Hung (Note 1)	48,230,000	Long	Beneficial owner and interest of a controlled corporation	13.98%
Win Triple Limited (Note 1)	46,830,000	Long	Beneficial owner	13.58%
Easeglory Holdings Limited (Note 2)	69,519,000	Long	Beneficial owner	20.15%
Yung Muk Ying (Note 2)	73,644,000	Long	Interest of spouse	21.35%

Report of the Directors

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Top Rainbow Ltd. (Note 3)	44,901,258	Long	Beneficial owner	13.02%
Yang Pei Gen (Note 3)	44,901,258	Long	Interest of a controlled corporation	13.02%
Lu Jin Ming (Note 3)	44,901,258	Long	Interest of spouse	13.02%

Notes: 1 48,230,000 shares are beneficially owned by Mr. Lee Kun Hung of which 46,830,000 shares are held by Win Triple Limited which is 100% owned by Mr. Lee Kun Hung.

2. 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 73,644,000 Shares by virtue of her being the spouse of Mr. Yung Kwok Leong.

3. 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.

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

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Lau Kam Chee (Note 1)	23,600,000	Long	Beneficial interest	6.84%
Lam Yuen Yin (Note 1)	23,600,000	Long	Interest of spouse	6.84%
Li Hua (Note 2)	25,328,358	Long	Beneficial interest	7.34%

Note 1: Ms. Lam Yuen Yin is deemed to be interested in 23,600,000 shares by virtue of her being the spouse of Mr. Lau Kam Chee.

Note 2: Ms. Li Hua is interested in 16,000,000 shares and is deemed to be interested in 9,328,358 shares to be allotted and issued upon full conversion of the convertible notes subscribed by her pursuant to the Placing Agreement dated 25 November 2005.

Save as disclosed above, as at 31 March 2006, 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

Share Option Schemes

As at 31 March 2006, there are 4,550,000 outstanding share options, of which, 800,000 and 3,750,000 share options were granted pursuant to the respective Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme. Details of the outstanding share options as at 31 March 2006 and after the rights issue became unconditional on 18 April 2006 were as follows:

(i) Pre-IPO 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). The exercise price per share was adjusted to HK$0.541 each after the rights issue became unconditional on 18 April 2006. The details of the pre-listing share options as at 31 March 2006 and after the rights issue became unconditional on 18 April 2006 were as follows:

Grantee	Number of shares to be allotted and issued upon exercise of the outstanding share options	Number of shares to be allotted and issued upon the rights issue became unconditional on 18 April 2006
Advisor	480,000	620,640
Former Employee	320,000	413,760
	800,000	1,034,400

(ii) Post-IPO Share Option Scheme

On 7 July 2005, the Company passed written resolutions pursuant to the Post-IPO Share Option Scheme adopted on 20 April 2002 to grant 15,000,000 share options to directors and employees. It was resolved that share options be offered to the directors and employees at the subscription price of HK$0.102 per share (adjusted to HK$0.079 per share after the rights issue became unconditional on 18 April 2006) with exercise period commencing from 7 July 2005 and ending on 6 July 2015. The details of the Post-IPO shares options as at 31 March 2006 and after the rights issue became unconditional on 18 April 2006 were as follows:

Grantee	Number of shares to be allotted and issued upon exercise of the outstanding share options	Number of shares to be allotted and issued after the rights issue became unconditional on 18 April 2006
Directors and employee	3,750,000	4,848,750

(iii) Convertible notes

The Company had issued the convertible notes on 11 January 2006 and the holders of these convertible notes are entitled to convert a total number of 67,164,179 shares at the conversion price of HK$0.268. The conversion price per share and the number of conversion shares after the rights issue become unconditional on 18 April 2006 were 86,956,521 shares exercisable at HK$0.207 per share. Upon the exercise of the conversion rights attached to the convertible notes any time after expiry of six months after the issue date (i.e. 10 July 2006) and up to the close of business on the maturity date.

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.

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 securities.

Report of the Directors

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 92. This summary does not form part of the audited financial statements.

COMPETING INTERESTS

None of the directors and management shareholders (as defined in the GEM Listing Rules), and their respective associates had any interest in business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

AUDITORS

Messrs. HLB Hodgson Impey Cheng were appointed as the auditors of the Company with effect from 13 May 2005 in succession to Messrs. Deloitte Touche Tohmatsu who resigned from the office on 6 May 2005. Messers. Deloitte Touche Tohmatsu have acted as auditors of the Company for the year ended 31 March 2004. HLB Hodgson Impey Cheng will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

On Behalf of the Board

Yung Kwok Leong
Chairman

Hong Kong, 27 June 2006

Report of the Auditors

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

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

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

We have audited the financial statements on pages 29 to 91 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public 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 Group and the Company, 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.

Report of the Auditors

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 27 June 2006

Consolidated Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**14,585**	2,342
Available-for-sale investments	7	**138**	131
Goodwill	9	**1,893**	1,893
		16,616	4,366
Current assets			
Inventories	11	**3,250**	2,373
Trade and other receivables	12	**30,211**	18,780
Pledged bank deposits	29	**93**	–
Cash and bank balances		**8,992**	3,136
		42,546	24,289
Total assets		**59,162**	28,655
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**17,247**	13,904
Reserves		**13,735**	5,092
		30,982	18,996
Minority interests		**36**	133
Total equity		**31,018**	19,129

Consolidated Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
LIABILITIES			
Current liabilities			
Trade and other payables	15	**9,591**	8,470
Obligations under finance leases-due within one year	16	**111**	7
Amounts due to directors	17	**655**	664
Amount due to minority shareholder of a subsidiary	17	**160**	160
Tax payable		**568**	225
		11,085	9,526
Long-term liabilities			
Convertible notes	18	**16,762**	–
Obligations under finance leases-due after one year	16	**297**	–
		17,059	–
Total liabilities		**28,144**	9,526
Total equity and liabilities		**59,162**	28,655
Net current assets		**31,461**	14,763
Total assets less current liabilities		**48,077**	19,129

Approved by the Board of Directors on 27 June 2006 and signed on its behalf by:

Shum Ngai Pan
Director

Weng Jiaxing
Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Interests in subsidiaries	10	**–**	–
Current assets			
Prepayments		**53**	113
Bank balances		**38**	7
		91	120
Total assets		**91**	120
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**17,247**	13,904
Reserves	14	**(34,494)**	(14,313)
Total equity		**(17,247)**	(409)
LIABILITIES			
Current liabilities			
Accruals and other payables		**576**	378
Tax payable		**–**	151
		576	529
Long-term liabilities			
Convertible notes		**16,762**	–
Total liabilities		**17,338**	529
Total equity and liabilities		**91**	120
Net current liabilities		**(485)**	(409)
Total assets less current liabilities		**(485)**	(409)

Approved by the Board of Directors on 27 June 2006 and signed on its behalf by:

Shum Ngai Pan
Director

Weng Jiaxing
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	20	**41,088**	34,230
Cost of sales		**(19,281)**	(15,539)
Gross profit		**21,807**	18,691
Other revenue	20	**40**	79
Other income	21	**3,465**	–
Selling and distribution expenses		**(1,986)**	(2,017)
Administrative expenses		**(18,408)**	(17,912)
Provision for impairment on trade and other receivables		**(964)**	(3,715)
Provision for obsolete inventories		**–**	(1,282)
Loss on disposal of subsidiaries		**–**	(222)
Profit/(loss) from operations	21	**3,954**	(6,378)
Finance costs	24	**(299)**	(288)
Profit/(loss) before taxation		**3,655**	(6,666)
Taxation	25	**(561)**	(440)
Profit/(loss) for the year	26	**3,094**	(7,106)
Attributable to:			
Equity holders of the Company		**3,191**	(7,045)
Minority interests		**(97)**	(61)
		3,094	(7,106)
Dividends	28	**–**	–
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
– basic	27	**HK0.73 cents**	(HK2.05 cents)
– diluted	27	**HK0.63 cents**	N/A

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

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

At 31 March 2006

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

Note:

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

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

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

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation		**3,655**	(6,666)
Adjustments for:			
Interest income		**(35)**	(73)
Interest expenses		**299**	288
Amortisation of goodwill		**–**	425
Amortisation of intangible assets		**–**	1
Bad debt written off		**–**	173
Bad debt recovered		**(916)**	–
Depreciation of property, plant and equipment		**1,627**	1,012
Exchange difference		**(107)**	294
Loss on disposal of property, plant and equipment		**13**	264
Loss on disposal of a subsidiary		**–**	222
Provision for impairment of trade and other receivables		**964**	3,542
Provision for obsolete inventories		**–**	1,282
Reversal of trade payables		**(2,285)**	–
Reversal of provision for obsolete inventories		**(254)**	–
Share-based payment expenses		**449**	–
Operating cash inflows before movements in working capital		**3,410**	764
(Increase)/decrease in inventories		**(623)**	1,750
Increase in trade and other receivables		**(11,479)**	(9,633)
Increase/(decrease) in trade and other payables		**3,248**	(424)
Net cash used in operations		**(5,444)**	(7,543)
Overseas tax paid		**(67)**	(215)
Hong Kong profit tax paid		**(151)**	–
Net cash used in operating activities		**(5,662)**	(7,758)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**35**	73
Purchase of property, plant and equipment		**(13,685)**	(299)
Purchase of available-for-sale investments		**–**	(131)
Purchase of subsidiaries (net of cash and and equivalents)	30	**–**	(3,081)
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	31	**–**	(485)
Increase in pledged bank deposits		**(93)**	–
Net cash used in investing activities		**(13,743)**	(3,923)

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(53)**	(288)
Proceeds from issue of shares		**7,228**	8,342
Issue costs of shares		**(627)**	(67)
Proceeds from exercise of share options		**1,148**	–
Borrowing from finance lease		**408**	–
Proceeds from issue of convertible notes		**18,000**	–
Issue costs of convertible notes		**(827)**	–
Repayment of finance leases		**(7)**	(9)
Borrowings raised from directors		**–**	280
Repayment to directors		**(9)**	–
Short-term bank loans repaid		**–**	(999)
Repayment of trust receipt loans		**–**	(1,091)
Net cash generated from financing activities		**25,261**	6,168
Net increase/(decrease) in cash and cash equivalents		**5,856**	(5,513)
Cash and cash equivalents at the beginning of the year		**3,136**	8,649
Cash and cash equivalents at the end of the year		**8,992**	3,136
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**8,992**	3,136

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements

31 March 2006

1. CORPORATE INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the financial statements.

Notes to Financial Statements

31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("collectively referred to as the "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. The Group adopted these new and revised standards and interpretations of HKFRSs in its financial statements for the year ended 31 March 2006, which are relevant to its operations. The financial statements for the year ended 31 March 2005 have been restated in accordance with the relevant requirements. A summary of the effect on initial adoption of these new and revised HKFRSs is as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

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

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

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

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

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

  The outstanding share options at 31 March 2005 are all granted before 7 November 2002 and vested before 1 April 2005, no prior year adjustment is required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

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

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

– HKAS 16 – initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

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

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

– HKFRS 3 – prospectively after 1 April 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

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

Notes to Financial Statements

31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2006. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investment in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue from provision of environmental analyses, measurement and environmental protection services is recognised when the services are provided.

Revenue from installation of wastewater treatment system is recognised using the percentage of completion method, measured principally by the percentage of costs incurred to the total estimated cost to complete the contract.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Leased assets

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of inception of the leases. Any outstanding principal portion of the leasing commitments is shown as an obligation of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

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

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

Notes to Financial Statements

31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets

Operation rights and intellectual property

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

Trade and other receivables

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

Impairment of assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

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

Investment in debts

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the income statement as an expense immediately.

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

i. Financial assets at fair value through profit and loss

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

ii. Loans and receivables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments – continued

iii. Held-to-maturity investments

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

iv. Available-for-sale financial assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments – continued

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

Convertible notes

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

i. *Functional and presentation currency*

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

ii. *Transactions and balances*

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

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

iii. *Group companies*

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

Contingent liabilities and contingent assets

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

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

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

Notes to Financial Statements

31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits

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

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

iii. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

iv. *Share-based payment expenses*

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

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

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

Notes to Financial Statements

31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the period in which the costs are incurred.

Segments reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses, and corporate revenue.

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) Market risks

(i) Foreign exchange risk

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

(ii) Price risk

The Group is not exposed to commodity price risk.

(b) Credit risk

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

(c) Liquidity risk

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

3. FINANCIAL RISK MANAGEMENT – continued

Financial risk factors – continued

(d) Cash flow and fair value interest rate risk

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

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

Fair value estimation

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of intangible assets and goodwill

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – continued

(b) Impairment of trade receivables

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

(c) Useful lives of property, plant and equipment

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

(d) Impairment of non-current assets

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – continued

(e) Income taxes and deferred taxation

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

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

(f) Measurement of convertible notes

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

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

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

5. GEOGRAPHICAL AND BUSINESS SEGMENTS

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Geographical segments

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

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

5. GEOGRAPHICAL AND BUSINESS SEGMENTS – continued

Geographical segments – continued

Balance sheet

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

Other information

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

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

5. GEOGRAPHICAL AND BUSINESS SEGMENTS – continued

Business segments

The Group is engaged in: (1) environmental and environmental-related businesses including (i) installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services, (ii) the manufacture and sales of environmental protection products; (2) manufacture and sales of melamine and its related products.

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

Notes to Financial Statements

31 March 2006

6. PROPERTY, PLANT AND EQUIPMENT

The Group

	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Cost						
At 1 April 2004	332	3,495	1,260	538	1,699	7,324
Additions	63	–	–	13	238	314
Acquisition of a subsidiary	162	–	–	177	118	457
Exchange difference	43	–	–	11	19	73
Disposal of a subsidiary	(9)	–	(28)	–	(18)	(55)
Transferred to inventories	–	–	(76)	–	–	(76)
Disposals	(323)	(2,794)	–	(306)	(14)	(3,437)
At 31 March 2005 and at 1 April 2005	268	701	1,156	433	2,042	4,600
Additions	137	455	12,205	596	292	13,685
Exchange difference	320	–	–	181	402	903
Disposals	–	–	–	–	(46)	(46)
At 31 March 2006	725	1,156	13,361	1,210	2,690	19,142
Depreciation and improvement						
At 1 April 2004	326	2,827	328	224	731	4,436
Provided for the year	96	210	254	106	346	1,012
Disposal of a subsidiary	(2)	–	(9)	–	(2)	(13)
Transferred to inventories	–	–	(19)	–	–	(19)
Written back on disposals	(323)	(2,794)	–	(41)	–	(3,158)
At 31 March 2005 and at 1 April 2005	97	243	554	289	1,075	2,258
Provided for the year	267	217	524	142	477	1,627
Written back on disposals	–	–	–	–	(33)	(33)
Exchange difference	146	–	–	174	385	705
At 31 March 2006	510	460	1,078	605	1,904	4,557
Net book values						
At 31 March 2006	**215**	**696**	**12,283**	**605**	**786**	**14,585**
At 31 March 2005	171	458	602	144	967	2,342

Notes to Financial Statements

31 March 2006

6. PROPERTY, PLANT AND EQUIPMENT – continued

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

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

7. AVAILABLE-FOR-SALE INVESTMENTS

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

8. INTANGIBLE ASSETS

The Group

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

The operation rights of HK$10,000,000 represents the sole exclusive rights acquired for the remaining term of 20 years commencing November 2000 for the sale, installation, operations of food waste management business including the right of modification and manufacturing of the relevant machinery in Hong Kong and certain cities in the PRC.

8. INTANGIBLE ASSETS – continued

The intellectual property represents the exclusive worldwide rights acquired to the use and ownership of the expertise and intellectual property developed by a professor in Mainland China. The estimated useful life of the intellectual property upon acquisition is 20 years.

During the year ended 31 March 2004, the directors conducted a review on the Group's intangible assets and determined that they were impaired as there were insufficient economic benefits generating from these intangible assets that will flow to the Group in the foreseeable future. Accordingly, an impairment in value of HK$10,007,048 was recognised in the income statement for the year ended 31 March 2004.

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

9. GOODWILL

The Group

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

9. GOODWILL – continued

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

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

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

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

Key assumptions used for value-in-use calculations:

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

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

10. INTERESTS IN SUBSIDIARIES

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

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

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

11. INVENTORIES

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

12. TRADE AND OTHER RECEIVABLES

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade receivables	**15,538**	10,725
Deposits made to suppliers	**267**	306
Deposits paid under a non-legally binding memorandum of understanding (Note 38)	**10,000**	–
Deposits paid	**1,409**	7,187
Prepayments	**1,554**	367
Other receivables	**1,443**	195
	30,211	18,780

12. TRADE AND OTHER RECEIVABLES – continued

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

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

Notes:

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

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

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

13. SHARE CAPITAL

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

Notes:

(a) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 11 May 2005, every five shares of HK$0.01 each in the issued and un-issued ordinary share capital of the Company are consolidated into one consolidated share HK$0.05 each (the "Share Consolidation"). The Share Consolidation became effective on 12 May 2005.

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

(c) The Company issued and allotted 231,730,000 new ordinary shares of HK$0.01 each to a third party, Easeglory Holdings Limited, on 3 February 2005, at HK$0.036 per share, representing a discount of approximately 74% to the closing price of HK$0.14 per share as quoted on the Stock Exchange on the date of the subscription agreement. The net proceeds from the placing which amounted to approximately HK$8.30 million were used to finance investments in environmental related projects in the PRC.

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

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

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

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31 March 2006

14. RESERVES

The Company

	Share premium HK$'000	Share-based payment reserve HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004	50,064	–	1,452	–	(50,490)	1,026
Premium arising on issue of shares	6,025	–	–	–	–	6,025
Issuing expenses	(67)	–	–	–	–	(67)
Net loss for the year	–	–	–	–	(21,297)	(21,297)
At 31 March 2005	56,022	–	1,452	–	(71,787)	(14,313)
Premium arising on issue of shares	4,448	–	–	–	–	4,448
Issuing expenses	(627)	–	–	–	–	(627)
Share-based payment expenses	–	449	–	–	–	449
Exercise of share options	336	(336)	–	–	–	–
Premium arising on exercise of share options	585	–	–	–	–	585
Equity component of convertible notes	–	–	–	499	–	499
Net loss for the year	–	–	–	–	(25,535)	(25,535)
At 31 March 2006	**60,764**	**113**	**1,452**	**499**	**(97,322)**	**(34,494)**

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

15. TRADE AND OTHER PAYABLES

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

15. TRADE AND OTHER PAYABLES – continued

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

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

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

16. OBLIGATIONS UNDER FINANCE LEASES

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

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

17. AMOUNT DUE TO DIRECTORS/MINORITY SHAREHOLDER OF A SUBSIDIARY

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

18. CONVERTIBLE NOTES

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

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

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

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

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

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

18. CONVERTIBLE NOTES – continued

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

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

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

19. SHARE OPTION SCHEME

(a) Pre-listing share options

Pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002, the Company may grant options at HK$1 per offer to any directors, employees, consultants, and advisors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. All of these options have duration of 10 years from and including 10 May 2002 subject to the terms of the scheme.

Details of the movements in the number of share options during the year under the Company's pre-listing share options scheme which are exercisable in three equal trenches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK$0.014 per share are as follows:

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

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

(b) Post-listing share options

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

19. SHARE OPTION SCHEME – continued

(b) Post-listing share options – continued

Details of the movements in the number of share options during the year are as follows:

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

Notes:

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

(ii) The Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in employee share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 January 2005 were expensed retrospectively in the income statement of the respective periods.

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

19. SHARE OPTION SCHEME – continued

(b) Post-listing share options – continued

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

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

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

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

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

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

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

Notes to Financial Statements

31 March 2006

20. TURNOVER AND REVENUE

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

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

Notes to Financial Statements

31 March 2006

21. PROFIT/(LOSS) FROM OPERATIONS

	2006 HK$'000	2005 HK$'000 (Restated)
Profit/(loss) from operations has been arrived at after charging:		
Directors' remuneration (Note 22)	337	151
Other staff's retirement benefits scheme contributions	910	1,125
Other staff costs	9,695	10,200
	10,942	11,476
Amortisation of goodwill included in administrative expenses	–	425
Amortisation of intangible assets included in administrative expenses	–	1
Auditors' remuneration – current year	341	293
– under provision in prior years	–	105
Provision for impairment losses of trade and other receivables	964	3,542
Provision for obsolete inventories	–	1,282
Bad debt written off	–	173
Cost of goods sold	11,542	1,996
Depreciation of property, plant and equipment		
– owned by the Group	1,586	1,006
– held under finance leases	41	6
Loss on disposal of property, plant and equipment	13	264
Operating lease rentals in respect of land and buildings	925	1,368
Development costs	1,108	–
and after crediting:		
Other income:		
Bad debt recovered	916	–
Reversal of provision of obsolete inventories	254	–
Reversal of trade payables	2,285	–
Net exchange gain	10	–
	3,465	–
Rental income from hire of machinery and equipment	–	50

22. DIRECTORS' REMUNERATION

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

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive Directors										
Yung Kwok Leong	**–**	–	**83**	–	**–**	–	**–**	–	**83**	–
Chan Hon Chiu (resigned on 1 April 2006)	**–**	–	**37**	–	**–**	–	**–**	–	**37**	–
Yeung Kam Yan (resigned on 25 April 2006)	**–**	–	**37**	–	**–**	–	**–**	–	**37**	–
	–	–	**157**	–	**–**	–	**–**	–	**157**	–
Independent Non-Executive Directors										
Chan Ping Kuen, Francis	**60**	31	**–**	–	**–**	–	**–**	–	**60**	31
Hsu Shiu Foo, William	**60**	60	**–**	–	**–**	–	**–**	–	**60**	60
Yu Chai Mei	**60**	60	**–**	–	**–**	–	**–**	–	**60**	60
	180	151	**–**	–	**–**	–	**–**	–	**180**	151
	180	151	**157**	–	**–**	–	**–**	–	**337**	151

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

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

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

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

Notes to Financial Statements

31 March 2006

23. EMPLOYEES' EMOLUMENTS

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

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

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

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

24. FINANCE COSTS

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

25. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group incurred a taxation loss for the year. Provision on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

For the year ended 31 March 2006

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

25. TAXATION – continued

For the year ended 31 March 2005

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

26. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

27. EARNINGS/(LOSS) PER SHARE

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

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

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

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

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

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

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

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

28. DIVIDENDS

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

29. PLEDGED ASSETS

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

30. ACQUISITION OF A SUBSIDIARY

On 30 April 2004, the Group acquired the entire issued share capital of Youngdong Environmental Engineering Co., Ltd. at a consideration of KWR580,000,000 (approximately HK$3,866,000), which was satisfied in cash.

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

The subsidiary acquired during the year ended 31 March 2005 contributed approximately HK$24,493,000 to the Group's turnover and profit after tax of approximately HK$1,648,000 to the Group for the year ended 31 March 2005.

31. DISPOSAL OF SUBSIDIARIES

In August 2004, the Group disposed of its subsidiaries, Beijing Grandy Green Technology Limited, a 65% owned subsidiary and United Consultancy Limited, a 50% owned subsidiary to the minority shareholders of the respective subsidiaries.

	2006 HK$'000	2005 HK$'000
Net assets disposed of:		
Property, plant and equipment	–	42
Inventories	–	5
Trade and other receivables	–	73
Cash and bank balances	–	485
Trade and other payables	–	(107)
Minority interests	–	(131)
Net assets	–	367
Loss on disposal of subsidiaries	–	(222)
Consideration included in trade and other receivables	–	145
Analysis of outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash and bank balances disposed of	–	(485)

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

32. UNRECOGNISED DEFERRED TAXATION

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

33. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

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

34. OTHER COMMITMENTS

Pursuant to an exclusive right to distribute and sell and the right to use the enzyme-based materials worldwide except North America, South Korea and Japan, the Group was committed to pay to an independent third party 10% of the net profit after taxation of the relevant business for 30 years expiring October 2028. No payments were made during the year as the relevant business was operating at a loss in which the loss could be carried forward to set off against future profits of the relevant business.

The Company had no other significant commitments at the balance sheet date.

35. CONTINGENT LIABILITIES

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

36. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

37. SIGNIFICANT RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, during the year, the Group had entered into the following significant transaction with related parties:

(a) Key management personnel

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

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

(b) During the year ended 31 March 2005, the Group's wholly owned subsidiary, Rightime Development Limited, acquired the entire share capital of Youngdong Environmental Engineering Co., Ltd. from Key Engineering Co., Ltd. ("Key Engineering"), a substantial shareholder of the Company, at a consideration of KRW 580 million (approximately HK$3,866,000). The Directors considered that the transaction was determined on normal commercial terms and in the interest of the company. Key Engineering is a connected person of the Company under the GEM Listing Rules. As such, the transaction also constituted connected transaction under the GEM Listing Rules. For further details, please refer to the Company's circular dated 14 April 2004.

38. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

38. SUBSEQUENT EVENTS – continued

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

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

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

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

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

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

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

Notes to Financial Statements

31 March 2006

39. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned limited liability companies, at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Principal activities
Grandy Environmental (H.K.) Limited**	Hong Kong	HK$3,010,000	Manufacture and sales of environmental protection products and provision of related services
Grandy Trading and Services (H.K.) Limited (formerly know as Grandy Enviro-Tech Company Limited)**	Hong Kong	HK$10,000	Sales of environmental protection products
珠海市紫雲星環保科技有限公司 (Zhuhai Grandy Star Environmental Technology Corporation) #**	The PRC	RMB5,000,000	Provision of environmental protection services for a term of 30 years commencing 14 November 2002
Youngdong Environmental Engineering Co., Ltd.*	Korea	KWR200,000,000	Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analysis and measurement services

39. PRINCIPAL SUBSIDIARIES – continued

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

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

* Audited by member firm of HLB International.

** Audited by another Hong Kong Certified Public Accountants

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

40. NON-CASH TRANSACTIONS

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

41. APPROVAL OF FINANCIAL STATEMENTS

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

Financial Summary

31 March 2006 (in HK Dollars)

	For the year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
Turnover	**41,088**	34,230	18,578	28,318	26,322
Profit/(loss) before taxation	**3,655**	(6,666)	(39,447)	(11,694)	2,444
Taxation	**(561)**	(440)	–	10	(37)
Net profit/(loss) for the year	**3,094**	(7,106)	(39,447)	(11,684)	2,444
Profit/(loss) attributable to					
– Equity holders of the Company	**3,191**	(7,045)	(34,729)	(11,375)	2,407
– Minority interests	**(97)**	(61)	(4,718)	(309)	–
	3,094	(7,106)	(39,447)	(11,684)	2,407

	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Assets and liabilities					
Total assets	**59,162**	28,655	27,126	50,974	22,056
Total liabilities	**(28,144)**	(9,526)	(9,402)	(3,976)	(16,216)
Total equity	**31,018**	19,129	17,724	46,998	5,840

The results and summary of assets and liabilities for period ended 31 March 2002, which were extracted from the Company's prospectus dated 29 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.