

Eco-Tek Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Annual Report 2004



fostering
a healthy environment

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

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

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

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

Corporate Information

BOARD OF DIRECTORS

Executive directors

PAU Kwok Ping (*Chairman and Managing Director*)
SHAH Tahir Hussain
HAN Ka Lun

Non-executive directors

LUI Sun Wing
YOUNG Meng Cheung Andrew

Independent non-executive directors

CHAN Siu Ping Rosa
TAKEUCHI Yutaka
NI Jun
HUI Wai Man Shirley

COMPLIANCE OFFICER

PAU Kwok Ping

COMPANY SECRETARY

CHOR Ngai FCCA, CPA

CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

QUALIFIED ACCOUNTANT

CHOR Ngai FCCA, CPA

AUDIT COMMITTEE

CHAN Siu Ping Rosa
TAKEUCHI Yutaka
NI Jun
HUI Wai Man Shirley

AUDITORS

Grant Thornton
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 5, 11/F
Westlands Centre
20 Westlands Road
Quarry Bay
Hong Kong

REGISTERED OFFICE

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

HONG KONG SHARE REGISTRAR

Tengis Limited
G/F., Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Belgian Bank

GEM STOCK CODE

8169

WEBSITE ADDRESS

www.eco-tek.com.hk

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Chairman's Statement

I would like to present the annual audited consolidated results of Eco-Tek Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 October 2004.

RESULTS AND BUSINESS OVERVIEW

During the year under review, the Group reported a turnover and profit attributable to shareholders of approximately HK\$106 million (2003: HK\$104 million) and HK\$18.2 million (2003: HK\$13.0 million), representing an increase of 2% and 40% respectively. Due to the introduction of macro economic control measures in the Mainland, sales of industrial environmental protection related products to customers located in the Mainland dropped by 3.5%. However, an increase of 40% in profit attributable to shareholders is reported which is mainly brought by the 14.8% increase in sale and installation of diesel oxidation catalysts ("Eco-Green") and a write back of certain amount of provision for doubtful debts due to subsequently received.

The Group has been engaging in the promotion of environmental protection and helping to foster a healthy living environment to the general public since the date of listing. To accomplish these objectives, the Group has been working closely with the Environmental Protection Department ("EPD") of the Hong Kong Government over the past years to improve the street-level air pollution. According to the information obtained from the EPD, one of the most significant environmental improvements in Hong Kong in recent years is to control motor vehicle emissions. By the end of 2003, vehicles emitted about 60% fewer particulates, 27% less nitrogen oxides, and 74% fewer smoky vehicles were spotted as compared with the year of 1999. The total number of hours during which the Air Pollution Index at roadsides exceeded the 100 mark, indicating air pollution was very high, has also dropped by 35% since 1999. In addition, up to the year ended 31 October 2004, the Group successfully installed its Eco-Green product on over 7,000 qualified heavy diesel vehicles (over four tonnes). The Group will continue to look for other cooperation opportunities with the EPD that address air pollution problems, and to provide Hong Kong residents with a pleasant and healthier living environment.

Apart from improving air quality, the Group is also committed to offering personalised quality of health. In the fourth quarter last year, the Group had launched two self-developed products – ionized clean water system (called "Eco-Water") and ultra clean air purifier (called "Eco-Air") of which Eco-Water was awarded the 2nd Runner Up (Corporate Group) of "The 6th Hong Kong Household Electrical Appliances Design and Innovation Competition 2004" jointly organized by Hong Kong Productivity Council and Hong Kong Electrical Appliances Manufacturers Association. The award recognizes the quality and technology of the Group's innovative environmental protection products and their contributions for a better living environment.

Chairman's Statement

Although sale of the Group's industrial environmental protection products has dropped by approximately 3.5% due to the austerity measures launched in the Mainland, we consider the effect to the Group to be short term. Following the continuous economic growth in the Mainland and the expansion of sales and marketing force of the Group, it is expected that sale of industrial environmental protection products will record a steady growth in the coming year.

OUTLOOK

Going forward, the Group will continue to develop and introduce various environmental protection related products and to promote the sense of healthy living to the general public. Apart from the existing environmental products, the Group has been developing energy saving device for industrial machine. The progress is satisfactory. The Group expects the energy saving device can be launched to the market in the near future. Furthermore, the Group will continue to seek new investment opportunities in order to create synergetic effect on its core business and to generate better returns for its shareholders.

DIVIDEND

In view of the satisfactory results of the Group during the past year and in reward for the continuous support of the shareholders of the Company, the Board of Directors recommends the payment of a final dividend of HK1.50 cents (2003: HK1.15 cents) per share for the year ended 31 October 2004, subject to the approval by our shareholders at the forthcoming Annual General Meeting.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my sincerest thanks to the directors, management and staff of the Group for their steady overwhelming commitment to the Group and gratitude to our shareholders, customers and suppliers for their ongoing support of the Group over the past year.

PAU Kwok Ping

Chairman

Hong Kong, 13 January 2005

Biographical Details of the Directors and Senior Management

Biographical details of the directors of the Company and the senior management of the Group are set out as follows:

DIRECTORS

Executive directors

Dr. CHIANG Lily, Ph.D., MBA, MIMechE, MHKIE, aged 43, is the founder of the Group and chairman and a director of the Company and is responsible for strategic development of the Group. She has over 18 years of management experience. Owing to her personal reasons, Dr. Chiang resigned as an executive director and chairman of the Company with effect from 5 December 2004.

Dr. PAU Kwok Ping, Ph.D., MSc., aged 51, is the chairman and managing director of the Company and is responsible for overall management, and product development and day-to-day operations of the Group. He is a member of the Hong Kong Institution of Engineers. He has over 34 years of experience in the machinery manufacturing industry. Dr. Pau was awarded one of the Ten Outstanding Young Persons in Hong Kong in 1982. Dr. Pau joined the Group in December 1999.

Mr. SHAH Tahir Hussain, aged 42, is a director of the Company and is responsible for administration and marketing. Mr. Shah obtained his Bachelor of Medicine and Bachelor of Surgery from University of Karachi. He is experienced in corporate strategic planning. Mr. Shah joined the Group in November 1999.

Mr. HAN Ka Lun, aged 43, is a director of the Company and is responsible for corporate planning and business development of the Group. Mr. Han holds a Bachelor of Science degree from University of Southern California and a Master degree in Business Administration from Azusa Pacific University in the United States. He has over 15 years' management experience in container transport and logistics business in both Hong Kong and the People's Republic of China. Mr. Han joined the Company in October 2004.

Non-executive directors

Dr. LUI Sun Wing, aged 54, was a branch director of the Hong Kong Productivity Council for the period from October 1981 to June 2000 and was responsible for overseeing the materials and process branch. Dr. Lui joined The Hong Kong Polytechnic University ("PolyU") as a vice president and is now responsible for partnership development. He is also the chief executive officer of the Institute for Enterprise of PolyU and the chief executive officer and the chairman of the board of directors of PolyU Technology & Consultancy Co. Limited ("PTeC"). Dr. Lui is also a director of Advance New Technology Limited. Dr. Lui was appointed as a non-executive director of the Company on 16 January 2001.

Biographical Details of the Directors and Senior Management

Mr. YOUNG Meng Cheung Andrew, aged 45, is a director of PTeC. Mr. Young holds a Bachelor's degree of Engineering in Mechanical Engineering from South Australian Institute of Technology, Australia and a Master degree in Business Administration from University of South Australia. Mr. Young is also a director of Hong Kong Plastic Technology Centre Limited and Advance New Technology Limited. Mr. Young was appointed as a non-executive director of the Company on 16 January 2001.

Independent non-executive directors

Ms. CHAN Siu Ping Rosa, aged 45, has over 20 years of experience in management, production and marketing in manufacturing industry. Ms. Chan holds directorship in several private companies. Ms. Chan obtained her Bachelor of Arts (Business Administration) degree from the Simon Fraser University in Canada. She joined the Company in August 2002.

Mr. TAKEUCHI Yutaka, aged 54, has more than 20 years of experience in electronic industry and management. Mr. Takeuchi is the president of several Japanese private companies. Mr. Takeuchi graduated from Osaka Technical Collage in Japan, majoring in electrotechnics. Mr. Takeuchi joined the Company in August 2002.

Professor NI Jun, aged 43, is a professor at the University of Michigan, the United States. Professor Ni obtained his Ph.D in 1987 from the University of Wisconsin-Madison. Currently, he serves as a director in various non-profit making research centres such as the S.M. Wu Manufacturing Research Centre and the Multi-Campus National Science Foundation Centre for Intelligent Maintenance Systems of the University of Michigan. He joined the Company in February 2003.

Ms. HUI Wai Man Shirley, aged 37, is a practising accountant in Hong Kong and has over 17 years of experience in public accounting and corporate finance. Ms. Hui is both a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She is also a fellow member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Company Secretaries. Ms. Hui joined the Company in October 2004.

Biographical Details of the Directors and Senior Management

SENIOR MANAGEMENT

Mr. CHOR Ngai, aged 33, is the financial controller and company secretary of the Company and is responsible for financial management, reporting and secretarial matters. Mr. Chor graduated from the Hong Kong Polytechnic University with a Bachelor of Arts degree in Accountancy. He has over 10 years' experience in auditing, accounting and finance fields and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Mr. Chor joined the Group in May 2003.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's turnover for the year ended 31 October 2004 amounted to approximately HK\$106.4 million (2003: HK\$104.0 million), representing an increase of approximately HK\$2.4 million or 2% as compared with last corresponding year. During the year, the Group's sale of general environmental protection related products recorded a growth of approximately HK\$4.8 million or 14.8% which was mainly due to increase in demand for the installation of the Group's diesel oxidation catalyts ("Eco-Green"). However, the increase in sale of general environmental protection related products was partly balanced off by the decrease in sale of industrial environmental related products such as hydraulic components which recorded a drop of approximately HK\$2.5 million or 3.5%, resulting in a net increase of HK\$2.4 million in turnover during the year.

The gross profit for the year ended 31 October 2004 amounted to approximately HK\$32.6 million at a margin of 30.7% compared with a gross profit of around HK\$34.8 million at a margin of 33.5% for last corresponding year. The decrease in gross margin was mainly due to the strong foreign currencies over the past few months which had led to an increase in the cost of imported goods.

The administrative expenses for the year ended 31 October 2004 increased by approximately HK\$0.9 million or 9.3%. It was primarily due to the expansion of the Group's operations in the Mainland and Macau since the third quarter in last financial year.

The amount of other operating expenses dropped by approximately 67.7% as compared with last year. It mainly represented the net amount of a further provision for warranty of Eco-Green of HK\$2.92 million and a written back of HK\$0.46 million provision for doubtful debts. As a result of the implementation of tight credit control policy by the Group, certain amounts of debts had been collected during the year.

Due to the increase in sales of Eco-Green and written back of provision for doubtful debts, the profit attributable to shareholders recorded an increase of approximately HK\$5.2 million or 40% for the year ended 31 October 2004.

The source of finance of the Group was primarily derived from the initial placing proceeds, internally generated funds, retained profits and an aggregate of HK\$46 million banking facilities granted to the Group for the issuance of letters of credit. As at 31 October 2004, the Group had pledged its bank deposits of approximately HK\$7.2 million to secure for performance bond facilities. In spite of the above, the Group still had unpledged cash and bank balances of approximately HK\$30 million for its future expansion and development.

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the marketing, sale, servicing, research and development of environmental protection related products and services. There were no significant changes in the nature of the Group's principal activities during the year.

During the year, income from sale of the Group's general environmental protection related products recorded a growth of approximately 14.8%. The growth was mainly attributable to the increase in demand for installation of Eco-Green, a particulate removal device which can reduce vehicle emission. Apart from the contract with the Environmental Protection Department ("EPD"), the Group also obtained a short-term contract with another department of the Hong Kong Government for the supply of Eco-Green during the year. In the meantime, it is preparing to bid for a new tender issued by the EPD in January 2005. The new tender relates to the supply and installation of particulate removal device to reduce particulate emission for diesel vehicle that needs to undertake long idling duties. The result of the tender is expected to be announced by the EPD in the first quarter of 2005.

The Group has established a wholly-owned production facility in Dongguan, the Mainland. The principal activity of the factory is to manufacture the Group's in-house developed products and provide sub-contract services to other manufacturers when production capacity is available. The factory commenced its operation in November 2004 and it is expected to bring in new source of revenue to the Group in the first quarter of the next financial year.

Sales of the two self-developed products, namely Eco-Water and Eco-Air, in the domestic market were satisfactory during the year. The Group has planned to promote the sale of these two products in the Mainland in the coming year. Negotiations with the Mainland distributors are in progress.

On the other side, the implementation of macro economic control measures by the Mainland during the year had led to the decrease in the sale of the Group's industrial environmental protection related products since certain customers of the Group were engaged in manufacturing of construction machines in the Mainland. Although the impact to the Group is not significant, the Directors still consider the Group needs to enhance its sales and marketing forces in both Hong Kong and the Mainland to secure its existing market share and to explore new potential customers. As a result, several experienced staff had been recruited during the year.

In addition to the above development, the Group has been developing other environmental technologies and products such as energy saving technology and waste water treatment technology. Furthermore, the Group will continue to seek for new business opportunities in order to create synergistic effect on its core business and generate satisfactory returns for its shareholders. Looking forward, the Directors are optimistic in the business development in the next year.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Company was listed on the GEM of the Stock Exchange through a placement of 138,200,000 shares. The net proceeds from the placement, after deduction for relevant expenses, was approximately HK\$25,108,000. The Group intends to apply these proceeds in the manner disclosed in the Prospectus. For the year under review, the Group financed its operations with its own available funding and did not have any bank loans. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

EMPLOYEE INFORMATION

As at 31 October 2004, the Group had 28 employees (2003: 31 employees) working in Hong Kong and in the PRC. The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the year under review amounted to approximately HK\$6.4 million (2002: HK\$7.6 million). The dedication and hard work of the Group's staff during the year ended 31 October 2004 are greatly appreciated and recognised.

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. In addition, the Group also provides mandatory provident fund scheme for the staff in Hong Kong and central pension scheme for the staff in the PRC.

CAPITAL STRUCTURE

The shares of the Company were listed on the GEM of the Stock Exchange on 5 December 2001. There has been no change in the capital structure of the Company since that date. The capital of the Company comprises only ordinary shares.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

During the year ended 31 October 2004, the Group established a wholly-owned factory in Dongguan, the People's Republic of China (the "PRC"). Apart from this, there was no other significant investment made during the year.

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group had no material acquisitions or disposals during the year ended 31 October 2004. It has no plans for material investments or capital assets other than those set out in the prospectus of the Company dated 27 November 2001.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 October 2004, the Group has pledged its bank deposits of approximately HK\$7.2 million to secure for the performance bond facilities (further details of which are set out in notes 16 and 23 to the financial statements of the Annual Report).

Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 October 2004.

GEARING RATIO

As at 31 October 2004, the Group had cash and cash equivalents of approximately HK\$30 million (2003: HK\$32 million) and no bank borrowings. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 31 October 2004 (2003: Nil).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales of the Group are mainly denominated in Hong Kong dollars, United States dollars or Renminbi, and the exchange rates of United States dollars and Renminbi have been stable for the year under review. No hedging or other alternatives have been implemented.

For purchases of the Group denominated in currencies other than Hong Kong dollars, United States dollars or Renminbi, foreign currency exposures are immediately hedged at the time when purchases are concluded, for example, when letters of credit are issued to overseas vendors. In addition, forward exchange contracts were used for hedging payment in certain volatile foreign currencies during the year. As at 31 October 2004, the Group had no outstanding hedging instruments.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress in comparison with the business objectives set out in the Prospectus for the period from 1 May 2004 to 31 October 2004.

| Business objectives as stated in the Prospectus | Actual business progress |
|---|---|
| <i>Eco-Trap</i> | <i>Eco-Trap</i> |
| 1. Expand the promotion and commences sales of Eco-Trap to other provinces in the PRC | Promotions not yet commence due to the buying habit of Chinese customers |
| <i>Hydraulic filters</i> | <i>Hydraulic filters</i> |
| 1. Continue to sell in European market | Negotiations with potential distributors have been carried out |
| <i>Soundproof barrier</i> | <i>Soundproof barrier</i> |
| 1. Commence in-house production of the Group's soundproof barrier | Modification on the effectiveness of the soundproof barrier is required, in-house production has been delayed |
| 2. Commence sales of the Group's soundproof barrier in Hong Kong | Negotiations with potential customers have been carried out |
| <i>Waste plastic recycling process</i> | <i>Waste plastic recycling process</i> |
| 1. Recruit 1 technical staff for the waste plastic recycling project | The recruitment has been postponed due to the building of prototype has been postponed |
| 2. Conduct market promotion and campaign to the public on their awareness to keep Hong Kong clean | Due to the building of prototype has been postponed, market promotion has been postponed |

Use of Proceeds from Issuance of New Shares

The actual net proceeds from issuance of new shares in December 2001 ("IPO") was around HK\$25,108,000 as compared to the budgeted net proceeds of HK\$23,800,000 in the Prospectus. The surplus of about HK\$1,308,000 has been utilized for general working capital purpose. Details of the utilization of fundings from the actual net proceeds of issuance of new shares versus that envisaged in the Prospectus during the period from 5 December 2001 to 31 October 2004 (the "Period") are as follows:

| | Proposed total fundings required from net proceeds HK\$'000 | Proposed fundings required during the Period HK\$'000 | Actual fundings spent during the Period HK\$'000 |
|---|--|--|---|
| For product and service developments | | | |
| Eco-Trap | 2,000 | 2,000 | 1,877 |
| Diesel oxidation catalysts | 1,800 | 1,800 | 1,794 |
| Hydraulic filters | 1,000 | 1,000 | 999 |
| Soundproof barrier | 4,000 | 4,000 | 3,233 |
| Waste plastic recycling process | 1,000 | 1,000 | 846 |
| | 9,800 | 9,800 | 8,749 |
| For setting up of the Group's production facilities in the PRC | 7,000 | 7,000 | 3,500 |
| For general working capital of the Group | 7,000 | – | – |
| | 23,800 | 16,800 | 12,249 |

As at 31 October 2004, the Group had cash and cash equivalents and pledged bank deposits of approximately HK\$37,422,000 (2003: HK\$46,372,000) and it used its internally generated funds, together with the abovementioned surplus of about HK\$1,308,000 from IPO as its working capital during the year ended 31 October 2004.

Unused proceeds are mainly kept as bank deposits as disclosed in notes 16 and 23 to the financial statements and the Directors believe that the net proceeds will be sufficient for its existing projects as stated in the Prospectus.

Report of the Directors

The directors present their report and the audited financial statements of Eco-Tek Holdings Limited (the "Company") and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 October 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are marketing, sale, servicing, research and development of environmental protection related products and services.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to the profit from operating activities by principal activity and geographical area of operations for the year ended 31 October 2004 is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 October 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 68.

The directors recommend the payment of a final dividend of HK1.50 cents per ordinary share in respect of the year to the shareholders whose names appear on the register of members of the Company on 23 February 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 11 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on pages 69 and 70 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

Report of the Directors

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share option schemes are set out in notes 19 and 20 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 21 to the financial statements and in the consolidated statement of changes in equity, respectively.

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.

DISTRIBUTABLE RESERVES

At 31 October 2004, the Company's reserves available for distribution, calculated in accordance with the Companies' Law of the Cayman Islands, amounted to HK\$40,206,000. This includes the Company's share premium in the amount of HK\$30,537,000 at 31 October 2004, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 60% in aggregate for the Group's total turnover for the year. The largest customer of the Group accounted for approximately 29% of the Group's total turnover.

Purchases from the Group's five largest suppliers of the Group accounted for approximately 97% in aggregate for the Group's total purchases for the year. The largest supplier of the Group accounted for approximately 49% of the Group's total purchases.

None of the directors of the Company, or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

Report of the Directors

DISCLOSURE OF TRADE RECEIVABLES UNDER CHAPTER 17 OF THE GEM LISTING RULES

Pursuant to Rules 17.15, 17.17 and 17.22 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the following trade receivables of the Group as at 31 October 2004 exceeded 8% of the audited consolidated total asset value of the Group as at 31 October 2004 which amounted to approximately HK\$98,974,000.

| Customer | Amount due to the Group HK\$'000 | Percentage of the audited consolidated total asset value of the Group as at 31 October 2004 |
|---|---|--|
| – The Environmental Protection Department of the Government of Hong Kong Special Administrative Region ("EPD") | 10,359 | 10.5 |
| – Haitian Machinery Co. Ltd ("Haitian") | 8,639 | 8.7 |

Both EPD and Haitian are customers of the Group and are independent of, and are not connected with, the Company or its subsidiaries, the directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates (as defined in the GEM Listing Rules).

The amounts due from EPD and Haitian were resulted from sales of the Group's products in its ordinary course of business and, in the opinion of the directors, on normal commercial terms. The amounts are unsecured and interest free.

EPD's repayment term is to pay the Group for its purchases in accordance with the contract signed with the Group (i.e. EPD is required to pay (i) 80% of the invoice amount to the Group one month upon receiving the claims submitted by the Group; (ii) another 10% of the invoice amount to the Group three months after the invoice date; and (iii) the remaining 10% of the invoice amount to the Group after expiry of warranty period if no complaints are received from the qualified diesel vehicle owners after successful installations of the diesel oxidation catalysts).

Haitian's repayment term is to pay the Group for its purchases in accordance with the 90 days payment term.

Save for the above, there was no other advance which give rise to disclosure obligation under Rules 17.15, 17.17 and 17.22 of the GEM Listing Rules.

Report of the Directors

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors

Dr. CHIANG Lily (*Chairman*)

Dr. PAU Kwok Ping (*Managing Director*)

Mr. SHAH Tahir Hussain

Mr. HAN Ka Lun (appointed on 29 October 2004)

Non-executive directors

Dr. LUI Sun Wing

Mr. YOUNG Meng Cheung Andrew

Independent non-executive directors

Ms. CHAN Siu Ping Rosa

Mr. TAKEUCHI Yutaka

Professor NI Jun

Ms. HUI Wai Man Shirley (appointed on 29 October 2004)

The following changes in directors took place since the year end:

Dr. CHIANG Lily (resigned on 5 December 2004)

Dr. PAU Kwok Ping (appointed on 7 January 2005)

(*Chairman and Managing Director*)

In accordance with articles 87(1) and (2) of the Company's articles of association, Dr. LUI Sun Wing and Ms. CHAN Siu Ping Rosa will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. HAN Ka Lun and Ms. HUI Wai Man Shirley will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 5 to 7 of the annual report.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors of the Company and the five highest paid individuals of the Group are set out in notes 6 and 7 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Dr. CHIANG Lily, Dr. PAU Kwok Ping and Mr. SHAH Tahir Hussain, the executive directors, have entered into a service contract with the Company for an initial term of three years commenced from 5 December 2001 and shall be entitled to terminate the contract at any time after that initial term of three years without cause by giving not less than six months' prior written notice to the Company. Mr. HAN Ka Lun, the executive director, has entered into a service contract with the Company for a term of 2 years which commenced from 29 October 2004 and shall be entitled to terminate the contract thereafter without cause by giving not less than three months' prior written notice to the Company.

All non-executive directors have entered into a service contract with the Company for an initial term of 30 months which commenced from 21 November 2001 and shall be entitled to terminate the contract at any time after that initial term of 30 months without cause by giving prior written notice to the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company within one year without payment of compensation other than statutory compensation.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 October 2004, the interests and short positions of the directors and chief executive of the Company in the share, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the ordinary shares of the Company

| Name of director | Number of shares held, capacity and nature of interest | | | Percentage of the Company's issued share capital as at 31 October 2004 |
|------------------------|--|-------------------------------|-----------------------|--|
| | Directly beneficially owned | Through a discretionary trust | Total | |
| Dr. CHIANG Lily | – | 299,341,200 (Note) | 299,341,200 (Note) | 54.15 |
| Dr. PAU Kwok Ping | 16,584,000 | – | 16,584,000 | 3.00 |
| Mr. SHAH Tahir Hussain | 552,800 | – | 552,800 | 0.10 |
| | 17,136,800 | 299,341,200 | 316,478,000 | 57.25 |

Note: These shares are held by Team Drive Limited which is wholly-owned by Wide Sky Management Limited, being the trustee of a unit trust of which the entire issued units are held by Cititrust (Cayman) Limited, a discretionary trust founded by Dr. CHIANG Lily. By virtue of the SFO, Dr. CHIANG Lily is deemed to be interested in these shares.

In addition to the above, a director has a non-beneficial personal equity interest in a subsidiary held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Report of the Directors

Interest in underlying shares of the Company

(i) *Share options granted under the Pre-Scheme (Note):*

| Name | Date of grant | Number of share options outstanding at beginning and end of the year | Percentage of the Company's issued share capital as at 31 October 2004 | Exercise period of share options | Exercise price of share options HK\$ |
|----------------------------|---------------|--|--|----------------------------------|---|
| Executive directors | | | | | |
| Dr. CHIANG Lily | 21/11/2001 | 55,280,000 | 10.00 | 5/12/2002 to 4/12/2005 | 0.01 |
| Dr. PAU Kwok Ping | 21/11/2001 | 27,640,000 | 5.00 | 5/12/2002 to 4/12/2005 | 0.01 |
| Mr. SHAH Tahir Hussain | 21/11/2001 | 13,820,000 | 2.50 | 5/12/2002 to 4/12/2005 | 0.01 |
| | | 96,740,000 | 17.50 | | |

Note: Please refer to note 20 to the financial statements for details of the Pre-Scheme (as defined in such note 20 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

None of the options granted under the Pre-Scheme have been exercised, cancelled or lapsed during the year.

Report of the Directors

(ii) *Share options granted under the Post-Scheme (Note 1):*

| Name | Date of grant (Note 2) | Number of share options outstanding at beginning and end of the year | Percentage of the Company's issued share capital as at 31 October 2004 | Exercise period of share options (Note 3) | Exercise price of share options HK\$ |
|--|---------------------------|--|--|---|--|
| Non-executive directors | | | | | |
| Dr. LUI Sun Wing | 21/3/2003 | 1,000,000 | 0.18 | 21/9/2003 to 20/9/2005 | 0.28 |
| Mr. YOUNG Meng Cheung Andrew | 21/3/2003 | 1,000,000 | 0.18 | 21/9/2003 to 20/9/2005 | 0.28 |
| Independent non-executive directors | | | | | |
| Ms. CHAN Siu Ping Rosa | 21/3/2003 | 500,000 | 0.09 | 21/9/2003 to 20/9/2005 | 0.28 |
| Mr. TAKEUCHI Yutaka | 21/3/2003 | 500,000 | 0.09 | 21/9/2003 to 20/9/2005 | 0.28 |
| | | 3,000,000 | 0.54 | | |

Note 1: Please refer to note 20 to the financial statements for details of the Post-Scheme (as defined in such note 20 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

Note 2: The closing price of the Company's share was HK\$0.245 per share at the grant date of share options.

Note 3: The options are vested in two exercisable periods as to (i) 50% exercisable on the expiry of 6 months from the date of grant; and (ii) 50% exercisable on the expiry of 12 months from the date of grant.

None of the options granted under the Post-Scheme have been exercised, cancelled or lapsed during the year.

Report of the Directors

Aggregate long position in ordinary shares and underlying shares of the Company

| Name of director | Total number of ordinary share held | Number of share options held and outstanding as at 31 October 2004 | Aggregate in number | Percentage of the Company's issued share capital as at 31 October 2004 |
|------------------------------|--|---|----------------------------|---|
| Dr. CHIANG Lily | 299,341,200 | 55,280,000 | 354,621,200 | 64.15 |
| Dr. PAU Kwok Ping | 16,584,000 | 27,640,000 | 44,224,000 | 8.00 |
| Mr. SHAH Tahir Hussain | 552,800 | 13,820,000 | 14,372,800 | 2.60 |
| Dr. LUI Sun Wing | – | 1,000,000 | 1,000,000 | 0.18 |
| Mr. YOUNG Meng Cheung Andrew | – | 1,000,000 | 1,000,000 | 0.18 |
| Mr. CHAN Siu Ping Rosa | – | 500,000 | 500,000 | 0.09 |
| Mr. TAKEUCHI Yutaka | – | 500,000 | 500,000 | 0.09 |
| | 316,478,000 | 99,740,000 | 416,218,000 | 75.29 |

Save as disclosed above, as at 31 October 2004, none of the directors and chief executive of the Company had registered an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and the share option scheme disclosures in note 20 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies and subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 October 2004, the following persons or companies (other than the directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

| Name | Capacity and nature of interest | Number of ordinary shares held | Number of share options held | Aggregate in number | Percentage of the Company's issued share capital as at 31 October 2004 |
|---|---|--------------------------------|------------------------------|---------------------|--|
| Substantial shareholders | | | | | |
| Cititrust (Cayman) Limited (Note 1) | Through a unit trust and controlled corporation | 299,341,200 | – | 299,341,200 | 54.15 |
| Wide Sky Management Limited (Note 1) | Through a controlled corporation | 299,341,200 | – | 299,341,200 | 54.15 |
| Team Drive Limited (Note 1) | Directly beneficially owned | 299,341,200 | – | 299,341,200 | 54.15 |
| The Hong Kong Polytechnic University (Note 2) | Through a controlled corporation | 80,680,800 | 13,820,000 | 94,500,800 | 17.09 |
| Advance New Technology Limited (Note 2) | Directly beneficially owned | 80,680,800 | 13,820,000 | 94,500,800 | 17.09 |
| Other shareholder | | | | | |
| Mr. LEE Wai Man | Directly beneficially owned | 35,620,000 | – | 35,620,000 | 6.44 |

Report of the Directors

Notes:

1. These shares are held by Team Drive Limited which is a wholly owned subsidiary of Wide Sky Management Limited, being the trustee of a unit trust of which the entire issued units are held by Cititrust (Cayman) Limited, a discretionary trust founded by Dr. CHIANG Lily and the beneficiaries of which are Dr. CHIANG Lily's children and certain charitable objects. By virtue of the SFO, Wide Sky Management Limited and Cititrust (Cayman) Limited are deemed to be interested in all the shares held by Team Drive Limited.
2. Advance New Technology Limited is a wholly owned subsidiary of The Hong Kong Polytechnic University ("PolyU"). By virtue of its interest in Advance New Technology Limited, PolyU is deemed to be interested in all the shares and share options of the Company held by Advance New Technology Limited.

On 21 November 2001, the Company granted the ANT-Option (as defined and detailed in note 20 to the financial statements) to Advance New Technology Limited as a reward to PolyU's continuing support and collaboration with the Group and for the purpose of enhancing the future co-operation and relationship between PolyU and the Group. The ANT-Option was granted at a consideration of HK\$1.00 to subscribe for such number of shares that shall represent 2.5% of the then issued share capital of the Company immediately after completion of the initial placing of the Company's shares on the GEM and the capitalisation issue at an exercise price of HK\$0.2142 per share (equivalent to 90% of the issue price), which may be exercised at any time between the first and third anniversaries of the listing date of 5 December 2001. No ANT-Option was exercised up to 31 October 2004. The ANT-Option lapsed on 4 December 2004 following the expiry of exercise period of share options.

Save as disclosed above, no person or company (other than the directors and chief executives of the Company) had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SPONSOR'S INTEREST

Celestial Capital Limited ("CCL") has been appointed as the continuing sponsor of the Company for the purpose of meeting the requirements of the GEM Listing Rules. Pursuant to the sponsorship agreement dated 26 November 2001 entered into between the Company and CCL, for a fee, CCL acts as the Company's continuing sponsor for the period up to 31 October 2004.

As updated and notified by CCL, CCL, its directors, employees and associates (as defined in the GEM Listing Rules) did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group during the year ended 31 October 2004.

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 October 2004. The Company has not redeemed any of its listed securities during the year ended 31 October 2004.

COMPETITION AND CONFLICT OF INTEREST

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 October 2004.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

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

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

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 throughout the year ended 31 October 2004. Having made specific enquiry of all the directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the year ended 31 October 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors the written confirmation of his/her independence pursuant to Rule 18.39B of the GEM Listing Rules during the year. Based on such confirmation, the Company considers Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka, Professor NI Jun and Ms. HUI Wai Man Shirley to be independent.

Report of the Directors

AUDIT COMMITTEE

The Company established an audit committee on 5 December 2001 with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises four members, Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka, Professor NI Jun and Ms. HUI Wai Man Shirley, who are the independent non-executive directors of the Company. Ms. HUI Wai Man Shirley was appointed as the independent non-executive director and member of the audit committee of the Company with effect from 29 October 2004.

In the course of the supervision of the financial reporting process and internal control system of the Group, four meetings were held during the year ended 31 October 2004 to review the operations.

The Group's audited results for the year ended 31 October 2004 have been reviewed by the committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

The financial statements of the Company for the year ended 31 October 2004 were audited by Grant Thornton. A resolution to re-appoint the retiring auditors, Grant Thornton, will be put at the forthcoming annual general meeting of the Company.

Ernst & Young tendered their resignation as auditors of the Company with effect from 21 September 2004 and Grant Thornton were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Ernst & Young by the shareholders of the Company at the extraordinary general meeting of the Company held on 30 October 2004.

The financial statements of the Company for the years ended 31 October 2002 and 2003 were audited by Ernst & Young and there have been no other changes of auditors of the Company in the past three years.

On behalf of the Board

Dr. PAU Kwok Ping

Chairman

Hong Kong, 13 January 2005

Report of the Auditors

Certified Public Accountants
Hong Kong Member Firm of Grant Thornton International

Grant Thornton 
均富會計師行

To the members of Eco-Tek Holdings Limited 環康集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 October 2004 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.

Grant Thornton
Certified Public Accountants
Hong Kong

13 January 2005

Consolidated Income Statement

For the year ended 31 October 2004

| | <i>Notes</i> | 2004 HK\$'000 | 2003 HK\$'000 |
|--|--------------|--------------------------------|------------------|
| Turnover | 4 | 106,378 | 104,039 |
| Cost of sales | | (73,735) | (69,213) |
| Gross profit | | 32,643 | 34,826 |
| Other revenue | | 313 | 353 |
| Selling expenses | | (2,265) | (1,695) |
| Administrative expenses | | (10,954) | (10,026) |
| Other operating expenses | | (2,459) | (7,621) |
| Profit before taxation | 5 | 17,278 | 15,837 |
| Taxation | 8 | 906 | (2,851) |
| Profit attributable to shareholders | 10 | 18,184 | 12,986 |
| Dividends | 11 | 8,292 | 6,357 |
| Earnings per share | 9 | | |
| – Basic | | HK3.29 cents | HK2.35 cents |
| – Diluted | | HK2.81 cents | HK2.00 cents |

Consolidated Balance Sheet

As at 31 October 2004

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------|------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 953 | 1,250 |
| Deferred tax assets | 8 | 2,685 | 1,617 |
| Accounts receivable | 15 | 6,313 | 3,200 |
| Pledged bank deposits | 16 | 6,200 | 7,200 |
| | | 16,151 | 13,267 |
| Current assets | | | |
| Inventories | 14 | 18,859 | 21,223 |
| Accounts receivable | 15 | 26,861 | 21,167 |
| Deposits, prepayments and other receivables | | 2,933 | 2,240 |
| Tax recoverable | | 2,948 | – |
| Pledged bank deposits | 16 | 1,053 | 7,090 |
| Cash and cash equivalents | 16 | 30,169 | 32,082 |
| | | 82,823 | 83,802 |
| Current liabilities | | | |
| Accounts and bills payable | 17 | 27,026 | 34,750 |
| Accrued liabilities and other payables | | 3,926 | 4,526 |
| Provision for warranty | 18 | 1,728 | 720 |
| Provision for tax | | 1,000 | 4,918 |
| | | 33,680 | 44,914 |
| Net current assets | | 49,143 | 38,888 |
| Total assets less current liabilities | | 65,294 | 52,155 |
| Non-current liability | | | |
| Provision for warranty | 18 | 4,889 | 3,577 |
| Net assets | | 60,405 | 48,578 |
| CAPITAL AND RESERVES | | | |
| Share capital | 19 | 5,528 | 5,528 |
| Share premium | 21(a) | 19,586 | 19,586 |
| Capital reserve | 21(a) | 95 | 95 |
| Retained profits | | 26,904 | 17,012 |
| Proposed final dividend | 11 | 8,292 | 6,357 |
| Shareholders' funds | | 60,405 | 48,578 |

On behalf of the Board

Dr. PAU Kwok Ping
Director

Mr. SHAH Tahir Hussain
Director

Balance Sheet

As at 31 October 2004

| | <i>Notes</i> | 2004 HK\$'000 | 2003 HK\$'000 |
|--|--------------|--------------------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current asset | | | |
| Interests in subsidiaries | 13 | 10,957 | 10,957 |
| Current assets | | | |
| Deposits, prepayments and other receivables | | 76 | 140 |
| Amounts due from subsidiaries | 13 | 37,216 | 29,057 |
| Cash and cash equivalents | 16 | 152 | 304 |
| | | 37,444 | 29,501 |
| Current liabilities | | | |
| Accrued liabilities and other payables | | 1,911 | 355 |
| Amount due to a subsidiary | 13 | 756 | 741 |
| | | 2,667 | 1,096 |
| Net current assets | | 34,777 | 28,405 |
| Net assets | | 45,734 | 39,362 |
| CAPITAL AND RESERVES | | | |
| Share capital | 19 | 5,528 | 5,528 |
| Share premium | 21(b) | 30,537 | 30,537 |
| Retained profits/(Accumulated losses) | 21(b) | 1,377 | (3,060) |
| Proposed final dividend | 11 | 8,292 | 6,357 |
| Shareholders' funds | | 45,734 | 39,362 |

On behalf of the Board

Dr. PAU Kwok Ping
Director

Mr. SHAH Tahir Hussain
Director

Consolidated Cash Flow Statement

For the year ended 31 October 2004

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Profit before taxation | 17,278 | 15,837 |
| Adjustments for: | | |
| Interest income | (243) | (182) |
| Depreciation of property, plant and equipment | 368 | 234 |
| Loss on disposal of property, plant and equipment | 29 | – |
| Provision for slow-moving inventories | 1,645 | 1,132 |
| Provision for warranty | 2,920 | 3,975 |
| (Write back of)/Provision for doubtful debts | (461) | 3,646 |
| Operating profit before working capital changes | 21,536 | 24,642 |
| Decrease/(Increase) in inventories | 719 | (17,844) |
| Increase in accounts receivable | (8,346) | (16,947) |
| Increase in deposits, prepayments and other receivables | (693) | (1,917) |
| (Decrease)/Increase in accounts and bills payable | (7,724) | 21,992 |
| (Decrease)/Increase in accrued liabilities and other payables | (600) | 2,975 |
| Utilisation of warranty provision | (600) | – |
| Decrease in amounts due to directors | – | (330) |
| Cash generated from operations | 4,292 | 12,571 |
| Hong Kong profits tax (paid)/refunded | (6,869) | 48 |
| Overseas tax paid | (159) | (353) |
| <i>Net cash (used in)/generated from operating activities</i> | (2,736) | 12,266 |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (100) | (916) |
| Decrease/(Increase) in pledged bank deposits | 4,200 | (5,805) |
| Interest received | 243 | 187 |
| <i>Net cash generated from/(used in) investing activities</i> | 4,343 | (6,534) |
| Cash flows from financing activities | | |
| Dividend paid | (6,357) | (1,935) |
| <i>Net cash used in financing activities</i> | (6,357) | (1,935) |
| (Decrease)/Increase in cash and cash equivalents | (4,750) | 3,797 |
| Cash and cash equivalents at beginning of year | 34,919 | 31,122 |
| Cash and cash equivalents at end of year | 30,169 | 34,919 |

Consolidated Cash Flow Statement

For the year ended 31 October 2004

| | <i>Notes</i> | 2004 HK\$'000 | 2003 HK\$'000 |
|--|--------------|--------------------------------|------------------|
| Analysis of balances of cash and cash equivalents | | | |
| Cash and bank balances | 16 | 11,133 | 22,923 |
| Non-pledged time deposits | 16 | 19,036 | 9,159 |
| | | 30,169 | 32,082 |
| Time deposits with original maturity of less than three months when acquired, pledged as security for the issuance of letters of credit and bills facilities | | - | 2,837 |
| | | 30,169 | 34,919 |

Consolidated Statement of Changes in Equity

For the year ended 31 October 2004

| | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Retained profits HK\$'000 | Proposed final dividend HK\$'000 | Total HK\$'000 |
|--------------------------------------|---------------------------------------|---------------------------------------|---|--|---|---------------------------|
| | <i>(Note 19)</i> | <i>(Note 21(a))</i> | <i>(Note 21(a))</i> | | | |
| At 1 November 2002 | 5,528 | 19,586 | 95 | 10,383 | 1,935 | 37,527 |
| 2002 final dividend declared | – | – | – | – | (1,935) | (1,935) |
| Profit for the year | – | – | – | 12,986 | – | 12,986 |
| 2003 proposed final dividend | – | – | – | (6,357) | 6,357 | – |
| At 31 October and 1 November 2003 | 5,528 | 19,586 | 95 | 17,012 | 6,357 | 48,578 |
| 2003 final dividend declared | – | – | – | – | (6,357) | (6,357) |
| Profit for the year | – | – | – | 18,184 | – | 18,184 |
| 2004 proposed final dividend | – | – | – | (8,292) | 8,292 | – |
| At 31 October 2004 | 5,528 | 19,586 | 95 | 26,904 | 8,292 | 60,405 |

Notes to the Financial Statements

For the year ended 31 October 2004

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 6 December 2000. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The principal activity of the Company is investment holding. The Group is principally involved in the marketing, sales, servicing, research and development of environmental protection related products and services. There were no significant changes in the nature of the Group's principal activities during the year.

The directors consider the ultimate holding company to be Team Drive Limited which is a wholly owned subsidiary of Wide Sky Management Limited, being the trustee of a unit trust of which the entire issued units are held by Cititrust (Cayman) Limited, a discretionary trust founded by Dr. CHIANG Lily and the beneficiaries of which are Dr. CHIANG Lily's children and certain charitable objects.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements on pages 28 to 68 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 October each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Notes to the Financial Statements

For the year ended 31 October 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(d) Revenue recognition

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

- a. from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- b. consultancy fee income, at the time when the services are rendered;
- c. interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- d. dividend income, when the shareholders' right to receive payment has been established.

(e) Property, plant and equipment

(i) Depreciation

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

| | |
|------------------------|------------|
| Motor vehicles | 20% to 50% |
| Office equipment | 20% to 50% |
| Plant and machinery | 20% to 50% |
| Furniture and fixtures | 20% to 50% |

Notes to the Financial Statements

For the year ended 31 October 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

(ii) *Measurement bases*

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 the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(f) Research and development costs

All research costs are charged to the income statement as incurred.

Development costs are capitalised and deferred only when the projects are clearly defined, the costs are separately identifiable and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.

Costs so deferred are stated at cost less any impairment loss and are amortised on the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of five years commencing in the year when the products are available for use.

(g) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 October 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Impairment (Continued)

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) *Reversals of impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(h) Operating leases

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

(i) Employee benefits

(i) *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Notes to the Financial Statements

For the year ended 31 October 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Employee benefits (Continued)

(ii) *Pension scheme*

The Group operates a defined Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rule of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute certain percentage of their respective payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(iii) *Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to the Financial Statements

For the year ended 31 October 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves section in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is calculated as the actual or estimated selling prices less all further costs of completion and the estimated costs necessary to make the sale.

(l) Provisions

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

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

Provision for warranty costs is made on an accrual basis by reference to the directors' best estimates of the expenditure required to settle the obligations, and is charged to the income statement in the period in which the related sales are made. Subsequent expenditure on the settlement of such obligations is charged against the provision made, except where the expenditure exceeds the balance of the provision, in which case, it is charged to the income statement as incurred.

Notes to the Financial Statements

For the year ended 31 October 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Income tax

Income tax for the year comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences 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. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. 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 to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 31 October 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

(o) Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the of exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(p) Cash and cash equivalents

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

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

Notes to the Financial Statements

For the year ended 31 October 2004

3. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the general environmental protection related products and services segment mainly comprises sale of diesel particulate traps, particulate removal devices and related ancillary services; and
- (b) the industrial environmental products segment refers to sale of hydraulic components and other related accessories.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to the Financial Statements

For the year ended 31 October 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group

| | General environmental protection related products and services | | Industrial environmental products | | Consolidated | |
|--|---|----------|---|----------|----------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | 37,645 | 32,799 | 68,733 | 71,240 | 106,378 | 104,039 |
| Other revenue | - | 5 | 70 | 166 | 70 | 171 |
| Total | 37,645 | 32,804 | 68,803 | 71,406 | 106,448 | 104,210 |
| Segment results | 12,917 | 8,183 | 7,032 | 8,913 | 19,949 | 17,096 |
| Interest income | | | | | 243 | 182 |
| Unallocated expenses | | | | | (2,914) | (1,441) |
| Profit before taxation | | | | | 17,278 | 15,837 |
| Taxation | | | | | 906 | (2,851) |
| Profit attributable to shareholders | | | | | 18,184 | 12,986 |

Notes to the Financial Statements

For the year ended 31 October 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

| | General environmental protection related products and services | | Industrial environmental products | | Consolidated | |
|---|---|----------|---|----------|---------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 31,862 | 24,178 | 62,943 | 40,513 | 94,805 | 64,691 |
| Unallocated assets | | | | | 4,169 | 32,378 |
| Total assets | | | | | 98,974 | 97,069 |
| Segment liabilities | 7,136 | 9,520 | 29,523 | 37,733 | 36,659 | 47,253 |
| Unallocated liabilities | | | | | 1,910 | 1,238 |
| Total liabilities | | | | | 38,569 | 48,491 |
| Other segment information: | | | | | | |
| Depreciation | 340 | 220 | 22 | 4 | 362 | 224 |
| Unallocated amounts | | | | | 6 | 10 |
| | | | | | 368 | 234 |
| Capital expenditure | 71 | 730 | 29 | 185 | 100 | 915 |
| Unallocated expenses | | | | | - | 1 |
| | | | | | 100 | 916 |
| (Write back of)/ | | | | | | |
| Provision for doubtful debts | - | - | (461) | 3,646 | (461) | 3,646 |
| Provision for slow-moving inventories | 639 | 400 | 1,006 | 732 | 1,645 | 1,132 |
| Loss on disposal of property, plant and equipment | - | - | - | - | - | - |
| Unallocated amounts | | | | | 29 | - |
| | | | | | 29 | - |
| Provision for warranty | 2,920 | 3,975 | - | - | 2,920 | 3,975 |

Notes to the Financial Statements

For the year ended 31 October 2004

3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments.

Group

| | Hong Kong | | Mainland China | | Others | | Consolidated | |
|-----------------------------|---------------|----------|----------------|----------|--------------|----------|----------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 46,750 | 44,675 | 52,299 | 54,155 | 7,329 | 5,209 | 106,378 | 104,039 |
| Other revenue | 12 | 158 | 58 | 13 | - | - | 70 | 171 |
| Other segment information: | | | | | | | | |
| Segment assets | 65,409 | 67,819 | 31,074 | 28,623 | 2,491 | 627 | 98,974 | 97,069 |
| Capital expenditure | 57 | 748 | 26 | 164 | 17 | 4 | 100 | 916 |

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

Notes to the Financial Statements

For the year ended 31 October 2004

5. PROFIT BEFORE TAXATION

| | 2004 | 2003 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| The Group's profit before taxation is arrived at after charging/(crediting): | | |
| Auditors' remuneration | 219 | 300 |
| Cost of inventories sold* | 70,681 | 65,926 |
| Depreciation (Note 12) | 368 | 234 |
| Exchange losses, net | 1,236 | 1,997 |
| Loss on disposal of property, plant and equipment | 29 | – |
| Operating lease charges in respect of land and buildings | 924 | 695 |
| Provision for slow-moving inventories | 1,645 | 1,132 |
| Provision for warranty*** | 2,920 | 3,975 |
| Research and development costs** | 720 | 1,027 |
| Staff costs (excluding directors' emoluments (Note 6)) | | |
| Wages and salaries | 2,135 | 3,172 |
| Pension scheme contributions | 73 | 110 |
| | 2,208 | 3,282 |
| (Write back of)/Provision for doubtful debts*** | (461) | 3,646 |
| Interest income | (243) | (182) |

* The costs of sales for the year ended 31 October 2004 include HK\$3,054,000 (2003: HK\$3,287,000), relating to direct staff costs, depreciation, provision for slow-moving inventories and net exchange losses, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

** The research and development costs for the year ended 31 October 2004 include HK\$720,000 (2003: HK\$720,000), relating to directors' remuneration, which is also included in the total amount of directors' remuneration disclosed separately in note 6 to the financial statements.

*** The balances are included in "Other operating expenses" on the face of the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 October 2004

6. DIRECTORS' EMOLUMENTS

Details of directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | 2004 | 2003 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Fees: | | |
| Executive directors | – | – |
| Non-executive directors | 200 | 200 |
| Independent non-executive directors | – | 67 |
| Other emoluments paid and payable to executive directors: | | |
| Basic salaries, allowances and benefits in kind | 2,280 | 2,280 |
| Performance related bonuses | 1,650 | 1,560 |
| Pension scheme contributions | 36 | 36 |
| | 4,166 | 4,143 |

Three executive directors of the Company received emoluments of approximately HK\$1,162,000, HK\$802,000 and HK\$2,002,000 for the year (2003: HK\$1,132,000, HK\$772,000 and HK\$1,972,000) and one executive director did not receive any emolument during the year (2003: Nil).

Each of the two non-executive directors received fees of HK\$100,000 (2003: HK\$100,000). All (2003: three) of the independent non-executive directors did not receive any fee during the year. One independent non-executive director received fee of approximately HK\$67,000 in last year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil). None of the directors has waived or agreed to waive any emoluments during the year (2003: Nil).

Notes to the Financial Statements

For the year ended 31 October 2004

7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three (2003: three) directors, details of whose remuneration are set out in note 6 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees of the Group for the year are as follows:

| | 2004 | 2003 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Basic salaries, allowances and benefits in kind | 738 | 736 |
| Bonuses | 120 | 32 |
| Pension scheme contributions | 19 | 20 |
| | 877 | 788 |

The emoluments of each of the remaining non-director, highest paid individuals fell within the band of nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to any of the remaining non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

Notes to the Financial Statements

For the year ended 31 October 2004

8. TAXATION AND DEFERRED TAX ASSETS

| | Group | |
|--|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current: | | |
| Hong Kong | 109 | 3,116 |
| Overprovision in prior years | (106) | – |
| | 3 | 3,116 |
| Elsewhere | 159 | 1,352 |
| | 162 | 4,468 |
| Deferred | (1,068) | (1,617) |
| Total tax (credit)/charge for the year | (906) | 2,851 |

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Ningbo Tokawa Precision Co. Ltd. (寧波東川精確液壓設備有限公司), a subsidiary of the Company established in the People's Republic of China (the "PRC"), is subject to the PRC enterprise income tax. PRC enterprise income tax has been provided at the rate of 33% on the estimated assessable profits arising in the PRC for the year ended 31 October 2004.

The representative offices of certain Group companies established in the PRC are subject to the PRC enterprise income tax at the rate of 33% on operating expenses.

東莞康力機械有限公司 (「東莞康力」), a subsidiary of the Company established in the PRC, is exempted from PRC enterprise income tax for the first two profitable years of operations, and thereafter are eligible for a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made for 東莞康力 as this subsidiary has not yet commenced operation up to the year end and thereby did not derive any assessable income for the year.

Notes to the Financial Statements

For the year ended 31 October 2004

8. TAXATION AND DEFERRED TAX ASSETS (Continued)

Macau complementary profits tax has been calculated at the rate of 15.75% on the estimated assessable profits of Tokawa Precision (Overseas) Co. Limited, a subsidiary of the Company which was engaged in the marketing and sale of environmental protection related products for the year ended 31 October 2004.

According to the relevant laws and regulations in Macau, Tokawa Precision (Overseas) Company Limited – Macao Commercial Offshore, a subsidiary of the Company established and operating in Macau, was exempted from Macau complementary profits tax.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

| | Group | |
|--|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit before taxation | 17,278 | 15,837 |
| Tax at the applicable rates to profits in the jurisdictions concerned | 2,539 | 2,727 |
| Tax effect of non-taxable revenue | (7,739) | (26) |
| Tax effect of non-deductible expenses | 3,883 | 301 |
| Tax losses utilised from previous periods | – | (100) |
| Tax losses not recognised | 384 | 4 |
| Recognition of previously unrecognised temporary differences | 53 | – |
| Overprovision in prior years | (106) | – |
| Others | 80 | (55) |
| Tax (credit)/charge at the Group's effective rate | (906) | 2,851 |

Notes to the Financial Statements

For the year ended 31 October 2004

8. TAXATION AND DEFERRED TAX ASSETS (Continued)

The following are deferred tax assets recognised in the balance sheet and the movements during current and prior years:

| | Provision for warranty HK\$'000 | Provision for doubtful debts HK\$'000 | Provision for slow-moving inventories HK\$'000 | Total HK\$'000 |
|--------------------------------------|--|--|---|---------------------------|
| At 1 November 2002 | – | – | – | – |
| Credited to the income statement | 700 | 638 | 279 | 1,617 |
| At 31 October and 1 November 2003 | 700 | 638 | 279 | 1,617 |
| Credited to the income statement | 406 | 281 | 381 | 1,068 |
| At 31 October 2004 | 1,106 | 919 | 660 | 2,685 |

The Group has tax losses arising in Hong Kong of HK\$2,197,000 (2003: HK\$22,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 October 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

9. EARNINGS PER SHARE

The earnings per share amount for the year is calculated based on the consolidated profit attributable to shareholders of the Company for the year of HK\$18,184,000 (2003: HK\$12,986,000) and the weighted average of 552,800,000 (2003: 552,800,000) ordinary shares in issue during the year.

Notes to the Financial Statements

For the year ended 31 October 2004

9. EARNINGS PER SHARE (Continued)

The calculation of the diluted earnings per share for the year ended 31 October 2004 is based on the consolidated profit attributable to shareholders of the Company for the year of HK\$18,184,000 (2003: HK\$12,986,000) and 648,136,574 (2003: 649,626,979) ordinary shares, being the 552,800,000 (2003: 552,800,000) ordinary shares as used in the calculation of basic earnings per share, and the weighted average of 95,336,574 (2003: 96,826,979) ordinary shares assumed to have been issued on the deemed exercise of the share options under the Pre-Scheme, ANT-Option scheme and Post-Scheme as set out in note 20 to the financial statements.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of approximately HK\$18,184,000 (2003: HK\$12,986,000), a profit of approximately HK\$12,729,000 (2003: a loss of HK\$466,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

| | 2004 | 2003 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Proposed final dividend of HK1.50 cents (2003: HK1.15 cents) per ordinary share | 8,292 | 6,357 |

The proposed final dividend for the year ended 31 October 2004 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Financial Statements

For the year ended 31 October 2004

12. PROPERTY, PLANT AND EQUIPMENT

Group

| | Motor vehicles HK\$'000 | Office equipment HK\$'000 | Plant and machinery HK\$'000 | Furniture and fixtures HK\$'000 | Total HK\$'000 |
|---------------------------------|-------------------------------|---------------------------------|------------------------------------|---------------------------------------|-------------------|
| Cost | | | | | |
| At 1 November 2003 | 416 | 305 | 804 | 243 | 1,768 |
| Additions | 40 | 38 | 2 | 20 | 100 |
| Disposals | – | (26) | – | (23) | (49) |
| At 31 October 2004 | 456 | 317 | 806 | 240 | 1,819 |
| Accumulated depreciation | | | | | |
| At 1 November 2003 | 39 | 71 | 364 | 44 | 518 |
| Charge for the year | 115 | 62 | 144 | 47 | 368 |
| Disposals | – | (11) | – | (9) | (20) |
| At 31 October 2004 | 154 | 122 | 508 | 82 | 866 |
| Net book value | | | | | |
| At 31 October 2004 | 302 | 195 | 298 | 158 | 953 |
| At 31 October 2003 | 377 | 234 | 440 | 199 | 1,250 |

13. INTERESTS IN SUBSIDIARIES

| | Company | |
|-------------------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Unlisted investments, at cost | 10,957 | 10,957 |

Except for the aggregate amount due from subsidiaries of HK\$20,102,000 (2003: HK\$20,383,000) which bears interest at a fixed rate of 5.125% per annum, the balances with other subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 October 2004

13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries of the Company as at 31 October 2004 are as follows:

| Company name | Place of incorporation or establishment/ kind of legal entity | Issued or paid-up capital | Percentage of equity attributable to the Group | Principal activities/ place of operation |
|--|--|---------------------------------------|---|---|
| <i>Directly held</i> | | | | |
| Eco-Tek (BVI) Investment Holdings Limited | British Virgin Islands/ limited liability company | 30,000 ordinary shares of US\$1 each | 100 | Investment holding/ Hong Kong |
| <i>Indirectly held</i> | | | | |
| Eco-Tek Company Limited | Hong Kong/ limited liability company | 100,000 ordinary shares of HK\$1 each | 100 | Marketing, sale, servicing, research and development of environmental protection related products and services/ Hong Kong |
| Eco-Tek Technology Limited | British Virgin Islands/ limited liability company | 101 ordinary shares of US\$1 each | 100 | Holding of intellectual properties/ Hong Kong |
| East Miles International Limited | British Virgin Islands/ limited liability company | 1 ordinary share of US\$1 each | 100 | Investment holding/ Hong Kong |
| Ningbo Tokawa Precision Co. Ltd.* (寧波東川精確液壓設備有限公司) | PRC/wholly foreign owned limited liability company | US\$100,000 (Note 1) | 100 | Marketing and sales of industrial environmental products/ Mainland China |

Notes to the Financial Statements

For the year ended 31 October 2004

13. INTERESTS IN SUBSIDIARIES (Continued)

| Company name | Place of incorporation or establishment/ kind of legal entity | Issued or paid-up capital | Percentage of equity attributable to the Group | Principal activities/ place of operation |
|---|--|--------------------------------------|---|--|
| Tokawa Precision (Overseas) Co. Limited | British Virgin Islands/ limited liability company | 1 ordinary share of US\$1 each | 100 | Marketing and sales of environmental protection related products/Macau |
| Tokawa Precision Co. Limited | Hong Kong/ limited liability company | 10,000 ordinary shares of HK\$1 each | 100 | Marketing and sales of industrial environmental products/ Hong Kong |
| Tokawa Precision (Overseas) Company Limited – Macao Commercial Offshore | Macau/ limited liability company | MOP100,000 (Note 2) | 100 | Marketing and sales of environmental protection related products/Macau |
| Elegant Well Investment Limited* | Hong Kong/ limited liability company | 2 ordinary shares of HK\$1 each | 100 | Investment holding/ Hong Kong |
| 東莞康力* | PRC/wholly foreign owned limited liability company | HK\$3,500,000 (Note 3) | 100 | Production and sales of environmental protection related products/ Mainland China |

English translation only

* Newly incorporated/established during the year

Notes to the Financial Statements

For the year ended 31 October 2004

13. INTERESTS IN SUBSIDIARIES (Continued)

- Notes:* (1) Ningbo Tokawa Precision Co. Ltd. is a wholly foreign owned enterprise established by Tokawa Precision (Overseas) Co. Limited in Mainland China for a period of 10 years commencing from the date of issuance of its business licence on 18 July 2002.
- (2) Tokawa Precision (Overseas) Company Limited – Macao Commercial Offshore is a wholly owned enterprise established by Tokawa Precision (Overseas) Co. Limited in Macau.
- (3) 東莞康力 is a wholly foreign owned enterprise established by Elegant Well Investment Limited in Mainland China for a period of 12 years commencing from the date of issuance of its business licence on 14 September 2004.

14. INVENTORIES

| | Group | |
|---------------------------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Finished goods | 21,636 | 22,355 |
| Provision for slow-moving inventories | (2,777) | (1,132) |
| | 18,859 | 21,223 |

As at 31 October 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$3,256,000 (2003: HK\$3,168,000).

Notes to the Financial Statements

For the year ended 31 October 2004

15. ACCOUNTS RECEIVABLE

The Group has a policy of allowing an average credit period of 90 days to its trade customers, except for one customer. This customer's repayment term is to pay (i) 80% of the invoice amount to the Group one month upon receiving the claims submitted by the Group; (ii) another 10% of the invoice amount to the Group three months after the invoice date; and (iii) the remaining 10% of the invoice amount to the Group after expiry of warranty period if no complaints are received in respect of the products sold to the customer. An ageing analysis of accounts receivable as at the balance sheet date, based on invoice date, is as follows:

| | Group | |
|--|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Outstanding balances with ages: | | |
| Within 90 days | 23,095 | 19,356 |
| 91-180 days | 4,984 | 4,989 |
| 181-365 days | 4,029 | 2,874 |
| Over 365 days | 4,251 | 794 |
| | 36,359 | 28,013 |
| Provision for doubtful debts | (3,185) | (3,646) |
| | 33,174 | 24,367 |
| Carrying amount analysed for reporting purposes as | | |
| Non-current (<i>Note</i>) | 6,313 | 3,200 |
| Current | 26,861 | 21,167 |
| | 33,174 | 24,367 |

Note: The balance shall be payable by the customer at the expiry of warranty period of five years from the date of performance of installation services.

Notes to the Financial Statements

For the year ended 31 October 2004

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Cash and bank balances | 11,133 | 22,923 | 152 | 304 |
| Time deposits | 26,289 | 23,449 | – | – |
| | 37,422 | 46,372 | 152 | 304 |
| Less: Pledged for the issuance of letters of credit and bills facilities (Note 22) | – | (6,255) | – | – |
| Pledged for performance bond facilities (Note 22) | (7,253) | (8,035) | – | – |
| Cash and cash equivalents | 30,169 | 32,082 | 152 | 304 |
| Pledged deposits analysed for reporting purposes as | | | | |
| Non-current | 6,200 | 7,200 | – | – |
| Current | 1,053 | 7,090 | – | – |
| | 7,253 | 14,290 | – | – |

Certain pledged deposits of approximately HK\$1 million secured for performance bond facilities will be released in May 2005.

Notes to the Financial Statements

For the year ended 31 October 2004

17. ACCOUNTS AND BILLS PAYABLE

An ageing analysis of accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

| | Group | |
|---------------------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Outstanding balances with ages: | | |
| Within 90 days | 7,577 | 21,766 |
| 91-180 days | 12,028 | 9,698 |
| 181-365 days | 4,224 | 610 |
| Over 365 days | 3,197 | 2,676 |
| | 27,026 | 34,750 |

18. PROVISION FOR WARRANTY

| | Group | |
|---|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| At beginning of the year | 4,297 | 322 |
| Provision for the year | 3,115 | 3,975 |
| Less: Unused amounts reversed | (195) | – |
| Amounts charged to income statement | 2,920 | 3,975 |
| | 7,217 | 4,297 |
| Less: Amounts utilised | (600) | – |
| At end of the year | 6,617 | 4,297 |
| Portion classified as current liabilities | (1,728) | (720) |
| Portion classified as non-current liabilities | 4,889 | 3,577 |

Notes to the Financial Statements

For the year ended 31 October 2004

18. PROVISION FOR WARRANTY (Continued)

An amount of HK\$322,000 (2003: HK\$322,000) included in the above provision represents a provision for warranty of a free replacement of diesel particulate traps to the eligible vehicle owners for claims which are caused by improper installation, up to a period of three years from the date of installation.

The Group also provided an amount of HK\$6,295,000 (2003: HK\$3,975,000) for warranties granted to the eligible vehicle owners for the free-of-charge materials and workmanship of particulate removal devices and accessories, up to a period of five years from the date of installation.

Provision for warranty is made on an accrual basis by reference to the directors' best estimates of the expenditure required to settle the obligations, and is charged to the income statement in the period in which the related sales are made. The level of provision required was assessed by the directors annually.

19. SHARE CAPITAL

| | 2004 | 2003 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Authorised: | | |
| 5,000,000,000 ordinary shares of HK\$0.01 each | 50,000 | 50,000 |
| Issued and fully paid: | | |
| 552,800,000 ordinary shares of HK\$0.01 each | 5,528 | 5,528 |

Notes to the Financial Statements

For the year ended 31 October 2004

20. SHARE OPTION SCHEME

- (i) On 21 November 2001, a pre-IPO share option scheme (the "Pre-Scheme") was approved pursuant to a written resolution of all shareholders of the Company. The purpose of the Pre-Scheme is to recognise the contribution of certain directors and employees of the Group to its growth. The Company had granted pre-IPO share options thereunder to three executive directors to subscribe for a total of 96,740,000 shares, representing in aggregate approximately 17.5% of the then issued share capital of the Company immediately following the completion of the initial placing of the Company's shares on the Growth Enterprises Market (the "GEM") and the capitalisation issue at an subscription price of HK\$0.01 each. No further options can be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. All these options were granted on 21 November 2001 and may be exercised within three years from the expiry of 12 months from 5 December 2001, the listing date. Each grantee has paid HK\$1.00 to the Company as consideration for such grant.

The exercise in full of the pre-IPO share option would, under the present capital structure of the Company, result in the issue of 96,740,000 additional shares of HK\$0.01 each.

- (ii) On 21 November 2001, the Company granted the ANT-Option to Advance New Technology Limited, a wholly-owned subsidiary of The Hong Kong Polytechnic University ("PolyU"), as a reward to PolyU's continuing support and collaboration with the Group and for the purpose of enhancing future co-operative relationship between PolyU and the Group. The ANT-Option was granted at a consideration of HK\$1.00 to subscribe for such number of shares that shall represent 2.5% of the issued share capital of the Company immediately after the completion of the initial placing of the Company's shares on the GEM and the capitalisation issue at an exercise price of HK\$0.2142 per share (equivalent to 90% of the issue price at time of listing of the Company's shares on the GEM), which may be exercised at any time between the first and third anniversaries of the listing date.

The exercise in full of the ANT-Option would, under the present capital structure of the Company, resulted in the issue of 13,820,000 additional shares of HK\$0.01 each.

Notes to the Financial Statements

For the year ended 31 October 2004

20. SHARE OPTION SCHEME (Continued)

- (iii) On 21 November 2001, a post-IPO share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of all shareholders of the Company. The purpose of the Post-Scheme is to enable the Group to grant options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant options to any full time employee and any director of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors (the "Eligible Person") to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-Scheme and other schemes by the Company must not exceed 30% of the shares in issue from time to time. A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option. The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the option, which must be a business day; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option.

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value based on the closing price of the shares of the Company at the date of grant in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The share options granted may be exercised at any time or times after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors to each grantee, but in any event no later than 10 years from the date of the grant of the share options. The Post-Scheme remains in force for a period of 10 years with effect from 21 November 2001.

Notes to the Financial Statements

For the year ended 31 October 2004

20. SHARE OPTION SCHEME (Continued)

- (iv) No valuation of the options granted under the above schemes is included in these financial statements.

The following share options were outstanding under the schemes during the year:

| Name | Date of grant | Number of share options outstanding at beginning and end of the year | Exercise period of share options | Exercise price of share options HK\$ |
|--------------------------------|---------------|--|----------------------------------|---|
| Pre-Scheme | | | | |
| <i>Executive directors:</i> | | | | |
| Dr. CHIANG Lily | 21/11/2001 | 55,280,000 | 5/12/2002 to 4/12/2005 | 0.01 |
| Dr. PAU Kwok Ping | 21/11/2001 | 27,640,000 | 5/12/2002 to 4/12/2005 | 0.01 |
| Mr. SHAH Tahir Hussain | 21/11/2001 | 13,820,000 | 5/12/2002 to 4/12/2005 | 0.01 |
| | | 96,740,000 | | |
| ANT-Option scheme | | | | |
| <i>Shareholder:</i> | | | | |
| Advance New Technology Limited | 21/11/2001 | 13,820,000 (*) | 5/12/2002 to 4/12/2004 | 0.2142 |

- * The 13,820,000 share options granted to Advance New Technology Limited lapsed on 4 December 2004 following the expiry of exercise period of the share options.

Notes to the Financial Statements

For the year ended 31 October 2004

20. SHARE OPTION SCHEME (Continued)

| Name | Date of grant <i>(Note (i))</i> | Number of share options outstanding at beginning and end of the year | Exercise period of share options <i>(Note (ii))</i> | Exercise price of share options HK\$ |
|---|---------------------------------------|--|--|---|
| Post-Scheme | | | | |
| <i>Non-executive directors:</i> | | | | |
| Dr. LUI Sun Wing | 21/3/2003 | 1,000,000 | 21/9/2003 to 20/9/2005 | 0.28 |
| Mr. YOUNG Meng Cheung Andrew | 21/3/2003 | 1,000,000 | 21/9/2003 to 20/9/2005 | 0.28 |
| <i>Independent non-executive directors:</i> | | | | |
| Ms. CHAN Siu Ping Rosa | 21/3/2003 | 500,000 | 21/9/2003 to 20/9/2005 | 0.28 |
| Mr. TAKEUCHI Yutaka | 21/3/2003 | 500,000 | 21/9/2003 to 20/9/2005 | 0.28 |
| | | <hr/> 3,000,000 <hr/> | | |

Notes:

- (i) The closing price of the Company's share was HK\$0.245 per share at the grant date of share options.
- (ii) The options are vested in two exercisable periods as to (a) 50% exercisable on the expiry of 6 months from the date of grant; and (b) 50% exercisable on the expiry of 12 months from the date of grant.

Notes to the Financial Statements

For the year ended 31 October 2004

20. SHARE OPTION SCHEME (Continued)

At 31 October 2004, the Company had 113,560,000 (2003: 113,560,000) share options outstanding under the schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 113,560,000 (2003: 113,560,000) additional ordinary shares of the Company and additional share capital of approximately HK\$1,136,000 (2003: HK\$1,136,000) and share premium of approximately HK\$3,632,000 (2003: HK\$3,632,000) (before issue expenses). No share option was granted or exercised during the year.

21. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

The share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued, less amounts of the capitalisation issue and share issue expenses.

The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of the subsidiaries acquired by the Company and the nominal value of share capital of the Company issued as consideration in exchange therefor.

Notes to the Financial Statements

For the year ended 31 October 2004

21. RESERVES (Continued)

(b) Company

| | Share premium HK\$'000 | Retained profits/ (Accumulated losses) HK\$'000 | Proposed final dividend HK\$'000 | Total HK\$'000 |
|--------------------------------------|------------------------------|---|---|-------------------|
| At 1 November 2002 | 30,537 | 3,763 | 1,935 | 36,235 |
| 2002 final dividend declared | – | – | (1,935) | (1,935) |
| Loss for the year | – | (466) | – | (466) |
| 2003 proposed final dividend | – | (6,357) | 6,357 | – |
| At 31 October and 1 November 2003 | 30,537 | (3,060) | 6,357 | 33,834 |
| 2003 final dividend declared | – | – | (6,357) | (6,357) |
| Profit for the year | – | 12,729 | – | 12,729 |
| 2004 proposed final dividend | – | (8,292) | 8,292 | – |
| At 31 October 2004 | 30,537 | 1,377 | 8,292 | 40,206 |

The share premium account of the Company includes: (i) the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium; and (ii) the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The proposed final dividend account within the capital and reserves section of the balance sheet represents an appropriation from retained profits and therefore forms part of the total of such reserve until the dividends are declared. In addition, for the year ended 30 October 2003, any excess of the appropriation over the retained profits reserve would be replenished by dividends declared to the Company by its subsidiaries when they were approved subsequent to the balance sheet date. The directors of the Company anticipated that the approval of such dividends from subsidiaries would be confirmed in due course.

Notes to the Financial Statements

For the year ended 31 October 2004

22. BANKING FACILITIES

As at 31 October 2004, certain of the Group's banking facilities were secured by the following:

- (a) bank deposits of the Group amounting to approximately HK\$7,253,000 (2003: HK\$14,290,000); and
- (b) Corporate guarantees executed by the Company.

23. CONTINGENT LIABILITIES

- (a) At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements as follows:

| | Company | |
|--|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Guarantee for banking facilities granted to subsidiaries | 19,731 | 20,693 |

- (b) A performance bond of HK\$1,000,000 (2003: HK\$1,000,000) has been granted by a banker in favour of the Group. In the event of default by the Group in the performance of the services detailed in the tender contract offered by the Government of the Hong Kong Special Administrative Region (the "Government") for the supply and installation of devices to reduce particulates from relevant exhaust of diesel light vehicles, the Government is entitled to call for payment from the banker to satisfy and discharge any damages, losses or expenses sustained by the Government up to the amount of HK\$1,000,000 (2003: HK\$1,000,000). The banker had the right of recourse to the Group. The aforesaid performance bond facility was secured by the Group's pledged bank deposit of HK\$1,000,000 (2003: HK\$1,000,000).
- (c) On 18 November 2002, the Group concluded four non-exclusive contracts with the Environmental Protection Department of the Government. Pursuant to the terms of the contracts, the Group has procured a bank to provide four performance bonds with an aggregate amount of approximately HK\$6,200,000 to the Government for the performance of the supply and installation of particulate devices to reduce particulates from the pre-Euro emission standard diesel vehicles. The aforesaid performance bond facilities were secured by the Group's pledged bank deposits of approximately HK\$6,200,000 (2003: HK\$7,000,000).

Save as aforesaid, the Company and the Group did not have any other significant contingent liabilities at 31 October 2004.

Notes to the Financial Statements

For the year ended 31 October 2004

24. OPERATING LEASE COMMITMENTS

At 31 October 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Within one year | 567 | 552 | – | 56 |
| In the second to fifth years, inclusive | 156 | 41 | – | – |
| | 723 | 593 | – | 56 |

The Group leases a number of properties under operating leases. The leases run for an initial period of one to two years, without any option to renew the lease terms at the expiry date and do not include contingent rentals.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 January 2005.

Summary of Financial Information

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 and 2 below:

RESULTS

| | 31 October | | | | |
|-------------------------------------|-------------------|----------|----------|----------|----------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 106,378 | 104,039 | 31,380 | 20,144 | 1,621 |
| Cost of sales | (73,735) | (69,213) | (19,533) | (4,792) | (421) |
| Gross profit | 32,643 | 34,826 | 11,847 | 15,352 | 1,200 |
| Other revenue | 313 | 353 | 1,238 | 470 | – |
| Selling expenses | (2,265) | (1,695) | (981) | (468) | (51) |
| Administrative expenses | (10,954) | (10,026) | (7,283) | (5,585) | (1,057) |
| Other operating expenses | (2,459) | (7,621) | – | – | – |
| Profit before taxation | 17,278 | 15,837 | 4,821 | 9,769 | 92 |
| Taxation | 906 | (2,851) | (816) | (1,548) | – |
| Profit attributable to shareholders | 18,184 | 12,986 | 4,005 | 8,221 | 92 |

ASSETS AND LIABILITIES

| | 31 October | | | | |
|-------------------------|-------------------|----------|----------|----------|----------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Non-current assets | 16,151 | 13,267 | 1,568 | 1,617 | 129 |
| Current assets | 82,823 | 83,802 | 51,675 | 13,805 | 2,064 |
| Current liabilities | 33,680 | 44,914 | 15,716 | 7,008 | 2,000 |
| Net current assets | 49,143 | 38,888 | 35,959 | 6,797 | 64 |
| Non-current liabilities | 4,889 | 3,577 | – | – | – |
| Net assets | 60,405 | 48,578 | 37,527 | 8,414 | 193 |

Summary of Financial Information

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period. The summary of the consolidated result of the Group for the year ended 31 October 2000 has been prepared from the financial statements of the companies now comprising the Group for the year ended 31 October 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated results of the Group for the years ended 31 October 2001 and 2002 are as set out in the annual report of the Company for those years. The consolidated results of the Group for the years ended 31 October 2003 and 2004 are as set out on page 28 of the audited financial statements.
2. The consolidated balance sheet as at 31 October 2000 has been extracted from the published financial information of the Company for the year ended 31 October 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated balance sheets as at 31 October 2001 and 2002 are as set out in the annual report of the Company for those years. The consolidated balance sheets as at 31 October 2003 and 2004 are as set out on page 29 of the audited financial statements.