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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Eco-Tek Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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## **ECO-TEK HOLDINGS LIMITED**

**環康集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8169)**

### **MAJOR TRANSACTION**

**In respect of**  
**the acquisition of Sales Shares and the secured loan made to**  
**Asian Way International Limited**

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A notice convening the EGM to be held at Unit 05, 11/F, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on 30 December 2005, Friday at 10:00 a.m. is set out on pages 98 to 99 of this circular. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy and return the same to the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the EGM. Completion and delivery of the form of proxy will not preclude you from subsequently attending and voting at the EGM or any adjournment thereof if you so wish.

*This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for 7 days from the date of its posting.*

\* For purpose of identification only

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## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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**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.**

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the expressions as stated below will have the following meanings:*

“Acquisition”	the conditional acquisition of 4,250 Asian Way Shares, representing 42.5% shareholding interest in Asian Way, by Well Spread pursuant to the Sale and Purchase Agreement
“Agreements”	the Sale and Purchase Agreement, the Loan Agreement, and the Share Charge
“Articles of Association”	the articles of association of the Company adopted on 21 November 2001 as amended on 30 October 2004
“Asian Way”	Asian Way International Limited, a company incorporated under the laws of Hong Kong with limited liability on 9 February 2001
“Asian Way Group”	Asian Way and Tianjin Asian Way
“Asian Way Shares”	10,000 ordinary shares of HK\$1.00 each in issue and fully paid in the share capital of Asian Way
“Banking Day”	means a day on which licensed banks in Hong Kong are open for business (excluding a Saturday and a Sunday)
“Board”	the board of Directors
“Business Day”	means a day (excluding Saturday) on which banks are open for business in Hong Kong
“Company”	Eco-Tek Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange
“Completion”	means any of the Completion I, Completion II or Completion III, as the case may be
“Completion I”	means completion of sale and purchase of the Sale Shares I pursuant to the terms of the Sale and Purchase Agreement
“Completion II”	means completion of sale and purchase of the Sale Shares II pursuant to the terms of the Sale and Purchase Agreement

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## DEFINITIONS

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“Completion III”	means completion of sale and purchase of the Sale Shares III pursuant to the terms of the Sale and Purchase Agreement
“Completion Date(s)”	means any of the Completion Date I, Completion Date II or Completion Date III, as the case may be
“Completion Date I”	means as soon as possible after the signing of the Sale and Purchase Agreement and at or before 5:00 p.m. on the same Business Day upon the fulfillment and/or waiver (as the case may be) of the conditions set out in the Sale and Purchase Agreement in respect of the sale and purchase of the Sale Shares I, but in any event not later than 31 December 2005 or such later day as the parties thereto may mutually agree
“Completion Date II”	means at or before 5:00 p.m. on the same Business Day upon the fulfillment and/or waiver (as the case may be) of the conditions set out in the Sale and Purchase Agreement in respect of the sale and purchase of the Sale Shares II, but in any event not later than 30 days from the date of the Company successfully obtained the necessary approvals given by the Stock Exchange, if required, and the general meeting of the Company or such later day as the parties thereto may mutually agree
“Completion Date III”	means at or before 5:00 p.m. on the same Business Day upon the fulfillment and/or waiver (as the case may be) of the conditions set out in the Sale and Purchase Agreement in respect of the sale and purchase of the Sale Shares III but in any event not later than 60 days from the date of the Company successfully obtained the necessary approvals given by the Stock Exchange, if required, and the general meeting of the Company or such later day as the parties thereto may mutually agree
“Directors”	directors of the Company
“Drawdown Notice(s)”	the drawdown notice(s) in respect of the Secured Loan to be issued by Asian Way to Well Spread in relation to the drawdown(s) of the Secured Loan pursuant to the Loan Agreement

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders on 30 December 2005 to consider and, if thought fit, approve the Agreements and the Transaction contemplated thereunder
“Enlarged Group”	the Group after completion of the Acquisition
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Special Administrative Region of Hong Kong
“Latest Practicable Date”	10 December, 2005 being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Loan Agreement”	the loan agreement dated 16 November 2005 entered into between, inter alia, Well Spread as the lender and Asian Way as the borrower in relation to the Secured Loan
“MOU”	the memorandum of understanding entered into between the Vendor, Well Spread and Asian Way on 16 November 2005 in respect of (i) the Acquisition; (ii) the Secured Loan; (iii) the management of Asian Way; and (iv) the construction and the operation of the Water Supply Plant
“Net Profit”	the audited annual profit of Tianjin Asian Way prepared by the auditors of Tianjin Asian Way in the PRC less the repayment of a loan in the amount of RMB7 million (equivalent to HK\$6.72 million) to be borrowed by the Water Supply Plant from bank(s) or any third party(ies) for the purpose of part financing of its construction and/or operation and other loan as may be taken out by Asian Way and/or Tianjin Asian Way under the Loan Agreement and/or the Sale and Purchase Agreement and payment of the relevant interest, full repayment and payment of which shall be made in accordance with the respective loan agreements in respect of the RMB7 million loan and such other loan

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## DEFINITIONS

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“PRC”	the People’s Republic of China
“Relevant Periods”	the three years ended 30 June 2003, 2004 and 2005
“Repayment Date”	the date falling the 30th day after the relevant financial year’s audited accounts of Tianjin Asian Way is issued or such earlier date as approved by the respective boards of directors of Asian Way and Tianjin Asian Way, and Tianjin Asian Way has Net Profit for such financial year
“RMB”	the lawful currency of the PRC
“Sale Shares”	4,250 fully paid Asian Way Shares, comprising Sale Shares I, Sale Shares II and Sale Shares III and representing 42.5% of the entire issued share capital of Asian Way, and are beneficially owned by and registered in the name of the Vendor
“Sale Shares I”	1,400 fully paid Asian Way Shares, representing 14% of the entire issued share capital of Asian Way, which are beneficially owned by and registered in the name of the Vendor
“Sale Shares II”	1,400 fully paid Asian Way Shares, representing 14% of the entire issued share capital of Asian Way, which are beneficially owned by and registered in the name of the Vendor
“Sale Shares III”	1,450 fully paid Asian Way Shares, representing 14.5% of the entire issued share capital of Asian Way, which are beneficially owned by and registered in the name of the Vendor
“Secured Loan”	the loan conditionally agreed to be granted by Well Spread to Asian Way under a facility up to an aggregate amount not exceeding RMB60 million (equivalent to HK\$57.60 million) and to be secured by the Share Charge
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	authorized and issued ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company

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## DEFINITIONS

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“Share Charge”	the share charge dated 16 November 2005 entered into between Well Spread as the lender and the Vendor as the chargor in relation to the charge of 3,750 Asian Way Share (representing 37.5% of the issued share capital of Asian Way) legally and beneficially held by the Vendor in favour of Well Spread for the purpose of securing the Secured Loan
“Shareholder(s)”	holder(s) of Share(s)
“Sale and Purchase Agreement”	the agreement for the sale and purchase of the Sale Shares dated 16 November 2005 entered into between Well Spread as purchaser and the Vendor as the vendor in relation to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin Asian Way”	天津華永房地產開發有限公司 (Tianjin Asian Way Estate Development Co., Ltd.), a wholly-owned subsidiary of Asian Way which was established as a wholly foreign owned company under the laws of the PRC on 7 August 2002
“Transaction”	the Acquisition and the granting of the Secured Loan
“US\$”	denoted the lawful currency of the United States of America
“Vendor”	Mr. Tang Hin Lun, the legal and beneficial owner of 8,000 Asian Way Shares (representing 80% shareholding interest in Asian Way) as at the date of this circular
“Water Supply Plant”	天津華永房地產開發有限公司東山自來水廠, a water supply plant to be constructed in 天津市寶坻區牛家牌鄉 (Niu Jia Pai Xiang, Baodi district, Tianjin City) by Tianjin Asian Way
“Well Spread”	Well Spread Investment Limited, a wholly-owned subsidiary of the Company incorporated under the laws of Hong Kong with limited liability on 15 March 2005

*All amounts in RMB have been translated into HK\$ at the rate of approximately RMB1.0417 = HK\$1; and all amounts in US\$ have been translated into HK\$ at the rate of US\$1 = HK\$7.8 (unless otherwise stated) in this circular for illustrative purpose.*



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## LETTER FROM THE BOARD

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### ECO-TEK HOLDINGS LIMITED

### 環康集團有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8169)**

*Executive Directors:*

Dr. PAU Kwok Ping

*(Chairman and Managing Director)*

Mr. SHAH Tahir Hussain

Mr. HAN Ka Lun

*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

*Registered Office:*

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

*Head Office and Principal*

*Place of Business:*

Unit 5, 11/F

Westlands Centre

20 Westlands Road

Quarry Bay

Hong Kong

16 December 2005

*To the Shareholders*

Dear Sir/Madam,

### MAJOR TRANSACTION

**In respect of  
the acquisition of Sales Shares and the secured loan made to  
Asian Way International Limited**

### INTRODUCTION

The Board refers to the announcement of the Company dated 18 November 2005 announcing that the MOU was entered into between Well Spread, a wholly-owned subsidiary of the Company, the Vendor and Asian Way on 16 November 2005 in relation to, inter alia,

\* For purpose of identification only

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## LETTER FROM THE BOARD

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(i) the acquisition by Well Spread of 4,250 Asian Way Shares (representing 42.5% shareholding interest in Asian Way); and (ii) the granting by Well Spread to Asian Way of a secured loan under a facility up to an aggregate amount not exceeding RMB60 million (equivalent to HK\$57.60 million), which shall be applied for the construction of the Water Supply Plant indirectly owned by Asian Way.

Following the execution of the MOU, the Agreements, which includes the Sale and Purchase Agreement, the Loan Agreement, and the Share Charge, were also entered into between Well Spread, the Vendor and Asian Way on 16 November 2005.

The Acquisition and the granting of the Secured Loan pursuant to the Agreements constitutes, in aggregate, a major transaction for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to Shareholders' approval pursuant to Rule 19.40 of the GEM Listing Rules.

The purpose of this circular is to provide you with, amongst other things, (i) further information about the Transaction; (ii) the respective financial information on the Group and Asian Way Group, as well as the pro forma financial information on the Enlarged Group; (iii) the notice of EGM; and (iv) other information as required under the GEM Listing Rules.

### THE MEMORANDUM OF UNDERSTANDING

Date: 16 November 2005.

Parties: (i) Well Spread;  
(ii) the Vendor; and  
(iii) Asian Way.

### Particulars of the MOU

As at the date of the MOU, the Vendor legally and beneficially held 8,000 Asian Way Shares (representing 80% of the total issued share capital of Asian Way), which in turn indirectly owned 80% of Tianjin Asian Way. Tianjin Asian Way was established for the purpose to construct and operate the Water Supply Plant. The MOU was entered into by the parties thereto to set out their intention in respect of (i) the acquisition by Well Spread of 42.5% shareholding interest in Asian Way from the Vendor (the Sale and Purchase Agreement was entered into by Well Spread and the Vendor setting out the agreed terms of the Acquisition; please refer to the following section headed "The Sale and Purchase Agreement" for details); (ii) the advance of a loan in the amount of RMB60 million (equivalent to HK\$57.60 million) by Well Spread to Asian Way (the Loan Agreement was entered into by Well Spread, Asian Way and the Vendor setting out the agreed terms in relation to the Secured Loan; please refer to the following section headed "The Loan Agreement" for details); (iii) the management of Asian Way including the composition of its board of directors and the appointment of a finance officer; and (iv) the construction and the operation of the Water Supply Plant by Tianjin Asian Way, which is wholly-owned by Asian Way.

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## LETTER FROM THE BOARD

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### THE SALE AND PURCHASE AGREEMENT

Date: 16 November 2005.

Parties: (i) Well Spread as the purchaser; and  
(ii) the Vendor as the vendor.

### Assets to be acquired

The Sale Shares, being a total of 4,250 Asian Way Shares (representing 42.5% shareholding interest in Asian Way). Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell the Sale Shares, and Well Spread has conditionally agreed to purchase the Sale Shares, in three batches (being 1,400 Asian Way Shares (i.e. the Sale Shares I), 1,400 Asian Way Shares (i.e. the Sale Shares II) and 1,450 Asian Way Shares (i.e. the Sale Shares III)).

### Consideration

The total consideration for the Sale Shares is HK\$4,250.00, being HK\$1,400.00, HK\$1,400.00 and HK\$1,450.00 as consideration for the Sale Shares I, Sale Shares II and Sale Shares III respectively, and will be satisfied by cash payable to the Vendor on the relevant Completion Dates. The consideration for the Sales Shares was determined after arm's length negotiations between Well Spread and the Vendor with reference to the nominal value of Asian Way Shares, which is HK\$1.00 each.

### Conditions

Completion of the Acquisition, which will be carried out in three stages, is subject to the following conditions being fulfilled and/or waived on the relevant Completion Dates:

- (a) (i) in relation to the sale and purchase of the Sale Shares I on Completion Date I, Well Spread having made the first advance of the Secured Loan in the sum of RMB10 million (equivalent to HK\$9.60 million) to Asian Way on the date of signing the Sale and Purchase Agreement, by way of depositing such sum in Hong Kong dollars with Asian Way's solicitors as stakeholders, upon and subject to the terms and conditions of the Loan Agreement;
- (ii) in relation to the sale and purchase of the Sale Shares II on Completion Date II, Well Spread having made the second advance of the Secured Loan in the sum of RMB10 million (equivalent to HK\$9.60 million) to Asian Way, upon and subject to the terms and conditions of the Loan Agreement; and
- (iii) in relation to the sale and purchase of the Sale Shares III on Completion Date III, Well Spread having made the third advance of the Secured Loan in the sum of RMB10 million (equivalent to HK\$9.60 million) to Asian Way, upon and subject to the terms and conditions of the Loan Agreement;

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## LETTER FROM THE BOARD

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- (b) if required under the GEM Listing Rules, the Stock Exchange having approved the transactions contemplated under the Sale and Purchase Agreement, the Loan Agreement and the Share Charge;
- (c) if required under the GEM Listing Rules, the general meeting of the Company having approved the transactions contemplated under the Sale and Purchase Agreement, the Loan Agreement and the Share Charge;
- (d) all other consents (if any) which are required or appropriate for the entering into or the performance of obligations under the Sale and Purchase Agreement by the parties having been obtained, and all filings with any relevant governmental or regulatory authorities and other relevant third parties (including without limitation courts and banks) in Hong Kong or elsewhere which are required or appropriate for the entering into and the implementation of the Sale and Purchase Agreement having been made and such consents (if any) remaining in full force and effect and there being no statement, notification or intimation of an intention to revoke or not to renew the same having been received;
- (e) the performance and observance by the Vendor of all the undertakings and covenants (as the case may be) on the part of the Vendor contained in the Sale and Purchase Agreement; and
- (f) due diligence having been completed by Well Spread or its authorized agent(s) in respect of Asian Way, Tianjin Asian Way and the Water Supply Plant, and the results of such due diligence shall be to the satisfaction of Well Spread.

For avoidance of doubt, (1) conditions (b), (c) and (f), and conditions (a)(i), (d) to (e) in respect of Sale Shares I shall be fulfilled on or before the Completion Date I; (2) conditions (a)(ii), (d) to (e) in respect of Sale Shares II shall be fulfilled on or before the Completion Date II; and (3) conditions (a)(iii), (d) to (e) in respect of Sale Shares III shall be fulfilled on or before the Completion Date III. Well Spread or the Vendor (as the case may be) may in its absolute discretion waive any of the above conditions, save and except for conditions (b) and (c). If any of the relevant conditions shall not have been fulfilled or waived (as the case may be) on or before the Completion Date I, the Sale and Purchase Agreement shall become null and void and of no legal effect. Unless the non-fulfillment is attributable to (i) the fraud on the part of the Vendor, or (ii) misleading information provided by the Vendor, or (iii) the Vendor fails to provide relevant information in its control or possession to Well Spread and/or the Stock Exchange and the Vendor does not agree to extend Completion Date I, or (iv) the Stock Exchange deems that Asian Way is a connected person (as defined in the Listing Rules) of the Company and the controlling shareholder of the Company is restricted from voting at the general meeting of the Company and as a result of which, approval of the shareholders of the Company at the general meeting set out in condition (c) is not obtained, Well Spread will be liable to reimburse the Vendor and/or Asian Way for all reasonable costs and expenses incurred by them in negotiating the transactions, providing relevant information to Well Spread and negotiating and preparing documents contemplated under the Sales and Purchase Agreement with a maximum of HK\$1,000,000.00.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, condition (f) and condition (a)(i) in respect of Sale Share I have been fulfilled.

### **Completion**

Subject to the fulfillment or waiver, as the case may be, of all the relevant conditions as set out in the Sale and Purchase Agreement, the sale and purchase of the Sale Shares will be completed in three stages:

- (i) Completion I – Subject to the fulfillment or waiver (as the case may be) of all relevant conditions on or before Completion Date I, 1,400 Sale Shares will be sold to Well Spread by the Vendor;
- (ii) Completion II – Subject to the fulfillment or waiver (as the case may be) of all relevant conditions on or before Completion Date II, 1,400 Sale Shares will be sold to Well Spread by the Vendor; and
- (iii) Completion III – Subject to the fulfillment or waiver (as the case may be) of all relevant conditions on or before Completion Date III, 1,450 Sale Shares will be sold to Well Spread by the Vendor.

For the avoidance of doubt, Completion II shall not take place unless Completion I has occurred; and Completion III shall not take place unless Completion II has occurred.

In the event that, other than due to the default of Well Spread, the Vendor shall despite fulfillment or waiver of the relevant conditions fail to complete the sale of the relevant Sale Shares to Well Spread pursuant to the terms of the Sale and Purchase Agreement and/or to carry out any of the Vendor's obligations therein, it shall be open to Well Spread either to enforce the sale of the relevant Sale Shares and the performance of the outstanding obligations by decree of specific performance against the Vendor or by written notice to the Vendor to forthwith rescind the Sale and Purchase Agreement but without prejudice to the right of Well Spread to claim for damages (if any) against the Vendor. Without prejudice to the rights of Well Spread thereunder, the Vendor undertakes to refund all advances of the Secured Loan previously made by Well Spread on Completion I, Completion II and/or Completion III within 10 Business Days from the date when Well Spread delivers a written demand in this connection to the Vendor.

It was stated in the MOU that the board of directors of Asian Way will comprise five directors, three of which will be nominated by Well Spread and the remaining two directors will be nominated by the Vendor. Pursuant to the Sale and Purchase Agreement, upon Completion I, Well Spread shall be entitled to nominate up to three persons as directors of Asian Way, while a meeting of the board of directors of Asian Way shall be adjourned and not be convened if the three directors nominated by Well Spread or their respective nominees are not present, and Well Spread shall procure that its nominated directors shall not unreasonably be absent from such meeting. If any of the directors nominated by Well Spread or their

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## LETTER FROM THE BOARD

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respective authorized representatives fail to attend the adjourned meeting, the board meeting shall proceed as long as a quorum is formed. In addition to the nomination of directors to the board of directors, Well Spread shall also be entitled, upon Completion I to nominate a finance officer of Asian Way to monitor the use of the Secured Loan. Provided once all the outstanding indebtedness relating to the Secured Loan is fully repaid, Well Spread shall cause one of the directors nominated by it to forthwith resign within three Business Days.

### THE LOAN AGREEMENT

Date: 16 November 2005.

Parties: (i) Asian Way as the borrower;

(ii) Well Spread as the lender; and

(iii) the Vendor.

### The Secured Loan

Pursuant to the Loan Agreement, Well Spread has conditionally agreed to make available to Asian Way the Secured Loan under a facility up to an aggregate amount not exceeding RMB60 million (equivalent to HK\$57.60 million), which is non-revolving and shall be applied for the construction of the Water Supply Plant. The Secured Loan will be financed by the internal resources of approximately HK\$28.8 million and bank borrowings of approximately HK\$28.8 million of the Group respectively. In the event that the banking facilities is unable to be obtained by the Group, the Transaction will be terminated, and the Company will make an announcement on it.

### Conditions

The granting of the Secured Loan by Well Spread to Asian Way is subject to the following conditions:

- (a) the Share Charge in respect of 3,750 Asian Way Shares (representing 37.5% of the issued share capital of Asian Way) which is legally and beneficially owned by the Vendor has been executed by the Vendor in favour of Well Spread;
- (b) Well Spread has received the payments in respect of all fees, costs and expenses incurred by it in connection with the Secured Loan and the Share Charge from Asian Way (and such payment may be deducted from the gross amount of the Secured Loan to be advanced to Asian Way by Well Spread) and the documents requested under the Loan Agreement;
- (c) if required under the GEM Listing Rules, all necessary approvals of the transactions contemplated under the Loan Agreement, the Share Charge and the Sale and Purchase Agreement has been given by the Stock Exchange and the general meeting of the Company; and

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## LETTER FROM THE BOARD

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(d) the Sale and Purchase Agreement has been executed by the Vendor and Well Spread.

As at the Latest Practicable Date, conditions (a) and (d) above have been fulfilled.

### **Drawdowns**

Subject to the conditions of the granting of the Secured Loan by Well Spread to Asian Way, the Secured Loan will be available during the period commencing from the date of the Loan Agreement and ending on 30 June 2007 or such later date as the parties may agree from time to time.

Subject to the fulfillment of all relevant conditions as set out in the Loan Agreement and above, the Secured Loan will be advanced to Asian Way by installments:

- (i) subject to conditions (a) and (d), the first advance of the Secured Loan of RMB10 million (equivalent to HK\$9.60 million) will be transferred to the bank account designated by Asian Way's solicitors, as the stakeholders, on the date of the Loan Agreement, and such amount shall only be released to Asian Way by its solicitors upon fulfillment of condition (c);
- (ii) the second advance of the Secured Loan of RMB10 million (equivalent to HK\$9.60 million) will be made available on the date falling 30 days from the date of the Company successfully obtaining the necessary approvals and subject to successful drawdown of the first advance of the Secured Loan;
- (iii) the third advance of the Secured Loan of RMB10 million (equivalent to HK\$9.60 million) will be made available on the date falling on 60 days from the date of the Company successfully obtaining the necessary approvals and subject to successful drawdown of the second advance of the Secured Loan; and
- (iv) all subsequent advance(s) of the Secured Loan of a total amount not exceeding RMB30 million (equivalent to HK\$28.80 million) will be made available before 1 July 2007, or such later date as Well Spread may agree and within 3 Banking Days after receiving the relevant Drawdown Notice(s) by Well Spread from Asian Way. For the avoidance of doubt, all subsequent advance(s) shall not be made by Well Spread unless the third advance mentioned in paragraph (iii) above has been made according to the terms of the Loan Agreement and the funding need based on the progress of the construction of the Water Supply Plant.

As at the Latest Practicable Date, the first advance of the Secured Loan has been transferred to the bank account designated by Asian Way's solicitors, as the Stakeholders.

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## LETTER FROM THE BOARD

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### **Repayment**

The cash generated from Net Profit shall be used to repay the Secured Loan on each Repayment Date, until the Secured Loan is fully repaid by Asian Way to Well Spread.

The final repayment date of the Secured Loan shall be the date falling 60 months from the first drawdown date of the Secured Loan or such later date as may be agreed by Well Spread in writing. According to the terms of the Loan Agreement, Asian Way has agreed to procure the application by Tianjin Asian Way, which is wholly-owned by Asian Way, of its Net Profit for repayment of the Secured Loan on each Repayment Date, until the Secured Loan, interest and all other indebtedness of Asian Way to Well Spread under the Loan Agreement, the Share Charge and any such other relevant documents have been fully repaid to Well Spread by the final repayment date of the Secured Loan.

After the Secured Loan has been fully repaid, the cash generated from the Net Profit will be used to repay a shareholders' loan in the net amount of US\$2 million (equivalent to approximately HK\$15.6 million) borrowed by Asian Way from its existing shareholders (such shareholders' loan has been injected by Asian Way into Tianjin Asian Way as its registered capital and ultimately invested in the Water Supply Plant) before Tianjin Asian Way can declare dividend.

Pursuant to the Loan Agreement, Well Spread, Asian Way and the Vendor agree that when Tianjin Asian Way is able to borrow a bank loan by itself, such bank loan shall be used first to repay all the outstanding Secured Loan due to Well Spread, the remaining of which, if any, shall be used to repay the net amount of shareholders' loan of US\$2 million (equivalent to approximately HK\$15.6 million) borrowed by Asian Way from its existing shareholders.

Within 40 days from the final repayment date, at which time the Secured Loan should have been fully repaid, or such later date as the Vendor may consent in writing (and such consent may not be unreasonably withheld), Well Spread shall discharge the Vendor from all liabilities under the Share Charge and return the relevant shares under the Share Charge and if any, all income, benefits, rights, dividends, advantages, allotment and accretions accrued thereon to the Vendor free from encumbrances or third parties right whatsoever.

### **Interest**

The Secured Loan will bear interest at the prevailing prime rate (adopted by the Hongkong and Shanghai Banking Corporation Limited as amended from time to time) plus 5.5% per annum in respect of the principal outstanding for the time being. Interest shall be payable by Asian Way to Well Spread on 30 June and 31 December of each calendar year.



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## LETTER FROM THE BOARD

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### THE SHARE CHARGE

Date: 16 November 2005.

Parties: (i) The Vendor as the chargor; and  
(ii) Well Spread as the lender.

As a continuing security for the due and punctual payment of the Secured Loan, together with interest and all other indebtedness of Asian Way to Well Spread arising under the Loan Agreement from time to time, and for the due and punctual observance and performance of all obligations of Asian Way contained in the Loan Agreement, the Vendor as beneficial owner of 3,750 Asian Way Shares after completion of the Acquisition (representing 37.5% of the issued share capital in Asian Way) has agreed to execute the Share Charge in favour of Well Spread.

### THE AGREEMENTS

The Sale and Purchase Agreement and the Loan Agreement are inter-conditional. The Loan Agreement and the Share Charge are inter-conditional.

### INFORMATION ON ASIAN WAY, TIANJIN ASIAN WAY AND THE WATER SUPPLY PLANT

Asian Way was incorporated in Hong Kong on 9 February 2001 as an investment holding company. Tianjin Asian Way, Asian Way's wholly-owned subsidiary in the PRC, was established in the PRC as a wholly foreign owned enterprise on 7 August 2002. The operating period of Tianjin Asian Way is 30 years from 7 August 2002 to 6 August 2032 and is subject to renewal upon expiring. Tianjin Asian Way was established for the development, operation and management of real estate properties and the development and operation of the water supply plant and related consultation services. The registered capital of Tianjin Asian Way amounts to US\$2 million (equivalent to approximately HK\$15.60 million) which has been fully paid up in June 2005 by Asian Way. The Directors have confirmed that save for the investment in the Water Supply Plant, Asian Way and Tianjin Asian Way have not engaged in any other business since their respective dates of incorporation and establishment.

On 4 September 2004 and 23 November 2004, Tianjin Asian Way has entered into an agreement and a supplemental agreement respectively with The People's Government of Baodi District, Tianjin City (天津市寶坻區人民政府) in relation to the establishment and operation of the Water Supply Plant. According to those agreements, Tianjin Asian Way will mainly be responsible for the daily operations and management of the Water Supply Plant, and also responsible for the design and construction of the Water Supply Plant, including laying down of the water transport ducts and the water catchments and water purification facilities in the Water Supply Plant, whereas The People's Government of Baodi District, Tianjin City (天津市寶坻區人民政府) will mainly be responsible for obtaining the land use right on the land where the Water Supply Plant is to be constructed.

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The Water Supply Plant will be situated in Niu Jia Pai Xiang, Baodi District, Tianjin City (天津市寶坻區牛家牌鄉) with a gross area of approximately 74,537.5 meter square being the midpoint of Beijing, Tianjin and Tangshan. The construction fee for the Water Supply Plant is estimated to be RMB80 million (equivalent to HK\$76.80 million), which is to be incurred in connection with, including without limitation, demolition, land leveling, provision of water and electricity and telecom, influent water pipe for a daily passage of 150,000 tonnes (進水基建工程管道 規模為每天15萬噸), an influent water pipe within the Plant for a daily passage of 100,000 tonnes (水廠廠內進水基建工程管道為每天10萬噸), a water filtering-and-purifying processor (濾水淨化處理生產機), the entire equipment to successfully provide a daily water supply of 50,000 tonnes, a complex of offices and workers' apartments (辦公大樓連工人宿舍), a warehouse and a 15-km pipe of 500mm in diameter extending to the edge marked in red of Jing-Jin-Jiu Industrial Zone. If the construction fee incurs more than RMB80 million (equivalent to HK\$76.80 million), the excess sum shall be solely borne by the Vendor. The construction, including land leveling and demolition, of Water Supply Plant was started in early November 2005 and is expected to be completed within 18 months.

For the construction of water pipes of the Water Supply Plant, Tianjin Asian Way entered into a contract with a company in which the Vendor has beneficial interest. The contract sum is approximately HK\$13,883,000, of which approximately HK\$8,302,000 has been paid to that company as deposit. The consideration was determined based on the terms mutually agreed by both parties with reference to the prevailing market price of the raw materials of the water pipes.

The operating period of the Water Supply Plant is for 50 years and Tianjin Asian Way is having sole responsibility in the daily operations and management of the Water Supply Plant during its operating period. The Water Supply Plant will be entitled to supply water to areas which include Zhou Liang Zhuang (周良莊), Da Bai Zhuang (大白莊) and Niu Jia Pai Xiang (牛家牌鄉) in Tianjin City. The operations of Water Supply Plant has not yet commenced. There are uncertainties on the population growth and the demands on and actual consumptions of water in these areas. Besides, the source water might be polluted due to unforeseen factors such as an explosion of toxic chemicals of a factory located close to the source water, will complicate the purifying process, increase the processing costs and affect the output of the Water Supply Plant. Furthermore, the appreciation of RMB exchange rate might increase the construction and operation costs of the Water Supply Plant denominated in HK\$. Since all these factors are beyond the control of the Group, the Group has no assurance about the occurrence of the above events.

As at the date of the Sale and Purchase Agreement, Asian Way is owned as to 80% by the Vendor, 10% by Mr. Deng Yao Hui and 10% by Ms. Chen Xueying. Immediately upon Completion III, Asian Way will be owned as to 42.5% by Well Spread, 37.5% by the Vendor, 10% by Mr. Deng Yao Hui and 10% by Ms. Chen Xueying. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiry, Asian Way, its ultimate beneficial owners (including the Vendors, Mr. Deng Yao Hui and Ms. Chen Xueying) and their respective associates are third parties independent of the Company and its connected persons and are not connected persons of the Company (as defined under the GEM Listing Rules).

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### MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS OF ASIAN WAY GROUP

#### Overview

A summary of the turnover, net results and net asset value of Asian Way Group for the Relevant Periods is set out below. Further details are set out in the accountants' report of Asian Way Group, which have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, in Appendix II to this circular.

	<b>For the year ended 30 June 2003</b>	<b>For the year ended 30 June 2004</b>	<b>For the year ended 30 June 2005</b>
	(audited)	(audited)	(audited)
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	–	–	–
Net loss	–	1,120	325,412
Net assets/ (liabilities)	<u>10</u>	<u>(1,110)</u>	<u>(316,532)</u>

#### Business review and prospects

Asian Way Group is principally engaged in operation of the Water Supply Plant. Since the construction of the Water Supply Plant was under progress during the Relevant Periods, there was no operation throughout the Relevant Periods. For details of the Asian Way Group, please refer to the section headed "Information on Asian Way, Tianjin Asian Way and the Water Supply Plant" in this circular.

#### Review of past performance

*For the three years ended 30 June 2005*

During the Relevant Periods, Asian Way Group has not engaged in any business apart from the preparation works for construction of the Water Supply Plant in the year ended 30 June 2005, and therefore, no turnover and profit was recorded by Asian Way Group and it only generated bank interest income for bank deposit and incurred administrative expenses for its daily operation. As a result of the above, Asian Way Group incurred losses of approximately nil, HK\$1,000 and HK\$325,000 for the years ended 30 June 2003, 2004 and 2005 respectively.

#### Review of financial position

Set out below is a review of the financial position of Asian Way Group as at 30 June 2003, 2004 and 2005 respectively.

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### *Assets*

The total assets and the only asset of Asian Way Group as at 30 June 2003 and 2004 was cash and bank balances of approximately HK\$10 and HK\$780,000 respectively.

The total assets of Asian Way Group as at 30 June 2005 was approximately HK\$15,503,000. The major assets of Asian Way Group are deposit paid for Water Supply Plant construction and cash and bank balances which in aggregate accounted for around 89.6% of the total assets. None of the assets of Asian Way Group has been charged or pledged for securing its financing.

### *Liabilities*

There was no liabilities incurred as at 30 June 2003 and the total liabilities and the only liability of Asian Way Group as at 30 June 2004 was the shareholders' loan of approximately HK\$781,000.

As at 30 June 2005, the total liabilities of Asian Way Group was approximately HK\$15,820,000. The major liability of Asian Way Group as at 30 June 2005 is the shareholders' loan of approximately HK\$15,755,000 to finance the construction of Water Supply Plant.

### *Liquidity and financial resources*

As at 30 June 2003, Asian Way Group did not commence its operations, there was no working capital requirement.

As at 30 June 2004 and 2005, the working capital of Asian Way Group was mainly financed by a shareholders' loan of approximately HK\$781,000 and HK\$15,755,000, respectively. The shareholders' loan was interest free, unsecured and not repayable in the next twelve months from the respective balance sheet date. Taking into consideration the existing financial resources, the Secured Loan to be borrowed from the Group and a loan in the amount of RMB7 million (equivalent to HK\$6.72 million) to be borrowed by Asian Way Group from bank(s) or any third party(ies) for the purpose of part financing of its construction and/or operation, it was anticipated that Asian Way Group should have adequate financial resources to meet its ongoing operating and development requirements. In the event that Asian Way Group is unable to obtain RMB7 million loan from bank(s) or other third party(ies), the Vendor will provide such finance to Asian Way Group.

### *Gearing ratio*

As at 30 June 2003, the gearing ratio of Asian Way Group was zero. As at 30 June 2004, cash and cash equivalents of Asian Way Group was approximately HK\$780,000 and a shareholders' loan of approximately HK\$781,000. A capital deficiencies of approximately HK1,000 was recorded.

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As at 30 June 2005, cash and cash equivalents of Asian Way Group was approximately HK\$5,589,000 and a shareholders' loan of approximately HK\$15,755,000. It recorded capital deficiencies of approximately HK\$317,000.

### *Treasury policies*

Asian Way Group did not commence business as at 30 June 2005 and had no formal treasury policy and not entered into any form of financial arrangement for hedging during the Relevant Periods. To manage liquidity risk, the directors of Asian Way Group closely monitors the liquidity position to ensure that the liquidity structure of Asian Way Group's assets, liabilities and commitments can meet its funding requirements.

### *Employee information*

Asian Way Group had no employee as at 30 June 2003 and 2004, and had 5 employees in the PRC as at 30 June 2005. The total of employee remuneration for year ended 30 June 2005 amounted to approximately HK\$52,000. Employees are remunerated according to their performance and work experience.

### *Capital structure*

Asian Way was incorporated under the Hong Kong Companies Ordinance on 9 February 2001 with an authorised capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1 each and two subscribers shares were issued at par as fully paid up capital on the same date. On 14 May 2002 and 17 May 2005, the issued ordinary share capital was increased to HK\$10 and HK\$10,000 by the issue of 8 and 9,990 ordinary shares of HK\$1 each at par or cash respectively. Since 17 May 2005, there has been no change in the capital structure of Asian Way. The capital of Asian Way comprises only ordinary shares.

### *Significant investments*

Asian Way Group had no investment as at 30 June 2003 and 2004.

As at 30 June 2005, the sole investment of Asia Way Group was the Water Supply Plant. Apart from it, Asian Way Group had no significant investments for the year ended 30 June 2005.

### *Material acquisitions and disposals/future plans for material investments*

Asian Way Group had no acquisitions and disposals for the years ended 30 June 2003 and 2004.

Apart from the investment in the Water Supply Plant, Asian Way Group had no material acquisitions or disposals and had no plans for material investments or capital assets for the year ended 30 June 2005.

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### *Material Commitment*

There was no material commitment for Asian Way Group as at 30 June 2003 and 2004. As at 30 June 2005, Asian Way Group has a material capital commitment for the construction and development of the Water Supply Plant of approximately HK\$12,912,000 and operating lease commitments of approximately HK\$24,000. Asian Way Group will use its internal resources to finance such commitments.

### *Charge on assets and contingent liabilities*

As at 30 June 2003, 2004 and 2005, none of the assets of Asian Way Group had been charged or pledged for securing its financing and no contingent liabilities was identified.

### *Exposure to fluctuations in exchange rates*

During the years ended 30 June 2003, 2004 and 2005, the transactions entered into by Asian Way Group were denominated in Hong Kong dollars, United States dollars or Renminbi and the exchange rates of United States dollars or Renminbi had been stable during the year under review.

## **REASONS FOR ENTERING INTO THE AGREEMENTS**

The Group is principally engaged in the marketing, sale, servicing, research and development of environmental protection and health related products and services.

It was set out in the Company's annual report for the year ended 31 October 2004 that the Group would continue to develop and introduce various environmental protection related products and to promote the sense of healthy living to the general public. The Directors consider that the Group's investment in the Water Supply Plant, which will supply water after carrying various processes including purification upon completion of its construction, through Asian Way will provide an opportunity for the Group to further promote and develop its business presence in the PRC and to enrich the product/service portfolio of the Group.

Although there are uncertainties on the operations of the Water Supply Plant, as stated in the section headed "Information on Asian Way, Tianjin Asian Way and the Water Supply Plant" in this circular, the Directors, after visited the site of the Water Supply Plant and its surrounding areas, consider that the growth potential and future prospect of the Water Supply Plant is encouraging. There are a educational garden (民辦教育園) with numbers of renowned educational institutions, an industrial park (新城工業園) and Zhujiang Hot Spring Holiday City (珠江溫泉城) with hot springs holiday villages, a golf course and a five-star hotel, located in the surrounding areas of the Water Supply Plant, including Zhou Lian Zhuang (周良莊), Da Bai Zhuang (大白莊) and Niu Jia Pai Xiang (牛家牌鄉). Since all these areas are newly developed, demands for water and potentials for the developments of Water Supply Plant is expected. Besides, with the experience gained through the investment in the Water Supply Plant, the Group will also be able to penetrate into domestic sewage water treatment and industrial waste

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water treatment businesses in these areas when there is opportunities. The Directors, when negotiating the consideration of the Transaction with the Vendor, have taken account of the uncertainties mentioned above, and determined the consideration based on the nominal value of Asian Way Shares. The Directors, including independent non-executive Directors, therefore, have considered that the terms of the Agreements are fair and reasonable and in the best interests of the Group so far as the interests of the shareholders of the Company are concerned.

### FINANCIAL EFFECTS OF THE TRANSACTION

Despite that immediately after the Completion I, the Company will only indirectly own 14% interest in Asian Way, Asian Way will become a non-wholly owned subsidiary of the Company as a result of the nomination of three directors by the Company to the board of Asian Way, which shall then comprise five directors. Since the Company will be able to control the composition of the board of directors and control more than half of the voting power of the board of directors of Asian Way, Asian Way will be deemed to be a subsidiary of the Company and the assets and results of Asian Way Group will be consolidated to the assets and results of the Group.

Asian Way will cease to be a non-wholly owned subsidiary of the Company once all the outstanding indebtedness relating to the Secured Loan is fully repaid by Asian Way and one of the directors nominated by Well Spread resigns thereafter pursuant to the Agreements. Thereafter, Asian Way will become an associated company of the Company.

#### (1) Earnings

According to the interim report of the Group (as set out in Appendix I to this circular), the unaudited consolidated profit attributable to shareholders amounted to approximately HK\$5,105,000 for the six months ended 30 April 2005, and according to the accountants' report of Asian Way Group (as set out in Appendix II to this circular), the audited consolidated loss for the year ended 30 June 2005 was amounted to approximately HK\$325,000. In the opinion of the Directors, although Asian Way Group currently is not profitable as it is common for company which is in its earlier stage of development, in the longer term, after the construction of Water Supply Plant completes and commences its operations, it will be able to generate profit and improve the profit attributable to Shareholders in the future.

#### (2) Net assets

Assuming the Transaction had taken place on 30 April 2005, the unaudited pro forma consolidated net asset value of the Enlarged Group as at 30 April 2005 will be approximately HK\$57,218,000, similar to the unaudited consolidated net asset value of the Group of approximately HK\$57,218,000 as at the same date. For further details of the financial effects of the Transaction, please refer to the unaudited pro forma statement of assets and liabilities of the Enlarged Group shown in Appendix III to this circular.



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### (3) Liability

Upon Completion of the Transaction, the unaudited pro forma gearing ratio of the Enlarged Group will be approximately 78% as at 30 April 2005 as compared to the zero gearing ratio of the Group as at the same date. The increase is mainly attributable to bank borrowings of HK\$28,800,000 to be obtained to finance the Transaction.

### EXTRAORDINARY GENERAL MEETING

The Transaction, will be subject to the Shareholders' approval at the EGM. To the best of the Director's knowledge, as at the Latest Practicable Date, no connected persons of the Company has any interests in the Transaction, and none of Asian Way, Tianjin Asian Way and its ultimate beneficial owners, including the Vendor, and their respective associates has any interests in the Company, no Shareholders of the Company is required to abstain from voting in the EGM and the voting in respect of the approval of the Agreements and the Transaction contemplated thereunder will be conducted by way of poll.

Set out on pages 98 to 99 of this circular is a notice of the EGM to be held at the Unit 05, 11/F, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on 30 December 2005, Friday at 10:00 a.m., at which an ordinary resolution will be proposed and, if through fit, passed to approve the Agreements and the Transaction contemplated thereunder.

Whether or not you propose to attend the EGM, you are requested to complete the form of proxy and return the same to the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the EGM in order to cast your vote. Completion and delivery of the form of proxy will not preclude you from subsequently attending and voting at the EGM or any adjournment thereof if you so wish.

### PROCEDURES FOR DEMANDING A POLL AT A GENERAL MEETING

Pursuant to Article 66 of the Articles of Association, at any general meeting of the Company a resolution put to vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (i) by the chairman of such meeting; or
- (ii) be at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or



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- (iv) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

### RECOMMENDATION

The Board is of the opinion that all the proposed Transaction contemplated under the Agreements referred to in this circular are fair and reasonable and in the best interests of the Company and its Shareholders as a whole and, accordingly, recommend you to vote in favour of the resolutions regarding the Agreements and the Transaction contemplated thereunder to be proposed at the EGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the financial information relating to the Group and Asian Way Group, the pro forma financial information on the Enlarged Group, and other information set out in the appendices to this circular.

Yours faithfully,  
On behalf of the Board  
**Eco-Tek Holdings Limited**  
**Dr. PAU Kwok Ping**  
*Chairman*

**1. THREE-YEAR FINANCIAL SUMMARY**

A summary of the consolidated income statement and the consolidated balance sheet of the Group for the three financial years ended 31 October 2004, being the date on which the latest financial statements of the Group were made up, extracted from the annual report of the Company for the year ended 31 October 2004 is set out below:

**FINANCIAL SUMMARY**

	<b>Year ended 31 October</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Consolidated results summary</b>			
Turnover	106,378	104,039	31,380
Profit before taxation	17,278	15,837	4,821
Profit attributable to Shareholders	<u>18,184</u>	<u>12,986</u>	<u>4,005</u>

	<b>As at 31 October</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Consolidated balance sheet summary</b>			
Non-current assets	16,151	13,267	1,568
Current assets	82,823	83,802	51,675
Current liabilities	33,680	44,914	15,716
Non-current liabilities	<u>4,889</u>	<u>3,577</u>	<u>–</u>
Shareholders' fund	<u>60,405</u>	<u>48,578</u>	<u>37,527</u>

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 OCTOBER 2004

Set out below are the audited consolidated income statement, audited consolidated balance sheet and notes to financial statements of the Group extracted from the annual report of the Company for the year ended 31 October 2004.

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 October*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover	4	106,378	104,039
Cost of sales		<u>(73,735)</u>	<u>(69,213)</u>
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		<u>(2,459)</u>	<u>(7,621)</u>
Profit before taxation	5	17,278	15,837
Taxation	8	<u>906</u>	<u>(2,851)</u>
Profit attributable to shareholders	10	<u>18,184</u>	<u>12,986</u>
Dividends	11	<u>8,292</u>	<u>6,357</u>
Earnings per share	9		
– Basic (HK cent)		3.29 cents	2.35 cents
– Diluted (HK cent)		<u>2.81 cents</u>	<u>2.00 cents</u>

## CONSOLIDATED BALANCE SHEET

As at 31 October

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

**BALANCE SHEET***As at 31 October*

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

**CONSOLIDATED CASH FLOW STATEMENT***For the year ended 31 October*

<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Cash flows from operating activities</b>		
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
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Cash generated from operations	4,292	12,571
Hong Kong profits tax (paid)/refunded	(6,869)	48
Overseas tax paid	(159)	(353)
	<hr/>	<hr/>
<i>Net cash (used in)/generated from operating activities</i>	<hr/> <i>(2,736)</i>	<hr/> <i>12,266</i>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(100)	(916)
Decrease/(Increase) in pledged bank deposits	4,200	(5,805)
Interest received	243	187
	<hr/>	<hr/>
<i>Net cash generated from/(used in) investing activities</i>	<hr/> <i>4,343</i>	<hr/> <i>(6,534)</i>
<b>Cash flows from financing activities</b>		
Dividend paid	(6,357)	(1,935)
	<hr/>	<hr/>
<i>Net cash used in financing activities</i>	<hr/> <i>(6,357)</i>	<hr/> <i>(1,935)</i>
<b>(Decrease)/Increase in cash and cash equivalents</b>	(4,750)	3,797
<b>Cash and cash equivalents at beginning of year</b>	<hr/> 34,919	<hr/> 31,122
<b>Cash and cash equivalents at end of year</b>	<hr/> <b>30,169</b>	<hr/> <b>34,919</b>

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances	<i>16</i>	11,133	22,923
Non-pledged time deposits	<i>16</i>	<u>19,036</u>	<u>9,159</u>
		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		<u>–</u>	<u>2,837</u>
		<u><u>30,169</u></u>	<u><u>34,919</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October

	Share capital HK\$'000 (Note 19)	Share premium HK\$'000 (Note 21(a))	Capital reserve HK\$'000 (Note 21(a))	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
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	–
<b>At 31 October 2004</b>	<b>5,528</b>	<b>19,586</b>	<b>95</b>	<b>26,904</b>	<b>8,292</b>	<b>60,405</b>



**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 October*

**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 24 to 49 in this appendix 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.

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%

*(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.

*(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.

*(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.

**(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.

**(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.

**(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.

**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.

**(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	<u>37,645</u>	<u>32,804</u>	<u>68,803</u>	<u>71,406</u>	<u>106,448</u>	<u>104,210</u>
Segment results	<u>12,917</u>	<u>8,183</u>	<u>7,032</u>	<u>8,913</u>	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					<u>18,184</u>	<u>12,986</u>
Segment assets	31,862	24,178	62,943	40,513	94,805	64,691
Unallocated assets					4,169	32,378
Total assets					<u>98,974</u>	<u>97,069</u>
Segment liabilities	7,136	9,520	29,523	37,733	36,659	47,253
Unallocated liabilities					1,910	1,238
Total liabilities					<u>38,569</u>	<u>48,491</u>
Other segment information:						
Depreciation	340	220	22	4	362	224
Unallocated amounts					6	10
					<u>368</u>	<u>234</u>
Capital expenditure	71	730	29	185	100	915
Unallocated expenses					–	1
					<u>100</u>	<u>916</u>
(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 equipments	–	–	–	–	–	–
Unallocated amounts					29	–
					<u>29</u>	<u>–</u>
Provision for warranty	<u>2,920</u>	<u>3,975</u>	<u>–</u>	<u>–</u>	<u>2,920</u>	<u>3,975</u>

**(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
	<u>46,762</u>	<u>44,833</u>	<u>52,357</u>	<u>54,168</u>	<u>7,329</u>	<u>5,209</u>	<u>106,448</u>	<u>104,210</u>
Other segment information:								
Segment assets	65,409	67,819	31,074	28,623	2,491	627	98,974	97,069
	<u>65,409</u>	<u>67,819</u>	<u>31,074</u>	<u>28,623</u>	<u>2,491</u>	<u>627</u>	<u>98,974</u>	<u>97,069</u>
Capital expenditure	57	748	26	164	17	4	100	916
	<u>57</u>	<u>748</u>	<u>26</u>	<u>164</u>	<u>17</u>	<u>4</u>	<u>100</u>	<u>916</u>

**4. TURNOVER**

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

**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
	<u>2,208</u>	<u>3,282</u>
(Write back of)/Provision for doubtful debts***	(461)	3,646
Interest income	(243)	(182)
	<u>(704)</u>	<u>3,464</u>

\* 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.

## 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:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>4,166</u>	<u>4,143</u>

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).

## 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:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	738	736
Bonuses	120	32
Pension scheme contributions	19	20
	<u>877</u>	<u>788</u>

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).



## 8. TAXATION AND DEFERRED TAX ASSETS

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

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.

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:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
	<u>          </u>	<u>          </u>
Tax (credit)/charge at the Group's effective rate	<u>(906)</u>	<u>2,851</u>

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

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

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.

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**

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed final dividend of HK1.50 cents (2003: HK1.15 cents) per ordinary share	<u>8,292</u>	<u>6,357</u>

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.

**12. PROPERTY, PLANT AND EQUIPMENT**

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

## 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.

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. <sup>#</sup> (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
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

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 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:*

- (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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods	21,636	22,355
Provision for slow-moving inventories	(2,777)	(1,132)
	<u>18,859</u>	<u>21,223</u>

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).

## 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
	<u>36,359</u>	<u>28,013</u>
Provision for doubtful debts	(3,185)	(3,646)
	<u>33,174</u>	<u>24,367</u>
Carrying amount analysed for reporting purposes as		
Non-current ( <i>Note</i> )	6,313	3,200
Current	26,861	21,167
	<u>33,174</u>	<u>24,367</u>

*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.

## 16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

## 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:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>27,026</u>	<u>34,750</u>

## 18. PROVISION FOR WARRANTY

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>2,920</u>	<u>3,975</u>
	7,217	4,297
Less: Amounts utilised	(600)	–
At end of the year	6,617	4,297
Portion classified as current liabilities	<u>(1,728)</u>	<u>(720)</u>
Portion classified as non-current liabilities	<u>4,889</u>	<u>3,577</u>

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 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.01 each	<u>50,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>		
552,800,000 ordinary shares of HK\$0.01 each	<u>5,528</u>	<u>5,528</u>

## 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.

- (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.

- (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\$
<b>Pre-Scheme</b>				
<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		
<b>ANT-Option scheme</b>				
<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.

Name	Date of grant (Note (i))	Number of share options outstanding at beginning and end of the year	Exercise period of share options (Note (ii))	Exercise price of share options HK\$
<b>Post-Scheme</b>				
<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
		3,000,000		

*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.

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.

## (b) Company

	Share premium <i>HK\$'000</i>	Retained profits/ (Accumulated losses) <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>30,537</u>	<u>1,377</u>	<u>8,292</u>	<u>40,206</u>

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.

## 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 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Guarantee for banking facilities granted to subsidiaries	<u>19,731</u>	<u>20,693</u>

- (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.

#### 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	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	567	552	–	56
In the second to fifth years, inclusive	156	41	–	–
	<u>723</u>	<u>593</u>	<u>–</u>	<u>56</u>

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.

### 3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 APRIL 2005

Set out below are the unaudited condensed consolidated income statement, condensed consolidated balance sheet, consolidated statement of change in equity and condensed consolidated cash flow statement, together with the notes to the financial statements of the Group extracted from the interim report of the Company for the six months ended 30 April 2005.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Three months ended 30 April		Six months ended 30 April	
		2005 (unaudited) <i>HK\$'000</i>	2004 (unaudited) <i>HK\$'000</i>	2005 (unaudited) <i>HK\$'000</i>	2004 (unaudited) <i>HK\$'000</i>
Turnover	2	14,066	30,180	31,428	51,344
Cost of sales		<u>(10,114)</u>	<u>(20,723)</u>	<u>(21,510)</u>	<u>(34,089)</u>
Gross profit		3,952	9,457	9,918	17,255
Other revenue		95	35	260	84
Selling expenses		(555)	(541)	(1,151)	(1,039)
Administrative expenses		(2,298)	(2,955)	(4,981)	(5,993)
Other operating income/(expenses)		<u>1,198</u>	<u>(587)</u>	<u>1,461</u>	<u>(1,767)</u>
Profit before taxation	4	2,392	5,409	5,507	8,540
Taxation	5	<u>(306)</u>	<u>(61)</u>	<u>(402)</u>	<u>144</u>
Profit attributable to shareholders		<u>2,086</u>	<u>5,348</u>	<u>5,105</u>	<u>8,684</u>
Dividends	6	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share	7				
– Basic (HK cent)		0.38 cent	0.97 cent	0.93 cent	1.57 cent
– Diluted (HK cent)		<u>0.32 cent</u>	<u>0.82 cent</u>	<u>0.79 cent</u>	<u>1.34 cent</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>As at 30 April 2005 (unaudited) HK\$'000</b>	<b>As at 31 October 2004 (audited) HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	1,194	953
Deferred tax assets	5	2,346	2,685
Accounts receivable	10	6,884	6,313
Pledged bank deposits	11	9,020	6,200
		<u>19,444</u>	<u>16,151</u>
<b>Current assets</b>			
Inventories	9	20,962	18,859
Accounts receivable	10	14,184	26,861
Deposits, prepayments and other receivables		4,558	2,933
Tax recoverable		2,916	2,948
Pledged bank deposits	11	1,053	1,053
Cash and cash equivalents	11	21,828	30,169
		<u>65,501</u>	<u>82,823</u>
<b>Current liabilities</b>			
Accounts and bills payable	12	18,130	27,026
Accrued liabilities and other payables		2,521	3,926
Provision for warranty	13	2,711	1,728
Provision for tax		1,000	1,000
		<u>24,362</u>	<u>33,680</u>
<b>Net current assets</b>		<u>41,139</u>	<u>49,143</u>
<b>Total assets less current liabilities</b>		<u>60,583</u>	<u>65,294</u>
<b>Non-current liability</b>			
Provision for warranty	13	3,365	4,889
<b>Net assets</b>		<u>57,218</u>	<u>60,405</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		5,528	5,528
Share premium		19,586	19,586
Capital reserve		95	95
Retained profits		32,009	26,904
Proposed final dividend		–	8,292
<b>Shareholders' funds</b>		<u>57,218</u>	<u>60,405</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months Ended 30 April 2005 (unaudited) HK\$'000</b>	<b>Six months Ended 30 April 2004 (unaudited) HK\$'000</b>
Net cash generated from/(used in) operating activities	2,988	(6,123)
Net cash/(used in)/generated from investing activities	(3,037)	4,223
Net cash used in financing activities	<u>(8,292)</u>	<u>(6,357)</u>
<b>Decrease in cash and cash equivalents</b>	(8,341)	(8,257)
<b>Cash and cash equivalents at 1 November</b>	<u>30,169</u>	<u>34,919</u>
<b>Cash and cash equivalents at 30 April</b>	<u><u>21,828</u></u>	<u><u>26,662</u></u>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	8,824	14,608
Time deposits	<u>23,077</u>	<u>19,304</u>
	31,901	33,912
Less: time deposits pledged for performance bond facilities	<u>(10,073)</u>	<u>(7,250)</u>
	<u><u>21,828</u></u>	<u><u>26,662</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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 period	–	–	–	8,684	–	8,684
At 30 April 2004	5,528	19,586	95	25,696	–	50,905
At 1 November 2004	5,528	19,586	95	26,904	8,292	60,405
2004 final dividend declared	–	–	–	–	(8,292)	(8,292)
Profit for the period	–	–	–	5,105	–	5,105
<b>At 30 April 2005</b>	<b>5,528</b>	<b>19,586</b>	<b>95</b>	<b>32,009</b>	<b>–</b>	<b>57,218</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The Group's unaudited condensed interim financial statements have been prepared in accordance with Statements of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules").

The unaudited condensed interim financial statements have been prepared under the historical cost convention. The accounting policies and basis of preparation adopted for the preparation of these accounts are consistent with those adopted by the Group in its annual financial statements for the year ended 31 October 2004.

## 2. TURNOVER

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



## 3. SEGMENT INFORMATION

## (a) Business segments

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

	General environmental protection related products and services		Industrial environmental products		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	6,130	21,844	25,298	29,500	31,428	51,344
Other revenue	–	–	34	7	34	7
Total	6,130	21,844	25,332	29,507	31,462	51,351
Segment results	1,869	6,385	4,451	2,679	6,320	9,064
Interest income					226	77
Unallocated expenses					(1,039)	(601)
Profit before taxation					5,507	8,540
Taxation					(402)	144
Profit attributable to shareholders					5,105	8,684
Segment assets	34,421	37,391	50,117	50,872	84,538	88,263
Unallocated assets					407	642
Total assets					84,945	88,905
Segment liabilities	6,536	10,349	19,522	27,490	26,058	37,839
Unallocated liabilities					1,669	161
Total liabilities					27,727	38,000
Other segment information:						
Depreciation	170	169	32	16	202	185
Capital expenditure	7	57	436	–	443	57
Write back of doubtful debts	–	–	(1,095)	(276)	(1,095)	(276)
Provision for slow moving inventories	–	740	–	–	–	740
(Write back of)/provision for warranty	(366)	2,043	–	–	(366)	2,043

**(b) Geographical segments**

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

	Hong Kong		Mainland China		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	10,842	24,973	19,134	23,037	1,452	3,334	31,428	51,344
Other revenue	–	–	34	7	–	–	34	7
Other segment information:								
Segment assets	49,965	56,248	32,437	29,860	2,543	2,797	84,945	88,905
Capital expenditure	7	53	436	–	–	4	443	57

**4. PROFIT BEFORE TAXATION**

	Three months ended 30 April		Six months ended 30 April	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group's profit before taxation is arrived at after charging/(crediting):				
Cost of inventories sold		10,066	20,680	21,418
Depreciation		108	95	202
Exchange (gains)/losses, net		(499)	373	125
Operating lease charges in respect of land and buildings		356	252	658
Provision for slow-moving inventories		–	–	–
Staff costs (including Directors' emoluments):				
Wages and salaries		1,459	2,052	3,041
Pension scheme contributions		28	38	69
(Write back of)/provision for warranty		(515)	863	(366)
Write back of doubtful debts		(683)	(276)	(1,095)
Interest income		(120)	(35)	(226)

## 5. TAXATION AND DEFERRED TAX ASSETS

	Three months ended 30 April		Six months ended 30 April	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current:				
Hong Kong	–	79	32	148
Elsewhere	13	85	31	147
	<u>13</u>	<u>164</u>	<u>63</u>	<u>295</u>
Deferred	293	(103)	339	(439)
	<u>293</u>	<u>(103)</u>	<u>339</u>	<u>(439)</u>
Total tax charge/(credit) for the period	<u>306</u>	<u>61</u>	<u>402</u>	<u>(144)</u>

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 April 2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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.

At 30 April 2005, there was no significant unrecognised deferred tax liability (31 October 2004: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

The following are deferred tax assets recognized in the balance sheet and the movements during current period:

	Provision for warranty	Provision for doubtful debts	Provision for slow moving inventories	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 November 2004	1,106	919	660	2,685
Charged to the income statement during the period	<u>(42)</u>	<u>(297)</u>	<u>–</u>	<u>(339)</u>
At 30 April 2005	<u>1,064</u>	<u>622</u>	<u>660</u>	<u>2,346</u>

## 6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 April 2005 (six months ended 30 April 2004: nil).

## 7. EARNINGS PER SHARE

The earnings per share amount for the three months ended 30 April 2005 is calculated based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$2,086,000 (three months ended 30 April 2004: HK\$5,348,000) and the weighted average of 552,800,000 (three months ended 30 April 2004: 552,800,000) ordinary shares in issue during the period.

The earnings per share amount for the six months ended 30 April 2005 is calculated based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$5,105,000 (six months ended 30 April 2004: HK\$8,684,000) and the weighted average of 552,800,000 (six months ended 30 April 2004: 552,800,000) ordinary shares in issue during the period.

The calculation of the diluted earnings per share for the three months ended 30 April 2005 is based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$2,086,000 (three months ended 30 April 2004: HK\$5,348,000) and 645,201,883 (three months ended 30 April 2004: 649,044,914) ordinary shares, being the 552,800,000 (three months ended 30 April 2004: 552,800,000) ordinary shares as used in the calculation of basic earnings per share, and the weighted average of 92,401,883 (three months ended 30 April 2004: 96,244,914) ordinary shares assumed to have been issued on the deemed exercise of the share options under the pre-IPO share option scheme, ANT share option scheme and post-IPO share option scheme.

The calculation of the diluted earnings per share for the six months ended 30 April 2005 is based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$5,105,000 (six months ended 30 April 2004: HK\$8,684,000) and 645,569,350 (six months ended 30 April 2004: 648,280,299) ordinary shares, being the 552,800,000 (six months ended 30 April 2004: 552,800,000) ordinary shares as used in the calculation of basic earnings per share, and the weighted average of 92,769,350 (six months ended 30 April 2004: 95,480,299) ordinary shares assumed to have been issued on the deemed exercise of the share options under the pre-IPO share option scheme, ANT share option scheme and post-IPO share option scheme.

## 8. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 November 2004	456	317	806	240	1,819
Additions	–	189	174	80	443
At 30 April 2005	456	506	980	320	2,262
Accumulated depreciation:					
At 1 November 2004	154	122	508	82	866
Charge for the period	58	39	77	28	202
At 30 April 2005	212	161	585	110	1,068
Net book value:					
At 30 April 2005	244	345	395	210	1,194
At 31 October 2004	302	195	298	158	953

## 9. INVENTORIES

	30 April 2005 <i>HK\$'000</i>	30 October 2004 <i>HK\$'000</i>
Finished goods	23,739	21,636
Provision for slow-moving inventories	(2,777)	(2,777)
	20,962	18,859

As at 30 April 2005, the carrying amount of inventories that are carried at net realizable value amounted to HK\$4,865,000 (31 October 2004: HK\$3,256,000).

**10. ACCOUNTS RECEIVABLE**

The Group has a policy of allowing an average credit period of 90 days to its trade customers, except for the Environmental Protection Department of the Hong Kong Government (“EPD”), one of the major customers of the Group. The EPD’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 qualified diesel vehicle owners. An ageing analysis of accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	<b>30 April 2005</b>	<b>30 October 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Within 90 days	11,091	23,095
91 – 180 days	2,715	4,984
181 – 365 days	4,330	4,029
Over 365 days	5,022	4,251
	<u>23,158</u>	<u>36,359</u>
Provision for doubtful debts	(2,090)	(3,185)
	<u>21,068</u>	<u>33,174</u>
Carrying amount analysed for reporting purposes as:		
Non-current*	6,884	6,313
Current	14,184	26,861
	<u>21,068</u>	<u>33,174</u>

\* The balance shall be payable by the EPD at the expiry of warranty period of five years from the date of performance of installation services.

**11. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

	<b>30 April 2005</b>	<b>30 October 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	8,824	11,133
Time deposits	23,077	26,289
	<u>31,901</u>	<u>37,422</u>
Less: pledged for performance bond facilities	(10,073)	(7,253)
	<u>21,828</u>	<u>30,169</u>
Pledged deposits analysed for reporting purposes as:		
Non-current	9,020	6,200
Current	1,053	1,053
	<u>10,073</u>	<u>7,253</u>

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

**12. 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:

	<b>30 April 2005</b>	<b>30 October 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Within 90 days	10,412	7,577
91 – 180 days	5,340	12,028
181 – 365 days	49	4,224
Over 365 days	2,329	3,197
	<u>18,130</u>	<u>27,026</u>

**13. PROVISION FOR WARRANTY**

	<b>30 April 2005</b>	<b>30 October 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the period/year	6,617	4,297
Provision for the period/year	571	3,115
Less: unused amounts reversed	<u>(937)</u>	<u>(195)</u>
Amounts (credit)/charged to income statement	<u>(366)</u>	<u>2,920</u>
	6,251	7,217
Less: amounts utilized	<u>(175)</u>	<u>(600)</u>
At end of the period/year	6,076	6,617
Portion classified as current liabilities	<u>(2,711)</u>	<u>(1,728)</u>
Portion classified as non-current liabilities	<u>3,365</u>	<u>4,889</u>

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. The level of provision required was assessed by the Directors annually.

**14. CONTINGENT LIABILITIES**

Performance bond facilities of approximately HK\$10 million have been granted by the banks in favor of the Group. In the event of default by the Group in the performance of the services detailed in the tender contracts offered by the EPD for the supply and installation of devices to reduce particulates from relevant exhaust of diesel vehicles, the EPD is entitled to call for payment from the banks to satisfy and discharge any damages, losses or expenses sustained by the EPD up to the amount of approximately HK\$10 million. The banks have the right of recourse to the Group. The aforesaid performance bond facilities were secured by the Group's pledged bank deposits of approximately HK\$10 million as at 30 April 2005.

Save as aforesaid, the Group did not have any other significant contingent liabilities at 30 April 2005.

**15. CAPITAL COMMITMENT**

As at 30 April 2005, the Group had a capital commitment, which was contracted but not provided for, in respect of the establishment of a sino-foreign joint venture company in Nanjing, the Mainland China amounting to approximately HK\$2.4 million (31 October 2004: nil).

Save as aforesaid, the Group did not have any other significant capital commitments at 30 April 2005.

#### 4. MANAGEMENT DISCUSSION AND ANALYSIS

The following is the reproduction of the management discussion and analysis as contained in the interim report of the Company for the six months ended 30 April 2005 with additional information on the latest development of the business review and prospects of the Group provided by the Directors:

##### **Financial review**

For the six months ended 30 April 2005, the Group recorded a decline in turnover of approximately HK\$19.9 million or 39% as compared with same period last year. Net profit attributable to shareholders amounted to approximately HK\$5.11 million (2004: HK\$8.68 million), representing approximately 41% decrease as compared with last corresponding period. The decrease in turnover and net profit was mainly due to decrease in income derived from sales and installations of the Group's diesel oxidation catalysts ("Eco-Green"), which dropped by approximately HK\$14.0 million or 71%, since the project had been completed during the period under review.

The gross profit of the Group for the six months ended 30 April 2005 amounted to approximately HK\$9.9 million at a margin of 31.6% as compared with a gross profit of around HK\$17.3 million at a margin of 33.6% for the same period in the previous year. Although the amount of net exchange loss arising from settlement of purchases during the period was far lower than last corresponding period, its positive impact on gross profit was compensated by the decrease in sales of Eco-Green which earned a higher profit margin and resulted in a slight decrease in gross profit of the Group.

The administrative expenses for the six months ended 30 April 2005 dropped by approximately HK\$1 million or 17% as compared with last corresponding period. The decrease was mainly brought by decrease in staff cost by approximately HK\$1.1 million due to decrease in bonus accrued for the Directors and reduction in staff headcount of our Hong Kong office during the period under review.

Other operating income comprised of write-back of provisions for warranty of Eco-Green and doubtful debts which amounted to HK\$366,000 and HK\$1,095,000 respectively. The level of provision for warranty required was assessed by the Directors annually and the amount of warranty cost provided as at 30 April 2005 was considered adequate for future utilization. On the other side, the write-back of doubtful debts was due to the fact that some long overdue trade receivables had been collected. The Group will continue to make every effort to collect overdue debts from trade debtors.

The source of finance of the Group was primarily from the initial placing proceeds and internally generated funds. As at 30 April 2005, the Group had pledged its bank deposits of approximately HK\$10 million to secure for performance bond facilities. Nevertheless, the Group still had cash and bank balances of approximately HK\$21.8 million for its future expansion and development.

### **Business review and prospects**

The Group is principally involved in the marketing, sale, servicing, research and development of environmental protection and quality health related products and services.

During the period under review, the contract entered into between the Group and the EPD in November 2002 for supply and installation of Eco-Green had been completed which led to significant decrease in the Group's turnover and net profit. However, leveraged on our branding strength in the field of environmental protection related products, our Group had successfully bid three new tenders issued by the EPD in April 2005. The three tenders were exclusively granted to the Group and were related to supply and installation of particulate removal devices to reduce particulates from the exhaust of pre-Euro emission standard diesel vehicles each of permitted gross vehicle weight over four tones that needs to undertake long idling duties. The operation of the new tenders is similar to the Eco-Green project and the first batch installation has been carrying out in August 2005. Based on the valuable experience of our previous product "Eco-Green", the Company expects promising orders for the coming two quarters which will significantly uplift both the Group's turnover and profit for the rest of this financial year.

In order to widen its sources of revenue and range of products and services provided, the Group had entered into a joint venture agreement with Jiangsu Shengfeng Investment Co. Limited (江蘇盛豐投資有限公司), an independent third party to the Group, to establish Jiangsu Kangyuan Environmental Protection Technology Co. Limited (江蘇康源環保科技有限公司) ("Jiangsu Kangyuan"), a sino-foreign joint venture company in Nanjing, the Mainland China, on 25 April 2005 to seek for investment opportunities in waste water treatment business in Jiangsu Province and to promote the Group's environmental products such as Eco-Green, Eco-Air, Eco-Water and other environmental related solutions in the region. The registered capital of Jiangsu Kangyuan is RMB5 million of which the Company holds 50% interest. Apart from the capital contribution, the Company has no other commitments on Jiangsu Kangyuan. Jiangsu Kangyuan is jointly managed by both parties, and any profit, after deduction of taxation, generated from the operations of Jiangsu Kangyuan will be attributable to both parties according to their respective capital contribution. The business license of the joint venture company has been obtained in June 2005. Jiangsu Kangyuan became a jointly controlled entity of the Company. The Group's and Company's shares of results and assets is accounted for under the equity method of accounting.



The Company's wholly-owned factory in Dongguang had already commenced its operation. Revenue of the factory mainly derived from provision of subcontract service to other industrial manufacturers. Following the enhancement of marketing efforts, more orders had been received and the production volume had been increasing during the past few months. The Group is optimistic that the factory will continue to record a reasonable growth in revenue in the coming quarters.

The Group's sale of industrial environmental protection products such as hydraulic components recorded a decrease during the period under review. Such decrease was mainly due to sluggish manufacturing industry as a result of rising prices of crude oil, plastic resin, steel and alloy metals which had directly hit the demand for the Group's hydraulic components.

### *Outlook*

The management of the Company has been taking active steps to widen its source of revenue which includes the establishment of a wholly-owned factory in Dongguan and Jiangsu Kangyuan. Apart from these establishments, the Company will continue to seek for other new investment opportunities and health related projects. Looking forward, the Directors are confident that the Group's turnover and profit attributable to shareholders will experience a very strong rebound in the forth quarter of this fiscal year, following the commencement operation of the three new EPD tenders and revenue generated from the new companies.

### **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. For the period 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 30 April 2005, the Group had 45 employees (2004: 29 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 six months under review amounted to approximately HK\$3.11 million (2004: HK\$4.25 million). The dedication and hard work of the Group's staff during the six months ended 30 April 2005 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.

**Significant investments**

In April 2005, the Group had entered into a joint venture agreement to establish Jiangsu Kangyuan in Nanjing, the Mainland China to seek for investment opportunities in waste water treatment business in Jiangsu Province and to promote the Group's environmental products in the region. The registered capital of the joint venture company is Rmb5 million and the Company holds 50% interest.

In November 2005, the Group had entered into a MOU, Sale and Purchase Agreement, Loan Agreement and Share Charge with the Vendor and Asian Way to acquire 42.5% indirect interest in the Water Supply Plant as disclosed in this circular.

Save as disclosed above, the Group had no significant investments as at the date hereof.

**Material acquisitions and disposals/future plans for material investments**

Apart from the acquisition of 42.5% shareholding interest in Asian Way as disclosed in this circular, the Group had no material acquisitions or disposals and has no plans for material investments or capital assets as at the date hereof.

**Charge on group assets and contingent liabilities**

As at the date hereof, the Group has pledged its bank deposits of approximately HK\$10 million to secure for the performance bond facilities (further details of which are set out in notes 11 and 14 above).

Save as aforesaid, the Group did not have any other significant contingent liabilities as at the date hereof.

**Gearing ratio**

As at 30 April 2005, the Group had cash and cash equivalents of approximately HK\$22 million (31 October 2004: HK\$30 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 30 April 2005 (31 October 2004: 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 period 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, forward exchange contracts were used for hedging payment in certain volatile foreign currencies. As at 30 April 2005, the Group had outstanding hedging instruments amounted to approximately HK\$2.5 million (31 October 2004: Nil).

*The following is the text of a report dated 16 December 2005, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IV, a copy of the following report is available for inspection.*

**Certified Public Accountants  
Member of Grant Thornton International**

**Grant Thornton**   
**均富會計師行**

16 December 2005

The Directors  
Eco-Tek Holdings Limited  
Unit 5, 11/F  
Westlands Centre  
20 Westlands Road  
Quarry Bay  
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Asian Way International Limited ("Asian Way") and its subsidiary (collectively referred to as the "Asian Way Group") for the three years ended 30 June 2003, 2004 and 2005 (the "Relevant Periods") for inclusion in the circular (the "Circular") dated 16 December 2005 issued by Eco-Tek Holdings Limited (the "Company") in connection with the proposed acquisition of 4,250 shares, representing 42.5% of the issued share capital of Asian Way (the "Acquisition"), by Well Spread Investment Limited ("Well Spread"), a wholly-owned subsidiary of the Company and the granting of a secured loan of RMB60,000,000 to Asian Way.

Asian Way was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 9 February 2001. Asian Way is principally engaged in investment holding. Since 7 August 2002, Asian Way became the holding company of Tianjin Asian Way Estate Development Co., Ltd., 天津華永房地產開發有限公司 ("Tianjin Asian Way"). Tianjin Asian Way, being the wholly-owned subsidiary of Asian Way, is principally engaged in the operation of a water supply plant in the People's Republic of China, except Hong Kong (the "PRC"). Since the construction of the water supply plant was under progress during the Relevant Periods, Tianjin Asian Way had no active business operation throughout the Relevant Periods.

The statutory auditors of Asian Way for the period from 9 February 2001 (date of incorporation) to 30 June 2005 (the "Period") were FTW & Partners CPA Limited, Certified Public Accountants, Hong Kong. The statutory financial statements of Asian Way for the Period were prepared in accordance with accounting principles generally accepted in Hong Kong and comply with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") except as disclosed below.

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## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

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The statutory financial statements of Asian Way for the Period were prepared for a period in excess of that permitted by Section 122 of the Hong Kong Companies Ordinance and accordingly were qualified by FTW & Partners CPA Limited in this respect. Such qualification has been removed in this report because, for the purpose of this report, the financial information of Asian Way Group were prepared for each financial year as set out in sections I to III below (“Financial Information”).

The statutory financial statements of Asian Way for the Period were also qualified for Asian Way’s failure to prepare consolidated financial statements as required by Statement of Standard Accounting Practice 32 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” issued by the HKICPA and to disclose certain financial information as required by the Hong Kong Companies Ordinance relating to the subsidiary not consolidated. Such qualification has been removed in this report because, for the purpose of this report, the financial information of Asian Way’s subsidiary were consolidated in the Financial Information.

Furthermore, the audit report on Asian Way for the Period was modified and an explanatory paragraph covering the fundamental uncertainty of preparing the statutory financial statements of Asian Way on a going concern basis was included therein. For the purpose of this report, we have included such explanatory paragraph as set out below.

The statutory financial statements of Tianjin Asian Way were prepared in accordance with the accounting principles and relevant accounting rules and regulations applicable to companies established in the PRC. The statutory auditors of Tianjin Asian Way for the period from 7 August 2002 (date of incorporation) to 31 December 2004 were 天津市正泰有限責任會計師事務所, Certified Public Accountants, the PRC.

For the purpose of this report, the directors of Asian Way have prepared the consolidated management accounts of the Asian Way Group for the Relevant Periods (the “Accounts”) in accordance with generally accepted accounting principles in Hong Kong and in compliance with accounting standards issued by the HKICPA. The directors of Asian Way are responsible for preparing the Accounts which give a true and fair view. In preparing the Accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. The financial years end of Asian Way and Tianjin Asian Way were 30 June and 31 December respectively. For the purpose of this report, the Accounts were prepared by the directors of Asian Way for financial periods ended 30 June. We have, for the purpose of this report, carried out independent audit procedures on the Accounts in accordance with Statements of Auditing Standards issued by the HKICPA.

The Financial Information for the Relevant Periods have been prepared based on the Accounts. The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. We have examined the Financial Information and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

**Fundamental uncertainty**

In forming our opinion, we have considered the adequacy of the disclosures made in the Financial Information concerning the adoption of the going concern basis for the preparation of the Financial Information as set out in note 1 of section II "Basis of presentation". The validity of the going concern basis depends upon the continuing financial support from the shareholders of Asian Way. The Financial Information do not include any adjustments that would result from the withdrawal of such financial support. Should Asian Way Group be unable to continue its operations due to withdrawal of such financial support and the going concern basis become no longer appropriate, adjustments would have to be made to the Financial Information to restate the value of all assets of Asian Way Group to their recoverable amounts, to provide for any further liabilities for Asian Way Group which might arise, and to reclassify the non-current assets and non-current liabilities of Asian Way Group as current assets and current liabilities respectively. We consider that the fundamental uncertainty has been properly disclosed in the Financial Information and our opinion is not qualified in this respect.

**Opinion**

In our opinion, on the basis set out in note 1 of section II below, the Financial Information give, for the purpose of this report, a true and fair view of the state of affairs of Asian Way and of Asian Way Group as at 30 June 2003, 2004 and 2005 and of the consolidated results and consolidated cash flows of Asian Way Group for the Relevant Periods.

**I. FINANCIAL INFORMATION OF ASIAN WAY GROUP**

**CONSOLIDATED INCOME STATEMENTS**

	<i>Notes</i>	<b>Year ended 30 June</b>		
		<b>2003</b>	<b>2004</b>	<b>2005</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other revenue	3	–	–	6,613
Administrative expenses		–	(1,120)	(332,025)
<b>Loss before taxation</b>	4	–	(1,120)	(325,412)
Taxation	5	–	–	–
<b>Loss for the year</b>	14(a)	–	(1,120)	(325,412)

## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

### CONSOLIDATED BALANCE SHEETS

		<b>At 30 June</b>		
	<i>Notes</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant and equipment	9	–	–	1,128,523
Deposits paid	9	–	–	8,301,887
		<u>–</u>	<u>–</u>	<u>9,430,410</u>
<b>Current assets</b>				
Other receivables		–	–	483,962
Cash and bank balances		10	779,690	5,588,819
		<u>10</u>	<u>779,690</u>	<u>6,072,781</u>
<b>Current liabilities</b>				
Other payables		–	–	8,000
Amount due to a director	11	–	–	56,603
		<u>–</u>	<u>–</u>	<u>64,603</u>
<b>Net current assets</b>		<u>10</u>	<u>779,690</u>	<u>6,008,178</u>
<b>Total assets less current liabilities</b>		<u>10</u>	<u>779,690</u>	<u>15,438,588</u>
<b>Non-current liabilities</b>				
Loans from shareholders	12	–	(780,800)	(15,755,120)
<b>Net assets/(liabilities)</b>		<u>10</u>	<u>(1,110)</u>	<u>(316,532)</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	13	10	10	10,000
Accumulated losses		–	(1,120)	(326,532)
<b>Shareholders' funds/(Capital deficiencies)</b>		<u>10</u>	<u>(1,110)</u>	<u>(316,532)</u>

## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

### BALANCE SHEETS

		<b>At 30 June</b>		
	<i>Notes</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Interest in a subsidiary	<i>10</i>	–	780,800	15,605,800
<b>Current assets</b>				
Cash and bank balances		10	10	147,344
<b>Current liabilities</b>				
Other payables		–	–	8,000
<b>Net current assets</b>		10	10	139,344
<b>Total assets less current liabilities</b>		10	780,810	15,745,144
<b>Non-current liabilities</b>				
Loans from shareholders	<i>12</i>	–	(780,800)	(15,755,120)
<b>Net assets/(liabilities)</b>		10	10	(9,976)
<b>CAPITAL AND RESERVES</b>				
Share capital	<i>13</i>	10	10	10,000
Accumulated losses	<i>14(b)</i>	–	–	(19,976)
<b>Shareholders' funds/(Capital deficiencies)</b>		10	10	(9,976)



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**APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP**

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**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<b>Share capital</b> <i>HK\$</i>	<b>Accumulated losses</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
Balance at 1 July 2002	10	–	10
Loss for the year	–	–	–
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2003 and 1 July 2003	10	–	10
Loss for the year	–	(1,120)	(1,120)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2004 and 1 July 2004	10	(1,120)	(1,110)
Proceeds from shares issued	9,990	–	9,990
Loss for the year	–	(325,412)	(325,412)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2005	<u>10,000</u>	<u>(326,532)</u>	<u>(316,532)</u>

**APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP**

**CONSOLIDATED CASH FLOW STATEMENTS**

	Year ended 30 June		
	2003 HK\$	2004 HK\$	2005 HK\$
<b>Cash flows from operating activities</b>			
Loss before taxation	–	(1,120)	(325,412)
Adjustments for:			
Interest income	–	–	(6,613)
Depreciation	–	–	18,229
	<u>–</u>	<u>–</u>	<u>18,229</u>
Operating loss before working capital changes	–	(1,120)	(313,796)
Increase in other receivables	–	–	(483,962)
Increase in other payables	–	–	8,000
Increase in amount due to a director	–	–	56,603
	<u>–</u>	<u>–</u>	<u>56,603</u>
<i>Net cash used in operating activities</i>	<u>–</u>	<u>(1,120)</u>	<u>(733,155)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	–	–	(1,146,752)
Deposits paid	–	–	(8,301,887)
Interest income received	–	–	6,613
	<u>–</u>	<u>–</u>	<u>6,613</u>
<i>Net cash used in investing activities</i>	<u>–</u>	<u>–</u>	<u>(9,442,026)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital	–	–	9,990
Increase in loans from shareholders	–	780,800	14,974,320
	<u>–</u>	<u>780,800</u>	<u>14,974,320</u>
<i>Net cash generated from financing activities</i>	<u>–</u>	<u>780,800</u>	<u>14,984,310</u>
<b>Increase in cash and cash equivalents</b>	–	779,680	4,809,129
<b>Balance at the beginning of year</b>	<u>10</u>	<u>10</u>	<u>779,690</u>
<b>Balance at the end of year</b>	<u><u>10</u></u>	<u><u>779,690</u></u>	<u><u>5,588,819</u></u>
<b>Analysis of cash and cash equivalents</b>			
Cash and bank balances	<u><u>10</u></u>	<u><u>779,690</u></u>	<u><u>5,588,819</u></u>

**II. NOTES TO THE FINANCIAL INFORMATION****1. BASIS OF PRESENTATION**

Asian Way was incorporated in Hong Kong on 9 February 2001 and is engaged in investment holding. Its subsidiary, Tianjin Asian Way, is engaged in the operation of a water supply plant in the PRC. Since the construction of the water supply plant was under progress during the Relevant Periods, Tianjin Asian Way had no active business operation throughout the Relevant Periods. Particulars of Tianjin Asian Way are set out in note 10 below.

As at 30 June 2005, the directors of Asian Way have prepared the Accounts, in which the Financial Information are based upon, on a going concern basis. The validity of this basis of presentation depends on the continuing financial support from the shareholders of Asian Way. Based on the foregoing, the Financial Information have been prepared on a going concern basis. The Financial Information do not include any adjustments that would result from the withdrawal of such financial support. Should Asian Way Group be unable to continue its operations due to withdrawal of such financial support and the going concern basis become no longer appropriate, adjustments would have to be made to the Financial Information to restate the value of all assets of Asian Way Group to their recoverable amounts, to provide for any further liabilities for Asian Way Group which might arise, and to reclassify the non-current assets and non-current liabilities of Asian Way Group as current assets and current liabilities respectively.

**2. PRINCIPAL ACCOUNTING POLICIES****(a) Basis of preparation**

The Financial Information have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA.

The HKICPA has issued a number of new or revised HKFRS which are effective for accounting periods beginning on or after 1 January 2005. Asian Way Group has not early adopted these new HKFRS in the preparation of the Financial Information. Asian Way Group has already commenced an assessment of the impact of these new HKFRS and has so far concluded that the adoption of these new HKFRS would have no significant impact on its results of operations and financial position. Asian Way Group will be continuing with the assessment of the impact of the other new HKFRS and other significant changes may be identified as a result.

**(b) Basis of consolidation**

The Financial Information incorporate the financial statements of Asian Way and its subsidiary made up to 30 June each year. All material inter-company transactions and balances within Asian Way Group are eliminated on consolidation.

The results of subsidiary acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The gain or loss on disposal of a subsidiary represents the difference between the proceeds from the sale and Asian Way Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement and any related accumulated exchange reserve.

**(c) Subsidiaries**

Subsidiaries are those enterprises in which Asian Way controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors.

In Asian Way's balance sheet, subsidiary is carried at cost less impairment losses. The results of subsidiary are accounted for by Asian Way on the basis of dividends received and receivable at the balance sheet date.

**(d) 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%
Office equipment	20%

*(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 or retired, 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.

**(e) Properties under development**

Properties under development held for non-trading purpose are included in property, plant and equipment at cost less impairment loss. Cost comprises development costs, including capitalised borrowing costs and other direct costs attributable to the interests in properties under development.

**(f) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting periods in which they are incurred.

**(g) Foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the balance sheets of subsidiary expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date and its income statements are translated at the average rates for the year. Exchange differences arising are dealt with as movement in exchange reserve.

**(h) Income taxes**

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 periods.

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 difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. 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 periods when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement.

**(i) Recognition of revenue**

Interest income is recognised on a time proportion basis by reference to the principal outstanding and the rate applicable.

**(j) 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.

**(k) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent 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. Bank overdrafts that are repayable on demand and form an integral part of Asian Way Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**(l) Impairment**

The carrying amounts of Asian Way 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.

*(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.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

### 3. OTHER REVENUE

Other revenue represents bank interest income.

### 4. LOSS BEFORE TAXATION

	Year ended 30 June		
	2003 HK\$	2004 HK\$	2005 HK\$
Loss before taxation is arrived at after charging:			
Auditors' remuneration	–	–	17,143
Depreciation	–	–	18,229
Operating lease charges for office premises	–	–	23,585
Staff costs, including directors' emoluments – Salaries and allowances	–	–	52,020
	<u>–</u>	<u>–</u>	<u>52,020</u>

### 5. TAXATION AND DEFERRED TAXATION

No Hong Kong profits tax and PRC income tax have been provided as Asian Way Group did not derive any assessable income in Hong Kong and PRC during the Relevant Periods.

In accordance with the applicable corporate income tax law of the PRC, Tianjin Asian Way is exempted from PRC corporate income tax for the first two profitable calendar years of its operation and is entitled to a 50% relief on corporate income tax for the following three years. The two years' tax exemption period for Tianjin Asian Way had not commenced during the Relevant Periods.

Deferred tax assets are recognised to the extent that realisation of related tax benefit through the future taxable profits is probable. Asian Way Group had unrecognised deferred tax assets arising from tax losses and other temporary differences of HK\$196 and HK\$102,424 as at 30 June 2004 and 2005 respectively for offset against future taxable profits. Deferred tax assets are not recognised by Asian Way Group due to the unpredictability of future profit streams. The unrecognised tax losses can be carried forward indefinitely.

Reconciliation between tax expenses and accounting loss at applicable tax rates:

	Year ended 30 June		
	2003 HK\$	2004 HK\$	2005 HK\$
Loss before taxation	–	(1,120)	(325,412)
Tax credit calculated at the rates applicable to the jurisdictions concerned	–	(196)	(102,424)
Deferred tax assets not recognised	–	196	6,637
Other tax effect of temporary differences not recognised	–	–	95,787
Actual tax expenses	<u>–</u>	<u>–</u>	<u>–</u>

### 6. LOSS PER SHARE

No loss per share information for each of the Relevant Periods has been presented as its inclusion, for the purpose of this report, is not meaningful in the opinion of the directors of the Company.

## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

### 7. DIRECTORS' EMOLUMENTS

No emoluments have been paid or payable to the directors of Asian Way during the Relevant Periods.

There was no emolument paid by Asian Way to its directors as an inducement to join or upon joining Asian Way Group, or as compensation for loss of office during the Relevant Periods.

There was no arrangement under which a director of Asian Way waived or agreed to waive any remuneration during the Relevant Periods.

### 8. FIVE HIGHEST PAID INDIVIDUALS

None of the five individuals whose emoluments were the highest in Asian Way Group during the Relevant Periods was a director of Asian Way. The emoluments paid to these individuals during the Relevant Periods are as follows:

	Year ended 30 June		
	2003 HK\$	2004 HK\$	2005 HK\$
Salaries and allowances	–	–	52,020

The emoluments of these five highest paid individuals fell within the HK\$Nil – HK\$1,000,000 band.

No emoluments were paid by Asian Way Group to any of these five highest paid individuals as an inducement to join or upon joining Asian Way Group, or as compensation for loss of office during the Relevant Periods.

### 9. PROPERTY, PLANT AND EQUIPMENT AND DEPOSITS PAID

No property, plant and equipment was acquired by Asian Way Group since the respective dates of incorporation/establishment of Asian Way and Tianjin Asian Way up to 30 June 2004. Movement of property, plant and equipment of Asian Way Group for the year ended 30 June 2005 is as follows:

	Motor vehicles HK\$	Office equipment HK\$	Properties under development HK\$	Total HK\$
<b>Cost</b>				
At 1 July 2004	–	–	–	–
Additions	339,632	19,547	787,573	1,146,752
<b>At 30 June 2005</b>	<b>339,632</b>	<b>19,547</b>	<b>787,573</b>	<b>1,146,752</b>
<b>Accumulated depreciation</b>				
At 1 July 2004	–	–	–	–
Charge for the year	16,133	2,096	–	18,229
<b>At 30 June 2005</b>	<b>16,133</b>	<b>2,096</b>	<b>–</b>	<b>18,229</b>
<b>Net book value</b>				
<b>At 30 June 2005</b>	<b>323,499</b>	<b>17,451</b>	<b>787,573</b>	<b>1,128,523</b>

## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

During the year ended 30 June 2005, Tianjin Asian Way paid approximately HK\$8,302,000 to a company in which Mr. Tang Hin Lun, a director of Asian Way, has beneficial interest, as deposit for a construction contract of approximately HK\$13,883,000 (note 18). The remaining balance of approximately HK\$5,581,000 is disclosed in note 16(a) as part of the capital commitment of the Asian Way Group.

### 10. INTEREST IN A SUBSIDIARY

	At 30 June		
	2003 HK\$	2004 HK\$	2005 HK\$
Unlisted investment, at cost	–	780,800	15,605,800

Details of the subsidiary at 30 June 2005 are as follows:

Name of company	Place of establishment and operation and kind of legal entity	Percentage of equity interest held by Asian Way	Registered capital	Principal activities
Tianjin Asian Way	PRC, limited liability company	100%	USD2,000,000	Operation of a water supply plant in the PRC

Tianjin Asian Way was established as a wholly foreign owned enterprise in the PRC.

### 11. AMOUNT DUE TO A DIRECTOR

The amount was due to Mr. Tang Hin Lun which is unsecured, interest-free and has no fixed repayment terms.

### 12. LOANS FROM SHAREHOLDERS

The loans were borrowed from Mr. Tang Hin Lun and Mr. Deng Yao Hui which are unsecured, interest free and not repayable within twelve months from the respective balance sheet date.

### 13. SHARE CAPITAL

	2003		At 30 June 2004		2005	
	Number of shares	HK\$	Number of shares	HK\$	Number of shares	HK\$
Authorised:						
Ordinary shares of HK\$1 each	10,000	10,000	10,000	10,000	10,000	10,000
Issued and fully paid:						
At 1 July	10	10	10	10	10	10
Issues of shares	–	–	–	–	9,990	9,990
At 30 June	10	10	10	10	10,000	10,000

On 17 May 2005, the issued ordinary share capital was increased to HK\$10,000 by the issue of 9,900 ordinary shares of HK\$1 each at par for cash. All these new shares rank pari passu in all aspects with the then existing shares.



## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

### 14. ACCUMULATED LOSSES

#### (a) Asian Way Group

For Asian Way Group's losses for the Relevant Periods attributable to shareholders, losses of HK\$Nil, HK\$Nil and HK\$19,976 were dealt with in the income statement of Asian Way for the years ended 30 June 2003, 2004 and 2005 respectively.

#### (b) Asian Way

	At 30 June		
	2003	2004	2005
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 July	–	–	–
Loss for the year	–	–	(19,976)
	<u>–</u>	<u>–</u>	<u>(19,976)</u>
At 30 June	<u>–</u>	<u>–</u>	<u>(19,976)</u>

### 15. OPERATING LEASE COMMITMENTS

Asian Way Group's total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	At 30 June		
	2003	2004	2005
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Payable within one year	–	–	23,585
	<u>–</u>	<u>–</u>	<u>23,585</u>

At 30 June 2003, 2004 and 2005, Asian Way had no operating lease commitments.

### 16. CAPITAL COMMITMENTS

#### (a) Asian Way Group had outstanding commitments as follows:

	At 30 June		
	2003	2004	2005
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Contracted, but not provided for: Construction and development of a water supply plant	–	–	12,912,084
	<u>–</u>	<u>–</u>	<u>12,912,084</u>

#### (b) Asian Way had outstanding commitments as follows:

	At 30 June		
	2003	2004	2005
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Contracted, but not provided for: Capital contribution to Tianjin Asian Way	15,605,800	14,825,000	–
	<u>15,605,800</u>	<u>14,825,000</u>	<u>–</u>

## APPENDIX II ACCOUNTANTS' REPORT ON ASIAN WAY GROUP

### 17. CONTINGENT LIABILITIES

At 30 June 2003, 2004 and 2005, there were no material contingent liabilities for Asian Way and Asian Way Group.

### 18. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed in notes 11 and 12 to the Financial Information, other significant related party transaction is as follows:

	At 30 June		
	2003	2004	2005
	HK\$	HK\$	HK\$
Deposit for construction work	—	—	8,301,887

Tianjin Asian Way entered into a construction contract with value of approximately HK\$13,883,000 with a company in which Mr. Tang Hin Lun, a director of Asian Way, has beneficial interest. The consideration was determined based on the terms mutually agreed by both parties. The remaining balance of approximately HK\$5,581,000 is disclosed in note 16(a) as part of the capital commitment of the Asian Way Group.

### 19. SEGMENT INFORMATION

No business and geographic segment analysis is presented as Asian Way Group had no active business operation during the Relevant Periods.

### 20. SIGNIFICANT SUBSEQUENT EVENTS

Pursuant to a loan agreement dated 16 November 2005, a subsidiary of the Company has conditionally agreed to make available to Asian Way a secured loan under a facility up to an aggregate amount of not exceeding RMB 60 million, which shall be applied for the construction of the water supply plant. This loan will be secured by 3,750 shares of Asian Way which are legally and beneficially owned by Mr. Tang Hin Lun.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Asian Way and Asian Way Group have been prepared in respect of any period subsequent to 30 June 2005.

Yours faithfully,  
**Grant Thornton**  
*Certified Public Accountants*  
Hong Kong

**1. INTRODUCTION TO THE UNAUDITED PRO FORMA STATEMENT OF  
ASSETS AND LIABILITIES OF THE ENLARGED GROUP**

The following unaudited pro forma statement of assets and liabilities of the Group and Asian Way Group (collectively known as the “Enlarged Group”) as at 30 April 2005 (the “Pro Forma Statement of Assets and Liabilities”) are prepared based on the unaudited consolidated balance sheet of the Group as at 30 April 2005, extracted from the Company’s interim report for the six months ended 30 April 2005, and the audited consolidated balance sheet of Asian Way Group as at 30 June 2005, as shown in the Accountants’ Report on Asian Way Group as set out in Appendix II to this circular, and adjusted as described below.

The Pro Forma Statement of Assets and Liabilities has been prepared to illustrate the effect of the Transaction as if the Transaction had taken place on 30 April 2005. This Pro Forma Statement of Assets and Liabilities has been prepared for illustrative purposes only and because of its nature, may not give a true picture of the assets and liabilities of the Group or the Enlarged Group on the completion of the Transaction.

2. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF  
THE ENLARGED GROUP AS AT 30 APRIL 2005

	Unaudited as at 30 April 2005 the Group HK\$'000	Audited as at 30 June 2005 Asian Way Group HK\$'000	Pro forma adjustments			Unaudited pro forma Enlarged Group HK\$'000
			HK\$'000	HK\$'000	HK\$'000	
<i>Notes</i>			(1)	(2)	(3)	
<b>ASSETS AND LIABILITIES</b>						
<b>Non-current assets</b>						
Goodwill	-	-	358			358
Property, plant and equipment	1,194	1,129				2,323
Deferred tax assets	2,346	-				2,346
Accounts receivable	6,884	-				6,884
Deposits paid	-	8,302				8,302
Pledged bank deposits	9,020	-				9,020
Amount due from Asian Way	-	-		57,600	(57,600)	-
	<u>19,444</u>	<u>9,431</u>				<u>29,233</u>
<b>Current assets</b>						
Inventories	20,962	-				20,962
Accounts receivable	14,184	-				14,184
Deposits, prepayments and other receivables	4,558	484				5,042
Tax recoverable	2,916	-				2,916
Pledged bank deposits	1,053	-				1,053
Cash and bank balances	<u>21,828</u>	<u>5,589</u>	(224)	28,800		<u>55,993</u>
	<u>65,501</u>	<u>6,073</u>				<u>100,150</u>

	Unaudited as at 30 April 2005 the Group HK\$'000	Audited as at 30 June 2005 Asian Way Group HK\$'000	Pro forma adjustments			Unaudited pro forma Enlarged Group HK\$'000
			HK\$'000	HK\$'000	HK\$'000	
<i>Notes</i>			(1)	(2)	(3)	
<b>Current liabilities</b>						
Accounts and bills payable	18,130	–				18,130
Accrued liabilities and other payables	2,521	8				2,529
Amount due to a director	–	57				57
Provision for warranty	2,711	–				2,711
Provision for tax	1,000	–				1,000
Bank borrowings	–	–		28,800		28,800
	<u>24,362</u>	<u>65</u>				<u>53,227</u>
<b>Net current assets</b>	<u>41,139</u>	<u>6,008</u>				<u>46,923</u>
<b>Total assets less current liabilities</b>	<u>60,583</u>	<u>15,439</u>				<u>76,156</u>
<b>Non-current liabilities</b>						
Loans from shareholders of Asian Way	–	15,755		57,600	(57,600)	15,755
Provision for warranty	<u>3,365</u>	–				<u>3,365</u>
	3,365	15,755				19,120
<b>Minority interest</b>	<u>–</u>	<u>–</u>	(182)			<u>(182)</u>
<b>Net assets/(liabilities)</b>	<u><u>57,218</u></u>	<u><u>(316)</u></u>				<u><u>57,218</u></u>

**Notes to unaudited pro forma statement of assets and liabilities of the Enlarged Group**

- (1) On 16 November 2005, Well Spread, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the Vendor. Well Spread will acquire 42.5% interest in Asian Way Group at a cash consideration of HK\$4,250. Immediately after the Completion Date I, the Company will nominate 3 directors out of the 5 to the board of directors of Asian Way. The Company will then have power to govern the financial and operating policies of Asian Way Group so as to obtain benefits from its activities. Asian Way Group is, therefore, considered by the directors of the Company as subsidiaries of the Company because Asian Way Group is controlled by the Group since Completion Date I. The consolidated balance sheet of Asian Way Group will be consolidated with that of the Group from the date on which control is transferred to the Group.

The adjustment is to reflect the effect of the Acquisition on the assets and liabilities of the Enlarged Group as if the Acquisition had taken place on 30 April 2005. The goodwill arising from the Acquisition is the excess of the cost of the acquisition, which includes professional expenses to be paid by the Group estimated by the directors of the Company of HK\$220,000, over the fair value of the Group's share of net identifiable assets and liabilities of Asian Way Group. Goodwill is stated at cost less accumulated impairment loss.

- (2) Pursuant to a loan agreement dated 16 November 2005, Well Spread will grant a secured loan up to an aggregate amount of not exceeding RMB60,000,000 (equivalent to HK\$57,600,000) to Asian Way. The Group will make an advance of RMB30,000,000 (equivalent to HK\$28,800,000) on Completion. This advance will be made to Asian Way by 3 instalments of RMB10,000,000 each upon Completion Date I, Completion Date II and Completion Date III respectively.

The Group intends to obtain bank borrowings of approximately RMB30,000,000 (equivalent to HK\$28,800,000) to finance the loan to Asian Way on Completion. The remaining balance of not exceeding RMB30,000,000 (equivalent to HK\$28,800,000) will be made available before 1 July 2007, or such later date as Well Spread may agree and within 3 Banking Days after receiving the relevant Drawdown Notice(s) by Well Spread from Asian Way. This RMB30,000,000 shall not be made by well spread unless the third instalment on Completion Date III had been made and the funding need based on the progress of the construction of the Water Supply Plant and which will be financed by forecasted future internal resources generated from the operation of the Group. In the opinion of the Directors, the Group will be able to generate sufficient cash and bank balances from its operation to finance the draw down of this RMB30,000,000.

The adjustments are to reflect the effect of bank borrowings obtained by and forecasted future internal resources generated from the operation of the Group when Asian Way draws down the secured loan of HK\$57,600,000.

- (3) The adjustments to the non-current assets and liabilities are to reflect the effect of intercompany balance elimination on combination of the Group and Asian Way Group.

**3. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

*The following is the text of a letter dated 16 December 2005, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group. The work was conducted by Grant Thornton with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable as there is currently no relevant standard in Hong Kong governing reporting on pro forma financial information.*

Certified Public Accountants  
Member of Grant Thornton International

**Grant Thornton**   
**均富會計師行**

16 December 2005

The Directors  
Eco-Tek Holdings Limited  
Unit 5, 11/F  
Westlands Centre  
20 Westlands Road  
Quarry Bay  
Hong Kong

Dear Sirs

We report on the unaudited pro forma statement of assets and liabilities of Eco-Tek Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) and Asian Way International Limited and its subsidiary (“Asian Way Group” and together with the Group collectively referred to as the “Enlarged Group”) (“Pro Forma Statement of Assets and Liabilities”) set out on pages 80 to 83 in Appendix III of the Company’s circular dated 16 December 2005 (the “Circular”), which has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed acquisition of 4,250 shares, representing 42.5% of the issued share capital of Asian Way (the “Acquisition”), by Well Spread Investment Limited (“Well Spread”), a wholly-owned subsidiary of the Company, and the granting of a secured loan of RMB60,000,000 to Asian Way by Well Spread (collectively known as “Transaction”) might have affected the relevant financial information of the Group as at 30 April 2005. The basis of preparation of the Pro Forma Statement of Assets and Liabilities is set out in the section headed “unaudited pro forma statement of assets and liabilities of the Enlarged Group” in Appendix III to the Circular.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Statement of Assets and Liabilities in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“the GEM Rules”).

It is our responsibility to form an opinion as required by paragraph 7.31 of the GEM Rules on the Pro Forma Statement of Assets and Liabilities and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Statement of Assets and Liabilities beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Statement of Assets and Liabilities with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Pro Forma Statement of Assets and Liabilities.

The Pro Forma Statement of Assets and Liabilities is for illustrative purposes only, based on the Company’s directors’ judgements and assumptions, and because of its nature, it may not give any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group had the Transaction actually occurred on 30 April 2005 or the Enlarged Group at any future date.

**Opinion**

In our opinion:

- (a) the Pro Forma Statement of Assets and Liabilities has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Statement of Assets and Liabilities as disclosed pursuant to paragraph 7.31 of the GEM Rules.

Yours faithfully  
**Grant Thornton**  
*Certified Public Accountants*  
Hong Kong



#### 4. INDEBTEDNESS

##### **Borrowings**

At 31 October 2005, the Enlarged Group had outstanding indebtedness comprising loan from minority shareholders of Asian Way of approximately HK\$15,755,000 which is unsecured, interest free and not repayable within twelve months from 31 October 2005.

##### **Banking facilities**

At 31 October 2005, certain of the Enlarged Group's banking facilities were secured by the following:

- (a) bank deposits of the Enlarged Group amounting to approximately HK\$9,020,000; and
- (b) corporate guarantees executed by the Company.

##### **Contingent liabilities**

At 31 October 2005, performance bonds of HK\$9,020,000 in aggregate have been granted by a banker in favour of the Enlarged Group. In the event of default by the Enlarged Group in the performance of the services detailed in the tender contracts 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\$9,020,000. The banker had the right of recourse to the Enlarged Group. The aforesaid performance bond facility was secured by the Enlarged Group's pledged bank deposit of HK\$9,020,000.

Save as aforesaid, the Enlarged Group did not have any other contingent liabilities at 31 October 2005.

Save as disclosed below, as at the Latest Practicable Date, the Directors were not aware of any material change in respect of the indebtedness or other contingent liabilities of the Enlarged Group since 31 October 2005.

Pursuant to a draft banking facility letter dated 15 November 2005, a short-term advance facility of up to HK\$25,000,000 (the "Advance") will be granted to a subsidiary of the Enlarged Group. This Advance will be secured by the followings:

- (a) assignment of receivables under various contracts with the Government; and
- (b) corporate guarantees to be executed by the Company.

Save as aforesaid and apart from intra-Group liabilities, the Enlarged Group did not, at the close of business on 31 October 2005, have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments, guarantees or other contingent liabilities.

## **5. WORKING CAPITAL**

The Directors are of the opinion that taking into account the internal resources and the banking facilities currently available to the Enlarged Group, additional banking facility of HK\$25 million is required to finance the Transaction and its present funding requirement. The Group has negotiated with the bank to obtain the facility to finance the Transaction. The Directors confirm that it is in the stage to finalise certain minor terms in the facility letter. It is expected that the facility will be granted on or before 29 December 2005.

Taking into account the internal resources and the banking facilities currently available to the Enlarged Group, the Directors are of the opinion that the Enlarged Group will, immediately following the completion of the Transaction, have sufficient working capital for its present requirements. In the event that the banking facility is unable to be obtained by the Group, the Transaction will be terminated, and the Company will make an announcement on it.

## **6. MATERIAL ADVERSE CHANGE**

Save as disclosed in this circular, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 October 2004 (being the date to which the latest published audited financial statements of the Group were made up).

## **7. BUSINESS PROSPECTS OF THE ENLARGED GROUP**

The Group is principally engaged in the marketing, sale, servicing, research and development of environmental protection and health related products and services. It is the intention of the Group to continue the development and introduction of various environmental protection related products and to promote the sense of healthy living to the general public. The Directors consider that the Group's indirect investment in the Water Supply Plant, which will supply water after carrying various processes including purification upon completion of its construction, through Asian Way will provide an opportunity for the Group to further promote and develop its business presence in the PRC and to enrich the product/service portfolio of the Group.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this document misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on based and assumptions that are fair and reasonable.

## 2. DIRECTORS' INTEREST

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### *Long positions in ordinary shares of the Company*

Name of Director	Capacity and nature of interest	Number of shares held, capacity and nature of interest	
		Number of ordinary shares held	Percentage of the Company's issued share capital as at the Latest Practicable Date
Dr. PAU Kwok Ping	Directly beneficially owned	27,640,000	4.26%
	Through a discretionary trust (Note)	16,584,000	2.55%
		44,224,000	6.81%
Mr. SHAH Tahir Hussain	Directly beneficially owned	14,372,800	2.21%
		58,596,800	9.02%

*Note:*

The shares are held by Crayne Company Limited, a company wholly-owned by ING Trust Company (Jersey) Limited as trustee of the Crayne Trust, which is a discretionary trust founded by Dr. PAU Kwok Ping.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS' INTEREST

So far as is known to the Directors or chief executives of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

*Long positions*

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as at the Latest Practicable Date
<b>Substantial shareholders</b>			
Cititrust (Cayman) Limited <i>(Note 1)</i>	Through a unit trust and controlled corporation	344,621,200	53.06%
Wide Sky Management Limited <i>(Note 1)</i>	Through a controlled corporation	344,621,200	53.06%
Team Drive Limited <i>(Note 1)</i>	Directly beneficially owned	344,621,200	53.06%
The Hong Kong Polytechnic University <i>(Note 2)</i>	Through a controlled corporation	80,680,800	12.42%
Advance New Technology Limited <i>(Note 2)</i>	Directly beneficially owned	80,680,800	12.42%
<b>Other shareholder</b>			
Mr. LEE Wai Man	Directly beneficially owned	35,620,000	5.48%

*Notes:*

- 1 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. 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. Dr. PAU Kwok Ping and Mr. SHAH Tahir Hussain are both directors of the Company and Wide Sky Management 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 of the Company held by Advance New Technology Limited. Dr. LUI Sun Wing and Mr. YOUNG Meng Cheung, Andrew are directors of the Company and Advance New Technology Limited and staff of PolyU.

So far as is known to the Directors or chief executives of the Company, as at the Latest Practicable Date, the following shareholders were interested in 10% or more of the equity interests of the following members of the Enlarged Group:

<b>Name of members of the Enlarged Group</b>	<b>Name of shareholder</b>	<b>Number and class of shares held</b>	<b>Percentage of share holding</b>
Asian Way	Tang Hin Lun	8,000 ordinary shares	80%
Asian Way	Deng Yao Hui	1,000 ordinary shares	10%
Asian Way	Chen Xueying	1,000 ordinary shares	10%
Jiangsu Kangyuan Environmental Protection Technology Co. Limited (江蘇康源環保科技有限公司)	Well Spread Investment Limited	RMB1,250,000 registered capital	50%
Jiangsu Kangyuan Environmental Protection Technology Co. Limited (江蘇康源環保科技有限公司)	Jiangsu Shengfeng Investment Co. Limited (江蘇盛豐投資有限公司)	RMB1,250,000 registered capital	50%

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, no other persons (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group, or any options in respect of such capital.

**4. DETAILS OF OPTIONS GRANTED BY THE COMPANY**

The Company has adopted a post-IPO share option scheme (the “Post-Scheme”) under which the Group may 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 to subscribe for Shares of the Company subject to the terms and conditions stipulated in the Post-Scheme.

As at the Latest Practicable Date, no options was granted to any full time employee and any director of the Company or its subsidiaries.

**5. MATERIAL CONTRACTS**

The following contracts are all the material contracts (not being contracts entered into in the ordinary course of business), entered into by members of the Enlarged Group, within the two years preceding the Latest Practicable Date:

- (a) the MOU;
- (b) the Sale and Purchase Agreement;
- (c) the Loan Agreement;
- (d) the Share Charge; and
- (e) the Sino-foreign joint venture agreement regarding the establishment of Jiangsu Kangyuan Environmental Protection Technology Co. Limited (中外合資江蘇康源環保科技有限公司合同) entered into between Well Spread Investment Limited and Jiangsu Shengfeng Investment Co. Limited (江蘇盛豐投資有限公司) on 25 April 2005. For details of Jiangsu Kangyuan, please refer to the section headed “Management discussion and analysis” set out in Appendix I to this circular.

**6. COMPETING INTERESTS**

As at the Latest Practicable Date, 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.

**7. LITIGATION**

As at the Latest Practicable Date, neither the Company, any of its subsidiaries nor Asian Way Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company, any of its subsidiaries or Asian Way Group.

## 8. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Grant Thornton	Certified Public Accountants

Grant Thornton has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters or references to its name in the form and context in which they respectively appear.

Grant Thornton did not have any shareholding interest in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group as at the Latest Practicable Date.

Grant Thornton did not have any direct or indirect interests in any assets which have been, since 31st October 2004 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to the Company or any member of the Enlarged Group.

## 9. DIRECTORS' SERVICE CONTRACTS

Each of Dr. PAU Kwok Ping and Mr. Shah Tahir Hussain has entered into a service contract with the Company, respectively, for an initial term of 3 years commencing 5 December 2001, which will continue thereafter until terminated at any time after that initial term without cause by either party by giving not less than 6 months prior written notice to the Company.

Mr. HAN Ka Lun has entered into a service contract with the Company for an initial term of 2 years commencing 29 October 2004, which will continue thereafter until terminated at any time after that initial term without cause by either party by giving not less than 3 months prior written notice to the Company.

Dr. LUI Sun Wing and Mr. YOUNG Meng Cheung Andrew has entered into a service contract with the Company, respectively, for an initial term of 30 months commencing 21 November 2001, which will continue thereafter until terminated at any time after that initial term without cause by either party by giving prior written notice to the Company.

The respective annual salaries under the service contracts of the directors are as follows:

Name of Director	Salaries per annum HK\$
Dr. PAU Kwok Ping ( <i>Note 1</i> )	1,440,000
Mr. SHAH Tahir Hussain ( <i>Note 1</i> )	240,000
Mr. HAN Ka Lun ( <i>Note 2</i> )	40,000
Dr. LUI Sun Wing ( <i>Note 3</i> )	100,000
Mr, YOUNG Meng Cheung Andrew ( <i>Note 3</i> )	100,000

*Notes:*

- Under the service contract of Dr. PAU Kwok Ping and Mr. SHAH Tahir Hussain, they are entitled to a management bonus which shall be in an aggregate amount equals to 10% of the audited consolidated profits of the Group before taxation provided that such profit shall exceed HK\$5 million.
- Under the service contract of Mr. HAN Ka Lun, he is entitled to a discretionary bonus, the amount of which will be determined by the Board based on his performance.
- Under the service contract of Dr. LUI Sun Wing and Mr, YOUNG Meng Cheung, Andrew, they were granted 1,000,000 shares options on 21 March 2003 respectively, where the exercise price was HK\$0.28 per share and was lapsed on 20 September 2005.

Save as disclosed above, none of the Directors had services contract with any member of the Group as at the Latest Practicable Date which is not expiring or determinable within one year without payment of compensation (other than statutory compensation).

## 10. DIRECTORS' INTEREST IN ASSETS

The Directors confirm that none of the Directors has any direct or indirect interests in any assets which have been, since 31st October, 2004 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to the Company or any member of the Enlarged Group.

## 11. DIRECTORS' INTEREST IN CONTRACTS

The Directors confirm that there is no contract or arrangement subsisting at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Enlarged Group.



**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at Unit 5, 11/F Westlands Center, 20 Westlands Road, Quarry Bay, Hong Kong, from the date of this circular up to and including 30 December 2005:

- (a) the Company's memorandum and articles of association;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (c) the published audited consolidated financial statements of the Company for each of the two financial years ended 31 October 2004;
- (d) the interim report of the Company for the six months ended 30 April 2005;
- (e) the accountants' report on Asian Way Group from Grant Thornton, the text of which is set out in Appendix II to this circular;
- (f) the letter from Grant Thornton in relation to the unaudited pro forma financial information of the Enlarged Group as set out in the Appendix III to this circular;
- (g) the letter from Grant Thornton in relation to the confirmation of the sufficiency of working capital;
- (h) the letter of consent referred to under the section headed "Expert and consent" in this appendix;
- (i) the Directors' service contracts referred to under the section headed "Directors' service contracts" in this appendix; and
- (j) this circular.

**13. MISCELLANEOUS**

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

*Executive directors*

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 35 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 as technical consultant in December 1999 and was appointed as director in January 2001

Mr. SHAH Tahir Hussain, aged 43, 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 44, 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 16 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 55, 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.

Mr. YOUNG Meng Cheung Andrew, aged 46, 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 46, 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. She is also the chairman of the Audit Committee of the Company.

Mr. TAKEUCHI Yutaka, aged 55, 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 College in Japan, majoring in electrotechnics. Mr. Takeuchi joined the Company in August 2002.

Professor NI Jun, aged 44, 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 38, is a practising accountant in Hong Kong and has over 18 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 a fellow member of the Hong Kong Institute of Company Secretaries. Ms. Hui joined the Company in October 2004. She is also the chairman of the Remuneration Committee of the Company.

*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.

- (b) The company secretary and qualified accountant of the Company is Mr. Chor Ngai. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

- (c) The Company established an audit committee (“Audit Committee”) on 5 December 2001 and has formulated its written terms of reference in accordance with the provisions set out in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The principle duties of the Audit Committee include the review and supervision of the Group’s financial reporting system and internal control procedures, review of the Group’s financial information and review of the relationship with the Auditors of the Company. The existing Audit Committee of the Company comprises four Independent Non-executive Directors, namely Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka, Professor NI Jun, and Ms. HUI Wai Man Shirley.
- (d) The registrars and transfer office of the Company is Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The registered office of the Company is situated at Century Yard, Cricket Square, Hutchins Drive, P.O.Box 2681 GT, George Town, Grand Cayman, British West Indies and the head office of the Company is situated at Unit 5, 11/F Westlands Center, 20 Westlands Road, Quarry Bay, Hong Kong.
- (f) The English text of this circular prevails over the Chinese text.

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## NOTICE OF EGM

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# ECO-TEK HOLDINGS LIMITED

## 環康集團有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8169)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of Eco-Tek Holdings Limited (the “Company”) will be held at Unit 05, 11/F, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on 30 December 2005, Friday at 10:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution as ordinary resolution:

### ORDINARY RESOLUTION

**“THAT:–**

- (a) the sale and purchase agreement dated 16 November 2005 entered between Mr. Tang Hin Lun (the “Vendor”) and Well Spread Investment Limited (“Well Spread”), a wholly-owned subsidiary of the Company in relation to the acquisition of 42.5% shareholding in Asian Way International Limited (“Asian Way”) by Well Spread (the “Sale and Purchase Agreement”), a copy of which has been produced to this meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, be and is hereby approved, confirmed and ratified;
- (b) the loan agreement dated 16 November 2005 entered between Asian Way, the Vendor and Well Spread in relation to the granting of RMB60,000,000 (equivalent to HK\$57,600,000.00) facility to Asian Way by Well Spread (the “Loan Agreement”), a copy of which has been produced to this meeting marked “B” and signed by the chairman of the meeting for the purpose of identification, be and is hereby approved, confirmed and ratified;
- (c) the share charge dated 16 November 2005 entered between the Vendor and Well Spread in relation to 3,750 shares of Asian Way (representing 37.5% of the issued share capital of Asian Way) which is legally and beneficially owned by the Vendor, as security for the due and punctual performance by Asian Way of its obligations under the Loan Agreement (the “Share Charge”), a copy of which has been produced to this meeting marked “C” and signed by the chairman of the meeting for the purpose of identification, be and is hereby approved, confirmed and ratified; and

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## NOTICE OF EGM

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- (d) the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they may consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Sale and Purchase Agreement, the Loan Agreement and the Share Charge.”

By order of the Board  
**Eco-Tek Holdings Limited**  
**Pau Kwok Ping**  
*Chairman*

Hong Kong, 16 December 2005

*Note:*

1. Any member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof.
3. The register of members of the Company will be closed from Wednesday, 28 December 2005 to Friday, 30 December 2005, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfer document accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 23 December 2005.
4. Completion and delivery of a form of proxy shall not preclude a member from attending and voting in person at the meeting if the member so desire and in such event, the form of proxy shall be deemed to be revoked.