



fostering a healthy environment

Eco-Tek Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2005

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

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

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

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

Corporate Information

Eco-Tek Holdings Limited Annual Report 2005

BOARD OF DIRECTORS

Executive directors

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

Non-executive directors

LUI Sun Wing
YOUNG Meng Cheung Andrew

Independent non-executive directors

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

COMPLIANCE OFFICER

PAU Kwok Ping

COMPANY SECRETARY

CHOR Ngai FCCA, CPA

CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

QUALIFIED ACCOUNTANT

CHOR Ngai FCCA, CPA

AUDIT COMMITTEE

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

AUDITORS

Grant Thornton
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

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

HONG KONG SHARE REGISTRAR

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia)
Limited

GEM STOCK CODE

8169

WEBSITE ADDRESS

www.eco-tek.com.hk

Contents

Eco-Tek Holdings Limited Annual Report 2005

1	Corporate Information
3-4	Chairman's Statement
5-7	Biographical Details of the Directors and Senior Management
8-12	Management Discussion and Analysis
13-26	Directors' Report
27	Auditors' Report
28	Consolidated Income Statement
29	Consolidated Balance Sheet
30	Balance Sheet
31-32	Consolidated Cash Flow Statement
33	Consolidated Statement of Changes in Equity
34-70	Notes to the Financial Statements
71-72	Summary of Financial Information

Chairman's Statement

Eco-Tek Holdings Limited Annual Report 2005

I would like to present the annual audited consolidated results of Eco-Tek Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 October 2005.

RESULTS AND BUSINESS OVERVIEW

Turnover of the Group for the year amounted to HK\$93.38 million, representing a drop of 12% as compared with last year. However, on a quarterly basis, the performance of the fourth quarter of this financial year was better than the first three quarters. The Group's turnover and profit attributable to shareholders for the first three quarters had dropped by 45% and 58% respectively as compared with last corresponding period owing to the tenders which obtained from The Environmental Protection Department ("EPD") of The Hong Kong Government in November 2002 for sale and installation of diesel oxidation catalysts onto qualified heavy diesel vehicles had been completed in the second quarter of this financial year and surging prices of plastic resin, steel and alloy metals which had indirectly hit the sale of the Group's industrial environmental protection products,

In August 2005, following the commencement of the installation of the Group's diesel oxidation catalysts on qualified heavy diesel vehicles that need to undertake long idling duties in relation to the three new tenders obtained from the EPD in April 2005, the Group's turnover recorded a strong rebound in the fourth quarter and resulted in an increase of profit attributable to shareholders for the year by 22% as compared with previous year.

Apart from the above-mentioned Government's environmental protection projects, the Group has taken positive steps to widen its sources of revenue. During the year under review, the Group has established a Sino-foreign joint venture company in Nanjing which is principally engaged in the provision of environmental protection related solutions in Jiangsu Province. Furthermore, the Group has entered into drinking water supply business in the Mainland China. In November 2005, the Group has entered into agreements to invest in a water supply plant located in Tianjin, the Mainland China. The Board considers that the investment in the Tianjin water supply plant will provide an opportunity for the Group to further promote and develop its business presence in the PRC, to enrich the product/service portfolio of the Group and to generate steady income to the Group.

Being a company engaged in environmental protection business, the Group has been developing environmental protection related products to promote the sense of healthy living and usage of limited resources to the general public. The Group has recently successfully developed an energy saving device which is able to save up to 80% of electricity consumed by industrial machines. The new product not only helps to save electricity cost of the users but also helps to reduce air pollution caused by electricity generation plant indirectly. The new product will sooner be launched to the market.

Chairman's Statement

Eco-Tek Holdings Limited Annual Report 2005

Going forward, the Group will continue to develop and introduce various environmental protection related products and to seek for new investment opportunities in order to generate better returns for its shareholders.

DIVIDEND

As the Group needs to retain certain amount of working capital for its investment in the Tianjin water supply plant project, the Board of Directors recommends the payment of a final dividend of HK0.5 cent (2004: HK1.50 cent) per share for the year ended 31 October 2005 in reward for the continuous support of the shareholders of the Company. The proposed final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders, the final dividend will be paid on or about 10 March 2006 to shareholders whose names appear on the register of members of the Company on 8 February 2006.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my appreciation to shareholders of the Company for their continued support and sincerely thank to the directors and staff of the Group for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers and suppliers for their ongoing support to the Group.

PAU Kwok Ping

Chairman

Hong Kong, 29 December 2005

Biographical Details of the Directors and Senior Management

Eco-Tek Holdings Limited Annual Report 2005

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

DIRECTORS

Executive directors

Dr. PAU Kwok Ping, Ph.D., MSc., aged 52, 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.

Biographical Details of the Directors and Senior Management

Eco-Tek Holdings Limited Annual Report 2005

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.

Biographical Details of the Directors and Senior Management

Eco-Tek Holdings Limited Annual Report 2005

SENIOR MANAGEMENT

Mr. CHOR Ngai, aged 34, 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.

Professor CHEN Zhuo Ru, aged 68, is a Chief Representative of one of the principal subsidiary of the Company located in the PRC. He is responsible for sale and marketing of the Group's hydraulic components in the PRC market. Professor Chen graduated from Harbin College of Energy Science with a Bachelor's degree in Power Engineering. He has over 30 years experience in the engineering fluid mechanics, fluid power transmission and control teaching and the scientific research work. He joined the Group in May 2003.

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 October 2005 fell 12% to HK\$93.38 million (2004: HK\$106.38 million). The decrease was mainly due to the decrease in sale of the Group's hydraulic components by HK\$15 million as compared with a year ago. Income derived from sales of hydraulic components accounted for approximately 58% of the Group's turnover for the year.

The gross profit of the Group for the year ended 31 October 2005 amounted to approximately HK\$33.93 million at a margin of 36.3% as compared with a gross profit of around HK\$32.64 million at a margin of 30.7% in last year. The increase in gross profit margin was mainly due to the decrease in sale of hydraulic components which earned a lower profit margin while income from sale of higher profit margin products such as Eco-Green remained steady as compared with preceding year.

The administrative expenses of the Group for the year ended 31 October 2005 remained steady as compared with last year since there was no significant changes in operation of the Group.

Other operating income comprised of write back of provisions for warranty of Eco-Green and doubtful debts which amounted to HK\$0.17 million and HK\$1.51 million respectively for the year ended 31 October 2005. The level of provision for warranty required was assessed by the Directors annually and the amount of warranty cost provided as at 31 October 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.

During the year under review, the Company's profit attributable to shareholders increased by HK\$4.01 million to HK\$22.19 million, representing an increase of approximately 22%. In view of the satisfactory results of the Company, the Directors have resolved to recommend the payment of a final dividend of HK0.5 cent (2004: HK1.50 cents) per ordinary share for the year ended 31 October 2005 at the forthcoming annual general meeting of the shareholders of the Company.

The source of finance of the Group was primarily from internally generated funds. As at 31 October 2005, the Group had pledged its bank deposits of approximately HK\$9.02 million to secure for performance bond facilities. Nevertheless, the Group still had cash and bank balances of approximately HK\$7.62 million for its future expansion and development.

BUSINESS REVIEW AND OUTLOOK

Business review

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

The performance of the Group for the first three quarters of this fiscal year was not satisfactory. However, following the installation of the Group's particulate removal devices ("Eco-Green") on qualified diesel vehicles in August 2005 in relation to the three new tenders granted by the Environmental Protection Department of the Hong Kong Government ("EPD"), the Group's turnover and profit attributable to shareholders reported a strong rebound in the fourth quarter. The sale of Eco-Green accounted for approximately HK\$34.6 million or 37% of the Group's turnover for the year of which approximately HK\$28.8 million was recorded in the fourth quarter. Up to 31 October 2005, approximately two-third of the qualified diesel vehicles which need to undertake long idling duties have successfully installed the Group's Eco-Green.

During the year under review, surging prices of plastic resin, steel and alloy metals had directly hit the sales of the Group's major customers who were engaged in manufacturing industry. As a result, sale of the Group's industrial used hydraulic components was adversely affected and recorded a drop of approximately HK\$15.20 million as compared with last year. In order to stimulate the demand of the Group's hydraulic components, new products such as energy saving device has been developed which will sooner be launched to the market. Furthermore, a representative office located in Shunde, the Mainland China has been established in December 2005 which helps to enhance the sale and marketing force of the Group's hydraulic components in Guangdong Province. The Directors are optimistic that these moves can help to recapture declining demand of the Group's hydraulic components.

As previously reported, the Group had established a 50%-owned joint venture company in Nanjing, the Mainland China in June 2005. The joint venture company is principally engaged in provision of environmental protection related solutions in Jiangsu Province.

Apart from the above, the Dongguan factory continued to contribute a steady income to the Group which amounted to approximately HK\$3.9 million for the year ended 31 October 2005. It is expected that the Dongguan factory will continue to record a reasonable revenue growth in the coming quarters.

Management Discussion and Analysis

Eco-Tek Holdings Limited Annual Report 2005

It was set out in the 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. In this regard, the Group has entered into agreements to invest in a water supply plant located in Tianjin, the Mainland China. For details of the investment, please refer to the announcement and circular of the Company dated 18 November 2005 and 16 December 2005 respectively. The Directors considered that the Group's investment in the Tianjin water supply plant which will supply water after carrying various processes including purification upon completion of its construction 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. 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 water treatment businesses in the Mainland China when there is opportunities.

Outlook

The management of the Company has been taking active steps to widen the Group's source of income which includes the establishment of a wholly-owned factory in Dongguan, the joint venture company in Nanjing and the investment in a water supply plant in Tianjin. Although the joint venture company and water supply plant are unable to contribute income to the Group during the year under review, the growth potential of these two investments are enormous. Looking forward, the Directors are confident in the business development in the next year.

LIQUIDITY AND FINANCIAL RESOURCES

For the year under review, the Group financed its operations with its own available funding and did not have any bank loans. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

TREASURY POLICIES

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

EMPLOYEE INFORMATION

As at 31 October 2005, the Group had 66 employees (2004: 28 employees) working in Hong Kong and in the PRC. The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the year under review amounted to approximately HK\$7.5 million (2004: HK\$6.4 million). The dedication and hard work of the Group's staff during the year ended 31 October 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 Environmental Protection Technology Co. Limited in Nanjing, the PRC 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.

Save as disclosed above, the Group had no significant investments during the year.

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

In November 2005, the Group had entered into a memorandum of understanding, sale and purchase agreement, loan agreement and share charge to acquire 42.5% shareholding interest in Asian Way International Limited ("Asian Way") which is principal engaged in construction and operation of a water supply plant located in Tianjin, the PRC through a wholly owned subsidiary. For details of the acquisition, please refer to the circular of the Company dated 16 December 2005.

Apart from the above, the Group had no material acquisitions or disposals and has no plans for material investments or capital assets.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 October 2005, the Group has pledged its bank deposits of approximately HK\$9.02 million to secure for the performance bond facilities (further details of which are set out in notes 18 and 25 to the financial statements of the Annual Report).

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

GEARING RATIO

As at 31 October 2005, the Group had cash and cash equivalents of approximately HK\$7.6 million (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 31 October 2005 (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 year under review. No hedging or other alternatives have been implemented.

For purchases of the Group denominated in currencies other than Hong Kong dollars, United States dollars or Renminbi, forward exchange contracts were used for hedging payment in certain volatile foreign currencies during the year. As at 31 October 2005, the Group had no outstanding hedging instruments.

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

The directors present their report and the audited financial statements of Eco-Tek Holdings Limited (the "Company") and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 October 2005.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to the profit from operating activities by principal activity and geographical area of operations for the year ended 31 October 2005 is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 October 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 70.

The directors recommend the payment of a final dividend of HK0.50 cents per ordinary share in respect of the year, to the shareholders whose names appear on the register of members of the Company on 8 February 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 11 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 71 to 72 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share option schemes are set out in notes 21 and 22 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

At 31 October 2005, the Company's reserves available for distribution, calculated in accordance with the Companies' Law of the Cayman Islands, amounted to HK\$35,284,000. This includes the Company's share premium in the amount of HK\$30,537,000 at 31 October 2005, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 61% in aggregate for the Group's total turnover for the year. The largest customer of the Group accounted for approximately 37% of the Group's total turnover.

Purchases from the Group's five largest suppliers of the Group accounted for approximately 88% in aggregate for the Group's total purchases for the year. The largest supplier of the Group accounted for approximately 36% of the Group's total purchases.

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

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

As at 31 October 2005, there were 552,800,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.169 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 24 October to 28 October 2005 (both days inclusive), being the five business days immediately preceding 31 October 2005, the five-day average market capitalisation of the Company was approximately HK\$93,423,200 (the "Total Market Capitalisation").

Pursuant to Rules 17.15, 17.17 and 17.22 of the GEM Listing Rules, the following trade receivable of the Group as at 31 October 2005 exceeded 8% of the Total Market Capitalisation and the audited consolidated total asset value of the Group as at 31 October 2005 which amounted to approximately HK\$101,886,000.

Customer	Amount due to the Group HK\$'000	% of total market capitalisation	% of the audited consolidated total asset value of the Group as at 31 October 2005
The Environmental Protection Department of the Hong Kong Government ("EPD")	33,965	36.4	33.3

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

The trade receivable was resulted from sales of the Group's products in its ordinary course of business and, in the opinion of the directors of the Company, on normal commercial terms. The amount is unsecured and interest free.

The EPD's payment term is to pay the Group for its purchases in accordance with the contracts signed with the Group (i.e. the EPD is required to pay (i) 70% to 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 3 months to 12 months after the invoice date; and (iii) the remaining 10% to 20% of the invoice amount to the Group after the completion of 60 months from the invoice date if no complaints are received from the qualified diesel vehicle owners after successful installations of the Group's products).

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

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

DIRECTORS

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

Executive directors

Dr. PAU Kwok Ping (*Chairman and Managing Director*)

Mr. SHAH Tahir Hussain

Mr. HAN Ka Lun

Dr. CHIANG Lily (resigned on 5 December 2004)

Non-executive directors

Dr. LUI Sun Wing

Mr. YOUNG Meng Cheung Andrew

Independent non-executive directors

Ms. CHAN Siu Ping Rosa

Mr. TAKEUCHI Yutaka

Professor NI Jun

Ms. HUI Wai Man Shirley

In accordance with articles 87(1) and (2) of the Company's articles of association, Mr. YOUNG Meng Cheung Andrew, Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka, Professor NI Jun and Ms. HUI Wai Man Shirley will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

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

As at 31 October 2005, 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 Securities and Futures Ordinance ("SFO")), which were notified to the Company and the Stock Exchange of Hong Kong Limited (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 the ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest		Percentage of the Company's issued share capital as at 31 October 2005
	Capacity and nature of interest	Number of ordinary shares held	
Dr. PAU Kwok Ping (<i>Note</i>)	Through a discretionary trust	16,584,000	3.00
Mr. SHAH Tahir Hussain	Directly beneficially owned	552,800	0.10
		<hr/> 17,136,800	<hr/> 3.10

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.

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

Interest in underlying shares of the Company

Pursuant to a pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 21 November 2001, the Company had granted Pre-Scheme share options on the Company's ordinary shares to the executive directors. Details of share options to subscribe for shares in the Company granted to the executive directors as at 31 October 2005 were as follows:

Name	Date of grant	Number of share options outstanding as at 31 October 2005	Percentage of the Company's issued share capital as at 31 October 2005	Exercise period of share options	Exercise price per share HK\$
<i>Executive directors</i>					
Dr. PAU Kwok Ping	21/11/2001	27,640,000	5.00	5/12/2002 to 4/12/2005	0.01
Mr. SHAH Tahir Hussain	21/11/2001	13,820,000	2.50	5/12/2002 to 4/12/2005	0.01
		<hr/> 41,460,000	<hr/> 7.50		

The above-mentioned share options were exercised in full by Dr. PAU Kwok Ping and Mr. SHAH Tahir Hussain in November 2005.

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

On 21 November 2001, the shareholders of the Company adopted a share option scheme (the "Post-Scheme"). Details of share options to subscribe for shares in the Company granted under the Post-scheme were as follows:

Name	Date of grant (Note b)	Number of options outstanding as at 1 November 2004	Number of options lapsed during the year	Number of options outstanding as at 31 October 2005	Exercise price of share option HK\$
<i>Non-executive directors</i>					
Dr. LUI Sun Wing	21/3/2003	1,000,000	(1,000,000)	–	0.28
Mr. YOUNG Meng Cheung Andrew	21/3/2003	1,000,000	(1,000,000)	–	0.28
<i>Independent non-executive directors</i>					
Ms. CHAN Siu Ping Rosa	21/3/2003	500,000	(500,000)	–	0.28
Mr. TAKEUCHI Yutaka	21/3/2003	500,000	(500,000)	–	0.28
		<u>3,000,000</u>	<u>(3,000,000)</u>		

All the above-mentioned share options lapsed on 20 September 2005 following the expiry of exercise period of share options.

Note a: Please refer to note 22 to the financial statements for details of the Post-Scheme (as defined in such note 22 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

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

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

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

Name of director	Total number of ordinary shares held	Number of options held and outstanding as at 31 October 2005	Aggregate in number	Percentage of the Company's issued share capital as at 31 October 2005
Dr. PAU Kwok Ping	16,584,000	27,640,000	44,224,000	8.00
Mr. SHAH Tahir Hussain	552,800	13,820,000	14,372,800	2.60
	17,136,800	41,460,000	58,596,800	10.60

Save as disclosed above, as at 31 October 2005, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and the share option scheme disclosures in note 22 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

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

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

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

So far as is known to the directors or chief executives of the Company, as at 31 October 2005, 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 31 October 2005
<i>Substantial shareholders</i>			
Cititrust (Cayman) Limited (Note 1)	Through a unit trust and controlled corporation	299,341,200	54.15
Wide Sky Management Limited (Note 1)	Through a controlled corporation	299,341,200	54.15
Team Drive Limited (Note 1)	Directly beneficially owned	299,341,200	54.15
The Hong Kong Polytechnic University (Note 2)	Through a controlled corporation	80,680,800	14.59
Advance New Technology Limited (Note 2)	Directly beneficially owned	80,680,800	14.59
<i>Other shareholder</i>			
Mr. LEE Wai Man	Directly beneficially owned	35,620,000	6.44

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

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.
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.

Interest in underlying shares of the Company

Name	Date of grant	Number of ANT-Option outstanding as at 1 November 2004	Number of ANT-Option lapsed during the year	Number of ANT-Option outstanding as at 31 October 2005	Exercise price per shares HK\$
The Hong Kong Polytechnic University (Note 3)	21/11/2001	13,820,000	(13,820,000)	–	0.2142
Advance New Technology Limited (Note 3)	21/11/2001	13,820,000	(13,820,000)	–	0.2142

Note:

3. On 21 November 2001, the Company granted the ANT-Option to Advance New Technology Limited as a reward to PolyU's continuing support and collaboration with the Group and for the purpose of enhancing a future co-operation relationship between PolyU and the Group. The ANT-Option was granted at a consideration of HK\$1.00 to subscribe for such number of shares that shall represent 2.5% of the then issued share capital of the Company immediately after completion of the initial placing of the Company's shares on GEM and the capitalization issue at an exercise price of HK\$0.2142 per share (equivalent to 90% of the issue price), which may be exercised at any time between the first and third anniversaries of the listing date of 5 December 2001. The ANT-Option lapsed on 4 December 2004 following the expiry of exercise period of share options.

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

As at 31 October 2005, the following option for an aggregate of 55,280,000 shares granted under the Pre-Scheme remained outstanding.

Name	Date of grant	Number of share options outstanding as at 31 October 2005	Percentage of the Company's issued share capital as at 31 October 2005	Exercise period of share options	Exercise price per share HK\$
Dr. CHIANG Lily	21/11/2001	55,280,000	10	5/12/2002 to 4/12/2005	0.01

The above-mentioned options were exercised in full by Dr. CHIANG Lily in November 2005.

Save as disclosed above, as at 31 October 2005, 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 Group, or any options in respect of such capital.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 October 2005. The Company has not redeemed any of its listed securities during the year ended 31 October 2005.

COMPETITION AND CONFLICT OF INTEREST

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 October 2005.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices (the "Code") and Rules on Corporate Governance Report on 1 January 2005. The Code has become effective for accounting periods commencing on or after 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 October 2006.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealing as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 October 2005. Having made specific enquiry of all the directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the year ended 31 October 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

In the course of the supervision of the financial reporting process and internal control system of the Group, five meetings were held during the year ended 31 October 2005 to review the operations.

The Group's audited results for the year ended 31 October 2005 have been reviewed by the committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Directors' Report

Eco-Tek Holdings Limited Annual Report 2005

AUDITORS

The financial statements of the Company for the year ended 31 October 2005 were audited by Grant Thornton. A resolution to re-appoint the retiring auditors, Grant Thornton, will be put at the forthcoming annual general meeting of the Company.

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

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

ON BEHALF OF THE BOARD

Dr. PAU Kwok Ping

Chairman

Hong Kong, 29 December 2005

Auditors' Report

Eco-Tek Holdings Limited Annual Report 2005

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton 
均富會計師行

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

We have audited the financial statements on pages 28 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 October 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
Hong Kong

29 December 2005

Consolidated Income Statement

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
Turnover	4	93,381	106,378
Cost of sales		(59,447)	(73,735)
Gross profit		33,934	32,643
Other revenue		642	313
Selling expenses		(2,443)	(2,265)
Administrative expenses		(10,655)	(10,954)
Other operating income/(expenses)		1,682	(2,459)
Profit from operations	5	23,160	17,278
Share of loss of a jointly controlled entity		(267)	–
Profit before taxation		22,893	17,278
Taxation	8	(704)	906
Profit attributable to shareholders	10	22,189	18,184
Dividends	11	3,248	8,292
Earnings per share	9		
– Basic		4.01 HK cents	3.29 HK cents
– Diluted		3.44 HK cents	2.81 HK cents

Consolidated Balance Sheet

Eco-Tek Holdings Limited Annual Report 2005

As at 31 October 2005

	Notes	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	4,034	953
Interest in a jointly controlled entity	14	915	–
Deferred tax assets	8	2,601	2,685
Accounts receivable	16	13,077	6,313
Pledged bank deposits	18	9,020	6,200
		29,647	16,151
Current assets			
Inventories	15	21,481	18,859
Accounts receivable	16	37,870	26,861
Deposits, prepayments and other receivables		3,463	2,933
Tax recoverable		1,801	2,948
Pledged bank deposits	18	–	1,053
Cash and cash equivalents	18	7,624	30,169
		72,239	82,823
Current liabilities			
Accounts and bills payable	19	15,114	27,026
Accrued liabilities and other payables		4,671	3,926
Provision for warranty	20	1,486	1,728
Provision for tax		1,500	1,000
		22,771	33,680
Net current assets		49,468	49,143
Total assets less current liabilities		79,115	65,294
Non-current liability			
Provision for warranty	20	4,675	4,889
Net assets		74,440	60,405
CAPITAL AND RESERVES			
Share capital	21	5,528	5,528
Share premium	23(a)	19,586	19,586
Capital reserve	23(a)	95	95
Exchange translation reserve		138	–
Retained profits		45,845	26,904
Proposed final dividend	11	3,248	8,292
Shareholders' funds		74,440	60,405

On behalf of the Board

Dr. PAU Kwok Ping
Director

Mr. SHAH Tahir Hussain
Director

Balance Sheet

Eco-Tek Holdings Limited Annual Report 2005

As at 31 October 2005

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	13	10,957	10,957
Current assets			
Deposits, prepayments and other receivables		47	76
Amounts due from subsidiaries	17	30,158	37,216
Cash and cash equivalents	18	63	152
		30,268	37,444
Current liabilities			
Accrued liabilities and other payables		309	1,911
Amount due to a subsidiary	17	104	756
		413	2,667
Net current assets		29,855	34,777
Net assets		40,812	45,734
CAPITAL AND RESERVES			
Share capital	21	5,528	5,528
Share premium	23(b)	30,537	30,537
Retained profits	23(b)	1,499	1,377
Proposed final dividend	11	3,248	8,292
Shareholders' funds		40,812	45,734

On behalf of the Board

Dr. PAU Kwok Ping
Director

Mr. SHAH Tahir Hussain
Director

Consolidated Cash Flow Statement

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

	2005 HK\$'000	2004 HK\$'000
Cash flows from operating activities		
Profit before taxation	22,893	17,278
Adjustments for:		
Interest income	(488)	(243)
Share of loss of a jointly controlled entity	267	–
Depreciation of property, plant and equipment	537	368
Loss on disposal of property, plant and equipment	–	29
Provision for slow-moving inventories	510	1,645
(Write back of)/provision for warranty	(170)	2,920
Write back of doubtful debts	(1,512)	(461)
Operating profit before working capital changes	22,037	21,536
(Increase)/Decrease in inventories	(3,132)	719
Increase in accounts receivable	(16,261)	(8,346)
Increase in deposits, prepayments and other receivables	(530)	(693)
Decrease in accounts and bills payable	(11,912)	(7,724)
Increase/(Decrease) in accrued liabilities and other payables	745	(600)
Utilisation of warranty provision	(286)	(600)
Cash (used in)/generated from operations	(9,339)	4,292
Hong Kong profits tax refunded/(paid)	1,115	(6,869)
Overseas tax paid	(92)	(159)
<i>Net cash used in operating activities</i>	(8,316)	(2,736)
Cash flows from investing activities		
Purchases of property, plant and equipment	(3,608)	(100)
Capital injection into a jointly controlled entity	(1,182)	–
(Increase)/Decrease in pledged bank deposits	(1,767)	4,200
Interest received	488	243
<i>Net cash (used in)/generated from investing activities</i>	(6,069)	4,343

Consolidated Cash Flow Statement

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
		<u> </u>	<u> </u>
Cash flows from financing activities			
Dividend paid		(8,292)	(6,357)
<i>Net cash used in financing activities</i>		(8,292)	(6,357)
Decrease in cash and cash equivalents			
Effect of foreign exchange rate changes, net		132	–
Cash and cash equivalents at beginning of year		30,169	34,919
Cash and cash equivalents at end of year		7,624	30,169
Analysis of balances of cash and cash equivalents			
Cash and bank balances	18	5,545	11,133
Time deposits	18	2,079	19,036
		7,624	30,169

Consolidated Statement of Changes in Equity

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

	Share capital HK\$'000 <i>(Note 21)</i>	Share premium HK\$'000 <i>(Note 23(a))</i>	Capital reserve HK\$'000 <i>(Note 23(a))</i>	Exchange translation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
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 year	–	–	–	–	18,184	–	18,184
2004 proposed final dividend	–	–	–	–	(8,292)	8,292	–
At 31 October and 1 November 2004	5,528	19,586	95	–	26,904	8,292	60,405
Exchange difference	–	–	–	138	–	–	138
2004 final dividend declared	–	–	–	–	–	(8,292)	(8,292)
Profit for the year	–	–	–	–	22,189	–	22,189
2005 proposed final dividend	–	–	–	–	(3,248)	3,248	–
At 31 October 2005	5,528	19,586	95	138	45,845	3,248	74,440

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

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.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements on pages 28 to 70 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

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

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

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

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

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

(d) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group contributes or sells assets to a joint venture and the assets are retained by the joint venture, the Group recognises only that portion of the gain which is attributable to the interests of the other venturers and investors. The Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or a decline, other than temporary, in the carrying amount of long term assets.

When the Group purchases assets from a joint venture, the Group does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. When a loss results from the transaction, the Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or a decline, other than temporary, in the carrying amount of long term assets.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) 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 bases:

- a. 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; and
- c. interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(f) 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, moulds and machinery	10% to 50%
Furniture and fixtures	20% to 50%
Leasehold improvements	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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

(ii) *Measurement bases (Continued)*

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.

(g) 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.

(h) 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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Impairment (Continued)

(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.

(i) 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.

(j) 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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Employee benefits (Continued)

(ii) Pension scheme (Continued)

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.

(k) 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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) 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.

(m) 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.

(n) 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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

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 and interests in jointly controlled entities, 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.

(o) 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 individuals or corporate entities.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) 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 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 and jointly controlled entities are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries and jointly controlled entities 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.

(q) Cash and cash equivalents

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

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

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(s) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 October 2005. The Group has already commenced an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of these new HKFRSs would have no significant impact on its results of operations and financial position.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

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 particulate removal devices and related ancillary services; and
- (b) the industrial environmental products segment refers to sale of hydraulic components and other related accessories.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plants and equipment, inventories, trade and other receivables and operating cash, and mainly exclude tax recoverable, deferred tax assets, interest in a jointly controlled entity and non-operating cash. Segment liabilities comprise operating liabilities and exclude items such as provision for tax.

Capital expenditure comprises additions to property, plants and equipment.

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

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

3. SEGMENT INFORMATION (Continued)

(a) Business segments

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

	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	36,160	37,645	57,221	68,733	93,381	106,378
Other revenue	1	–	153	70	154	70
Total	36,161	37,645	57,374	68,803	93,535	106,448
Segment results	15,407	12,917	7,838	7,032	23,245	19,949
Interest income					488	243
Unallocated expenses					(573)	(2,914)
Profit from operations					23,160	17,278
Share of loss of a jointly controlled entity					(267)	–
Profit before taxation					22,893	17,278
Taxation					(704)	906
Profit attributable to shareholders					22,189	18,184

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	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 assets	55,125	28,742	41,101	60,431	96,226	89,172
Interest in a jointly controlled entity					915	-
Tax assets					4,402	5,633
Unallocated assets					343	4,169
Total assets					101,886	98,974
Segment liabilities	9,669	7,136	15,748	29,523	25,417	36,659
Tax liabilities					1,500	1,000
Unallocated liabilities					529	910
Total liabilities					27,446	38,569
Other segment information:						
Depreciation	337	340	200	22	537	362
Unallocated amounts					-	6
					537	368
Capital expenditure	354	71	3,254	29	3,608	100
Write back of doubtful debts	-	-	(1,512)	(461)	(1,512)	(461)
Provision for slow-moving inventories	-	639	510	1,006	510	1,645
Loss on disposal of property, plant and equipment	-	-	-	-	-	-
Unallocated amounts					-	29
					-	29
(Write back of)/Provision for warranty	(170)	2,920	-	-	(170)	2,920

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

3. SEGMENT INFORMATION (Continued)

(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	43,450	46,750	45,520	52,299	4,411	7,329	93,381	106,378
Other revenue	78	12	76	58	-	-	154	70
Other segment information:								
Segment assets	58,228	60,920	35,695	29,930	2,646	2,491	96,569	93,341
Interest in a jointly controlled entity							915	-
Tax assets							4,402	5,633
							101,886	98,974
Capital expenditure	354	57	3,254	26	-	17	3,608	100

4. TURNOVER

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

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	2005 HK\$'000	2004 HK\$'000
Auditors' remuneration	209	219
Cost of inventories sold*	58,114	70,681
Depreciation (Note 12)	537	368
Exchange losses, net	48	1,236
Loss on disposal of property, plant and equipment	–	29
Operating lease charges in respect of land and buildings	1,295	924
Provision for slow-moving inventories	510	1,645
(Write back of)/Provision for warranty, net***	(170)	2,920
Research and development costs**	720	720
Staff costs (excluding directors' emoluments (Note 6))		
Wages and salaries	3,367	2,135
Pension scheme contributions	90	73
	3,457	2,208
Write back of doubtful debts***	(1,512)	(461)
Interest income	(488)	(243)

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

5. PROFIT FROM OPERATIONS (Continued)

* The cost of inventories sold is included in cost of sales for the year which also includes a total amount of HK\$1,633,000 (2004: HK\$3,054,000), 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 include HK\$720,000 (2004: 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.

*** These balances are included in "Other operating income/(expenses)" on the face of the consolidated income statement.

6. DIRECTORS' EMOLUMENTS

The remuneration of each director 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:

	Fees HK\$'000	Salaries HK\$'000	Discretionary bonus HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
2005					
Executive directors:					
CHIANG Lily (Note a)	-	50	-	1	51
PAU Kwok Ping	-	1,440	1,000	12	2,452
SHAH Tahir Hussain	-	240	1,000	12	1,252
HAN Ka Lun	40	-	-	-	40
Non-executive directors:					
LUI Sun Wing	100	-	-	-	100
YOUNG Meng Cheung Andrew	100	-	-	-	100
Independent non-executive directors:					
CHAN Siu Ping Rosa	-	-	-	-	-
TAKEUCHI Yutaka	-	-	-	-	-
NI Jun	-	-	-	-	-
HUI Wai Man Shirley	-	-	-	-	-
	240	1,730	2,000	25	3,995

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

6. DIRECTORS' EMOLUMENTS (Continued)

	Fees	Salaries	Discretionary bonus	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2004					
Executive directors:					
CHIANG Lily (Note a)	–	600	550	12	1,162
PAU Kwok Ping	–	1,440	550	12	2,002
SHAH Tahir Hussain	–	240	550	12	802
HAN Ka Lun	–	–	–	–	–
Non-executive directors:					
LUI Sun Wing	100	–	–	–	100
YOUNG Meng Cheung Andrew	100	–	–	–	100
Independent non-executive directors:					
CHAN Siu Ping Rosa	–	–	–	–	–
TAKEUCHI Yutaka	–	–	–	–	–
NI Jun	–	–	–	–	–
HUI Wai Man Shirley	–	–	–	–	–
	200	2,280	1,650	36	4,166

Note (a): CHIANG Lily resigned on 5 December 2004.

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 (2004: Nil). None of the directors has waived or agreed to waive any emoluments during the year (2004: Nil).

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included two (2004: three) directors, details of whose remuneration are set out in note 6 above. Details of the remuneration of the remaining three (2004: two) non-director, highest paid employees of the Group for the year are as follows:

	2005	2004
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	1,257	738
Bonuses	23	120
Pension scheme contributions	35	19
	1,315	877

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 (2004: Nil).

8. TAXATION AND DEFERRED TAX ASSETS

	2005	2004
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	500	109
Under/(Over) provision in prior years	32	(106)
	532	3
Elsewhere	145	159
Overprovision in prior years	(53)	–
	92	159
Deferred tax	80	(1,068)
Total tax charge/(credit) for the year	704	(906)

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

8. TAXATION AND DEFERRED TAX ASSETS (Continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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% (2004: 33%) on the estimated assessable profits arising in the PRC for the year.

The representative offices of certain Group companies established in the PRC are subject to the PRC enterprise income tax at the rate of 33% (2004: 33%) on operating expenses for the year.

東莞康力機械有限公司, a subsidiary of the Company established in the PRC, is subject to the PRC enterprise income tax. The subsidiary is granted full exemption from PRC profits tax for the first two years from its first profit-making year of operations followed by a 50% reduction in the profits tax rate for the next three years. The subsidiary has applied the year ending 31 December 2005 as the first profit-making year for the aforesaid tax holiday, and hence, no PRC profits tax has been provided for in the accounts.

Macau complementary profits tax has been calculated at the rate of 15.75% (2004: 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.

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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

8. TAXATION AND DEFERRED TAX ASSETS (Continued)

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:

	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	22,893	17,278
Tax at the applicable rates to profits in the jurisdictions concerned	3,909	2,539
Tax effect of non-taxable revenue	(9,672)	(7,739)
Tax effect of non-deductible expenses	6,265	3,883
Tax losses not recognised	170	384
Recognition of previously unrecognised temporary differences	–	53
Overprovision in prior year	(21)	(106)
Others	53	80
Tax charge/(credit) at the Group's effective rate	704	(906)

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

	Provision for	Provision for	Provision for	Total
	warranty	doubtful	slow-moving	
	HK\$'000	debts	inventories	HK\$'000
At 1 November 2003	700	638	279	1,617
Credited to the income statement	406	281	381	1,068
At 31 October and 1 November 2004	1,106	919	660	2,685
Exchange difference	–	–	(4)	(4)
Debited to the income statement	(28)	(367)	315	(80)
At 31 October 2005	1,078	552	971	2,601

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

8. TAXATION AND DEFERRED TAX ASSETS (Continued)

The Group has tax losses arising in Hong Kong of HK\$3,502,000 (2004: HK\$2,197,000) 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 2005, there was no significant unrecognised deferred tax liability (2004: 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\$22,189,000 (2004: HK\$18,184,000) and the weighted average of 552,800,000 (2004: 552,800,000) ordinary shares in issue during the year.

The calculation of the diluted earnings per share for the year ended 31 October 2005 is based on the consolidated profit attributable to shareholders of the Company for the year of HK\$22,189,000 (2004: HK\$18,184,000) and 644,911,292 (2004: 648,136,574) ordinary shares, being the 552,800,000 (2004: 552,800,000) ordinary shares as used in the calculation of basic earnings per share, and the weighted average of 92,111,292 (2004: 95,336,574) ordinary shares assumed to have been issued on the deemed exercise of the share options under the Pre-Scheme as set out in note 22 to the financial statements.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of approximately HK\$22,189,000 (2004: HK\$18,184,000), a profit of approximately HK\$3,370,000 (2004: a profit of HK\$12,729,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2005	2004
	HK\$'000	HK\$'000
Proposed final dividend of HK0.50 cent (2004: HK1.50 cents) per ordinary share based on 649,540,000 ordinary shares (2004: 552,800,000)	<u>3,248</u>	<u>8,292</u>

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

11. DIVIDENDS (Continued)

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of retained earnings for the year.

The proposed final dividend amount for the year is based on 552,800,000 ordinary shares in issue as at year end date and 96,740,000 ordinary shares issued in November 2005 upon exercised of the share options subsequently (note 22). The aforementioned dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Motor vehicles HK\$'000	Office equipment HK\$'000	Plant, moulds and machinery HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
Cost						
At 1 November 2004	456	317	806	240	–	1,819
Additions	400	200	2,460	–	548	3,608
Translation differences	–	3	2	–	6	11
At 31 October 2005	856	520	3,268	240	554	5,438
Accumulated depreciation						
At 1 November 2004	154	122	508	82	–	866
Charge for the year	113	87	217	48	72	537
Translation differences	–	–	–	–	1	1
At 31 October 2005	267	209	725	130	73	1,404
Net book value						
At 31 October 2005	589	311	2,543	110	481	4,034
At 31 October 2004	302	195	298	158	–	953

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

13. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted investments, at cost	10,957	10,957

Particulars of the subsidiaries of the Company as at 31 October 2005 are as follows:

Company name	Place of incorporation/ establishment and kind of legal entity	Issued/ paid-up capital	Percentage of equity attributable to the Group	Principal activities and place of operation
<i>Directly held</i>				
Eco-Tek (BVI) Investment Holdings Limited ^a	British Virgin Islands, limited liability company	30,000 ordinary shares of US\$1 each	100%	Investment holding in Hong Kong
<i>Indirectly held</i>				
Eco-Tek Company Limited	Hong Kong, limited liability company	100,000 ordinary shares of HK\$1	100%	Marketing, sale, servicing, each research and development of environmental protection related products and services in Hong Kong
Eco-Tek Technology Limited ^a	British Virgin Islands, limited liability company	101 ordinary shares of US\$1 each	100%	Holding of intellectual properties in Hong Kong
East Miles International Limited ^a	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100%	Investment holding in Hong Kong

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

13. INTERESTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation/ establishment and kind of legal entity	Issued/ paid-up capital	Percentage of equity attributable to the Group	Principal activities and place of operation
Ningbo Tokawa Precision Co. Ltd.* (寧波東川精確液壓設備有限公司)^	PRC, wholly foreign owned limited liability company	US\$100,000 (Note a)	100%	Marketing and sales of industrial environmental products in Mainland China
Tokawa Precision (Overseas) Co. Limited^	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100%	Investment holding in Macau
Tokawa Precision Co. Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	100%	Marketing and sales of industrial environmental products in Hong Kong
Tokawa Precision (Overseas) Company Limited – Macao Commercial Offshore^	Macau, limited liability company	MOP100,000 (Note b)	100%	Marketing and sales of environmental protection related products in Macau
Elegant Well Investment Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	Investment holding in Hong Kong
東莞康力機械有限公司^	PRC, wholly foreign owned limited liability company	HK\$4,820,000 (Note c)	100%	Production and sales of environmental protection related products in Mainland China
Well Spread Investment Limited*	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	Investment holding in Hong Kong

English translation only

* Newly incorporated/established during the year

^ Not audited by Grant Thornton or Grant Thornton International member firms

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

13. INTERESTS IN SUBSIDIARIES (Continued)

Note (a): Ningbo Tokawa Precision Co. Ltd. is a wholly foreign owned enterprise established by Tokawa Precision (Overseas) Co. Limited in the PRC for a period of 10 years commencing from the date of issuance of its business licence on 18 July 2002.

Note (b): Tokawa Precision (Overseas) Company Limited - Macao Commercial Offshore is a wholly owned enterprise established by Tokawa Precision (Overseas) Co. Limited in Macau.

Note (c): 東莞康力機械有限公司 is a wholly foreign owned enterprise established by Elegant Well Investment Limited in the PRC for a period of 12 years commencing from the date of issuance of its business licence on 14 September 2004.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2005	2004
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,182	–
Share of post-acquisition results	(267)	–
Share of net assets	915	–

As at 31 October 2005, the Group had interest in the following jointly controlled entity:

Company name	Place of incorporation/ establishment and kind of legal entity	Paid-up capital	Percentage of equity attributable to the Group	Principal activities and place of operation
江蘇康源環保科技 有限公司	PRC, limited liability company	RMB2,500,000	50%	Provision of environmental protection related solutions in Mainland China.

The entity was newly incorporated during the year and not audited by Grant Thornton or Grant Thornton International member firms.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

15. INVENTORIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Finished goods	24,755	21,636
Provision for slow-moving inventories	(3,274)	(2,777)
	21,481	18,859

As at 31 October 2005, the carrying amount of inventories that are carried at net realisable value amounted to HK\$2,816,000 (2004: HK\$3,256,000).

16. 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) 70%-80% of the invoice amount to the Group one month upon receiving the invoices submitted by the Group; (ii) another 10% of the invoice amount to the Group 3 months or 12 months after the invoice date; and (iii) the remaining 10%-20% 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	
	2005	2004
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 90 days	41,481	23,095
91-180 days	3,100	4,984
181-365 days	1,719	4,029
Over 365 days	6,320	4,251
	52,620	36,359
Provision for doubtful debts	(1,673)	(3,185)
	50,947	33,174
Carrying amount analysed for reporting purposes as		
Non-current (<i>Note</i>)	13,077	6,313
Current	37,870	26,861
	50,947	33,174

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

16. ACCOUNTS RECEIVABLE (Continued)

Note: The balance shall be payable by the customer at the expiry of warranty period of 5 years from the date of performance of installation services.

17. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Except for the aggregate amount due from subsidiaries of HK\$14,535,000 (2004: HK\$20,102,000) 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.

18. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	5,545	11,133	63	152
Bank deposits	11,099	26,289	–	–
	16,644	37,422	63	152
Less: Pledged bank deposits for performance bond facilities (Note 24)	(9,020)	(7,253)	–	–
Cash and cash equivalents	7,624	30,169	63	152
Pledged deposits analysed for reporting purposes as				
Non-current	9,020	6,200	–	–
Current	–	1,053	–	–
	9,020	7,253	–	–

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

19. ACCOUNTS AND BILLS PAYABLE

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 90 days	9,393	7,577
91-180 days	5,528	12,028
181-365 days	90	4,224
Over 365 days	103	3,197
	15,114	27,026

20. PROVISION FOR WARRANTY

	Group	
	2005	2004
	HK\$'000	HK\$'000
At beginning of the year	6,617	4,297
Provision for the year	1,435	3,115
Less: Unused amounts reversed	(1,605)	(195)
	(170)	2,920
Amounts charged to consolidated income statement	6,447	7,217
Less: Amounts utilised	(286)	(600)
	6,161	6,617
At end of the year	6,161	6,617
Portion classified as current liability	(1,486)	(1,728)
	4,675	4,889
Portion classified as non-current liability	4,675	4,889

The 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, were fully reversed during the year (2004: HK\$322,000).

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

20. PROVISION FOR WARRANTY (Continued)

The Group also provided an amount of HK\$6,161,000 (2004: HK\$6,295,000) 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 consolidated income statement in the period in which the related sales are made. The level of provision required was assessed by the directors annually.

21. SHARE CAPITAL

	2005 HK\$'000	2004 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.01 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
552,800,000 ordinary shares of HK\$0.01 each	<u>5,528</u>	<u>5,528</u>

22. 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 two executive directors and one former executive director 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 Enterprise Market (the "GEM") and the capitalisation issue at a 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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

22. SHARE OPTION SCHEME (Continued)

- (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.
- (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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

22. SHARE OPTION SCHEME (Continued)

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\$
Pre-Scheme				
<i>Executive directors:</i>				
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
<i>Former executive director:</i>				
Dr. CHIANG Lily	21/11/2001	55,280,000	5/12/2002 to 4/12/2005	0.01
		96,740,000		

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

22. SHARE OPTION SCHEME (Continued)

Name	Date of grant	Number of share options outstanding at beginning of the year	Exercise period of share options	Exercise price of share options HK\$
ANT-Option scheme				
<i>Shareholder:</i>				
Advance New Technology Limited	21/11/2001	13,820,000 ^(*)	5/12/2002 to 4/12/2004	0.2142
Post-Scheme				
<i>Non-executive directors:</i>				
Dr. LUI Sun Wing	21/3/2003	1,000,000	21/9/2003 to 20/9/2005	0.28
Mr. YOUNG Meng Cheung Andrew	21/3/2003	1,000,000	21/9/2003 to 20/9/2005	0.28
<i>Independent non-executive directors:</i>				
Ms. CHAN Siu Ping Rosa	21/3/2003	500,000	21/9/2003 to 20/9/2005	0.28
Mr. TAKEUCHI Yutaka	21/3/2003	500,000	21/9/2003 to 20/9/2005	0.28
		<u>3,000,000^(**)</u>		

* 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.

** The 3,000,000 share options lapsed on 20 September 2005 following the expiry of exercise period of the share options.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

22. SHARE OPTION SCHEME (Continued)

At 31 October 2005, the Company had 96,740,000 (2004: 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 96,740,000 (2004: 113,560,000) additional ordinary shares of the Company and additional share capital of approximately HK\$967,000 (2004: HK\$1,136,000) and share premium of approximately HK\$Nil (2004: HK\$3,632,000) (before issue expenses). No share option was granted or exercised during the year.

In November 2005, the share options were exercised at the exercise price of HK\$0.01 per share, resulting in the issue of 96,740,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$967,000.

23. RESERVES

(a) Group

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

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

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

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

23. RESERVES (Continued)

(b) Company

	Share premium HK\$'000	(Accumulated losses)/ Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 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 and 1 November 2004	30,537	1,377	8,292	40,206
2004 final dividend declared	–	–	(8,292)	(8,292)
Profit for the year	–	3,370	–	3,370
2005 proposed final dividend	–	(3,248)	3,248	–
At 31 October 2005	30,537	1,499	3,248	35,284

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.

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

24. BANKING FACILITIES

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

- (a) bank deposits of the Group amounting to approximately HK\$9,020,000 (2004: HK\$7,253,000); and
- (b) corporate guarantees executed by the Company.

25. CONTINGENT LIABILITIES

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

	Company	
	2005	2004
	HK\$'000	HK\$'000
Guarantee for banking facilities granted to subsidiaries	8,057	19,731

- (b) The Group concluded a total of 7 (2004: 4) non-exclusive contracts with the Environmental Protection Department of the Government of the Hong Kong Special Administrative Region (the "Government"). Pursuant to the terms of the contracts, the Group has procured a bank to provide 7 performance bonds with an aggregate amount of approximately HK\$9 million (2004: HK\$6.2 million) to the Government for the performance of supply and installation of particulate removal devices to reduce particulate from the pre-Euro emission standard diesel vehicles. The aforesaid performance bond facilities were secured by the Group's pledged bank deposit.

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

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

26. OPERATING LEASE COMMITMENTS

At 31 October 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	764	567	–	–
In the second to fifth years, inclusive	684	156	–	–
	1,448	723	–	–

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.

27. CAPITAL COMMITMENTS

Capital commitments of the Group in relation to its interest in a jointly controlled entity are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Contracted but not provided for	1,202	–

Notes to the Financial Statements

Eco-Tek Holdings Limited Annual Report 2005

For the year ended 31 October 2005

28. SUBSEQUENT EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) On 16 November 2005, a company (the "Subsidiary") which is wholly owned by the Company entered into a legally binding memorandum of understanding (the "MOU") with an independent third party (the "Vendor"). Under the MOU, the Subsidiary and the Vendor shall enter into (i) a sale and purchase agreement whereby the Subsidiary would acquire 42.5% equity interest in an investment holding company (the "Target") at a consideration of HK\$4,250. A wholly owned subsidiary of the Target has the right to establish and operate a water supply plant in the PRC; (ii) a loan agreement under which the Subsidiary will make available to the Target a secured loan under a facility up to an aggregate amount not exceeding RMB60.0 million (equivalent to HK\$57.6 million), which is non-revolving and should be applied for the construction of the water supply plant. The cash generated from the net profit of the wholly owned subsidiary of the Target should be used to repay the secured loan on each repayment date, until the secured loan is fully repaid by the Target to the Subsidiary. The final repayment date of the secured loan should be the date falling 60 months from the first drawdown date of the secured loan or such later date as may be agreed by the Subsidiary in writing. A share charge would be entered into between the Subsidiary and the Vendor in relation to the charge of 37.5% equity interest in the Target in favour of the Subsidiary for the purpose of securing the secured loan.

Following the execution of the MOU, the aforementioned sale and purchase agreement, the loan agreement and the share charge were also entered into between the Subsidiary, the Vendor and the Target on 16 November 2005.

- (b) In November 2005, 96,740,000 ordinary shares were issued by the Company pursuant to the exercise of the Pre-Scheme share options at an exercise price of HK\$0.01 each for a total consideration of HK\$967,000.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 December 2005.

Summary of Financial Information

Eco-Tek Holdings Limited Annual Report 2005

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

RESULTS

	31 October				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	93,381	106,378	104,039	31,380	20,144
Cost of sales	(59,447)	(73,735)	(69,213)	(19,533)	(4,792)
Gross profit	33,934	32,643	34,826	11,847	15,352
Other revenue	642	313	353	1,238	470
Selling expenses	(2,443)	(2,265)	(1,695)	(981)	(468)
Administrative expenses	(10,655)	(10,954)	(10,026)	(7,283)	(5,585)
Other operating expenses	1,682	(2,459)	(7,621)	–	–
Profit before taxation	23,160	17,278	15,837	4,821	9,769
Share of loss of a jointly controlled entity	(267)	–	–	–	–
Taxation	(704)	906	(2,851)	(816)	(1,548)
Profit attributable to shareholders	22,189	18,184	12,986	4,005	8,221

ASSETS AND LIABILITIES

	31 October				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	29,647	16,151	13,267	1,568	1,617
Current assets	72,239	82,823	83,802	51,675	13,805
Current liabilities	22,771	33,680	44,914	15,716	7,008
Net current assets	49,468	49,143	38,888	35,959	6,797
Non-current liabilities	4,675	4,889	3,577	–	–
Net assets	74,440	60,405	48,578	37,527	8,414

Summary of Financial Information

Eco-Tek Holdings Limited Annual Report 2005

Notes:

1. The consolidated results of the Group for the years ended 31 October 2001, 2002 and 2003 are as set out in the annual report of the Company for those years. The consolidated results of the Group for the years ended 31 October 2004 and 2005 are as set out on page 28 of the audited financial statements.
2. The consolidated balance sheets as at 31 October 2001, 2002 and 2003 are as set out in the annual report of the Company for those years. The consolidated balance sheets as at 31 October 2004 and 2005 are as set out on page 29 of the audited financial statements.