fostering a healthy environment

Eco-Tek
環康科技

Eco-Tek Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8169

Annual Report **2006**

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

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

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

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

Corporate Information

BOARD OF DIRECTORS

Executive directors

SHAH Tahir Hussain
(Chairman and Managing Director)
HAN Ka Lun
NG Chi Fai

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

NG Chi Fai FCCA, CPA

CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

QUALIFIED ACCOUNTANT

NG Chi Fai 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
Grand Cayman KY1-1111
Cayman Islands

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

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 2006.

RESULTS AND BUSINESS OVERVIEW

Turnover of the Group for the year ended 31 October 2006 was around HK$91.9 million (2005: HK$93.4 million). Net profits attributable to equity holders of the Company was around HK$13.0 million (2005: HK$22.2 million).

In the beginning of the year, the management of the Group put more resources and efforts on the promotion of our industrial environmental protection related products. Turnover from the sales of these products has increased by 34% from 2005's HK$57.2 million to HK$76.8 million which included the sales of the energy saving devices that can reduce electricity consumption by as much as 80% for industrial machines.

The tenders obtained from The Environmental Protection Department ("EPD") of The Hong Kong Government for the installation of the Group's diesel oxidation catalysts on qualified heavy diesel vehicles were completed during the year. Turnover generated from these tenders has reduced to HK$15.2 million from last year's HK$36.2 million. Currently, the Group is pilot testing the installation of filters into diesel-powered vehicles that comply with the Euro I and Euro II European Standards. It is possible that there may be new tenders from the EPD for such products in the near future, after the successful deployment of diesel particulates removal devices for Pre-European Standards vehicles in recent years. The Group will also continue to develop more innovative and effective environmental protection products that address industrial applications.

The net profit attributable to equity holders of the Company is around HK$13.0 million (2005: HK$22.2 million). Reduction in net profits was mainly due to the completion of the EPD's tenders, the extra incurred professional fees for the application for listing on the Main Board of the Stock Exchange of Hong Kong Limited during the year and the pre-operating expenses from the water supply business in Tianjin.

To further widen the Group's revenue base, we have entered into the water supply business in Mainland China through the acquisition of 42.5% interests in a company engaged in this business in the Baodi District, Tianjin City. Up to the date of this report, construction of a new water supply plant is proceeding as planned and it is expected that this water supply plant will begin generating revenue by mid 2007.

The Joint Venture, 江蘇康源環保科技有限公司, in the Jiangsu Province will promote the Group's environmental products such as Eco-Green, Eco-Air, Eco-Water and other environmental protection consultancy services and solutions in the region. During the current review period, this Joint Venture begins to provide environmental protection consultancy services. In the coming year, apart from the business stated above, the Joint Venture will start selling automatic surveillance systems for the end users to monitor their water pollution status.

To reduce the dependence of the Government tenders, the Group has successfully developed other revenue streams with the new business developments in both Jiangsu and Tianjin as stated above and it is expected that the Group's revenue base will continue to grow in the coming year. Thus, management continues to be optimistic regarding future prospects.

DIVIDEND

The directors have declared a final dividend for 2006 of HK0.5 cent (2005: HK0.5 cent) per ordinary share to shareholders whose names appear on the Register of Members of the Company on 28 February 2007. The dividend will be paid on 3 April 2007.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my appreciation to the shareholders of the Company for their continued support and sincerely thank the directors and staff 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.

SHAH Tahir Hussain
Chairman

Hong Kong, 22 January 2007

Biographical Details of the Directors and Senior Management

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

DIRECTORS

Executive Directors

Mr. SHAH Tahir Hussain, aged 44, is the executive Director and the chairman of the Company and is responsible for administration and marketing. Mr. Shah obtained his degree of Bachelor of medicine and Bachelor of surgery from the University of Karachi in Pakistan in 1992. Before joining the Group, Mr. Shah held managerial positions in various private companies in Hong Kong and has over 10 years' experience in corporate administration and strategic planning. Mr. Shah joined the Group in November 1999.

Mr. HAN Ka Lun, aged 45, is the executive Director of the Company and is responsible for corporate planning and business development of the Group. Mr. Han holds a Bachelor degree of science from University of Southern California and a Master degree in business administration from Azusa Pacific University in the U.S. He is currently the director of two private companies which are engaged in logistics and shipping business and has over 16 years' management experience in container transport and logistics business in both Hong Kong and the PRC. Mr. Han joined the Company in October 2004.

Mr. NG Chi Fai, aged 33, is the executive Director, qualified accountant and company secretary of the Company and is responsible for financial management, reporting and secretarial matters. Mr. Ng graduated from the Hong Kong Polytechnic University with a Bachelor of Arts degree in accountancy in 1995. He has over 10 years' experience in auditing, accounting and finance fields. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Before joining the Group, he worked for several private companies as accounting manager. Mr. Ng joined the Group in January 2005 as deputy financial controller and was appointed as an executive Director of the Company on 24 March 2006.

Non-executive Directors

Dr. LUI Sun Wing, aged 56, is the non-executive Director. He worked for the Hong Kong Productivity Council from 1981 to 2000, and was promoted to branch director in 1992 and was responsible for overseeing the materials and process branch. Dr. Lui joined PolyU in July 2000 as a vice president and is now responsible for partnership development. He is also the chief executive officer of the Institute of Enterprise of PolyU. Dr. Lui is also a director of Advance New Technology, PolyU Enterprises Limited and PolyU Technology & Consultancy Co. Limited ("PTeC"). Dr. Lui obtained his degree of doctor of philosophy in mechanical engineering from the University of Birmingham in UK in 1979. He has been also a member of Hong Kong Institution of Engineers since 1985. Dr. Lui was appointed as a non-executive Director of the Company on 16 January 2001.

Biographical Details of the Directors and Senior Management

Mr. YOUNG Meng Cheung Andrew, aged 47, is the non-executive Director. Mr. Young has over 15 years of experience in engineering consultation industry. He is the head of Partnership Development Office of the PolyU since 1998, and also the director of various private companies, including PTeC and Advance New Technology. Before his employment with PolyU, Mr. Young worked for Hong Kong Productivity Council as senior consultant for two years since 1996. Mr. Young holds a degree of Bachelor of engineering in mechanical engineering from the South Australian Institute of Technology, Australia in 1983 and a Master degree in business administration from the University of South Australia in 1991. Mr. Young is a Chartered Professional Engineer of The Institution of Engineers, Australia. 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 47, is an independent non-executive Director. She 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 degree majoring in business administration from the Simon Fraser University in Canada. She joined the Company in August 2002. She is also the chairlady of the remuneration committee and a member of the nomination committee and the audit committee of the Company.

Mr. TAKEUCHI Yutaka, aged 56, is an independent non-executive Director. He has more than 20 years of experience in electronic industry and management. Mr. Takeuchi is the director of several Japanese private companies including JAI. Mr. Takeuchi graduated from Osaka Technical College in 1971 in Japan, majoring in electrotechnics. Mr. Takeuchi joined the Company in August 2002 and is a member of the audit, remuneration and nomination committees of the Company.

Professor NI Jun, aged 45, is an independent non-executive Director. He is now a professor of the Mechanical Engineering Department in the College of Engineering at the University of Michigan, the U.S.. Professor Ni graduated from Shanghai Jiaotong University with a Bachelor degree in mechanical engineering in 1982 and graduated from the University of Wisconsin-Madison with a Master degree in mechanical engineering in 1984. He also obtained his Ph.D in mechanical engineering in 1987 from the University of Wisconsin-Madison. After that, Professor Ni joined the University of Michigan as research fellow in 1987 and promoted to the professor in 1997. 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 Center for Intelligent Maintenance Systems of the University of Michigan. He joined the Company in February 2003 and is a member of the audit, remuneration and nomination committees of the Company.

Ms. HUI Wai Man Shirley, aged 39, is an independent non-executive Director. She is a practising director of S.W. Wu & Co. CPA Limited in Hong Kong since 1997 and has over 18 years of experience in public accounting and corporate finance. Ms. Hui is 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 member of the Hong Kong Institute of Company Secretaries. Ms. Hui joined the Company in October 2004. She is also the chairlady of the audit and nomination committees of the Company and member of the remuneration committee of the Company.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. NG Chi Fai – Please refer to the paragraph under "Executive Directors" above for his profile.

SENIOR MANAGEMENT

Dr. PAU Kwok Ping, Ph.D., MSc., aged 53, is the chief executive officer of the Company and the ex-chairman and ex-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 36 years of experience in the machinery manufacturing industry. Dr. Pau was awarded one of the Ten Outstanding Young Persons in Hong Kong in 1982. Before joining the Group, Dr. Pau was working in Chen Hsong Holdings Limited since 1968 and was appointed as director in 1991. Dr. Pau joined the Group as technical consultant in December 1999 and was appointed as Director of the Company in January 2001. He resigned as a Director on 3 March 2006 and was appointed as chief executive officer on the same date.

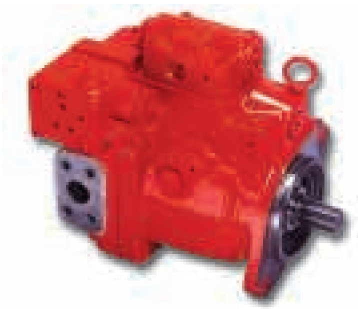
Mr. CHEUNG Ka Fai, aged 32, is the financial controller of the Group and is responsible for the financial reporting and accounting management of the Group. Mr. Cheung graduated from the Hong Kong Polytechnic University with a Bachelor of Arts degree in accountancy in 1997. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants, having over nine years' experience in auditing, accounting and finance industry. Prior to joining the Group, he was a qualified accountant and company secretary of a company listed on GEM and served as an auditor in an international accounting firm. Mr. Cheung joined the Group in March 2006.

Professor CHEN Zhuo Ru, aged 69, is a chief representative of Tokawa Precision Company Limited. He is responsible for sale and marketing of the Group's hydraulic components in the PRC market. Professor Chen graduated from Harbin Institute of Technology majoring in power engineering in 1961. He was the professor of Harbin Institute of Technology before joining the Group in May 2003.

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 October 2006 was around HK$91.9 million (2005: HK$93.4 million). Net profits attributable to equity holders of the Company was around HK$13.0 million (2005: HK$22.2 million).

Hydraulic Motor



Hydraulic Pumps

Revenue from the sales of industrial environmental protection related products has increased by 34% to nearly HK$76.8 million (2005: HK$57.2 million). During the year, the management increased its efforts and resources in actively promoting the Group's industrial environmental protection related products. Also, with the gradual settlement of the austerity measures depressing the demand of industrial, construction and marine equipment enforced in the PRC over the past two years in 2006, demand for hydraulic components has rebounded.

Revenue generated from general environmental protection related products has decreased by 58% to HK$15.2 million (2005: HK$36.2 million) due to the completion of the tenders obtained from The Environmental Protection Department ("EPD") of The Hong Kong Government for the sale and installation of diesel oxidation catalysts onto qualified heavy diesel vehicles in August 2006.

Gross profits of the Group for the year ended 31 October 2006 amounted to approximately HK$26.6 million (2005: HK$33.9 million). Gross profits margin was around 29%, which was 7% lower than that of 2005. Such decrease is due to the change in the product mix during the year.

The administrative expenses of the Group for the year ended 31 October 2006 increased by around HK$3 million more than that of 2005. This is primarily due to an increase in the professional fees arising from the application for transferring our listing onto the Main Board which was terminated in September 2006. For details of the termination please refer to the announcement dated 25 September 2006.

The net profit attributable to equity holders of the Company was around HK$13.0 million (2005: HK$22.2 million). Reduction in net profits was due to the completion of the EPD's tenders, the extra incurred professional fees for the application for listing on the Main Board of the Stock Exchange of Hong Kong Limited and the pre-operating expenses from the water supply business in Tianjin.

BUSINESS REVIEW AND OUTLOOK

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

During the year under review, tenders obtained from the EPD for the installation of diesel particulates removal devices for Heavy Vehicles were completed. The successful completion of the tenders has reduced the current year's revenue and thus the operating profits of the Group. Currently, the Group is engaging in the pilot testing of filters into the diesel-powered vehicles under the Euro I and Euro II European Standards. With the completion of the installation of diesel particulates removal devices for the Pre-European Standards Vehicles, it is possible that the EPD may launch new tenders for Euro I and Euro II vehicles in the near future.

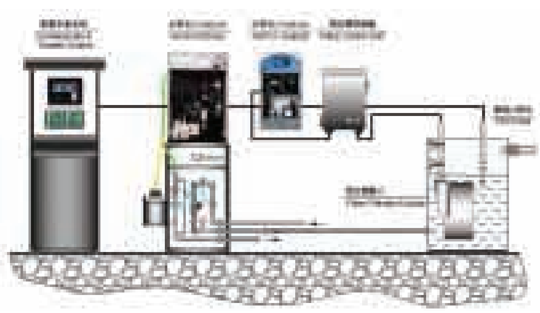
Also, in the best interests of the shareholders, the Group will continue to work towards widening the revenue base. Marketing efforts in the promotion of industrial environmental protection related products will continue. The Group has promoted the "Direct Drive Pump", which can save 80% of the electricity consumed by industrial machines. With an increase in public awareness regarding environmental protection, the management believes that such energy saving devices will be well received by customers.

Direct Drive Pump

Another means for widening the Group's revenue base is the entering of the Water Supply Business through the acquisition of 42.5% interests in Asian Way during the year as stated in the circular dated 16 December 2005. The construction progress of the Water Supply Plant is satisfactory according to the plans and it is expected that the plant will contribute revenue to the Group in the second half of the year.

Water Supply Plant

The Joint Venture in the Jiangsu Province will promote the Group's environmental products such as Eco-Green, Eco-Air, Eco-Water and other environmental protection consultancy services and solutions in the region. In the coming year, apart from the business stated above, the Joint Venture will start selling automatic surveillance systems for the end users to monitor their water pollution status.



Automatic Surveillance Systems

The management are confident that the reduction in revenue arising from the completion of the tenders from the EPD will be offset by increased revenue generated from the sales of industrial environmental protection related products, the expected revenue from the operation of the Tianjin Water Supply Plant, and the expected profits from the Joint Venture in the coming year. Also, with the increase in the public awareness of the air quality in Hong Kong, once the EPD decided to launch new tenders for those Euro I and Euro II vehicles, the Group is confident in obtaining such new tenders, with the past successful experience for EPD's tenders.

LIQUIDITY AND FINANCIAL RESOURCES

For the year under review, the Group financed its operations with its own available funds. To finance the RMB60 million loan for the construction of the Water Supply Plant in Tianjin as stated in the circular dated 16 December 2005, the Group has recorded HK$26.6 million loan from the bank as at 31 October 2006. Taking into account 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 requirement.

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 management 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 requirement.

EMPLOYEE INFORMATION

As at 31 October 2006, the Group employed 77 staff (2005: 66) working in Hong Kong, Macau and the PRC. The total of employee remuneration, including that of the directors and mandatory provident funds contributions, for the year under review amounted to approximately HK$6.1 million (2005: HK$7.5 million). The dedication and hard work of the Group's staff during the year ended 31 October 2006 are recognized and greatly appreciated.

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 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 principally 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.

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

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 October 2006, the Group has pledged its bank deposits of approximately HK$9.0 million to secure for the performance bond facilities and has pledged its accounts receivable with carrying amount of approximately HK$18.8 million to secure a bank loan of the Group (further details of which are set out in notes 20 and 29 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 2006.

GEARING RATIO

As at 31 October 2006, the Group has a healthy financial position with net assets amounted to approximately HK$87 million. There is a net current liability of around HK$3 million with current ratio of approximately 0.95 (2005: 3.17). Such decrease was mainly due to the fact that the Group has borrowed bank loans of HK$26.6 million to finance the construction cost of the water supply plant in Tianjin. These loans are re-volving in nature.

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 2006, the Group had no outstanding hedging instruments.

INTRODUCTION

The Company is committed to achieving high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 October 2006. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each director had confirmed that during the year ended 31 October 2006, he had fully complied with the required standard of dealings and there was no event of non-compliance.

THE BOARD OF DIRECTORS

Composition

The Board of directors, which currently comprises 9 directors, is responsible for supervising the management of the Group. Details of the Chairman and the other directors of the Group are set in the section "Biographical Details of the Directors and Senior Management" of this report. All directors give sufficient time and attention to the affairs of the Group.

In compliance with rule 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed four independent non-executive directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each independent non-executive director an annual confirmation of his independence, and the Company considers such directors to be independent in accordance with each and the various guidelines set out in rule 5.09 of the GEM Listing Rules.

With the various experience of both the executive directors and the non-executive directors and the nature of the Group's business, the Board considered that the directors have a balance of skills and experience for the business of the Group.

BOARD MEETINGS

In the financial year ended 31 October 2006, five board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/total
Executive Directors	
SHAN Tahir Hussain	4/5
HAN Ka Lun	1/5
NG Chi Fai (appointed on 24 March 2006)	3/3
PAU Kwok Ping (resigned on 3 March 2006)	2/2
Non-executive Directors	
LUI Sun Wing	4/5
YOUNG Meng Cheung Andrew	5/5
Independent Non-executive Directors	
CHAN Siu Ping Rosa	4/5
TAKEUCHI Yutaka	2/5
NI Jun	2/5
HUI Wai Man Shirley	5/5

During regular meetings of the Board, the directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual and interim and quarterly results, as well as discuss and decide on other significant matters. Execution of daily operational matters is delegated to management.

The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the board together with concerns raised and dissenting views expressed (if any). Drafts of board minutes are circulated to all directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any director.

All directors have access to relevant and timely information at all times as the Chairman ensures that management will supply the Board and its committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information. They also have unrestricted access to the advice and services of the Company Secretary, who is responsible to the Board of directors for providing directors with board papers and related materials, and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. If considered to be necessary and appropriate by the directors, they may retain independent professional advisors at the Group's expense.

In case where a conflict of interest may arise involving a substantial shareholder or a director, such matter will be discussed through an actual meeting and will not be dealt with by written resolutions. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues.

The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

CHAIRMAN OF THE GROUP

The Chairman of the Group is Mr. SHAN Tahir Hussain and the Chief Executive Officer of the Group is Dr. PAU Kwok Ping. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to avoid power being concentrated in any one individual. The Chairman of the Group is primarily responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner, whereas the Chief Executive Officer is primarily responsible for the running of the Group's business and implementation of the Group's strategy in achieving the overall commercial objectives.

The Chairman also encourages all directors, including the independent non-executive directors, to actively participate in all board and committee meetings.

NON-EXECUTIVE DIRECTORS

Both non-executive directors, Dr. LUI Sun Wing and Mr. YOUNG Meng Cheung Andrew, 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.

REMUNERATION OF DIRECTORS

The remuneration committee was established in March 2005. The chairman of the committee is Ms. CHAN Siu Ping Rosa, an independent non-executive Director, and other members include Ms. HUI Wai Man Shirley, Mr. TAKEUCHI Yutaka and Professor NI Jun, all are independent non-executive Directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

For the financial year ended 31 October 2006, a meeting of the remuneration committee was held in November 2005. Details of the attendance of the remuneration committee meeting are as follows:

Members	**Attendance**
HUI Wai Man Shirley	1/1
CHAN Siu Ping Rosa	1/1
TAKEUCHI Yutaka	0/1
NI Jun	0/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of both the executive and non-executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of both the executive and non-executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

The nomination committee was established in February 2006. The chairman of the committee is Ms. HUI Wai Man Shirley, and other members include Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka and Professor NI Jun, all are independent non-executive Directors.

The nomination committee is responsible for formulating nomination policy and making recommendations to the Board on nomination and appointment of directors and board succession. The committee develops selection procedures of candidates for nomination, reviews the size, structure and composition of the Board, as well as assesses the independence of independent non-executive Directors. The Committee is provided with sufficient resources enabling it to discharge its duties.

The nomination committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates of directorship during the year.

For the financial year ended 31 October 2006, a meeting of the nomination committee was held in March 2006 for nomination of Directors. Details of the attendance of the meeting are as follows:

Members	**Attendance**
Ms. HUI Wai Man Shirley *(Chairlady)*	1/1
Ms. CHAN Siu Ping Rosa	1/1
Mr. TAKEUCHI Yutaka	0/1
Professor NI Jun	0/1

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provides that no Director holding office as chairman and/or chief executive officer shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. SHAN Tahir Hussain, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with code provision A.4.2 of the Corporate Governance Practices, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years.

AUDIT COMMITTEE

The Company established an audit committee 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 Ms. HUI Wai Man Shirley, Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka and Professor NI Jun, all are independent non-executive Directors. The Chairman of the audit committee is Ms. HUI Wai Man Shirley.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Ms. HUI Wai Man Shirley *(Chairlady)*	4/4
Ms. CHAN Siu Ping Rosa	3/4
Mr. TAKEUCHI Yutaka	1/4
Professor NI Jun	1/4

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

The level of fees in respect of audit and non-audit services provided by the external auditors to the Company for the year ended 31 October 2006 is set out on page 59 of this annual report.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group.

The Directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Auditors' Report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

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 2006.

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 revenue and contribution to the profit from operations by principal activity and geographical area of operations for the year ended 31 October 2006 is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 October 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 90.

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 28 February 2007. The register of members of the Company will be closed from Wednesday, 28 February 2007 and to Friday, 2 March 2007, both days inclusive during which period no transfer of shares of the Company will be effected. 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 8 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on pages 91 to 92 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 14 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 27 and 13 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 28 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 2006, the Company's reserves available for distribution, calculated in accordance with the Companies' Law of the Cayman Islands, amounted to HK$37,567,000. This includes the Company's share premium in the amount of HK$30,537,000 at 31 October 2006, 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 54% in aggregate for the Group's total turnover for the year. The largest customer of the Group accounted for approximately 27% of the Group's total turnover.

Purchases from the Group's five largest suppliers of the Group accounted for approximately 94% in aggregate for the Group's total purchases for the year. The largest supplier of the Group accounted for approximately 43% 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.

DIRECTORS

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

Executive directors

Mr. SHAH Tahir Hussain *(Chairman and Managing Director)*
Mr. HAN Ka Lun
Mr. NG Chi Fai (appointed on 24 March 2006)
Dr. PAU Kwok Ping (resigned on 3 March 2006)

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. HAN Ka Lun, Mr. NG Chi Fai, Dr. LUI Sun Wing and Ms. CHAN Siu Ping Rosa will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors of the Company and the five highest paid individuals of the Group are set out in notes 11 and 12 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Mr. SHAH Tahir Hussain, the executive director, has 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. Mr. NG Chi Fai, the executive director, has entered into a service contract with the Company for a term of 2 years which commenced from 24 March 2006 and shall be entitled to terminate the contract thereafter without cause by giving not less than three months' prior written notice to the Company.

Both non-executive directors, Dr. LUI Sun Wing and Mr. YOUNG Meng Cheung Andrew, 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 October 2006, 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 ordinary shares of the Company

	Number of shares held, capacity and nature of interest		
Name	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital as at 31 October 2006**
Executive Director			
Mr. SHAH Tahir Hussain	Directly beneficially owned	14,372,800	2.2
Chief Executive Officer			
Dr. PAU Kwok Ping *(Note)*	Through a discretionary trust	44,224,000	6.8
		58,596,800	9.0

Note:

Dr. PAU Kowk Ping resigned as Chairman and Managing Director and acts as Chief Executive Officer of the Group on 3 March 2006.

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.

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 2006 were as follows:

Name	Date of grant	Number of options outstanding as at 1 November 2005	Number of options exercised during the year	Number of options outstanding as at 31 October 2006	Exercise price per share HK$
Executive Director					
Mr. SHAH Tahir Hussain	21/11/2001	13,820,000	(13,820,000)	–	0.01
Chief Executive Officer					
Dr. PAU Kwok Ping	21/11/2001	27,640,000	(27,640,000)	–	0.01
		41,460,000	(41,460,000)	–	

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

Name	Total number of ordinary shares held	Number of options held and outstanding as at 31 October 2006	Aggregate in number	Percentage of the Company's issued share capital as at 31 October 2006
Executive Director				
Mr. SHAH Tahir Hussain	14,372,800	–	14,372,800	2.2
Chief Executive				
Dr. Pau Kwok Ping	44,224,000	–	44,224,000	6.8
	58,596,800	–	58,596,800	9.0

Save as disclosed above, as at 31 October 2006, 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 13 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.

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 2006, 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 2006
Substantial shareholders			
Cititrust (Cayman) Limited *(Note 1)*	Through a unit trust and controlled corporation	344,621,200	53.06
Wide Sky Management Limited *(Note 1)*	Through a controlled corporation	344,621,200	53.06
Team Drive Limited *(Note 1)*	Directly beneficially owned	344,621,200	53.06
The Hong Kong Polytechnic University *(Note 2)*	Through a controlled corporation	70,440,800	10.84
PolyU Enterprise Limited *(Note 2)*	Through a controlled corporation	70,440,800	10.84
Advance New Technology Limited *(Note 2)*	Directly beneficially owned	70,440,800	10.84
ING Trust Company (Jersey) Limited *(Note 3)*	Through a controlled corporation	44,224,000	6.81
Crayne Company Limited *(Note 3)*	Directly beneficially owned	44,224,000	6.81
Other shareholder			
Mr. LEE Wai Man	Directly beneficially owned	35,620,000	5.48

Notes:

1. These shares are held by Team Drive Limited which is wholly-owned by Wide Sky Management Limited, being the trustee of a unit trust of which the entire issued units are held by Cititrust (Cayman) Limited. By virtue of the SFO, Wide Sky Management Limited and Cititrust (Cayman) Limited are deemed to be interested in all the shares held by Team Drive Limited.

2. Advance New Technology Limited is a wholly-owned subsidiary of PolyU Enterprise Limited, which is wholly owned by The Hong Kong Polytechnic University ("PolyU"). By virtue of its interest in Advance New Technology Limited, PolyU and PolyU Enterprise Limited are deemed to be interested in all the shares of the Company held by Advance New Technology Limited.

3. 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.

Other share options granted under the Pre-Scheme

Name	Date of grant	Number of options outstanding as at 1 November 2005	Number of options exercised during the year	Number of options outstanding as at 31 October 2006	Exercise price per share HK$
Dr. CHIANG Lily	21/11/2001	55,280,000	(55,280,000)	–	0.01

Save as disclosed above, as at 31 October 2006, 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 5% 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 2006. The Company had not redeemed any of its listed securities during the year ended 31 October 2006.

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 2006.

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 control 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, four meetings were held during the year ended 31 October 2006 to review the operations.

The Group's results for the year ended 31 October 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

The financial statements of the Company for the year ended 31 October 2006 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.

ON BEHALF OF THE BOARD

Mr. SHAH Tahir Hussain
Chairman

Hong Kong, 22 January 2007

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

To the shareholders 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 consolidated financial statements of Eco-Tek Holdings Limited (the "Company") set out on pages 30 to 90, which comprise the consolidated and company balance sheets as at 31 October 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do no assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

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

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

22 January 2007

Consolidated Income Statement

For the year ended 31 October 2006

	Notes	2006 HK$'000	2005 HK$'000
Revenue	4	**91,941**	93,381
Cost of sales		**(65,312)**	(59,447)
Gross profit		**26,629**	33,934
Other income		**2,191**	642
Selling expenses		**(2,884)**	(2,443)
Administrative expenses		**(13,692)**	(10,655)
Other operating income		**614**	1,682
PROFIT FROM OPERATIONS	5	**12,858**	23,160
Share of loss of a jointly controlled entity		**(500)**	(267)
PROFIT BEFORE TAXATION		**12,358**	22,893
TAXATION	7	**(696)**	(704)
PROFIT FOR THE YEAR		**11,662**	22,189
ATTRIBUTABLE TO:			
Equity holders of the Company	10	**13,044**	22,189
Minority interest		**(1,382)**	–
PROFIT FOR THE YEAR		**11,662**	22,189
Dividends	8	**3,248**	3,248
EARNINGS PER SHARE	9		
– Basic		**HK2.03 cents**	HK4.01 cents
– Diluted		**HK2.01 cents**	HK3.44 cents

Consolidated Balance Sheet

As at 31 October 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*14*	**75,740**	4,034
Leasehold interest in land	*15*	**5,074**	–
Interest in a jointly controlled entity	*17*	**1,618**	915
Deferred tax assets	*18*	**2,422**	2,601
Accounts receivable	*20*	**15,408**	13,077
Pledged bank deposits	*22*	**9,020**	9,020
		109,282	29,647
Current assets			
Inventories	*19*	**15,371**	21,481
Accounts receivable	*20*	**27,872**	37,870
Deposits, prepayments and other receivables		**5,062**	3,463
Tax recoverable		**1,801**	1,801
Cash and cash equivalents	*22*	**9,434**	7,624
		59,540	72,239
Current liabilities			
Accounts and bills payable	*23*	**27,374**	15,114
Accrued liabilities and other payables		**5,394**	4,671
Provision for warranty	*24*	**1,762**	1,486
Provision for tax		**1,500**	1,500
Bank loans – secured	*25*	**26,600**	–
		62,630	22,771
Net current (liabilities)/assets		**(3,090)**	49,468
Total assets less current liabilities		**106,192**	79,115
Non-current liabilities			
Provision for warranty	*24*	**3,252**	4,675
Loans from minority shareholders	*26*	**15,633**	–
		18,885	4,675
Net assets		**87,307**	74,440
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*27*	**6,495**	5,528
Share premium	*28(a)*	**19,586**	19,586
Capital reserve	*28(a)*	**95**	95
Exchange translation reserve		**1,687**	138
Retained profits		**55,641**	45,845
Proposed final dividend	*8*	**3,248**	3,248
		86,752	74,440
Minority interest		**555**	–
Total equity		**87,307**	74,440

On behalf of the Board

Mr. NG Chi Fai
Director

Mr. SHAH Tahir Hussain
Director

Balance Sheet

As at 31 October 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	*16*	**10,957**	10,957
Current assets			
Deposits, prepayments and other receivables		**20**	47
Amounts due from subsidiaries	*21*	**43,572**	30,158
Cash and cash equivalents	*22*	**55**	63
		43,647	30,268
Current liabilities			
Accrued liabilities and other payables		**831**	309
Amounts due to subsidiaries	*21*	**9,711**	104
		10,542	413
Net current assets		**33,105**	29,855
Net assets		**44,062**	40,812
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*27*	**6,495**	5,528
Share premium	*28(b)*	**30,537**	30,537
Retained profits	*28(b)*	**3,782**	1,499
Proposed final dividend	*8*	**3,248**	3,248
Total equity		**44,062**	40,812

On behalf of the Board

Mr. NG Chi Fai
Director

Mr. SHAH Tahir Hussain
Director

Consolidated Cash Flow Statement

For the year ended 31 October 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Profit before taxation		**12,358**	22,893
Adjustments for :			
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition	*33*	**(1,427)**	–
Interest income		**(548)**	(488)
Share of loss of a jointly controlled entity		**500**	267
Depreciation of property, plant and equipment		**857**	537
Gain on disposal of property, plant and equipment		**(60)**	–
Amortisation of leasehold interest in land		**84**	–
(Write back of)/Provision for slow-moving inventories		**(450)**	510
Write back of provision for warranty		**(614)**	(170)
Write back of doubtful debts		**–**	(1,512)
Exchange gain		**(730)**	–
Operating profit before working capital changes		**9,970**	22,037
Decrease/(Increase) in inventories		**6,560**	(3,132)
Decrease/(Increase) in accounts receivable		**7,667**	(16,261)
Decrease/(Increase) in deposits, prepayments and other receivables		**14,284**	(530)
Increase/(Decrease) in accounts and bills payable		**12,260**	(11,912)
(Decrease)/Increase in accrued liabilities and other payables		**(6,257)**	745
Utilisation of warranty provision		**(533)**	(286)
Cash generated from/(used in) operations		**43,951**	(9,339)
Hong Kong profits tax refunded		**–**	1,115
Overseas tax paid		**(459)**	(92)
Net cash generated from/(used in) operating activities		**43,492**	(8,316)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(67,048)**	(3,608)
Purchase of leasehold interest in land		**(2,005)**	–
Proceeds from disposal of property, plant and equipment		**189**	–
Capital injection into a jointly controlled entity		**(1,203)**	(1,182)
Increase in pledged bank deposits		**–**	(1,767)
Acquisition of subsidiaries	*33*	**1,370**	–
Interest received		**548**	488
Net cash used in investing activities		**(68,149)**	(6,069)

Consolidated Cash Flow Statement

For the year ended 31 October 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from financing activities			
Shares issued		**967**	–
Increase in bank loans		**26,600**	–
Increase in loans from minority shareholders		**3,000**	–
Interest paid		**(805)**	–
Dividend paid		**(3,248)**	(8,292)
Net cash generated from/(used in) financing activities		**26,514**	(8,292)
Increase/(Decrease) in cash and cash equivalents		**1,857**	(22,677)
Effect of foreign exchange rate changes		**(47)**	132
Cash and cash equivalents at beginning of year		**7,624**	30,169
Cash and cash equivalents at end of year		**9,434**	7,624
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*22*	**5,534**	5,545
Time deposits	*22*	**3,900**	2,079
		9,434	7,624

Consolidated Statement of Changes in Equity

For the year ended 31 October 2006

	Equity attributable to equity holders of the Company							Minority interest	Total equity
	Share capital	Share premium	Capital reserve	Exchange translation reserve	Retained profits	Proposed final dividend	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note 27)	*(Note 28(a))*	*(Note 28(a))*						
At 31 October and 1 November 2004	5,528	19,586	95	–	26,904	8,292	60,405	–	60,405
Exchange difference, net income recognised directly in equity	–	–	–	138	–	–	138	–	138
Profit for the year	–	–	–	–	22,189	–	22,189	–	22,189
Total recognised income and expense for the year	–	–	–	138	22,189	–	22,327	–	22,327
2004 final dividend declared	–	–	–	–	–	(8,292)	(8,292)	–	(8,292)
2005 proposed final dividend	–	–	–	–	(3,248)	3,248	–	–	–
At 31 October and 1 November 2005	5,528	19,586	95	138	45,845	3,248	74,440	–	74,440
Exchange difference, net income recognised directly in equity	–	–	–	1,549	–	–	1,549	–	1,549
Profit for the year	–	–	–	–	13,044	–	13,044	(1,382)	11,662
Total recognised income and expense for the year	–	–	–	1,549	13,044	–	14,593	(1,382)	13,211
Purchase of subsidiary	–	–	–	–	–	–	–	1,937	1,937
2005 final dividend declared	–	–	–	–	–	(3,248)	(3,248)	–	(3,248)
2006 proposed final dividend	–	–	–	–	(3,248)	3,248	–	–	–
Issue of shares on exercise of share options	967	–	–	–	–	–	967	–	967
At 31 October 2006	**6,495**	**19,586**	**95**	**1,687**	**55,641**	**3,248**	**86,752**	**555**	**87,307**

1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and its principal place of business is Unit 5, 11/F, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong. The Company's shares are listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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. During the year, the Group acquired a water supply plant in Tianjin, the People's Republic of China except Macau and Hong Kong (the "PRC"). The water supply plant is currently under construction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements on pages 30 to 90 are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

The financial statements for the year ended 31 October 2006 were approved by the board of directors on 22 January 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Adoption of new/revised HKFRS

From 1 November 2005, the Group has adopted the new/revised standards and interpretations of HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the financial statements for the year ended 31 October 2005 and their presentation have been amended in accordance with HKAS 8.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Adoption of new/revised HKFRS (Continued)

Effects on current, prior or future periods arising from the first-time application of the standards listed above in respect of presentation, recognition and measurement of accounts are described in the following notes:

(i) Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company are now presented as an allocation of the net result of the year.

(ii) Adoption of HKAS 31

In previous years, interests in jointly controlled entities were accounted for using the equity method. In the current year, the Group has applied HKAS 31 which allows an entity to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interest in jointly controlled entities. This change has no effect on the Group's retained profits at 1 November 2005.

(iii) Adoption of HKAS 39

Prior to the application of HKAS 39 on 1 November 2005, interest-free non-current loans from minority shareholders were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. Any difference between the fair value and the redemption value is recognised as borrowing cost over the period of the borrowings using the effective interest method. As a result of this change in accounting policy, the Group's imputed interest has been increased by HK$762,000 for the financial year ended 31 October 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Adoption of new/revised HKFRS (Continued)

(iv) Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 November 2005, the Group did not recognise the financial effect of share options until they were exercised.

The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and/or its subsidiaries, determined at the date of grant of the share options, over the vesting period with a corresponding credit to equity, unless the transaction is a cash settled share-based payment.

According to the transitional provisions of HKFRS 2, the Group applies HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 November 2005.

The adoption of this standard did not result in any significant changes to the amounts or disclosures in the financial statements as the share options outstanding on 1 November 2005 were granted before 7 November 2002 or vested before 1 November 2005.

(v) Other standards adopted

The adoption of other HKFRSs did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Adoption of new/revised HKFRS (Continued)

(vi) *The effect of changes in the accounting policies on the consolidated balance sheet are summarised below:*

	Effect of adopting HKAS 39 HK$'000
At 31 October 2006	
Increase in assets	
Property, plant and equipment	762
Increase in liabilities	
Loans from minority shareholders	762

(vii) *New standards or interpretations that have been issued but are not yet effective*

The Group has not early adopted the following standards or interpretations relevant to its operation that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains A Lease[2]
HK(IFRIC) – Int 8	Scope of HKFRS2[3]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2006
3 Effective for annual periods beginning on or after 1 May 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain assets and liabilities. The significant accounting policies that have been used in the preparation of these financial statements and the measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 October each year. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and equity holders of the Company.

Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the acquisition takes place.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(f) 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 accounted for using the equity method which is 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 and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Joint ventures (Continued)

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.

(g) Borrowing costs

Borrowing costs incurred for construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

(h) Income and expense recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after elimination of sales within the Group.

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

a. from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, not 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.

Operating expenses are charged to the income statement when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

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.

(iii) Construction in progress

Construction in progress which represents property, plant and equipment under construction is stated at cost less impairment losses and is not depreciated. The cost of self-constructed property, plant and equipment includes capitalised borrowing costs and other direct costs attributable to the interests in properties under development. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the construction is completed and the item is ready for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) Impairment of assets

Property, plant and equipment, leasehold interest in land and interests in subsidiaries and jointly controlled entities are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's 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 or amortisation, if no impairment loss had been recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Operating leases

(i) 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.

(ii) Leasehold interest in land are up-front payments to acquire the land use right. The payments are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the up-front payments over the lease terms.

(m) Employee benefits

(i) Paid leave carried forward

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

(ii) Pension scheme

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

The employees of the Group's subsidiaries which operate in the PRC 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits (Continued)

(iii) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 November 2005 are recognised in the financial statements.

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to equity compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as share premium. When the share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in equity will be transferred to retained profits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Dividends

Final dividends proposed by the directors after the balance sheet date but before these financial statements are authorised for issue 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.

(o) 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.

(p) Financial assets

The Group's financial assets included accounts and other receivable. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value is recognised in income statement.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

(r) Financial liabilities

The Group's financial liabilities include bank loans, accounts and bills payable, accrued liabilities and other payables and loans from minority shareholders. They are included in balance sheet line items as "bank loans – secured", "accounts and bills payable", "accrued liabilities and other payables" under current liabilities and "loans from minority shareholders" under non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Financial liabilities, other than loans from minority shareholders, are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial liabilities (Continued)

Loans from shareholders are recognised initially at fair value. The difference between the nominal loan amount and the fair value represents deemed contribution from shareholders and is recorded as a component of equity in the Group's financial statements. Subsequently, loans from shareholders are measured at amortised cost, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Income tax

Income tax for the year comprises current and deferred taxes.

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

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

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

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.

(t) Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the Group:

– controls, is controlled by, or is under common control with, the entity;

– has an interest in the entity that gives it significant influence over the entity;

– has joint control over the entity;

(ii) the party is a jointly-controlled entity;

(iii) the party is a member of the key management personnel of the Group or its parent;

(iv) the party is a close member of the family or any individual referred to in (i) or (iii);

(v) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) or (iv); or

(vi) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Foreign currencies

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

In the consolidated financial statements, all separate financial statements of subsidiaries and joint ventures, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange fluctuation reserve in equity. Fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong Dollars at the closing rates.

(v) Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short term bank deposits.

(w) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incidental costs directly attributable to the equity transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Depreciation

The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of two to ten years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(ii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management will reassess the impairment of receivables at the balance sheet date.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimates at the balance sheet date.

(iv) Provision of warranty

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. These calculations require the use of estimates.

4. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, recognised during the year comprised the following:

	2006	2005
	HK$'000	HK$'000
Sales of goods	**91,341**	92,911
Consultancy fee income	**600**	470
	91,941	93,381

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.

4. REVENUE AND SEGMENT INFORMATION (Continued)

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;

(b) the industrial environmental products segment refers to sale of hydraulic components and other related accessories; and

(c) the water supply plant segment refers to the supply of processed water in the PRC.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, leasehold interest in land, inventories, accounts 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, plant and equipment, including additions resulting from acquisition of subsidiaries, and leasehold interest in land.

In determining the Group's geographical segments, revenue is 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.

4. REVENUE AND 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.

	Water supply plant		General environmental protection related products and services		Industrial environmental products		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**–**	–	**15,162**	36,160	**76,779**	57,221	**91,941**	93,381
Segment results	**(1,080)**	–	**5,053**	15,407	**12,200**	7,838	**16,173**	23,245
Interest income							**548**	488
Unallocated expenses							**(3,863)**	(573)
Profit from operations							**12,858**	23,160
Share of loss of a jointly controlled entity							**(500)**	(267)
Profit before taxation							**12,358**	22,893
Taxation							**(696)**	(704)
Profit for the year							**11,662**	22,189

4. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Water supply plant		General environmental protection related products and services		Industrial environmental products		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**78,054**	–	**32,541**	55,125	**51,789**	41,101	**162,384**	96,226
Interest in a jointly controlled entity							**1,618**	915
Tax assets							**4,223**	4,402
Unallocated assets							**597**	343
Total assets							**168,822**	101,886
Segment liabilities	**45,329**	–	**5,451**	9,669	**28,403**	15,748	**79,183**	25,417
Tax liabilities							**1,500**	1,500
Unallocated liabilities							**832**	529
Total liabilities							**81,515**	27,446
Other segment information:								
Depreciation	**90**	–	**272**	337	**495**	200	**857**	537
Amortisation of leasehold interest in land	**84**	–	**–**	–	**–**	–	**84**	–
Capital expenditure*	**74,705**	–	**472**	354	**405**	3,254	**75,582**	3,608
Write back of doubtful debts	**–**	–	**–**	–	**–**	(1,512)	**–**	(1,512)
(Write back of)/Provision for slow-moving inventories	**–**	–	**(253)**	–	**(197)**	510	**(450)**	510
Gain on disposal of property, plant and equipment	**–**	–	**(60)**	–	**–**	–	**(60)**	–
Write back of provision for warranty	**–**	–	**(614)**	(170)	**–**	–	**(614)**	(170)

* Capital expenditure included the consideration of acquiring leasehold interest in land of HK$5,012,000 (note 15). Leasehold interest in land was located in the PRC with lease terms expiring in 2056.

4. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

	Hong Kong		PRC		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**27,724**	43,450	**63,976**	45,520	**241**	4,411	**91,941**	93,381
Other segment information:								
Segment assets	**39,326**	58,228	**117,750**	35,695	**5,905**	2,646	**162,981**	96,569
Interest in a jointly controlled entity							**1,618**	915
Tax assets							**4,223**	4,402
							168,822	101,886
Capital expenditure	**475**	354	**75,104**	3,254	**3**	–	**75,582**	3,608

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting):

	2006 HK$'000	2005 HK$'000
Auditors' remuneration	**240**	209
Cost of inventories sold*	**61,532**	58,114
Depreciation	**857**	537
Amortisation of leasehold interest in land	**84**	–
Exchange (gain)/losses, net	**(730)**	48
Gain on disposal of property, plant and equipment	**(60)**	–
Operating lease charges in respect of land and buildings	**1,056**	1,295
(Write back of)/provision for slow-moving inventories	**(450)**	510
Write back of provision for warranty, net***	**(614)**	(170)
Research and development costs**	**89**	720
Staff costs (excluding directors' remuneration *(note 11)*)		
Wages and salaries	**4,795**	3,367
Pension scheme contributions	**92**	90
	4,887	3,457
Write back of doubtful debts***	**–**	(1,512)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition	**(1,427)**	–
Interest income	**(548)**	(488)

5. PROFIT FROM OPERATIONS (Continued)

* The costs of inventories sold is included in cost of sales for the year which includes a total amount of HK$90,000 (2005: HK$1,333,000), relating to direct staff costs, depreciation, provision for slow-moving inventories and net exchange losses, which are also included in the respective amounts disclosed separately above for each of these types of expenses for the year.

** The research and development costs for the year ended 31 October 2005 included HK$720,000, relating to directors' remuneration, which is also included in the total amount of directors' remuneration disclosed separately in note 11.

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

6. FINANCE COSTS

	2006 **HK$'000**	2005 HK$'000
Interest charges on:		
Bank loans wholly repayable within five years	**805**	–
Imputed interest expense on loans from minority shareholders	**762**	–
	1,567	–
Less: interest capitalised to construction in progress	**(1,567)**	–
	–	–

7. TAXATION

	2006	2005
	HK$'000	HK$'000
Current tax		
Hong Kong		
Current year	–	500
Underprovision in prior years	–	32
	–	532
Elsewhere		
Current year	**459**	145
Overprovision in prior years	–	(53)
	459	92
Deferred tax	**237**	80
Total tax charge for the year	**696**	704

No Hong Kong profits tax has been provided in the financial statements as the Group has utilised its loss brought forward to offset against its assessable profit for the year ended 31 October 2006. Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 October 2005. 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 Hydraulic Components Co. Ltd.# (寧波東川精確液壓設備有限公司) ("Ningbo Tokawa Precision"), a subsidiary of the Company established in the PRC, is subject to the PRC enterprise income tax. PRC enterprise income tax has been provided at the rate of 33% (2005: 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% (2005: 33%) on operating expenses for the year.

7. TAXATION (Continued)

Dongguan Kangli Machinery Co. Ltd# (東莞康力機械有限公司) ("Dongguan Kangli"), a subsidiary of the Company established in the PRC, is subject to the PRC enterprise income tax. The subsidiary is entitled to full exemption from PRC enterprise income tax for the first two profitable years of operations, followed by a 50% reduction in the profits tax rate for the next three years. The subsidiary has applied the year ended 31 December 2005 as the first profit-making year for the aforesaid tax holiday, and hence, no PRC enterprise income tax has been provided for in the financial statements.

Tianjin Asian Way Estate Development Co., Ltd.# (天津華永房地產開發有限公司) ("Tianjin Asian Way"), a subsidiary of the Company established in the PRC, is entitled to the exemption of PRC enterprise income tax for the first two profitable years of operations followed by a 50% reduction in the profits tax rate for the next three years. The two years' tax exemption period had not commenced during the year.

Macau complementary profits tax has been calculated at the rate of 15.75% (2005: 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.

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7. TAXATION (Continued)

A reconciliation of the tax expense applicable to profit before taxation 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:

	2006	2005
	HK$'000	HK$'000
Profit before taxation	**12,358**	22,893
Tax at the domestic rates applicable to profits in the jurisdictions concerned *(Note (a))*	**2,387**	3,909
Tax effect of non-taxable revenue	**(6,336)**	(9,672)
Tax effect of non-deductible expenses	**4,666**	6,265
Utilisation of tax losses previously not recognised	**(275)**	–
Overprovision in prior year	**–**	(21)
Others	**254**	223
Tax charge at the effective tax rate	**696**	704

Note:

(a) Since the subsidiaries are operating in several jurisdictions, it is more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The change in average effective tax rate was attributable to the change in the mix of profits earned in different jurisdictions.

8. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
Proposed final dividend of HK0.50 cent (2005: HK0.50 cent) per ordinary share	**3,248**	3,248

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

The proposed final dividend amount for the year ended 31 October 2006 is based on 649,540,000 ordinary shares in issue as at 31 October 2006. The aforementioned dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend for the year ended 31 October 2005 was proposed on 29 December 2005. The proposed amount was based on 552,800,000 ordinary shares in issue as at 31 October 2005 and 96,740,000 ordinary shares issued in November 2005 upon exercise of the share options subsequently (note 13).

9. EARNINGS PER SHARE

The basic earnings per share for the year is calculated based on the consolidated profit attributable to equity holders of the Company for the year of HK$13,044,000 (2005: HK$22,189,000) and the weighted average of 643,599,000 (2005: 552,800,000) ordinary shares in issue during the year.

The calculation of the diluted earnings per share for the year ended 31 October 2006 is based on the consolidated profit attributable to equity holders of the Company for the year of HK$13,044,000 (2005: HK$22,189,000) and 649,321,000 (2005: 644,911,000) ordinary shares, being the 643,599,000 (2005: 552,800,000) ordinary shares as used in the calculation of basic earnings per share, plus the weighted average of 5,722,000 (2005: 92,111,000) ordinary shares deemed to be issued on the deemed exercise of share options under the Pre-Scheme as set out in note 13 to the financial statements.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of approximately HK$13,044,000 (2005: HK$22,189,000), a profit of approximately HK$5,531,000 (2005: HK$3,370,000) has been dealt with in the financial statements of the Company.

11. DIRECTORS' EMOLUMENTS

The remuneration of each director for the year, disclosed pursuant to the GEM Listing Rules 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
2006					
Executive directors:					
Dr. PAU Kwok Ping *(note a)*	–	480	–	4	484
Mr. SHAH Tahir Hussain	–	340	–	12	352
Mr. HAN Ka Lun	40	–	–	–	40
Mr. NG Chi Fai	–	168	–	7	175
Non-executive directors:					
Dr. LUI Sun Wing	100	–	–	–	100
Mr. YOUNG Meng Cheung Andrew	100	–	–	–	100
Independent non-executive directors:					
Ms. CHAN Siu Ping Rosa	–	–	–	–	–
Mr. TAKEUCHI Yutaka	–	–	–	–	–
Professor NI Jun	–	–	–	–	–
Ms. HUI Wai Man Shirley	–	–	–	–	–
	240	988	–	23	1,251

11. DIRECTORS' EMOLUMENTS (Continued)

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

Note (a): The director resigned on 3 March 2006.

Note (b): The director 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 (2005: Nil). None of the directors has waived or agreed to waive any emoluments during the year (2005: Nil).

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included one director and one former director (2005: two directors), details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees of the Group for the year are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, allowances and benefits in kind	**1,798**	1,257
Bonuses	**–**	23
Pension scheme contributions	**38**	35
	1,836	1,315

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 (2005: Nil).

13. SHARE OPTION SCHEME

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

Pre-Scheme *(note a)*

Date of grant	21/11/2001	21/11/2001	21/11/2001	
Exercisable period	5/12/2002 to 4/12/2005	5/12/2002 to 4/12/2005	5/12/2002 to 4/12/2005	
Exercise price	HK$0.01	HK$0.01	HK$0.01	
Grant to	Executive director	Former executive directors		
	Mr. SHAH Tahir Hussain	Dr. CHIANG Lily	Dr. PAU Kwok Ping	**Total**
At 1 November 2004 and 2005	13,820,000	55,280,000	27,640,000	96,740,000
Exercised during the year	(13,820,000)	(55,280,000)	(27,640,000)	(96,740,000)
At 31 October 2006	–	–	–	–

ANT-Option *(note b)*

Date of grant	21/11/2001
Exercisable period	5/12/2002 to 4/12/2004
Exercise price	HK$0.2142
Grant to	Advance New Technology Limited
At 1 November 2004	13,820,000
Lapsed on 4 December 2004	(13,820,000)
At 31 October 2005 and 2006	–

13. SHARE OPTION SCHEME (Continued)

Post-Scheme *(note c)*

Date of grant	21/3/2003	21/3/2003	21/3/2003	21/3/2003	
Exercisable period	21/9/2003 to 20/9/2005	21/9/2003 to 20/9/2005	21/9/2003 to 20/9/2005	21/9/2003 to 20/9/2005	
Exercise price	HK$0.28	HK$0.28	HK$0.28	HK$0.28	
Grant to	Non-executive directors		Independent non-executive directors		
	Dr. LUI Sun Wing	Mr. YOUNG Meng Cheung Andrew	Ms. CHAN Siu Ping Rosa	Mr. TAKEUCHI Yutaka	**Total**
At 1 November 2004	1,000,000	1,000,000	500,000	500,000	3,000,000
Lapsed on 20 September 2005	(1,000,000)	(1,000,000)	(500,000)	(500,000)	(3,000,000)
At 31 October 2005 and 2006	–	–	–	–	–

(a) 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 was 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 one executive director and two former executive directors to subscribe for a total of 96,740,000 shares, representing in aggregate approximately 17.5% of the then issued share capital of the Company immediately following the completion of the initial placing of the Company's shares on the GEM and the capitalisation issue at a subscription price of HK$0.01 each. No further options could 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 could be exercised within three years from the expiry of 12 months from 5 December 2001, the listing date. Each grantee had 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 of the Company and additional share capital of HK$967,400 with no share premium as at 31 October 2005.

13. SHARE OPTION SCHEME (Continued)

(a) (Continued)

In November 2005, the Pre-Scheme 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 (note 27).

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

The 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.

(c) 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 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.

13. SHARE OPTION SCHEME (Continued)

(c) (Continued)

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

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

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

The 3,000,000 share options lapsed on 20 September 2005.

No valuation of the options granted under the above schemes is included in the financial statements.

14. PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	Motor vehicles HK$'000	Office equipment HK$'000	Plant, moulds and machinery HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 October 2004							
Cost	456	317	806	240	–	–	1,819
Accumulated depreciation	(154)	(122)	(508)	(82)	–	–	(866)
Net book amount	302	195	298	158	–	–	953
Year ended 31 October 2005							
Opening net book amount	302	195	298	158	–	–	953
Additions	400	200	2,460	–	548	–	3,608
Depreciation	(113)	(87)	(217)	(48)	(72)	–	(537)
Translation differences	–	3	2	–	5	–	10
Closing net book amount	589	311	2,543	110	481	–	4,034
At 31 October 2005							
Cost	856	520	3,268	240	554	–	5,438
Accumulated depreciation	(267)	(209)	(725)	(130)	(73)	–	(1,404)
Net book amount	589	311	2,543	110	481	–	4,034
Year ended 31 October 2006							
Opening net book amount	589	311	2,543	110	481	–	4,034
Additions	669	116	177	44	13	67,596	68,615
Acquisition of subsidiaries	341	55	–	–	–	1,559	1,955
Disposal	(129)	–	–	–	–	–	(129)
Depreciation	(247)	(105)	(340)	(50)	(115)	–	(857)
Translation differences	17	10	75	–	11	2,009	2,122
Closing net book amount	1,240	387	2,455	104	390	71,164	75,740
At 31 October 2006							
Cost	1,463	704	3,532	283	584	71,164	77,730
Accumulated depreciation	(223)	(317)	(1,077)	(179)	(194)	–	(1,990)
Net book amount	1,240	387	2,455	104	390	71,164	75,740

15. LEASEHOLD INTEREST IN LAND – THE GROUP

The Group's interest in leasehold land represents prepaid operating lease payment and its net book amount is analysed as follows:

	2006	2005
	HK$'000	HK$'000
Carrying amount at the beginning of the year	**–**	–
Additions	**5,012**	–
Amortisation charge for the year	**(84)**	–
Translation differences	**146**	–
Carrying amount at the end of the year	**5,074**	–

The leasehold land is situated outside Hong Kong with lease terms expiring in 2056.

16. INTERESTS IN SUBSIDIARIES – THE COMPANY

	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**10,957**	10,957

16. INTERESTS IN SUBSIDIARIES – THE COMPANY (Continued)

Particulars of the subsidiaries of the Company as at 31 October 2006 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
Directly held				
Eco-Tek (BVI) Investment Holdings Limited^	British Virgin Islands ("BVI"), limited liability company	30,000 ordinary shares of US$1 each	100%	Investment holding in Hong Kong
Indirectly held				
Asian Way International Limited ("Asian Way")^	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	42.5%	Investment holding in Hong Kong
Eco-Tek Company Limited	Hong Kong, limited liability company	100,000 ordinary shares of HK$1 each	100%	Marketing, sale servicing, research and development of environmental protection related products and services in Hong Kong
Eco-Tek Technology Limited^	BVI, limited liability company	101 ordinary shares of US$1 each	100%	Holding of intellectual properties in Hong Kong
East Miles International Limited^	BVI, limited liability company	1 ordinary share of US$1	100%	Investment holding in Hong Kong
Elegant Well Investment Limited ("Elegant Well")	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	100%	Investment holding in Hong Kong
Ningbo Tokawa Precision^	PRC, wholly foreign owned limited liability company	US$100,000 *(note a)*	100%	Marketing and sales of industrial environmental products in the PRC

16. INTERESTS IN SUBSIDIARIES – THE COMPANY (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
Tianjin Asian Way^	PRC, wholly foreign owned limited liability company	US$4,500,000 *(note b)*	42.5%	Operation of a water supply plant in the PRC
Tokawa Precision (Overseas) Co. Limited^	BVI, limited liability company	1 ordinary share of US$1	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	100%	Marketing and sales of environmental protection related products in Macau
Well Spread Investment Limited ("Well Spread")	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	100%	Investment holding in Hong Kong
Dongguan Kangli^	PRC, wholly foreign owned limited liability company	HK$4,820,000 *(note c)*	100%	Production and sales of machinery and related spare parts in the PRC

^ Not audited by Grant Thornton International member firms.

16. INTERESTS IN SUBSIDIARIES – THE COMPANY (Continued)

Notes:

(a) Ningbo Tokawa Precision 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.

(b) Tianjin Asian Way is a wholly foreign owned enterprise in the PRC for a period of 30 years commencing from the date of issuance of its business licence on 7 August 2002. On 16 November 2005, Well Spread entered into a sale and purchase agreement to acquire 42.5% interest in Asian Way which holds 100% interest in Tianjin Asian Way. The Company had nominated 3 out of 5 directors to the board of directors of Asian Way which resulted in the Company having the power to govern the financial and operating policies of Asian Way and Tianjin Asian Way so as to obtain benefits from their activities. Asian Way and Tianjin Asian Way are, therefore, considered by the directors of the Company as subsidiaries because Asian Way and Tianjin Asian Way are controlled by the Company. The Group's control over Asian Way will cease once all outstanding indebtedness relating to the secured loan of RMB60.0 million (equivalent to HK$57.6 million) granted by one of the Group's subsidiary is fully repaid by Asian Way. One of the directors nominated by the Group will then resign and Asian Way will cease to be a subsidiary of the Company due to the loss of control over Asian Way. Following that, Asian Way will become an associated company of the Company and the Group will account for Asian Way using the equity method of accounting.

(c) Dongguan Kangli is a wholly foreign owned enterprise established by Elegant Well in the PRC for a period of 12 years commencing from the date of issuance of its business licence on 14 September 2004.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY – THE GROUP

	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**2,385**	1,182
Share of post-acquisition results	**(767)**	(267)
	1,618	915

17. INTEREST IN A JOINTLY CONTROLLED ENTITY – THE GROUP (Continued)

As at 31 October 2006, the Group had interest in the following jointly controlled entity:

Company name	Place of establishment and kind of legal entity	Paid-up capital	Percentage of equity attributable to the Group	Principal activities and place of operation
Jiangsu Kangyuan Environmental Protection Technology Co. Limited# (江蘇康源環保科技有限公司) ("Jiangsu Kangyuan")	PRC, limited liability company	RMB5,000,000	50%	Provision of environmental protection related solutions in the PRC

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The aggregate amounts relating to Jiangsu Kangyuan that have been included in the Group's consolidated financial statements are set out below:

	2006	2005
	HK$'000	HK$'000
Share of jointly controlled entity's results		
Income	**373**	–
Expenses	**(873)**	(267)
Share of jointly controlled entity's assets and liabilities		
Non-current assets	**35**	33
Current assets	**1,766**	883
Current liabilities	**(183)**	(1)
	1,618	915

18. DEFERRED TAX ASSETS – THE GROUP

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

	Provision for warranty HK$'000	Provision for doubtful debts HK$'000	Provision for slow-moving inventories HK$'000	Total HK$'000
At 1 November 2004	1,106	919	660	2,685
Translation differences	–	–	(4)	(4)
Credited/(debited) to the consolidated income statement	(28)	(367)	315	(80)
At 31 October 2005 and 1 November 2005	1,078	552	971	2,601
Translation differences	–	28	30	58
Debited to the consolidated income statement	(201)	–	(36)	(237)
At 31 October 2006	**877**	**580**	**965**	**2,422**

Deferred tax assets are recognised to the extent the realisation of related tax benefits through the future taxable profits is probable. As at 31 October 2006, the Group has tax losses arising in Hong Kong of HK$2,224,000 (2005: HK$3,502,000) 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 2006, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries (2005: Nil).

19. INVENTORIES – THE GROUP

	2006	2005
	HK$'000	HK$'000
Finished goods	**18,276**	24,755
Provision for slow-moving inventories	**(2,905)**	(3,274)
	15,371	21,481

20. ACCOUNTS RECEIVABLE – THE GROUP

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 after the invoice date; (ii) another 10% of the invoice amount to the Group three months or twelve 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:

	2006	2005
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 90 days	**17,437**	41,481
91-180 days	**7,135**	3,100
181-365 days	**4,501**	1,719
Over 365 days	**15,963**	6,320
	45,036	52,620
Provision for doubtful debts	**(1,756)**	(1,673)
	43,280	50,947
Carrying amount analysed for reporting purposes as		
Non-current *(note a)*	**15,408**	13,077
Current	**27,872**	37,870
	43,280	50,947

20. ACCOUNTS RECEIVABLE – THE GROUP (Continued)

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

(b) Accounts receivable with carrying amount of approximately HK$18,836,000 (2005: HK$Nil) was pledged to secure a bank loan of the Group (note 29(c)).

21. AMOUNTS DUE FROM/(TO) SUBSIDIARIES – THE COMPANY

Except for the aggregate amount due from subsidiaries of HK$Nil (2005: HK$14,535,000) which bears interest at a fixed rate of 5.125% per annum, the balances with other subsidiaries are interest-free, unsecured and repayable on demand.

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**5,534**	5,545	**55**	63
Bank deposits	**12,920**	11,099	**–**	–
	18,454	16,644	**55**	63
Less: Pledged bank deposits for performance bond facilities *(note 29)*	**(9,020)**	(9,020)	**–**	–
Cash and cash equivalents	**9,434**	7,624	**55**	63
Pledged deposits analysed for reporting purposes as Non-current	**9,020**	9,020	**–**	–

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS (Continued)

The effective interest rate of short-term bank deposits of HK$3,900,000 (2005: HK$2,079,000) is 4.54% (2005: 4.19%), which is the variable rate prevailing at the date of transaction. These deposits have a maturity of 8 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

The effective interest rate of pledged bank deposits is 3.68% (2005: 3.34%), which is the variable rate prevailing at the date of transaction. These deposits have a maturity of 15 days and are pledged to bank to secure the Group's performance bond facilities. The pledge will not be released within twelve months from the balance sheet date (note 30(b)).

23. ACCOUNTS AND BILLS PAYABLE – THE GROUP

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

	2006	2005
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 90 days	**17,912**	9,393
91-180 days	**6,012**	5,528
181-365 days	**3,057**	90
Over 365 days	**393**	103
	27,374	15,114

24. PROVISION FOR WARRANTY – THE GROUP

	2006 HK$'000	2005 HK$'000
At the beginning of the year	**6,161**	6,617
Provision for the year	**414**	1,435
Less: Unused amounts reversed	**(1,028)**	(1,605)
Amounts credited to the consolidated income statement	**(614)**	(170)
	5,547	6,447
Less: Amounts utilised	**(533)**	(286)
At the end of the year	**5,014**	6,161
Portion classified as current liability	**(1,762)**	(1,486)
Portion classified as non-current liability	**3,252**	4,675

The provision for warranty is made 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.

25. BANK LOANS – SECURED

Bank loans were denominated in Hong Kong Dollars with interest at variable rate of 1.8% over one month HIBOR, which was 5.7% per annum at 31 October 2006. These bank loans have maturity of one to two months. Further details of securities were set out in note 29 to the financial statements.

26. LOANS FROM MINORITY SHAREHOLDERS

The amounts due are unsecured, interest-free and not repayable within twelve months from the balance sheet date.

In accordance with HKAS 39, borrowings are initially recognised at fair value and subsequently stated at amortised cost. The principal amount of the loans is HK$18,680,000. The fair value of the loans was calculated by reference to a market interest rate ("MIR") for an equivalent loan. The fair value of the loans at the grant date was approximately HK$14,871,000, which is calculated using cash flows discounted at MIR of 5.9% per annum. The residual amount of HK$3,809,000, representing the value of capital contribution from the minority shareholders, is included in the equity of the subsidiary's financial statements.

27. SHARE CAPITAL

	2006	2005
	HK$'000	HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.01 each	**50,000**	50,000
Issued and fully paid		
At the beginning of the year,		
552,800,000 ordinary shares of HK$0.01 each	**5,528**	5,528
Exercise of share options	**967**	–
At the end of the year, 649,540,000 ordinary shares		
of HK$0.01 each	**6,495**	5,528

In November 2005, 96,740,000 ordinary shares of HK$0.01 each were issued upon the exercise of share options. Further details are set out in note 13 to the financial statements. The exercise price was HK$0.01 each per option share and a total of approximately HK$967,000 was raised.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity of the financial statements.

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

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

(b) Company

	Share premium HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 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 and 1 November 2005	30,537	1,499	3,248	35,284
2005 final dividend declared	–	–	(3,248)	(3,248)
Profit for the year	–	5,531	–	5,531
2006 proposed final dividend	–	(3,248)	3,248	–
At 31 October 2006	**30,537**	**3,782**	**3,248**	**37,567**

28. RESERVES (Continued)

(b) Company (Continued)

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.

29. BANKING FACILITIES

As at 31 October 2006, certain of the Group's banking facilities were secured by the followings:

(a) bank deposits of the Group amounting to approximately HK$9,020,000 (2005: HK$9,020,000);

(b) corporate guarantees executed by the Company; and

(c) assignment of certain of the Group's receivables (note 20(b)).

30. CONTINGENT LIABILITIES

(a) The Company had contingent liabilities not provided for in the financial statements as follows:

	2006	2005
	HK$'000	HK$'000
Guarantee for banking facilities granted to subsidiaries	**21,041**	8,057

(b) The Group concluded totally 7 (2005: 7) 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 (2005: 7) performance bonds with an aggregate amount of approximately HK$9 million (2005: HK$9 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 deposits (note 29(a)).

Save as aforesaid, the Company and the Group did not have any other significant contingent liabilities at 31 October 2006.

31. OPERATING LEASE COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,067**	764	**–**	–
In the second to fifth years, inclusive	**928**	684	**–**	–
	1,995	1,448	**–**	–

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

32. CAPITAL COMMITMENTS – THE GROUP

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

	2006	2005
	HK$'000	HK$'000
Contracted but not provided for	**–**	1,202

Capital commitments of the Group in respect of construction and development of a water supply plant are as follows:

	2006	2005
	HK$'000	HK$'000
Contracted but not provided for	**11,218**	–

On 16 November 2005, the Group entered into a legally binding memorandum of understanding and a sale and purchase agreement (collectively known as the "Agreements") in relation to the acquisition of 42.5% interest in Asian Way. According to the Agreements, the total construction fee for the water supply plant is estimated to be RMB80 million and any excess sum of construction fee shall be solely borne by Mr. Tang Hin Lun ("Mr. Tang"), the minority shareholder of Asian Way. As at 31 October 2006, the total construction costs for the construction of the water supply plant is estimated to be approximately RMB101,780,000, of which RMB68,670,000 has been incurred prior to the year end date and recorded by the Group as property, plant and equipment.

33. BUSINESS COMBINATION

On 31 December 2005, the Group acquired its equity interest in Asian Way. The acquisition has been accounted for using the acquisition method of accounting.

The assets and liabilities arising from the acquisition are as follows:

	Fair value and carrying amount HK$'000
Net assets acquired	
Cash and cash equivalents	1,374
Property, plant and equipment	1,955
Deposits, prepayments and other receivables	15,883
Payables	(3,973)
Borrowings	(11,871)
Net assets	3,368
Minority interest	(1,937)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition *(note (a))*	(1,427)
Total consideration	4
Purchase consideration settled in cash	(4)
Cash and cash equivalents in subsidiaries acquired	1,374
Cash inflow on acquisition	1,370

Notes:

(a) The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition arising on the acquisition is attributable to the anticipated future costs arising in respect of construction of water supply plant.

(b) Since the acquisition, no revenue was generated from Asian Way. Asian Way has contributed loss of HK$1,997,000 to the Group's profit for the year.

Had the acquisition been completed on 1 November 2005, the revenue and the profit for the year of the Group would have been HK$91,941,000 and HK$11,583,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 November 2005, nor it is intended to be a projection of future results.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

(a) Credit risk

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The carrying amounts of account and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. These financial assets are actively monitored to avoid significant concentrations of credit risk. No other financial assets carry a significant exposure to credit risk.

(b) Foreign currency risk

The Group's purchases are denominated in Euros, Sterling Pounds, Japanese Yen and US Dollars. The sales of the Group are predominantly in RMB and Hong Kong Dollars. The Group does not hedge its foreign currency risks, as the management does not expect any significant movements in the exchange rates.

(c) Interest rate risk

The Group has no significant interest bearing assets except bank balances (note 22). The Group's interest rate risk arises from bank borrowings. The interest rates and terms of repayment are disclosed in note 25.

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Liquidity risk

As at 31 October 2006, the Group had net current liabilities of approximately HK$3,090,000. The directors consider that the Group should have adequate resources to meet its obligations in the forthcoming year as the Group is in net current assets positions as at the date of these financial statements and after considering cashflow projections of the Group for the aforementioned period.

35. RELATED PARTY TRANSACTIONS

(a) The directors consider the ultimate holding company to be Team Drive Limited which is a wholly owned subsidiary of Wide Sky Management Limited. Wide Sky Management Limited is the trustee of The Wide Sky Unit Trust, a private unit trust established in the BVI, the entire issued units of which are held by Cititrust (Cayman) Limited as the trustee of a discretionary trust established in the Cayman Islands.

(b) Included in staff costs is key management personnel compensation (including executive directors' remuneration) which comprises the following categories:

	2006	2005
	HK$	HK$
Salaries, allowances and benefits in kind	**2,638**	2,987
Bonuses	**–**	2,123
Post-employment benefits	**54**	60
	2,692	5,170

36. PLEDGE OF SHARES OF ASIAN WAY HELD BY MINORITY SHAREHOLDER

Pursuant to the agreements entered into on 16 November 2005 with Mr. Tang, 3,750 shares of Asian Way held by Mr. Tang, which represents 37.5% equity interest in Asian Way, were pledged to Well Spread as security on a loan facility of not exceeding RMB60.0 million (equivalent to HK$57.6 million) granted to Asian Way by a subsidiary of the Group.

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				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**91,941**	93,381	106,378	104,039	31,380
Cost of sales	**(65,312)**	(59,447)	(73,735)	(69,213)	(19,533)
Gross profit	**26,629**	33,934	32,643	34,826	11,847
Other income	**2,191**	642	313	353	1,238
Selling expenses	**(2,884)**	(2,443)	(2,265)	(1,695)	(981)
Administrative expenses	**(13,692)**	(10,655)	(10,954)	(10,026)	(7,283)
Other operating income/(expenses)	**614**	1,682	(2,459)	(7,621)	–
Profit from operations	**12,858**	23,160	17,278	15,837	4,821
Share of loss of a jointly controlled entity	**(500)**	(267)	–	–	–
Taxation	**(696)**	(704)	906	(2,851)	(816)
Profit for the year	**11,662**	22,189	18,184	12,986	4,005

ASSETS AND LIABILITIES

	31 October				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**109,282**	29,647	16,151	13,267	1,568
Current assets	**59,540**	72,239	82,823	83,802	51,675
Current liabilities	**62,630**	22,771	33,680	44,914	15,716
Net current (liabilities)/assets	**(3,090)**	49,468	49,143	38,888	35,959
Non-current liabilities	**18,885**	4,675	4,889	3,577	–
Net assets	**87,307**	74,440	60,405	48,578	37,527

Notes:

1. The consolidated results of the Group for the years ended 31 October 2002, 2003 and 2004 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 2005 and 2006 are as set out on page 30 of the audited financial statements.

2. The consolidated balance sheets as at 31 October 2002, 2003 and 2004 are as set out in the annual report of the Company for those years. The consolidated balance sheets as at 31 October 2005 and 2006 are as set out on page 31 of the audited financial statements.