



# UCL 康富润华



**UCL Group Limited 康富潤華集團有限公司\***  
(incorporated in the Bermuda with limited liability)

**NEW ISSUE AND OFFER FOR SALE BY WAY OF PLACING**

**Sponsor and Manager**

**PATRON  
ORIENTAL**

**ORIENTAL PATRON ASIA LIMITED**

\* For identification purposes only

**IMPORTANT**

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.



**UCL Group Limited**

**康富潤華集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**LISTING ON THE GROWTH ENTERPRISE MARKET  
OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

**NEW ISSUE AND OFFER FOR SALE BY WAY OF PLACING**

<b>Number of Placing Shares</b>	<b>:</b>	<b>92,000,000 (comprising 55,200,000 New Shares and 36,800,000 Sale Shares)</b>
<b>Placing Price</b>	<b>:</b>	<b>HK\$0.35 per Placing Share</b>
<b>Nominal value</b>	<b>:</b>	<b>HK\$0.05 each</b>
<b>GEM stock code</b>	<b>:</b>	<b>8203</b>

**Sponsor and Lead Manager**



**ORIENTAL PATRON ASIA LIMITED**

**Underwriters**

**Oriental Patron Asia Limited**

**Sanfull Securities Limited**

**DL Brokerage Limited**

*The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.*

*A copy of this prospectus, together with the documents specified in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. A copy of this prospectus has also been filed with the Registrar of Companies in Bermuda in accordance with Section 26 of the Companies Act 1981 of Bermuda. The Securities and Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or any other documents referred to above.*

## CHARACTERISTICS OF GEM

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 at *<http://www.hkgem.com>* in order to obtain up-to-date information on GEM-listed issuers.

## EXPECTED TIMETABLE

2002

Announcement of the indication of the level of interests in the Placing to be published on the GEM Website at <a href="http://www.hkgem.com">http://www.hkgem.com</a> on or before .....	9:00 a.m. of 11 November
Allotment to places on or before .....	11 November
Deposit of share certificates into CCASS on or before ( <i>Note</i> ) .....	12 November
Dealings in Shares on GEM to commence on .....	15 November

*Note:* The share certificates are expected to be deposited into CCASS on 12 November 2002 for credit to the respective CCASS investor participant stock accounts or the stock accounts of the designated CCASS participants of the places. No temporary documents of title will be issued.

All times refer to Hong Kong local time. Details of the structure of the Placing, including the conditions thereof, are set out in the section headed “Structure and conditions of the Placing” in this prospectus. In the event of any change to the above expected timetable, an announcement will be made by the Company accordingly.

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*You should rely only on the information contained in this prospectus to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, the directors or affiliates of any of them, or any other parties involved in the Placing.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Placing Shares.*

*Any investment is associated with risk. There is a greater risk associated with investment in companies listed on GEM. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.*

### DESCRIPTION OF BUSINESS

The Group is principally engaged in the provision of technical services for water treatment systems. The Group sets up water treatment systems for its customers which involve the design of the systems and procurement of the related equipment and materials for the systems. The Group also sells equipment and chemicals related to water treatment systems to its customers.

The Group's water treatment systems treat water for a variety of purposes, ranging from drinking water and waste water treatment to water treatment for industrial and commercial use. The Group primarily applies the technology of UV and ozone in its water treatment systems. Without producing harmful by-products, UV kills waterborne germs by energy in the form of light rays, whereas ozone breaks down pollutants to harmless biodegradable substances which may be subsequently removed by filtration or precipitation.

The customers of the Group were from both the public and private sectors in Hong Kong during the Track Record Period. The public sector primarily comprised Airport Authority Hong Kong, Drainage Services Department and Department of Health, accounting for about 48% and 51% of the Group's turnover for the two years ended 31 March 2002, respectively, while the private sector primarily comprised engineering companies and property management companies, accounting for about 52% and 49% of the Group's turnover for the two years ended 31 March 2002, respectively. The largest customer of the Group accounted for about 37% of the Group's turnover for each of the two years ended 31 March 2002, whereas the five largest customers of the Group accounted for about 79% and 74% of the Group's turnover for the two years ended 31 March 2002, respectively.

The Group sources its supplies from suppliers in Hong Kong, U.K. and Germany. The largest supplier of the Group accounted for about 35% of the Group's purchases for each of the two years ended 31 March 2002, while the five largest suppliers of the Group accounted for about 95% and 82% of the Group's purchases for the two years ended 31 March 2002, respectively. The Group has entered into a number of agency/representative agreements with suppliers of equipment and chemicals relating to water disinfection and sanitization, particulars of which are set out in the paragraph headed "Agency and representative agreements" under the section headed "Business" of this prospectus.

The Directors consider the following to be the key factors contributing to the Group's continuous development:

- its reputation in providing water treatment systems for various applications;
- the extensive experience and expertise of the Group's management team in undertaking water treatment projects; and
- its well-established relationship with suppliers and customers.



## SUMMARY

### **BUSINESS OBJECTIVES AND STRATEGIES**

The Group intends to become a service provider in the industry of water treatment systems in the China region, including the PRC, Taiwan and Hong Kong, by implementing the following strategies:

#### **Geographic expansion**

The Directors believe that the China region offers vast market potential. The Group intends to expand its operation into the PRC and Taiwan. The Group plans to form joint ventures in the PRC and Taiwan to market the Group's services and products and undertake water treatment projects in these markets.

As at the Latest Practicable Date, the Group had entered into non-legally-binding letters of intent with three PRC partners to develop the water treatment markets in Beijing, Tangshan and Shanghai of the PRC. Details of the letters of intent are set out in the paragraph headed "Establishment of joint ventures in the PRC" under the section headed "Business" of this prospectus.

#### **Application of water treatment technologies to different areas**

The Group plans to explore new water treatment applications, for example, water disinfection and purification in medical treatment, aquaculture, aquariums and cooling towers systems. The Directors consider that in view of the surging demand of clean water and the decline in water resources, water treatment systems can be applied in various forms essential to daily life.

#### **Adoption of the latest water treatment technologies**

As water treatment technologies evolve rapidly, the Group intends to actively seek and form strategic alliances with water treatment technologies providers to embody the latest water treatment technologies in its water treatment projects.

#### **Enhancement of the reputation of the Group**

The Group realises that reputation is of importance to its success. It intends to participate in trade shows and exhibitions and place advertisements to promote the Group's services and reputation.

### **REASONS FOR THE PLACING AND USE OF PROCEEDS**

The Group intends to raise funds by way of the New Issue in order to expand its business operations.

## SUMMARY

The total amount of net proceeds under the Placing is about HK\$24.7 million, out of which about HK\$9.9 million will be payable to the Vendors for sale of the Sale Shares and about HK\$14.8 million will be payable to the Company. It is intended that the net proceeds from the New Issue will be applied as follows:

- as to about HK\$6.0 million for expanding the Group’s operations into the PRC and Taiwan, which comprises about HK\$1.7 million for Beijing, HK\$1.6 million for Shanghai, HK\$1.2 million for Tangshan, HK\$0.9 million for Guangdong province, HK\$0.3 million for Chengdu and HK\$0.3 million for Taiwan;
- as to about HK\$3.3 million for the development of new applications of water treatment technologies;
- as to about HK\$4.0 million for promotional activities of the Group’s products and services, which comprises about HK\$1.0 million for Beijing, HK\$1.0 million for Shanghai, HK\$0.4 million for Tangshan, HK\$0.7 million for Guangdong province, HK\$0.1 million for Chengdu, HK\$0.1 million for Taiwan and HK\$0.7 million for Hong Kong; and
- as to about HK\$1.5 million for the forming of strategic alliance.

Pending the application of the net proceeds from the New Issue as described above, the net proceeds may be placed as short-term deposits with banks or financial institutions in Hong Kong.

### PLACING STATISTICS

Number of Placing Shares

(comprising 55,200,000 New Shares and 36,800,000 Sale Shares) . . . . . 92,000,000 Shares

Number of Shares immediately after the Placing

and the Capitalisation Issue (*Note 1*) . . . . . 368,000,000 Shares

Placing Price . . . . . HK\$0.35 per Share

Market capitalisation at the Placing Price (*Note 2*) . . . . . HK\$128.8 million

Adjusted net tangible asset value per Share (*Note 3*) . . . . . 5.35 cents

*Notes:*

1. This represents 368,000,000 Shares expected to be in issue immediately following the completion of the Placing and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the mandates referred to in Appendix IV to this prospectus.
2. The market capitalisation is calculated on the basis of 368,000,000 Shares as referred to in Note 1 above.
3. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to under the paragraph headed “Adjusted net tangible asset” in the section headed “Financial information” of this prospectus and the 368,000,000 Shares as referred to in Note 1 above.

## SUMMARY

### TRADING RECORD

The following table summarises the Group's combined results for the Track Record Period, prepared on the basis that the existing group structure had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

		<b>Year ended 31 March</b>	
		<b>2001</b>	<b>2002</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(1)	4,149	6,866
Cost of sales		(3,075)	(3,713)
Gross profit		1,074	3,153
Other revenue		46	29
Selling expenses		(270)	(267)
Administrative expenses		(1,110)	(1,362)
Profit/(loss) before tax		(260)	1,553
Tax		–	(60)
Net profit/(loss) from ordinary activities attributable to shareholders		(260)	1,493
Earnings/(loss) per share	(2)		
Basic		(0.08) cent	0.48 cent
Diluted		N/A	N/A

*Notes:*

1. Turnover represents the invoiced value of services provided and invoiced value of goods sold, net of discounts and returns. All significant intra-Group transactions have been eliminated on combination.
2. The calculation of the basic (loss)/earnings per share for the Track Record Period is based on the net (loss)/profit from ordinary activities attributable to shareholders for each of the relevant year and on the assumption that 312,800,000 Shares had been in issue throughout the Track Record Period, comprising 4,000,000 Shares in issue at the date of the Prospectus and 308,800,000 Shares to be issued pursuant to the Capitalisation Issue.

### FINANCIAL PERIOD REPORTED

**The Directors are aware of the requirement of Rule 11.11 of the GEM Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The Company has sought and obtained a waiver from compliance with such requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial or trading position of the Group since 31 March 2002, and there is no event which would materially affect the information shown in the accountants' report as set out in Appendix I to this prospectus.**

# SUMMARY

## SHAREHOLDING STRUCTURE

Details of the Group's reorganisation are set out in the paragraph headed "Corporate reorganisation" in the section headed "Further information about the Company" in Appendix IV to this prospectus. The interests of the Initial Management Shareholders and the public shareholders in the Company immediately after the Placing and the Capitalisation Issue are summarised as follows:

Shareholders	Date of becoming shareholder of the Group	Approximate consideration HK\$	Approximate cost per Share <i>(Note 6)</i> HK\$	Number of Shares held	Approximate percentage of shareholding	Moratorium period from the Listing Date <i>(Note 7)</i>
<i>Initial Management Shareholders</i> <small>(Note 4)</small>						
WG Engineering Limited <small>(Note 1)</small>	3 May 2002	3,855,460 <small>(Note 5)</small>	0.018	193,200,000	52.5%	12 months
Mr. Yung <small>(Note 1)</small>	28 June 1996	3,855,460 <small>(Note 5)</small>	0.018	193,200,000	52.5%	12 months
Mr. Wu <small>(Note 2)</small>	28 June 1996	1,239,255	0.018	62,100,000	16.875%	12 months
Ms. Law <small>(Note 3)</small>	28 June 1996	413,085	0.018	20,700,000	5.625%	12 months
Public		–	Placing Price	92,000,000	25%	N/A
Total				<u>368,000,000</u>	<u>100%</u>	

*Notes:*

1. WG Engineering Limited is a company wholly-owned by Mr. Yung, the chairman of the Company and a co-founder of the Group.
2. Mr. Wu is the vice-chairman and managing director of the Company and a co-founder of the Group.
3. Ms. Law is a director of UCL Water Technology (HK) Limited, a wholly owned subsidiary of the Company, and a co-founder of the Group.
4. Each of WG Engineering Limited (including its beneficial owner), Mr. Wu and Ms. Law is independent of and not connected with each other. No shareholder agreement has been entered into amongst them.
5. The approximate consideration represented aggregate consideration provided by WG Engineering Limited and Mr. Yung.
6. The Sale Shares have been included in the calculation of the cost per Share for the Vendors.
7. Each of the Initial Management Shareholders has undertaken with the Company, Oriental Patron and the Stock Exchange that it/he/she will not dispose of or enter into agreement to dispose of any of its/his/her direct or indirect interests in the Company during the first 12 months commencing from the Listing Date. Mr. Yung has undertaken to the Company, Oriental Patron and the Stock Exchange that he will not dispose of or enter into agreement to dispose of any of his interests in WG Engineering Limited during the 12 months commencing from the Listing Date.

# SUMMARY

## RISK FACTORS

The operations of the Group and investment in the Placing Shares involve certain risks as set out in the section headed “Risk factors” of this prospectus. These risks can be classified as (i) risks relating to the Group and the industry; (ii) risks relating to the PRC; and (iii) risks relating to investment in the Shares and are listed as follows:

### **Risks relating to the Group**

- *Dependence on limited source of suppliers for key components*
- *Sustainability of profit*
- *Reliance on major customers*
- *Reliance on major suppliers*
- *Potential product liability*
- *Reliance on third-party subcontractors*
- *Fixed-price contracts*
- *Fluctuations in reported quarterly revenue*
- *Reliance on key management*
- *Concentration of ownership*
- *Implementation of business objectives and strategies*
- *Dividend policy*

### **Risks relating to the industry**

- *Availability of technical professionals*
- *WTO*

### **Risks relating to the PRC**

- *Economic and political considerations*
- *Legal system*
- *Changes in foreign exchange regulations*

### **Risks relating to investment in the Shares**

- *Forward-looking statements contained in this prospectus*
- *Reliability of statistics*
- *Marketability and possible price volatility of the Shares*

## DEFINITIONS

*For the purpose of this prospectus, the following definitions have, unless the context otherwise requires, the following meanings:–*

“Airport Authority Hong Kong”	the statutory body that operates and maintains Hong Kong International Airport and is wholly owned by the Government
“associate”	has the meaning ascribed thereto in the GEM Listing Rules
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of part of the share premium account of the Company referred to in the paragraph headed “Written resolutions of shareholders of the Company dated 28 October 2002” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	UCL Group Limited, an exempted company incorporated in Bermuda with limited liability
“Department of Health”	Department of Health of the Government
“Drainage Services Department”	Drainage Services Department of the Government
“Directors”	the directors of the Company as at the date of this prospectus
“E&M Services Department”	Electrical and Mechanical Services Department of the Government
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM Website”	<a href="http://www.hkgem.com">www.hkgem.com</a> , being the internet website operated by the Stock Exchange for the purposes of GEM
“Government”	the government of Hong Kong

## DEFINITIONS

“Group”	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the companies which are the present subsidiaries of the Company
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Initial Management Shareholders”	WG Engineering Limited, Mr. Yung, Mr. Wu and Ms. Law and the term “Initial Management Shareholder” means any one of them
“Latest Practicable Date”	28 October 2002, being the latest practical date for the purposes of ascertaining certain information contained herein prior to the printing of this prospectus
“Listing Date”	the date on which trading in the Shares commences on GEM
“Macau”	the Macau Special Administrative Region of the PRC
“Mr. Wu”	Mr. Wu Sai Keung Richard, the vice-chairman and managing director of the Company and a co-founder of the Group
“Mr. Yung”	Mr. Yung Wah King, the chairman of the Company and a co-founder of the Group
“Ms. Law”	Ms. Law Man Yan Tansy, a co-founder of the Group
“New Issue”	the offer for subscription of the New Shares under the Placing
“New Shares”	the 55,200,000 new Shares to be issued under the Placing
“Placing”	the conditional placing of 92,000,000 Placing Shares for cash at the Placing Price on and subject to the terms and conditions stated in the section headed “Structure and conditions of the Placing” of this prospectus
“Placing Price”	the price of HK\$0.35 per Placing Share
“Placing Shares”	55,200,000 New Shares being offered for subscription by the Company and 36,800,000 Sale Shares being offered for sale by the Vendors under the Placing
“PRC”	People’s Republic of China which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan

## DEFINITIONS

“SAFE”	State Administration of Foreign Exchange of the PRC (國家外匯管理局), a governmental authority in the PRC primarily responsible for matters relating to foreign exchange administration
“Sale Shares”	the 36,800,000 Shares being offered for sale by the Vendors under the Placing
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SEPA”	the State Environmental Protection Administration of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	share(s) of HK\$0.05 each in the capital of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 28 October 2002, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix IV to this prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the two years ended 31 March 2002
“Underwriters”	Oriental Patron Asia Limited, Sanfull Securities Limited and DL Brokerage Limited
“Underwriting Agreement”	the underwriting agreement dated 31 October 2002 and entered into between, among others, the Company, the Vendors, the Sponsor and the Underwriters relating to the Placing, particulars of which are summarised in the section headed “Underwriting” of this prospectus
“Vendors”	WG Engineering Limited (a company wholly owned by Mr. Yung), Mr. Wu and Ms. Law who sell 25,760,000 Shares, 8,280,000 Shares and 2,760,000 Shares respectively under the Placing
“Oriental Patron” or “Sponsor”	Oriental Patron Asia Limited, a registered securities dealer and investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the sponsor and lead manager to the Placing
“U.K.”	The United Kingdom
“US”	United States of America
“VAT”	value added tax



## DEFINITIONS

“Water Supplies Department”	Water Supplies Department of the Government
“WTO”	World Trade Organization
“%”	per cent.
“Euro”	the single currency adopted by the participating member states from time to time of the European Union in accordance with the Treaty on European Union signed on 7 February 1992 (as amended)
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Sterling Pounds”	British Pounds, the lawful currency of the U.K.
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the U.S.

## GLOSSARY

This glossary contains explanation of certain technical terms and abbreviations used in this prospectus that are in connection with the Group and/or its business. The terms and their assigned meanings may not, however, correspond to industrial standard or common meanings, as the case may be.

“aquaculture”	rearing of fish, shellfish, and some aquatic plants in controlled conditions to supplement the natural supply
“automatic condenser tube cleaning system”	condenser tube cleaning system controlled by programmable logic control and cleans condenser tubes automatically
“biodegradable substances”	substances that can be decomposed by bacteria and/or other microorganisms
“Chemplant”	the manufacturer of pharmaceutical equipment specializing in manufacturing of vessels for the preparation of medicine such as eye-fluid
“chlorination”	the process of water sterilization by use of chlorine gas
“dechlorination”	the process of removing chlorine gas from water
“dewatering”	the process of removing water from sewage, sludge can then be separated and removed by filtration
“disinfection”	the process of destroying germs and bacteria
“INDAG”	the manufacturer of the gear-pump which consists of a pair of internal gears and allows a very accurate and steady flow. The pump is very often used as a dosing pump
“IWSA-ASPAC”	acronym of International Water Supply Association – Asia Pacific. It is a regional division of the International Water Supply Association and is to propagate the betterment of water supply and wastewater treatment in the Asia Pacific region
“Legionellae”	bacteria that cause Legionnaires’ disease . The bacteria typically live in water, hot tubs, shower heads, water faucets, air conditioning systems, water cooling towers and hot water heaters
“Legionnaires’ disease”	an acute, respiratory infection caused by the bacterium Legionella. An outbreak of this disease in Philadelphia in 1976, largely among people attending a state convention of the American Legion, led to its name
“nm”	a billionth of metre
“ozonation”	the process of combining ozone with an unsaturated organic compound

## GLOSSARY

“ozone”	O <sub>3</sub> , a triatomic form of oxygen, a pungent and unstable gas, can be used in purification of water and as an oxidizing agent
“peroxide”	H <sub>2</sub> O <sub>2</sub> , a powerful oxidizer, can be used in purification of water and as an oxidizing agent
“polyelectrolyte”	polymer used in the treatment process for liquid/solids separation, dewatering and thickening
“portable flowmeter”	portable measuring instrument used to mount on a pipe temporarily to measure the flowrate of the fluid running inside the pipe without disturb the pipeline and the operation
“progressive cavity”	a technical term describing the feature of the rotor of the pump. This progressive cavity pump belongs to the positive displacement pump’s family
“rotary lobe pump”	positive displacement pump that consists of 2 rotary lobes and is used for transferring sludge
“UV”	Acronym of ultraviolet, radiation with a wavelength beyond the violet end of the visible spectrum

## RISK FACTORS

**An investment in the Placing Shares involves a high degree of risk and is speculative. Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.**

### RISKS RELATING TO THE GROUP

#### **Dependence on limited source of suppliers for key components**

Several of the key components used in the water treatment systems are sourced by the Group from a few independent suppliers. For each of the two years ended 31 March 2002, the largest supplier of the Group, which supplied polyelectrolyte and UV water disinfection equipment to the Group, accounted for approximately 35% of the Group's purchases. The five largest suppliers of the Group, which supplied UV water disinfection equipment, polyelectrolyte, chemical dosing equipment, etc. to the Group accounted for approximately 95% and 82% of the Group's purchases for the two years ended 31 March 2002 respectively.

The Group may not be able to obtain necessary supplies in a timely manner. Financial or other difficulties faced by the suppliers or significant changes in demand for the components could limit the availability of the components. Any interruption or delay in the supply of any of the components, or the inability to obtain the components would adversely affect the Group's ability to meet scheduled projects deliveries to its customers and would materially and adversely affect its business, results of operations and financial condition.

#### **Sustainability of profit**

As a majority of the Group's total turnover is primarily generated on a project-by-project basis, the future growth of the Group's profits depends on its ability to secure new contracts and the scope, duration, and profitability of those contracts. There is no assurance that the revenue and/or profits achieved during a particular period can be sustained in any subsequent periods. There is also no assurance that the level of revenue derived from a particular project or customer during a particular period will recur in any subsequent periods.

#### **Reliance on major customers**

A significant portion of the Group's revenue has been and may continue to be, derived from a limited number of customers. For each of the two years ended 31 March 2002, the Group's largest customer, accounted for approximately 37% of the Group's turnover. For the two years ended 31 March 2002, the Group's five largest customers together accounted for approximately 79% and 74% of the Group's turnover respectively. In the event that the Group fails to secure new contracts from its existing customers or is not able to obtain new customers, the Group's business and financial position may be adversely affected.

#### **Reliance on major suppliers**

As the Group is principally engaged in the provision of technical services for water treatment systems, it relies substantially on the source of related equipment and materials from third party suppliers. The five largest suppliers of the Group accounted for about 95% and 82% of the Group's purchases for the two years ended 31 March 2002, respectively. Although the Group has entered

## **RISK FACTORS**

into a number of agency or representative agreements with suppliers of equipment and chemicals relating to water disinfection and sanitization, details of which are set out in the paragraph headed “Agency and representative agreements” under the section headed “Business” in this prospectus, there is no assurance that these designated suppliers will continue to conduct business with the Group. In the event that (1) the Group fails to maintain the relationship with any of such suppliers and is unable to obtain a substitute thereof; or (2) any of the said agency or representative agreements is expired without renewal or otherwise terminated, the Group’s operations will be adversely affected.

The Group had been an authorised representative of a supplier of water treatment chemicals under an agency agreement. The agency agreement had become expired but the supplier has continued to supply water treatment chemicals for the Group, accounting for about 20% (or about HK\$530,000) and about 35% (or about HK\$730,000) of the Group’s purchases for the two years ended 31 March 2002 respectively. The supplier was the third largest and the largest supplier of the Group in the two years ended 31 March 2002 respectively in terms of purchase amount.

### **Potential product liability**

If any of the products provided by the Group contains defects affecting the performance of such products, the Group may incur additional costs in correcting the defects or defending any legal proceedings and claim by its customer against the Group for damages. This may result in negative publicity which may affect the reputation of the Group. Although no legal claims have been made by any of its customers relating to the products provided by the Group from the date of its establishment and up to the Latest Practicable Date, there is no assurance that there will be no product liability claims against the Group in the future. The Group does not maintain any insurance against product liability and seeks to limit its liability by incorporating limited warranty provisions in the contracts with its customers. The Group may nevertheless still be liable for its negligence.

### **Reliance on third-party subcontractors**

Subcontracting cost represented about 11% and 33% of the total cost of the Group respectively for the two years ended 31 March 2002. There is no assurance that the Group will be able to maintain good relationships with existing and new subcontractors in the future. There is no guarantee that the Group can always find third-party subcontractors with the requisite knowledge, expertise, experience and capability that meet the Group’s project needs and works requirements.

In addition, the use of third-party subcontractors does expose the Group to risks associated with either their non-performance or sub-standard performance, and risks that such third-party subcontractors may not complete a project in accordance with its originally tendered time and cost schedules. In that event, additional costs may be borne by the Group which may materially and adversely affect its profitability on the projects concerned.

### **Fixed-price contracts**

All of the Group’s project contracts with its customers are currently on a fixed-price basis, rather than on a time-and-material basis. The size of the contract sum in each project can vary significantly. If the Group fails to estimate costs on fixed-price contracts accurately or encounters unexpected problems in the implementation stage, its business, financial condition and results of operations could be adversely affected.

## **RISK FACTORS**

### **Fluctuations in reported quarterly revenue**

The Group's revenue and operating results reported in quarterly reports may fluctuate substantially from quarter to quarter. Reported revenues of the Group in any quarter depend substantially upon the progress of its projects and its ability to recognize revenues in that quarter in accordance with its revenue recognition policies. The Group's reported quarterly revenue may fluctuate and may be difficult to predict for a variety of reasons, including the following:

- the availability of water treatment related projects in both the public and private sectors;
- the revenue cycle is relatively long and variable; and
- the Group may have to recognize revenue when projects are completed under its revenue recognition policies.

### **Reliance on key management**

To a significant extent the Group's success is built upon the expertise and in-depth knowledge of its executive Directors and certain members of the senior management of the Group (including Mr. Ho Kwong Hung Thomas and Ms. Law) in the water treatment industry. The loss of any of these personnel may adversely affect the Group's performance. There is no assurance that the Group will be able to prevent its key management members from leaving if more attractive remuneration is offered to them by others. If any of such key management members leaves the Group and the Group is not able to recruit suitable candidate to fill the position, the Group's business, financial condition and results of operations may be adversely affected.

### **Concentration of ownership**

Approximately 52.5%, 16.875% and 5.625% of the issued share capital of the Company immediately following the completion of the Placing and Capitalisation Issue will be beneficially owned by WG Engineering Limited, Mr. Wu and Ms. Law respectively. As a result, they together will have the ability to reject matters which are subject to approval of the shareholders of the Company by way of ordinary or special resolution, and therefore, they together will have the ability to materially influence the Company's affairs. Such concentration of ownership may have the effect of delaying, deferring or preventing any change in control of the Company, impeding any merger, consolidation, takeover or other business combination involving the Company or discouraging any potential acquirer from making a general offer or otherwise attempting to obtain control of the Company, which in turn could have a material adverse effect on the market price of the Shares.

### **Implementation of business objectives and strategies**

The business strategies and objectives of the Group under the section headed "Statement of business objectives" in this prospectus represent the objectives and future plans of the Group. The Directors set those objectives and future plans in the light of the existing plans of the Group and on the assumptions more particularly described in the paragraph headed "Bases and assumptions" under the section headed "Statement of business objectives" in this prospectus. Such objectives and future plans are by their nature subject to uncertainty. They may have to be revised or adjusted by the Group from time to time in the light of factors such as changes in market conditions, market response to particular products and whether the Group has successfully achieved its stated business

## **RISK FACTORS**

objectives in the preceding period or periods. There can be no assurance that the plans of the Group will materialise in accordance with the expected time frame or the objectives of the Group will be accomplished at all. In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors may, subject to the requirements of the GEM Listing Rules, reallocate the intended funding to other appropriate business plans.

### **Dividend policy**

As the Group is still in its growth stage, the Company currently does not anticipate paying dividends in the foreseeable future.

## **RISKS RELATING TO THE INDUSTRY**

### **Availability of technical professionals**

The Directors believe that the Group's future success, to a large extent, depends on its ability to attract, retain and motivate highly skilled and experienced technical professionals. In addition, the Group's continued expansion will require an increase in the number of technical staff. However, competition for these highly skilled and experienced technical professionals is intense and there can be no assurance that the Group will be able to retain or attract technical professionals with the right calibre in the future.

## **WTO**

The PRC's entry to the WTO in 2001 may bring with it other foreign competitors and the increased competition could materially and adversely affect the Group's business, financial condition and results of operations.

## **RISKS RELATING TO THE PRC**

### **Economic and political considerations**

The Asian economic crisis which began in mid-1997 has had a material and adverse economic impact on many Asian countries including significant depreciation in their currencies, increased interest rates and declines in the market values of shares listed on stock exchanges. This has resulted in reduced economic growth, increase in corporate insolvency and the introduction of government-imposed austerity measures in many Asian countries. Although the economy of the PRC is not immune from the impact of the Asian economic crisis, it has been less affected than many other Asian countries. In order to stimulate growth, the PRC government has taken various measures to stimulate domestic demand and consumption. However, there can be no assurance that the current economic environment in other Asian countries will not continue to have an adverse effect on the economy of the PRC, or that similar economic environment will not occur in the PRC in the future, which would in turn have an adverse effect on the Group's business, financial condition and results of operations.

The terrorist attacks in the US on 11 September 2001 are generally expected to exert considerable direct and indirect influence on the global economy. It is also generally expected among economists and analysts that further short-term growth of global economy may be slowed down as a result of the incident. If such economic slow down takes place, the overall PRC economy may be adversely affected and this could have an adverse impact on the Group's business, financial condition and results of operations.

## **RISK FACTORS**

Since 1978, the PRC government has been undertaking a series of administrative reforms to its governmental structure. Such reforms, which are expected to continue, have resulted in significant economic growth and social progress. Many of these reforms are unprecedented or experimental and are expected to be refined and improved upon. Other political and social factors may also lead to further readjustments and refinements of the reform measures. These adjustments and refinements may not always have a positive effect on the Group's business, financial condition and results of operations.

### **Legal system**

Although many laws and regulations governing economic matters have been promulgated and amended in the PRC since 1979, the PRC legal system is still not sufficiently comprehensive when compared with the legal systems of certain Western countries. The interpretation of PRC laws may be influenced by policy changes reflecting domestic political and social changes. In addition, the enforcement of PRC laws may be uncertain and sporadic. It may also be difficult to enforce judgments in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. The general effect of legislation since 1982, when the National People's Congress amended the constitution to authorise foreign investment, has been to enhance significantly the protection afforded to foreign investment enterprises in the PRC. However, there can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the Group.

### **Changes in foreign exchange regulations**

Since 1996, the PRC government has promulgated various foreign exchange rules, regulations and notices (the "Policies") to increase the convertibility of Renminbi. According to the Policies, a foreign-invested enterprise ("FIE") must open a "current account" and a "capital account" at a bank authorised to trade foreign exchange. An FIE may convert Renminbi in the current account into any foreign currency at any authorised bank with the prior approval of SAFE.

At present, Renminbi cannot be freely converted into other currencies. According to the Policies, upon producing the board resolution evidencing the authorisation of the distribution of profits or dividends or the commercial documents evidencing foreign exchange transactions, the Group may purchase the foreign exchange required for such distribution from a designated authorised bank. There is no guarantee that the Policies will not be withdrawn or amended.

For its proposed expansion into the PRC market, the Group may have substantial requirements for foreign currency in the future, including purchases of imported equipment and materials. Payment for the purchases of imported equipment and materials denominated in foreign currency in the PRC shall be approved by SAFE in advance. Such approval requirement could affect the Group's ability to obtain necessary equipment and materials.

In addition, according to the current foreign exchange control system, there can be no assurance that sufficient foreign exchange can be obtained by an enterprise pursuant to a specific exchange rate in order to satisfy its needs. A shortage in foreign exchange in the PRC may also limit its ability to obtain necessary foreign exchange.



## **RISK FACTORS**

### **RISKS RELATING TO INVESTMENT IN THE SHARES**

#### **Forward-looking statements contained in this prospectus**

This prospectus contains forward-looking statements, in particular, with respect to the industry overview and the Group's business strategies and objectives. The Directors generally identify these forward-looking statements by using the words "may", "will", "expect", "continue", "believe" or similar expressions. The Directors caution potential investors that there are risks and uncertainties associated with the Group and actual events or results may differ materially from those expressed or implied by the statements.

#### **Reliability of statistics**

Facts and statistics in this prospectus in respect of the economy and the water treatment industry of Hong Kong, the PRC and Taiwan are derived from various publications. Whilst the Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by the Company and, therefore, the Company and the Directors make no representation as to the accuracy of such facts and statistics and no assurance can be given that such facts and statistics are inherently consistent or that they are consistent with other information compiled within or outside Hong Kong, the PRC and Taiwan. Owing to a lack of information regarding the methods or the accuracy of data collection and other problems, the statistics referred to in this prospectus may be incomplete or may not be comparable to statistics produced for other economies, and should not be unduly relied upon. There is no assurance that the statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

#### **Marketability and possible price volatility of the Shares**

Prior to the Placing, there has been no public trading market for the Shares, and there is no assurance that an active trading market for the Shares will develop or be sustained upon completion of the Placing. Shares of certain companies listed on GEM have experienced substantial price volatility in the past, and it is possible that the Shares will be subject to changes in price that may not be directly related to the Group's financial condition or business performance.

## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

The Directors are aware of the requirement of Rule 11.11 of the GEM Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The Company has sought and obtained a waiver from compliance with such requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial or trading position of the Group since 31 March 2002, and there is no event which would materially affect the information shown in the accountants' report as set out in Appendix I to this prospectus.

# **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

## **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Act, the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the GEM Listing Rules for the purposes of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

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

## **CONSENT OF THE BERMUDA MONETARY AUTHORITY**

The Bermuda Monetary Authority has given its consent to the issue of the New Shares on the terms of this prospectus, the issue of Shares pursuant to the Capitalisation Issue, the sale of the Sale Shares and the issue of Shares upon the exercise of the options to be granted under the Share Option Scheme and, subject to certain conditions, the issue of further Shares up to the total amount of the authorised share capital of the Company from time to time. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus.

## **FULLY UNDERWRITTEN**

This prospectus is published solely in connection with the Placing for which Oriental Patron is the sponsor. The Placing is fully underwritten by the Underwriters pursuant to the Underwriting Agreement. The obligations of the Underwriters to underwrite the Placing Shares may be terminated prior to 9:00 a.m. on the business day immediately preceding the date of despatch of share certificates under the Placing. For further information relating to the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

## **STRUCTURE OF THE PLACING**

Details of the structure of the Placing, including conditions thereof, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

## **PROSPECTUS TO BE DISTRIBUTED IN HONG KONG ONLY**

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised to any person to whom it is unlawful to make an unauthorised offer or invitation.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

The Placing Shares are offered for subscription or sale solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, Oriental Patron, the Underwriters, any of their respective directors or any other person involved in the Placing.

### **APPLICATION FOR LISTING ON GEM**

The Company has applied to the GEM Listing Committee for listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme on GEM.

No part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in any part of its equity or debt securities on any other stock exchange.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase of or disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Sponsor, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase of or disposal of or dealing in the Shares.

### **REGISTRATION AND STAMP DUTY**

All Shares in issue and to be issued as mentioned in this prospectus will be registered on the Company's branch register of members to be maintained by the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited. The Company's principal register of members will be maintained by Butterfield Fund Services (Bermuda) Limited.

Dealings in Shares registered on the branch register of members kept by the Company's Hong Kong branch share registrar, which are the only Shares in which dealings may be transacted on GEM, will be subject to Hong Kong stamp duty.

### **EXCHANGE RATE CONVERSION**

For the purposes of this prospectus, unless otherwise indicated, the following exchange rates have been used, where applicable, for purposes of illustration only and do not constitute a representation that any amounts have been, could have been or may be exchanged, at these or any other rates:

HK\$7.80 = US\$1

HK\$100 = RMB106

<b>DIRECTORS AND PARTIES INVOLVED IN THE PLACING</b>
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**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. Yung Wah King	C3, Orion Court 17 Ede Road Kowloon Hong Kong	Australian
Mr. Wu Sai Keung Richard	Flat F, 25th Floor, Block 4 Chi Fu Fa Yuen Pok Fu Lam Hong Kong	British
Mr. Lee Wing Yin	Flat B, 17th Floor, Block 8 Villa Esplanada Tsing Yi New Territories Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Dr. Wai Tze Kong	10E 2 Braemar Hill Road North Point Hong Kong	British
Mr. Lo Chi Man	Suite D, 22nd Floor 31 Cloudview Road North Point Hong Kong	Chinese
Mr. Wu Man Kam	18th Floor Sun and Moon Building 45 Sing Woo Road Happy Valley Hong Kong	British

## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

### PARTIES INVOLVED

<b>Sponsor and Lead Manager</b>	Oriental Patron Asia Limited 42nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong
<b>Underwriters</b>	Oriental Patron Asia Limited 42nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong  Sanfull Securities Limited 20th Floor Far East Consortium Building 121 Des Voeux Road Central Hong Kong  DL Brokerage Limited 1st Floor, Wing's Building 110-116 Queen's Road Central Hong Kong
<b>Legal advisers to the Company</b>	<i>as to Hong Kong law</i> Jennifer Cheung & Co. Unit A, 19th Floor Two Chinachem Plaza 68 Connaught Road Central Hong Kong  <i>as to Bermuda law</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Hong Kong
<b>Legal advisers to the Sponsor and the Underwriters</b>	<i>as to Hong Kong law</i> Li & Partners 22nd Floor World Wide House 19 Des Voeux Road Central Hong Kong
<b>Auditors and reporting accountants</b>	Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
<b>Property valuer</b>	DTZ Debenham Tie Leung Limited 10th Floor, Jardine House 1 Connaught Place Central Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Head office and principal place of business</b>	Unit C 7th Floor Seabright Plaza Nos. 9-23 Shell Street Hong Kong
<b>Company secretaries</b>	Ho Kwong Hung Thomas <i>LLB</i> Mr. Ira Stuart OUTERBRIDGE III*, <i>FCIS</i>  <i>* Mr. Ira Stuart Outerbridge III will resign as secretary of the Company following the listing of the Shares on GEM</i>
<b>Authorised representatives</b>	Lee Wing Yin Ho Kwong Hung Thomas
<b>Compliance officer</b>	Lee Wing Yin
<b>Qualified accountant</b>	Lee Wing Yin <i>AHKSA, ACCA</i>
<b>Members of audit committee</b>	Lo Chi Man ( <i>Chairman</i> ) Wu Man Kam Lee Wing Yin
<b>Bermuda resident representative</b>	Mr. John Charles Ross Collis
<b>Bermuda deputy resident representative</b>	Mr. Anthony Devon Whaley
<b>Principal bankers</b>	Standard Chartered Bank 1 Sugar Street Causeway Bay
<b>Principal share registrar and transfer office</b>	Butterfield Fund Services (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	Computershare Hong Kong Investor Services Limited Rooms 1901-5 19th Floor Hopewell Centre 183 Queen's Road East Hong Kong

# INDUSTRY OVERVIEW

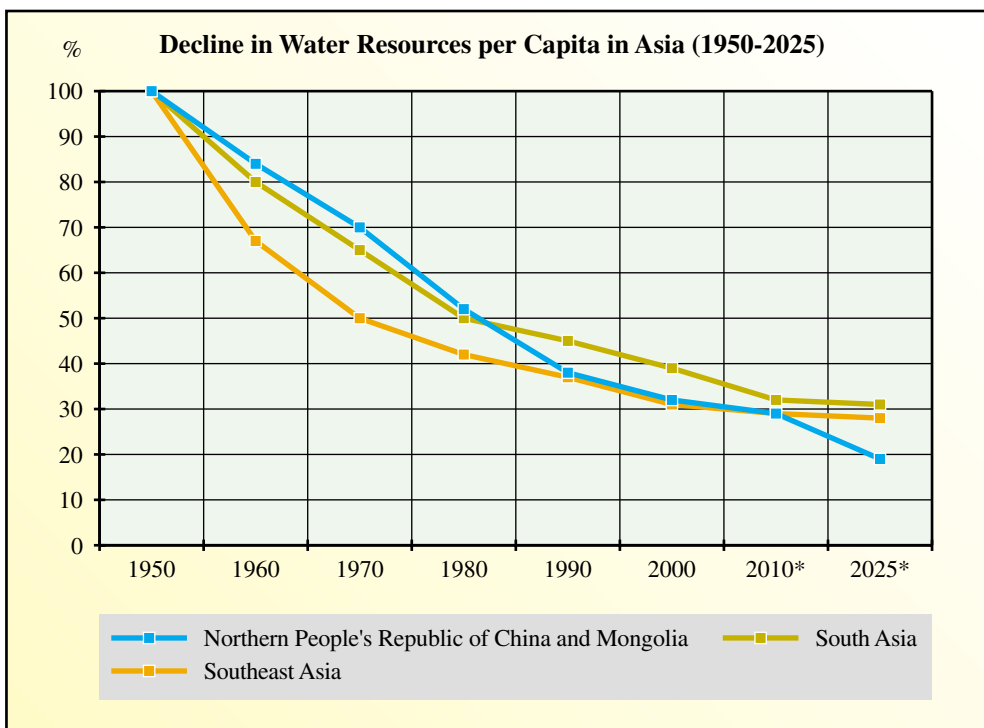
## INTRODUCTION

Global water scarcity is an emerging issue that arouses worldwide attention. In accordance with the findings of Asian Development Bank, more than 98% of the world's water is salt water and not readily potable. Most freshwater is locked in the polar ice caps and less than 1% of the earth's freshwater is accessible in lakes, rivers, and groundwater aquifers.

Since 1997, one third of the world's population has already lived in countries experiencing medium to high water stress. Water scarcity occurs in most of the regions throughout Asia, and increased rainfall variability as a result of global climate change will worsen this problem. Water scarcity would affect food security and political stability throughout the world.

In Asia, the poor groups frequently cannot obtain municipal water supply. Untreated water from highly unreliable sources becomes their major source of water. The water scarcity often leads to deterioration of public hygiene and loss of national productivity.

Population growth, urban and economic development, and the rise of new cities in Asia will continue to place huge demand on clean water and water treatment services. The following chart shows the deteriorating trend of water scarcity in Asia.



\* Forecast period

Source: Shiklomanov, I.A. 1997. *Assessment of Water Resource and Water Availability in the World*. Report prepared for the Comprehensive Assessment of Freshwater Resource of the World. United Nations: St. Petersburg.

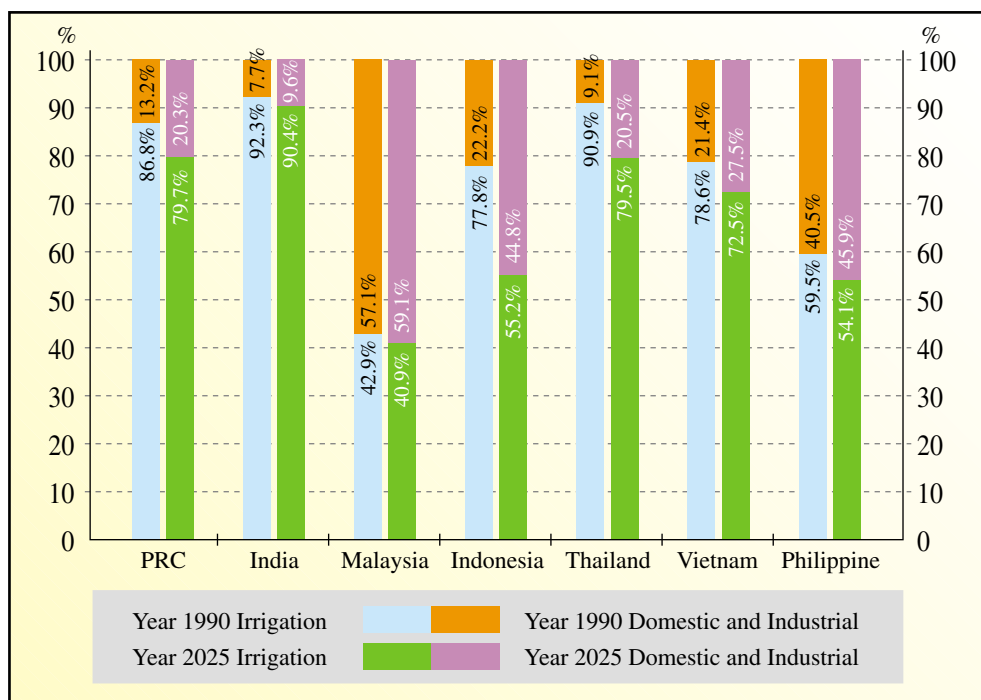


# INDUSTRY OVERVIEW

## WORLDWIDE WATER CONSUMPTION BY SECTORS

According to the findings of Asian Development Bank, nearly 70% of global freshwater withdrawals are directed toward agriculture, mainly for irrigation. Annual irrigation water use will have to increase about 30% above present use for annual crop production to double and meet global food requirements by 2025.

According to the findings of Asian Development Bank, the industry sector, which accounts for about 22% of current freshwater withdrawals globally, is likely to require an increasing share in all regions of the world in both absolute and relative terms. In developing countries, where 56% of the population will be living in urban areas by 2025, the share of water going toward domestic uses will also need to grow substantially. The chart below illustrates the change in annual water consumption pattern in some Asian countries.



Source: Seckler, D., U.Amarasinghe, D.Molden, R. de Silva, and R. Barker. 1998. *World Water Demand and Supply, 1990-2025: Scenario and Issues*. International Water Management Institute: Colombo.

## HONG KONG

### Overview

Hong Kong is a city that lacks natural water resource. According to the Water Supplies Department, despite healthy rainfall that averages 2,214 millimeters a year, the mountainous nature of Hong Kong has made collection and storage of the rainwater a great challenge. Internal water supply has not been able to cope with the rapid urban and industry development over the past few decades. Taking the situation into consideration, the Government has reached a water supply agreement with a Guangdong bureau to guarantee a consistent supply to meet Hong Kong's continuous growth. Water from Guangdong is now the major single source of water supply for Hong Kong and provides a provisional solution to the water shortage problem before the agreement expires in 2004. In view of the continuing development and population growth of major cities in Guangdong, competition for water among cities in Southern China and Hong Kong will intensify, which may adversely affect the long-term stability of water supply in Hong Kong.

## INDUSTRY OVERVIEW

Water pollution is one of the most critical environmental problems faced by Hong Kong after decades of fast development. A significant amount of sewage from domestic and industrial users is discharged to harbour either untreated or only preliminarily treated.

In recent years, the Government has shown commitment to solve the water pollution problem and improve the contaminated water quality. The Government also extends its sewerage system and upgrades its current sewage treatment facilities.

### **Protection of water quality**

According to the Drainage Services Department, Hong Kong people produce around 2.2 million cubic metres of sewage everyday, which is approximately the volume of 1,200 Olympic-size swimming pools. The public sewage system in Hong Kong serves 95% of the population, collects and treats 98% of the sewage produced. The entire system comprises a sewerage network of over 1,320 kilometres and around 200 plants with different levels of treatment ability.

The Environmental Protection Department (EPD) is a statutory arm of the Government to tackle environmental problems in Hong Kong. In the last decade, EPD has made an effort to improve the poor water quality that resulted from population and economic growth. Water quality has improved at beaches, rivers and streams. Urban sewers and treatment plants are also being upgraded.

Combating water pollution in Hong Kong is one of the tasks of the Drainage Services Department. To achieve the task, collection and treatment of sewage is imperative. According to the Drainage Services Department, the Harbor Area Treatment Scheme, already costs over HK\$20 billion in its stage I projects, is a strategy for collecting and treating sewage from around Victoria Harbor. Kowloon and parts of Hong Kong Island have already been linked to the Stonecutters Island sewage treatment works, which was commissioned in 2001. Further stages of the scheme are to be completed by the end of 2003.

Treatment works in recent years are planned, designed and constructed to treat sewage in an environmental acceptable manner. Old works are also being modernized to achieve the objective. In some treatment works, the sludge arising from the application of coagulant chemicals in sewage treatment is first dewatered and then compressed into pieces of sludge cakes by the use of filter press installed within the treatment works. The sludge cakes are then transported to nearby landfill site for disposal.

As a continual effort in improving Hong Kong's drainage systems, the Drainage Services Department is considering the use of ultra-violet irradiation, ozonation and, chlorination/de-chlorination as alternative ways for disinfecting various types of effluent. Capability of the technology in achieving the required disinfection targets, possible formation of undesirable harmful by-products, land requirement as well as the capital and running costs are determinants regarding the final choice of technology.

Pilot tests on various disinfection technologies have been performed to test the effectiveness of the alternative technologies. A large UV irradiation disinfection system was commissioned in 1999 for the treatment of secondarily treated effluent from the Shek Wu Hui Sewage Treatment Works.

## **INDUSTRY OVERVIEW**

A feasibility study on using ozone for the disinfection of effluent from Stonecutters Island Sewage Treatment Work was conducted in 1999. The study concluded that the use of ozone could achieve different disinfection targets at different ozone dose rates and contact times for effluent with no significant amount of undersirable harmful by-products.

### **THE PRC**

#### **Overview**

According to China Economic Information Network, the PRC, as one of the world's most populous countries, has only 7% of the world fresh water resources, most of which are in the southern part. Over the past few decades, fresh water consumption in the PRC has surged dramatically.

In 1999, water consumption in the PRC was almost 50 times of that in 1949. The PRC consumes every year about 500 billion cubic meters of water, of which 77% is used in agriculture. Only 18% is spent in industries and 5% for domestic purposes. However, with the extension of urban areas and the development of industries, water resource will be directed to industrial and domestic uses.

With more and more fresh water being contaminated by industrial and domestic wastes, the seriousness of water shortage is becoming even worse. In the late 1990s, more than half of the PRC's groundwater was contaminated, and the zone of coastal pollution was expanding. As a developing country suffering from serious deficiency of water, the PRC faces the critical tasks of conserving water and protecting water sources.

#### **Water protection and conservation**

Protection of water from contamination is vital to water conservation. In the PRC, serious attempts to tackle pollution problems began in the late 1970s. Since 1979, the central government has established over a hundred environmental laws and regulations. SEPA currently plays a key role in designing pollution control policies and programs while local Environmental Protection Bureaus are responsible for implementing industrial pollution rules.

The PRC's basic environmental law explicitly states that waste dischargers should bear the costs of cleaning up environmental pollution they cause. Therefore, polluters should pay discharge fee on waste releases that exceed allowable standards, and they should invest in waste treatment facilities.

Despite the PRC government's strong advocacy of environmental protection through legal and administrative measures, water pollution is still one of the most pressing environmental problems in the PRC. According to Xinhua News Agency, annual sewage discharge amounts to approximately 80 billion cubic metres but only around 6% has received treatment before being discharged. The situation in large cities is better though room for improvement is still huge. In Beijing, for example, only approximately 40% of the 1.25 billion cubic metres sewage has received treatment.

In recent years, as the PRC moves toward an open market economy, SEPA's tactics shifted from merely fining polluters to using market incentives and economic instruments. Focuses have been placed on increase prices for natural resources to reflect their true value, pursuing foreign environmental technology and creating an environmental tax.

## **INDUSTRY OVERVIEW**

SEPA seeks to attract foreign environmental investments, promotes joint ventures for environmental monitoring, pollution treatment and ecological conservation, and encourages the development of new pollution treatment techniques and facilities to make environmental protection a new economic growth sector.

The Ministry of Water Resources (MWR), which directly reports to the State Council, is responsible for the formulation of policies, strategies, plans, regulations and laws relating to water resources of the PRC.

To promote water conservation, the MWR institutes in cities a quota system to ration water according to production output value and enables the transactions of water-use rights to balance supply and demand. Its conservation plan entails saving water, developing new resources, minimizing wastewater and improving water resource-management regulations.

### **TAIWAN**

#### **Overview**

After decades of rapid industrial development, Taiwan is facing environmental deterioration. According to the Energy Information Administration, which is a statistical agency of US Department of Energy, approximately 40% of Taiwan's rivers whose tributaries serve as the primary source of drinking water for about 75% of Taiwan's population are polluted and water quality has been threatened. Water pollution is considered as a significant threat to the health of the Taiwan people as well as economy. Agricultural run-off, coastal aquaculture, industrial effluents and domestic sewage are the major sources of pollution of coastal, surface and ground water in Taiwan.

#### **Water protection**

In recent years, Taiwan's environmental policy has become stricter in enforcement, and public campaigns to inculcate a positive attitude towards environmental protection have been sustained. Several projects for the improvement of water quality have been launched. Taiwan also offers financial incentives, such as free import duties, investment credits and low-interest loans, for the purchase and installation of proper pollution control facilities.

Stricter enforcement of pollution regulations and upcoming publicly tendered environmental projects are expected to increase demand for foreign technology and advanced equipment for water treatment. Most of these opportunities will arise from the private sector due to the privatization of state corporations.

### **APPLICATION OF WATER DISINFECTION SYSTEM AGAINST LEGIONNAIRES' DISEASE**

Legionnaires' disease is a severe form of pneumonia caused by Legionnellae bacteria and can be fatal, particularly with the elderly and people whose immune system is impaired.

Legionnellae reproduce particularly well in water reserves with temperature around 30-45°C and are not replaced on a daily basis. Air-conditioners that work with spray evaporators to humidify the air and water-cooling towers which store high volume of recycled water also represent excellent breeding ground for Legionnellae.

## INDUSTRY OVERVIEW

According to an article published in the South China Morning Post dated 28 November 2001, there were an estimated 12,000 water-cooling towers installed at buildings throughout Hong Kong as at that date. At present, there is no statutory regulation governing water quality of the cooling towers. A voluntary code, instead, calls on building owners to clean up the towers every six months. In view of the seriousness of Legionnaires' disease, medical and engineering experts, and the legislator for the medical profession have urged the Government to review the relevant guidelines currently in force. The Directors believe that increasing public awareness, together with the possible change in regulations regarding water-cooling towers and tougher enforcement of related regulations, would create a huge demand for water disinfection systems against Legionnaires' disease.

### WATER TREATMENT TECHNOLOGIES OVERVIEW

As a result of the technological advancement and different application requirements, a wide array of technology is available in the water treatment industry. Currently, common technologies adopted by industry practitioners include UV, ozone, chlorine and filtration.

#### UV

UV is germicidal because of its ability to penetrate into organisms' cell membrane and disrupt the cell's genetic material, which disables the cell to reproduce. Launched in 1877, UV is widely used in water disinfection, especially in UK, as a primary disinfectant for water treatment systems such as sewage treatment system. UV produces no known toxic residues and requires short contact time to function. The equipment involved in its operation such as UV lamps is easy to operate and maintain. UK has been using UV technology for replacing chlorination in drinking water treatment plants and the US has also approved using UV technology in municipal drinking water treatment plants for water treatment. The technology has also been widely used in many countries for wastewater disinfection. In an UV water treatment system, UV irradiation is generated by a specially designed lamp. Water is usually transferred by a pump to a vessel installed with UV lamps. A flowmeter e.g. open channel type ultrasonic level sensor and transmitter is used to measure the volume of water flow which determines the required intensity of UV.

#### Ozone

Ozone ( $O_3$ ) is one of the world's strongest oxidants and is an unstable form of oxygen consisting of three oxygen atoms. Because of its oxidizing ability, ozone is an excellent, economical and environmentally friendly tool for water and air pollution treatment. Ozone is able to oxidize many organic and inorganic pollutants and break them down to harmless and biodegradable substances or convert them into compounds that may be subsequently removed by filtration, precipitation or other means. This technology was first applied in drinking water treatment in 1893 in Netherlands. While being commonly used in Europe for drinking water disinfection, ozone was transferred to the US and Asia with a slow pace. Unlike chlorine, ozone does not produce harmful by-products and is now replacing chlorine and some other oxidation/disinfection chemicals in drinking water treatment, swimming pool, spa and pharmaceutical applications. As ozone is a highly reactive and unstable gas, it requires specialized equipment including ozone generator to generate ozone onsite. Water is transferred by a pump to an ozone contact chamber where chemical reactions take place.

## INDUSTRY OVERVIEW

### **Chlorine**

Chlorine is a toxic, yellow green gas at normal pressure and in liquid form at high pressure. Chlorine gas is released with the use of equipment including chlorine gas vacuum regulator from a liquid chlorine cylinder by a pressure reducing and flow control valve operating at a pressure less than atmospheric. Chlorine is led to an injector in the water supply pipe where highly pressurized water passes through and chlorine is drawn into the water stream. Adequate mixing and contact time must be provided after injection to ensure complete disinfection of pathogens. Chlorine is very effective in removing almost all microbial pathogens at a low cost. However, chlorine is a dangerous gas that is lethal at even a low concentration and may form carcinogenic by-products when combines with certain organic substances during water treatment process. Although chlorine is still widely used in swimming pool in Hong Kong and the PRC, it has been phasing out as a water disinfection agent.

### **Filtration**

#### *Membrane*

A semi-permeable membrane is adopted in this method. The membrane is a thin layer of material that is capable of separating materials as a function of their physical and chemical properties when a driving force is applied across it. Membrane filtration technology was launched in 1990s and became popular in recent years. Research is being done by the academy and industry practitioners to improve the technology. A recently developed low energy membrane technology is capable of meeting specific treatment requirements such as nitrate, radium, arsenic and other dissolved minerals removal. Despite its strong filtering power, operating and maintenance costs are relatively high as compared with other water treatment technologies. Membranes are vulnerable to factors such as water quality, temperature and water hardness.

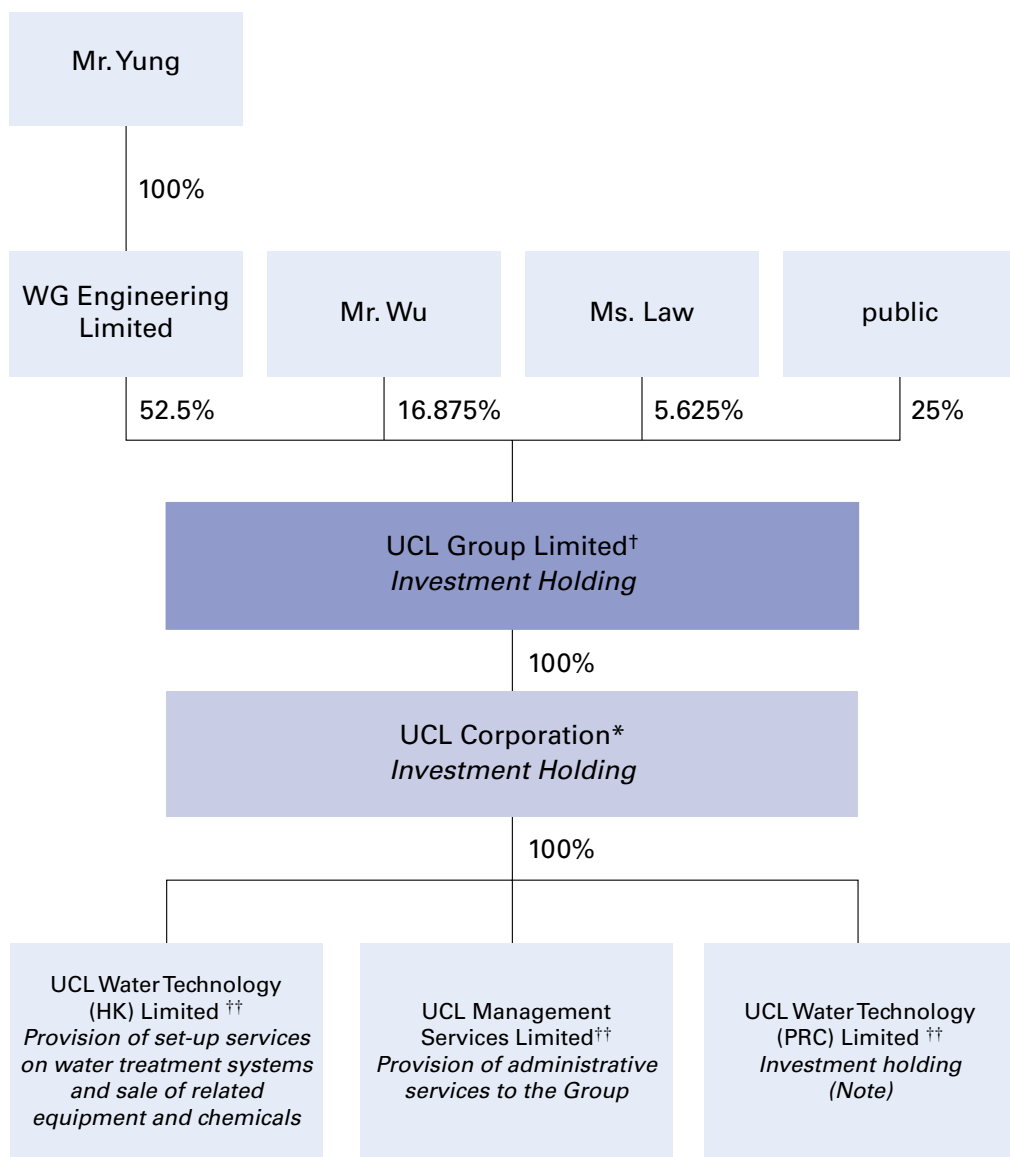
#### *Granular Activated Carbon*

Activated carbon is used to absorb contaminants and is proved to be very effective in removing a broad spectrum of synthetic chemicals from water and gases. The first documented use of activated carbon for water treatment was in 200BC and the first granular activated carbon equipment was installed in Europe in 1929 for water filtration. Granular activated carbon contained in steel pressure vessels are used in this manner.

# BUSINESS

## GROUP STRUCTURE

The corporate structure and the principal business activities of the members of the Group immediately upon completion of the Placing and the Capitalisation Issue are set out below:



- † incorporated in Bermuda
- †† incorporated in Hong Kong
- \* incorporated in BVI

*Note:* Investment holding of joint ventures to be set up in the PRC.

# BUSINESS

## DESCRIPTION OF BUSINESS

The Group is principally engaged in the provision of technical services for water treatment systems. The Group sets up water treatment systems for its customers which involves the design of the systems and procurement of the related equipment and materials for the systems. The Group also sells equipment and chemicals related to water treatment systems to its customers.

The Group's water treatment systems treat water for a variety of purposes, ranging from drinking water and waste water treatment to water treatment for industrial and commercial use. The Group primarily applies the technology of UV and ozone in its water treatment systems. Without producing harmful by-products, UV kills waterborne germs by energy in the form of light rays, whereas ozone breaks down pollutants to harmless biodegradable substances which may be subsequently removed by filtration or precipitation.

The customers of the Group were from both the public and private sectors in Hong Kong during the Track Record Period. The public sector primarily comprised Airport Authority Hong Kong, Drainage Services Department, Water Supplies Department and Department of Health, accounting for about 48% and 51% of the Group's turnover for the two years ended 31 March 2002, respectively, while the private sector primarily comprised engineering companies and property management companies, accounting for about 52% and 49% of the Group's turnover for the two years ended 31 March 2002, respectively. The largest customer of the Group accounted for about 37% of the Group's turnover for each of the two years ended 31 March 2002, whereas the five largest customers of the Group accounted for about 79% and 74% of the Group's turnover for the two years ended 31 March 2002, respectively.

The Group sources its supplies from suppliers in Hong Kong, U.K. and Germany. The largest supplier of the Group accounted for about 35% of the Group's purchases for each of the two years ended 31 March 2002, while the five largest suppliers of the Group accounted for about 95% and 82% of the Group's purchases for the two years ended 31 March 2002, respectively. The Group has entered into a number of agency/representative agreements with suppliers of equipment and chemicals relating to water disinfection and sanitization, particulars of which are set out in the paragraph headed "Agency and representative agreements" below.

The Directors consider the following to be the key factors contributing to the Group's continuous development:

- its reputation in providing water treatment systems for various applications;
- the extensive experience and expertise of the Group's management team in undertaking water treatment projects; and
- its well-established relationship with suppliers and customers.

## HISTORY AND DEVELOPMENT

The business of the Group was founded by Mr. Yung, together with Mr. Wu and Ms. Law, in July 1996, when UCL Water Technology (HK) Limited (formerly known as UCL Engineering Limited) was incorporated, with an aim to service the water disinfection and purification market.



## BUSINESS

In August 1996, the Group became the authorized representative of a supplier of water treatment chemicals under an agency agreement in Hong Kong and Southern China. The agency agreement had become expired but the supplier has continued to supply water treatment chemicals for the Group.

In November 1996, the Group participated in the “Water Hong Kong ’96” program of the 10th IWSA-ASPAC Regional Conference and Exhibition to promote its products and services.

In July 1997, the Group introduced equipment embodied with UV and ozone technology provided by Wedeco AG in its water treatment system. Wedeco AG, based in Germany, is an engineering company providing water treatment technology.

In March 1998, the Group supplied and set up a set of condenser tube cleaning system for Dorset House in Hong Kong. The system enhances the effectiveness of the central air-conditioning systems.

In January 1999, the Group participated in the “Water Industries Conference - Hong Kong 1999”. The conference was jointly organized by professional institutions in environmental and wastewater engineering, and supported by government bureaus of Hong Kong and the PRC.

In August 1999, Franklin Miller, a US based company, appointed the Group as its exclusive sales representative in Hong Kong. Franklin Miller supplies the Group with the in-line sludge disintegrator and a comprehensive and advanced line of wastewater grinders and screens.

In February 2001, the Group became the sole agent of Wedeco AG in Hong Kong, Macau and Guangdong.

In August 2001, the Group was involved in the pilot test program conducted by the Drainage Services Department at the Stonecutter Island Sewage Treatment Plant, in which the Group designed, supplied and set up an UV disinfection system, to assess the feasibility of UV disinfection and to establish the appropriate design parameters for a full scale UV disinfection unit in Siu Ho Wan Sewage Treatment Plant.

In November 2001, the Group applied the UV and ozone technology in the treatment of water cooling towers in Hong Kong. The Group was involved in a pilot test programme conducted by the E&M Services Department, in which the Group designed and provided equipment and technical services, to assess the effectiveness and efficiency of the application of UV, ozone and peroxide technology in controlling the spread of Legionnaires’ disease via water cooling towers.

In view of the great potential of the water treatment industry in the PRC as highlighted in the section headed “Industry overview” in this prospectus, the Group intends to form joint ventures to undertake water treatment projects in the PRC. As at the Latest Practicable Date, the Group had signed three non-legally-binding letters of intent with independent third parties in the PRC to form joint ventures in Beijing, Tangshan and Shanghai, the PRC. Particulars of these letters of intent are set out in the paragraph headed “Establishment of joint ventures in the PRC” below.

Pursuant to the group reorganization implemented in preparation for the listing of the Shares on GEM, particulars of which are set out in the paragraph headed “Corporate reorganisation” under the section headed “Further information about the Company” in Appendix IV to this prospectus, the Company became the holding company of the Group on 26 October 2002.

# BUSINESS

## STATEMENT OF ACTIVE BUSINESS PURSUITS

The Group's activities and performance for the period from 1 April 2000 to the Latest Practicable Date are as follows:

### For the year ended 31 March 2001

Projects:	Completed 9 major contracts for Drainage Services Department, Water Supplies Department and other customers from the private sector. Contracts comprised the design, supply, set-up and upgrading of UV disinfection systems, ultrasonic level sensors and transmitters, automatic condenser tube cleaning system, water pumps and other spare parts.	
Strategic Alliances:	Became the sole agent of Wedeco in Hong Kong, Macau and Guangdong on 19 February 2001.	
Marketing:	Continued to build and maintain relationship with existing and potential customers, in particular, main contractors and consultant firms.	
Human Resources:	Sales and marketing	2
	Engineering	1
	Finance and administration	1
		4
		4

### For the year ended 31 March 2002

Projects:	Completed 7 major contracts for Department of Health, Drainage Services Department and other customers from the private sector. Contracts comprised the design, supply and set-up of UV disinfection systems, eye-fluid transfer vessel and hoses, condenser tube cleaning system, pumps and spare parts.	
Application:	Commencing on 22 November 2001, involved in a pilot programme conducted by E&M Services Department to assess the application of UV, ozone and peroxide disinfection technology on elimination of the spread of Legionnaires' disease through water cooling towers.	
Marketing:	Participated in water treatment exhibition in April 2001 in Guangzhou to promote the Group's products and services.	
	Commenced construction of the Group's website <a href="http://www.cnucl.com">www.cnucl.com</a> in March 2002 which will provide customers with information on the Group's products and services.	
	Continued to build and maintain relationship with existing and potential customers, in particular, main contractors and consultant firms.	
	Continued to produce and distribute promotion materials including video compact discs to promote the Group's products and services.	
Human Resources:	Sales and marketing	2
	Engineering	2
	Finance and administration	3
		7
		7

## BUSINESS

### For the period from 1 April 2002 to the Latest Practicable Date

Projects: Entered into a contract with an independent third party in the PRC for supply of water treatment related equipment.

Tendered 12 major projects in both public and private sectors.

PRC Expansion: Signed three non-legally-binding letters of intent with independent joint venture partners to form joint ventures in Beijing, Shanghai and Tangshan on 14 May 2002, 30 April 2002 and 18 April 2002 respectively for the expansion of the Group's operation, the undertaking of water treatment projects and the promotion of the Group's products and services in the PRC.

Obtained written invitations from seven independent parties in Beijing and Guangdong province to provide preliminary technical consultancy services regarding the design, supply and installation of water treatment systems for a variety of projects, namely development of resorts, sports stadium, medical facilities and a municipal water treatment plant in the PRC.

Marketing: Continued to build and maintain relationship with existing and potential customers, in particular, main contractors and consultant firms.

Completed the construction of the Group's website [www.cnucl.com](http://www.cnucl.com) which provides customers with information on the Group's products and services.

Continued to produce and distribute promotion materials including video compact discs to promote the Group's products and services.

Human Resources:	Sales and marketing	3
	Engineering	3
	Finance and administration	3

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## BUSINESS

### MAJOR CONTRACTS COMPLETED BY THE GROUP DURING THE TRACK RECORD PERIOD AND UP TO THE LATEST PRACTICABLE DATE

During the Track Record Period and up to the Latest Practicable Date, the Group had completed projects in Hong Kong for the provision of set-up services on water treatment systems and sale of related equipment and chemicals. Major contracts with contract value over HK\$100,000 completed by the Group during the Track Record Period and up to the Latest Practicable Date are set out as below:

#### Provision of set-up services on water treatment systems

	Contract date	Customer description	Nature/Description/ Type of works	Location*	Duration	Role	Approximate contract value (HK\$)
1	18 December 2001	Private sector	Design, supply and set-up of UV disinfection system	Sai Kung Sewage Treatment Plant	December 2001 to February 2002	Sub-contractor	220,000
2	22 November 2001	Private sector	Design and provision of equipment and services to the pilot testing of UV, ozone and peroxide applications at cooling towers	Tai Po	November 2001 to December 2001	Sub-contractor	518,500
3	30 August 2001	Public sector – Department of Health	Design, supply and set-up of four sets of 'INDAG' internal gear transfer pump	Chai Wan	August 2001 to January 2002	Main contractor	588,600
4	21 August 2001	Public sector – Department of Health	Design, supply and set-up of 1 set of "Chemplant" eye-fluid transfer vessel and hoses for the storage of water/fluid	Chai Wan	August 2001 to January 2002	Main contractor	255,000
5	16 August 2001	Private sector	Design, supply and set-up of UV disinfection system for pilot test	Stonecutter Island Sewage Treatment Plant	August 2001 to September 2001	Sub-contractor	767,180
6	17 October 2000	Private sector	Design, supply and set-up of UV disinfection system	Yuen Long Lot 500	October 2000 to March 2001	Sub-contractor	728,775
7	3 October 2000	Public sector – Drainage Services Department	Design, supply and set-up of UV irradiation disinfection system	Ma Po Ping Prison Sewage Treatment Works	October 2000 to September 2001	Main contractor	1,630,000
8	3 July 2000	Private sector	Design, supply and set-up of water treatment system for condenser tube applied in central air-conditioning systems	Gateway II Tsimshatsui	July 2000 to August 2001	Main contractor	432,000
9	17 May 2000	Private sector	Design, supply and set-up of UV disinfection system	Tai Lam Correctional Centre Sewage Treatment Plant	May 2000 to August 2000	Sub-contractor	101,500
10	17 April 2000	Private sector	Design, supply and set-up of UV disinfection system	Tai Mong Chai Sewage Treatment Plant	April 2000 to December 2000	Sub-contractor	180,000
11	7 January 2000	Private sector	Design and upgrading of UV disinfection system	Hei Ling Chau Sewage Treatment Plant	January 2000 to May 2000	Sub-contractor	330,000
12	30 December 1999	Private Sector	Design, supply and set-up of automatic water treatment system for condenser tube applied in central air-conditioning systems	Taikoo Place – Dorset House	December 1999 to June 2000	Main contractor	350,000

# BUSINESS

## Sale of related equipment and chemicals

	Contract date	Customer description	Nature/Description/ Type of works	Location*	Duration	Role
1	21 December 2000	Public sector – Drainage Services Department	Supply of portable flowmeter for determining the dosage of chemicals or UV intensity to be applied in water treatment systems	Various sites	December 2000 to February 2001	Supplier
2	20 October 2000	Public sector – Drainage Services Department	Supply of progressive cavity pump and spare parts for transporting water	Stonecutters Island Sewage Treatment Works	October 2000 to February 2001	Supplier
3	18 October 2000	Public sector – Water Supplies Department	Supply of open channel type ultrasonic level sensor and transmitter for determining the dosage of chemicals or UV intensity to be applied in water treatment systems	Various sites	October 2000 to January 2001	Supplier
4	27 June 2000	Private sector	Supply of rotary lobe pump for transporting water	Cheung Chau Sewage Treatment Plant	June 2000 to August 2000	Supplier

+ *all locations are in Hong Kong.*

Other than the major contracts listed above, the Group completed 51 contracts during the Track Record Period and up to the Latest Practicable Date with each contract value ranging from approximately HK\$5,000 to less than HK\$100,000. The contracts primarily comprised the provision of technical services for water treatment systems for private swimming pools and drinking water in kindergarten which includes set up of water treatment systems and sale of related equipment and chemicals such as water pipes and membrane filters to its customers.

Usually a project takes 3 to 6 months to complete and a period of about 3 month is required for the final testing of equipment and acceptance by customers.

Besides the business registration certificate issued by the Inland Revenue Department of Hong Kong, the Group is not required to obtain any approval, licence or permit specific to the Group's existing operation and there is no other requirement imposed by the regulatory authorities on the business currently carried out by the Group.

## CONTRACTS ON HAND

In December 2000, the Group entered into a contract with the Drainage Services Department to provide the Shatin Sewage Treatment Plant with polyelectrolyte. The contract will end in December 2002 unless an extension is requested by Drainage Services Department.

In January 2002, the Group entered into a contract with an independent third party in Hong Kong for the supply and set-up of water treatment related equipment.

In July 2002, the Group entered into a contract with an independent third party in the PRC for the supply of water treatment related equipment. Other than the customary import/export procedures to be undertaken by the Group, the Group is not required to obtain any approval or permit for the supply of water treatment related equipment to a PRC customer.

## BUSINESS

### MAJOR TENDERS SUBMITTED

The following is a summary of the major tenders submitted by the Group for the provision of set-up services on water treatment systems and sale of related equipment and chemicals up to the Latest Practicable Date. **Potential investors should note that the results of the submitted tenders have yet to be disclosed and the Group may or may not be awarded any of the contracts.**

Customer description	Nature/Description/ Type of works	Number of tenders	Approximate contract value HK\$'000
Public sector	Design, supply and set-up of water treatment systems	1	1,390
Public sector	Supply of water treatment system related spare parts and chemicals	1	289
Private sector	Design, supply and set-up of water treatment systems	12	21,610
Private sector	Supply of water treatment system related spare parts and chemicals	2	324
		<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
		<b>16</b>	<b>23,613</b>

### TENDERING

Virtually all the projects of the Group are awarded through tendering process and therefore the preparation and submission of tenders are important aspects of the Group's operations. The Directors believe that the Group's well established working relationships with main contractors and civil engineering consultancy firms and extensive experience enable it to bid successfully.

The time given by potential customers to the Group to prepare tenders normally ranges from 90 to 120 days. The Group prepares the designs and plans the works for the water treatment projects in accordance with customers' requirements. Preparation of a tender requires a detailed analysis of the works to be undertaken and considerable experience to price the contract. The price of the set-up services for water treatment systems is determined on a case-by-case basis primarily after taking into consideration the costs of equipment and raw materials (including transportation and handling charges) applied in the water treatment systems, the use of manpower resources and the subcontracting costs. The price of the sale of related equipment and chemicals is also determined on a case-by-case basis primarily after taking into consideration the costs of equipment and chemical (including transportation and handling charges). The Group has a team of 3 executives who are highly experienced in preparing tenders.

The ability of the Group to allocate plant and machinery and manpower resources efficiently, to select the appropriate subcontractors, to procure necessary raw materials and equipment and to estimate and stay within costs will determine, to a large extent, whether the Group is able to tender at competitive rates and maintain its profitability. The tender will be formally submitted to the potential customer after the executive Directors have reviewed and given their approval to the proposal.

### SUBCONTRACTING

Some of the installation works of water treatment systems are carried out by subcontractors. They transport the equipment and carry out electrical and water-pipe works. Subcontracting cost represented approximately 11% and 33% of the total cost of the Group for the two years ended 31 March 2002 respectively. The largest subcontractor of the Group carried out approximately 49% and 31%, and the top five subcontractors of the Group carried out approximately 97% and 79%, of the total subcontracting works for the two years ended 31 March 2002 respectively. During the Track Record Period, all of the subcontractors of the Group are independent third parties not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or any of their respective associates. The payment term of subcontracting fees is mainly 30 days against invoice.

It is important that the Group maintains a good working relationship with subcontractors. The hiring of subcontractors increases the cost effectiveness and efficiency of the Group's operations. The Group has built up good working relationships with an established group of over 10 subcontractors offering installation services. The majority of the subcontractors hired by the Group have had a working relationship with the Group for two years or more.

In awarding subcontracts to any subcontractors, the Group will take into account and make reference to various factors including, among others, the track record, expertise, capability and experience of the subcontractors and the price, fees and charges and other terms of tender for the same subcontract submitted by all subcontractors. Although the Group does not have any exclusive arrangement with its subcontractors, the Directors do not foresee any problem in finding alternative subcontractors should that become necessary.

The roles of main contractor and sub-contractor in a project are different. The main contractor, as the party contracting with the customer, is responsible for all aspects of the project, including co-ordination with its sub-contractors to see that the project proceeds and is completed in accordance with the requirement of the customer. A sub-contractor is responsible to the main contractor only in carrying out specific part of the project. Main contractors are responsible to the customers in the event of sub-standard quality, non-performance, non-compliance with specifications and non-deliver/completion within the required time. Main contractors may in turn claim damages from the subcontractors who incur liabilities to the customers. From the date of the Group's establishment and up to the Latest Practicable Date, the Group did not encounter any major problem caused by its subcontractors such as delay, labour disputes or working capital problems.

### PROCUREMENT

The principal materials and equipment procured by the Group are water purification and disinfection chemicals, UV disinfection equipment, and other water treatment related equipment. All required materials and equipment are purchased from suppliers in Hong Kong, U.K. and Germany. For each of the two years ended 31 March 2002, the largest supplier of the Group, which supplied polyelectrolyte and UV disinfection equipment respectively accounted for approximately 35% of the Group's purchases. For the same periods, the five largest suppliers of the Group, which supplied UV water disinfection equipment, polyelectrolyte, chemical dosing equipment, etc. accounted for approximately 95% and 82% of the Group's purchases respectively. During the Track Record Period, the five largest suppliers of the Group are independent third parties not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or any of their respective associates. The Directors do not foresee any difficulties in sourcing the materials and equipment required by the Group for its operations from other suppliers should that become necessary.

## **BUSINESS**

All purchases are denominated in Hong Kong dollars, Euro and Sterling Pounds. Payments of the Group's purchases are primarily made on cash on delivery basis, open account basis with credit terms ranging up to 30 days or by letters of credit payable at sight or up to 45 days after sight. For stock control purpose, it is the policy of the Group to place purchase orders with major suppliers after a contract has been entered into between the Group and its customer. During the Track Record Period, no stock provision was required to be made according to the Group's policy. The Group will make full provision for slow-moving stock which has been held for over one year.

### **AFTER-SALES SERVICES**

The Directors believe provision of good after-sales services is an important key to the success of the Group, so as to maximise customers' satisfaction and enhance the Group's reputation.

The Group provides maintenance services to its customers including after-sales maintenance services, to ensure that the water treatment systems operate properly. The Group also offers training courses to customers, including courses on the operation and maintenance of the water treatment systems.

The Group normally offers one year warranty on water treatment systems supplied to its customers. Within the warranty period, the Group repairs or replaces any malfunctioning parts. Repair or replacement of the defective parts during the warranty period is free of charge while the costs of labor and replacement parts and components are reimbursed by the suppliers.

### **QUALITY CONTROL**

The Group places great emphasis on the quality of its services. The Directors believe that a strong commitment to services quality is imperative to the reputation of the Group and its ability to maintain a competitive advantage in the industry.

The Group implements stringent control measures to ensure its product and service quality. Suppliers are assessed and approved by a procurement team which reports directly to the managing director of the Company. The team is responsible for approving the purchases and liaising with suppliers regarding product specifications and quality. The team consists of two engineers who are experienced in procurement. The largest equipment supplier of the Group has obtained ISO9000 accreditation. The Group also visits manufacturers' production plants and performs tests upon request of customers to ensure the quality and fitness of certain customized equipments. Equipment installations are performed under the supervision of the team who have extensive experience and expertise in installation and testing of the particular equipments or systems.

As a result of the Group's ongoing stringent quality control measures, the Group is able to secure recognition in the industry. The Group has achieved consistency in good workmanship, good quality control, maintenance of high standards of safety system on all construction sites. It has not received any claims from its customers since the date of its establishment and up to the Latest Practicable Date.

### **SALES AND MARKETING**

The Group sets up water treatment systems for its customers which involves the design of the systems and procurement of the related equipment and materials for the systems. It also sells



## BUSINESS

equipment and chemicals related to water treatment systems to its customers. Set out below is a breakdown of turnover of the Group by activity during the Track Record Period:

	<b>For the year ended 31 March</b>			
	<b>2001</b>		<b>2002</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Provision of set-up services	1,868	45%	5,456	79%
Sale of related equipment and chemicals	2,281	55%	1,410	21%
	<u>4,149</u>	<u>100%</u>	<u>6,866</u>	<u>100%</u>

### Customers

The customers of the Group were from both the public and private sectors in Hong Kong during the Track Record Period. The customers from the public sector primarily comprise Airport Authority Hong Kong, Department of Health and Drainage Services Department. The customers from the private sector primarily comprise engineering companies and property management companies. The largest customer of the Group accounted for about 37% of the Group's turnover for each of the two years ended 31 March 2002, whereas the five largest customers of the Group accounted for about 79% and 74% of the Group's turnover for the two years ended 31 March 2002, respectively. During the Track Record Period, the five largest customers of the Group are independent third parties not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or any of their respective associates.

The table below sets out the turnover of the top five customers of the Group during the two years ended 31 March 2002;

	<b>For the year ended 31 March</b>			
	<b>2001</b>		<b>2002</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Drainage Services Department	1,532	37%	2,547	37%
Department of Health	–	–	844	12%
Maunsell Consultants Asia Ltd.	–	–	767	11%
Binnie Black & Veatch				
Hong Kong Limited	–	–	518	8%
Harbour City Management Limited	–	–	432	6%
Prominent Environmental Limited	908	22%	–	–
Chevalier (Envirotech) Limited	348	8%	–	–
Airport Authority Hong Kong	244	6%	–	–
Atal Engineering Limited	239	6%	–	–
Others	878	21%	1,758	26%
	<u>4,149</u>	<u>100%</u>	<u>6,866</u>	<u>100%</u>

## BUSINESS

The table below sets out the turnover of the Group by sector during the two years ended 31 March 2002:

	<b>For the year ended</b>			
	<b>31 March</b>			
	<b>2001</b>		<b>2002</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Public sector	1,987	48%	3,486	51%
Private sector	2,162	52%	3,380	49%
	<hr/>	<hr/>	<hr/>	<hr/>
Total	4,149	100%	6,866	100%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All of the Group's sales were derived from projects in Hong Kong during the Track Record Period. The Group intends to expand its operation into the PRC, and has signed three non-legally-binding letters of intent to form joint ventures in Beijing, Shanghai and Tangshan, the PRC, details of which are set out in the paragraph headed "Establishment of joint ventures in the PRC" under this section.

### **Payment terms and credit policy**

During the Track Record Period, all of the Group's sales were denominated in Hong Kong dollars.

In respect of a project for provision of set-up services on water treatment systems, a deposit of not more than 30% of the contract value is received from customers upon contract confirmation. Subsequent payments will be made by customers by installments according to predetermined milestones or percentage of completion of the project at the end of each period specified by the contracts. The final payment of not more than 5% of the contract value is paid by customers after final testing of the equipment and acceptance by the customers.

For supply of equipment and chemicals, the Group offers a 30-day credit period to customers with satisfactory credit history and approved by the managing director of the Company. Other customers are required to pay on a cash-on-delivery basis.

Full provision is generally made by the Group for debts overdue for more than one year. For the two years ended 31 March 2002, no provision was made by the Group for doubtful or bad debts.

### **Promotion and marketing**

The Group has a marketing team comprising 3 staff. They are responsible for the promotion of the Group's services and products. They regularly attend water treatment exhibitions, hold meetings with personnel in the industry, as well as produce promotional materials, including video compact discs, to promote the Group's services and products.

For the two years ended 31 March 2002, the Group expended an aggregate of about HK\$0.5 million for promotion and marketing activities, representing an aggregate of about 5% of the Group's total turnover for the period.

## BUSINESS

### AGENCY AND REPRESENTATIVE AGREEMENTS

As at the Latest Practicable Date, the Group had two existing agency or representative agreements, details of which are set out as follows:

Name and Country of supplier	Details	Contract period	Nature of appointment
Wedeco AG (Germany)	Sale and distribution of UV and ozone related products in Hong Kong, Macau and Guangdong	19 February 2001 to 18 February 2006 and may be terminated by 6-months prior written notice	Exclusive agent
Franklin Miller, Inc. (US)	Sale of wastewater treatment equipment in Hong Kong and reporting on the market conditions to Franklin Miller, Inc.	Automatically renewable for one year in August each year unless terminated by 30 days' prior written notice	Exclusive sales representative

Wedeco AG is a listed company on the Frankfurt stock exchange. It is principally engaged in water disinfection by using UV and ozone technologies. Wedeco AG offers solutions for drinking water, process water, purified water and sewage, as well as for special applications. Wedeco supplied material and equipment costing approximately HK\$920,000 and HK\$390,000 and the supply represented approximately 35% and 18% of the Group's purchase for the two years ended 31 March 2002 respectively.

Franklin Miller, Inc. is a supplier offering dry solids processing and liquid or pressure seal systems and a broad line of processors including units for chemical processing, pharmaceuticals, foodstuffs, minerals and wastewater treatment. The Group did not purchase from Franklin Miller during the two years ended 31 March 2002.

The Group had been an authorised representative of a supplier of water treatment chemicals under an agency agreement. The agency agreement had become expired but the supplier has continued to supply water treatment chemicals for the Group, accounting for about 20% (or about HK\$530,000) and about 35% (or about HK\$730,000) of the Group's purchases for the two years ended 31 March 2002 respectively. The supplier was the third largest and the largest supplier of the Group in the two years ended 31 March 2002 respectively in terms of purchase amount.

### ESTABLISHMENT OF JOINT VENTURES IN THE PRC

In view of the great potential of the water treatment industry in the PRC as highlighted in the section headed "Industry overview" of this prospectus, the Group intends to form joint ventures to undertake water treatment projects in the PRC and provide technical services for water treatment equipment in the PRC. As at the Latest Practicable Date, the Group had signed three non-legally-binding letters of intent with independent third parties in the PRC to form joint ventures in

## BUSINESS

Beijing, Shanghai, and Tangshan, the PRC. Particulars of these letters of intent are set out as follows:

Date of letter of intent	Proposed joint venture name	Proposed joint venture partner	Location	Proposed registered capital	Proposed equity interest attributable to the Group	Proposed board representation of the Group
18 April 2002	遷安市環保水資源有限公司 (Qian An Environmental Water Resources Limited)	遷安市城市污水處理有限公司 (Qian An Municipal Sewage Treatment Limited)	Tangshan	HK\$1,000,000	70%	The Group is entitled to appoint three directors out of a total of five directors
30 April 2002	YUCL H <sub>2</sub> O Environmental Technology Limited	上海市長江經濟聯合發展(集團)股份有限公司 (Shanghai Yantze Economic Allied Development (Group) Limited)	Shanghai	RMB1,000,000	70%	The Group is entitled to appoint three directors out of a total of five directors
14 May 2002	北京中唐國潤環保水資源有限公司 (Beijing Zhong Tang Guo Run Environmental Water Resources Limited)	北京中唐國潤科技發展有限公司 (Beijing Zhong Tang Guo Run Technology Development Limited)	Beijing	HK\$1,000,000	70%	The Group is entitled to appoint three directors out of a total of five directors

The proposed joint venture partners are independent third parties not connected with the directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates.

In relation to the future operations of the intended joint ventures of the Group in Beijing, Shanghai and Tangshan, the PRC for the provision of set-up services on water treatment systems and sale of related equipment and chemicals, besides the certificates of approval, business licences and other customary approvals to be granted by the relevant governmental authorities relating to the establishment of joint ventures in the PRC, the Group is not required to obtain any approval or licence specific to such future operations.

### SAFETY AND INSURANCE

The Group is dedicated to implement safety procedures to ensure that its employees have a safe working environment. Apart from assigning qualified engineers to perform site visits to oversee the safety conditions of each of its operational facilities, the Group also provides trainings to its employees on safe operation and installation of equipment.

The Group maintains employees' compensation insurance and third party liability insurance with respect to each project.

### COMPETITION

The markets for water disinfection and purification in Hong Kong, the PRC and Taiwan are at their emerging stage. The Directors are aware that there are about six companies competing for contracts of both the public and private sectors, which have longer history and larger operation than the Group in the provision of technical services for water treatment systems in Hong Kong. In the PRC and Taiwan, the Directors are aware that most participants of the markets are small-to-medium size companies employing equipment produced locally. As SEPA seeks to attract foreign environmental investment and promotes joint ventures for water protection and conservation, the Directors expect that new entrants with stronger background and international technologies will enter the PRC market.

The Directors consider that a well-established relationship with suppliers is imperative to the success of the business of the Group. As at the Latest Practicable Date the Group had two agency or representative agreements, particulars of which are described in the paragraph headed “Agency and representative agreements” above, to secure the supply of water treatment equipment and related products. However, the Directors are aware that equipment with similar technology and functionality is offered by other suppliers. Existing competitors of the Group and potential entrants of the market may be capable of obtaining agency agreements from those suppliers and introducing equipments with better technology to the market.

The Directors also consider that technological advancement of its products, relationship with customers and the timing of introducing water treatment technologies to different applications would be important for the Group to remain competitive in the industry.

Although competition in the water treatment business is intense, the Directors believe that the market has a strong growth potential and the Group will be able to establish its market position by leveraging on its competitive pricing, suppliers’ support, reliable performance to customers, and high quality products with state-of-the-art technology.

# STATEMENT OF BUSINESS OBJECTIVES

## **BUSINESS OBJECTIVES AND STRATEGIES**

The Group intends to become a service provider in the industry of water treatment systems in the China region, including the PRC, Taiwan and Hong Kong, by implementing the following strategies:

### **Geographic expansion**

The Directors believe that the China region offers vast market potential. The Group intends to expand its operation into the PRC and Taiwan. The Group plans to form joint ventures in the PRC and Taiwan to market the Group's services and products and undertake water treatment projects in these markets.

As at the Latest Practicable Date, the Group had entered into non-legally-binding letters of intent with three PRC partners to develop the water treatment markets in Beijing, Tangshan and Shanghai of the PRC. Details of the letters of intent are set out in the paragraph headed "Establishment of joint ventures in the PRC" under the section headed "Business" of this prospectus.

### **Application of water treatment technologies to different areas**

The Group plans to explore new water treatment applications, for example, water disinfection and purification in medical treatment, aquaculture, aquariums and air sanitization. The Directors consider that in view of the surging demand of clean water and the decline in water resources, water treatment systems can be applied in various forms essential to daily life.

### **Adoption of the latest water treatment technologies**

As water treatment technologies evolve rapidly, the Group intends to actively seek and form strategic alliances with water treatment technologies providers to embody the latest water treatment technologies in its water treatment projects.

### **Enhancement of the reputation of the Group**

The Group realises that reputation is of importance to its success. It intends to participate in trade shows and exhibitions and place advertisements to promote the Group's services and reputation.

## **IMPLEMENTATION PLANS**

In light of the business strategies and objectives of the Group, the Directors will seek to attain the milestone events contained in this paragraph from the Latest Practicable Date to 31 March 2005. Investors should note that the milestone events and their respective scheduled times for attainment are formulated on the bases and assumptions referred to in the paragraph headed "Bases and assumptions" below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set out in the section headed "Risk factors" of this prospectus. The Group's actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of the Group will materialise in accordance with the expected time frame or that the objectives of the Group will be accomplished at all.

## STATEMENT OF BUSINESS OBJECTIVES

**1st period: From the Latest Practicable Date to 31 March 2003**

		<b>Use of proceeds</b> <i>(HK\$ million)</i>
Geographic Expansion:	Conduct preparation works for establishment of joint ventures in Beijing, Shanghai and Tangshan	0.3
	Solicit potential customers and explore the water treatment markets in Shanghai, Beijing and Tangshan with target customers of mainly real estate developers, hotels, aquaculture industry and hospital	0.3
	Deliver UV water disinfection systems to customers in Zhongshan	
	Recruit additional management, technical, marketing and sales personnel for the development of the Group's businesses in the PRC	0.6
Strategic Alliance:	Form agency arrangements with at least one additional supplier of water treatment equipment in Europe	0.3
Marketing:	Place print advertisements on trade journals and participate in seminars and exhibitions to enhance the recognition of the Group in Hong Kong Beijing, and Shanghai	0.2
	Revise the Group's website to update the latest services and products offered by the Group	
	Set up the Group's marketing office in Beijing	0.2
	Participate in trade fairs in Hong Kong, Beijing and Shanghai to promote the Group's products and services	0.2
		0.6
Human Resources:	Sales and marketing	4
	Engineering	3
	Finance and administration	4
		4
	Total	11
		1.5

## STATEMENT OF BUSINESS OBJECTIVES

**2nd period: From 1 April 2003 to 30 September 2003**

		<b>Use of proceeds</b> <i>(HK\$ million)</i>
Geographic Expansion:	Enter into joint venture agreements, set up and commence operations of the Group's joint ventures in Beijing, Shanghai and Tangshan	2.1
	Continue to identify suitable joint venture partners in the PRC, in particular, Guangdong province	0.1
	Continue to solicit potential customers and explore the water treatment markets in Shanghai, Beijing, Tangshan and Guangdong province with target customers of mainly real estate developers, hotels, aquaculture industry and hospital	0.2
	Complete a total of at least two water treatment projects for each of the location in Shanghai, Beijing and Tangshan	
	Commence to market de-watering equipment and sludge drying systems in Beijing and Shanghai	0.1
		2.5
Strategic Alliance:	Attend the annual environmental protection industry tradeshow held in Germany and seek opportunities to establish new consultancy or agency arrangements with leading water treatment and sanitization technology providers	0.1
	Identify potential agency cooperation opportunities in the PRC, mainly located in Shanghai, Beijing and Guangdong province	0.2
		0.3
Marketing:	Place print advertisements on trade journals and participate in seminars and exhibitions to enhance the recognition of the Group in Hong Kong, Beijing, Shanghai and Tangshan	0.4
	Revise the Group's website to update the latest services and products offered by the Group	
	Participate in trade fairs in Hong Kong, Beijing and Shanghai to promote the Group's products and services	0.2
	Set up the Group's marketing office in Shanghai	0.2
		0.8
Human Resources:	Sales and marketing	10
	Engineering	6
	Finance and administration	10
	Total	26
		3.6



## STATEMENT OF BUSINESS OBJECTIVES

**3rd period: From 1 October 2003 to 31 March 2004**

		<b>Use of proceeds</b>
		<i>(HK\$ million)</i>
Geographic Expansion:	Continue to solicit potential customers and explore the water treatment markets in Shanghai, Beijing, Tangshan and Guangdong province, with target customers including building management companies and factories for sewage treatments	0.3
	Commence the negotiation with prospective joint venture partners in Guangdong province	0.2
	Complete a total of at least four water treatment projects for each of the location in Shanghai, Beijing and Tangshan	
	Commence to market chemical dosing equipment for wastewater treatment in Beijing and Shanghai	0.1
	Continue to market de-watering equipment and sludge drying systems in Beijing and Shanghai	0.1
		0.7
Application:	Collaborate with universities to develop its own UV disinfection devices to kill the legionellae in air-conditioners with spray evaporators. The equipment will apply the UV or ozone disinfection technology on disinfecting small-to-medium sized water cooling towers	0.4
	Commence the development of applying small-to-medium sized water treatment equipment in facilities such as poultry farms, aquaculture and medical instruments in the PRC	0.4
		0.8
Strategic Alliance:	Form agency arrangements with at least one additional supplier in either Europe or the PRC to enhance the range of products offered by the Group	0.3

## STATEMENT OF BUSINESS OBJECTIVES

Marketing:	Place print advertisements on trade journals and participate in seminars and exhibitions to enhance the recognition of the Group in Hong Kong, Beijing, Shanghai, Tangshan and Guangdong province	0.4
	Revise the Group's website to update the latest services and products offered by the Group	
	Participate in trade fairs in Hong Kong, Beijing, Shanghai and Guangdong province to promote the Group's products and services	0.2
	Set up the Group's marketing office in Guangdong province	0.2
		0.8
Human Resources:	Sales and marketing	11
	Engineering	6
	Finance and administration	11
		28
	Total	2.6

### 4th period: From 1 April 2004 to 30 September 2004

		<b>Use of proceeds</b> <i>(HK\$ million)</i>
Geographic Expansion:	Enter into joint venture agreements, set up and commence operations of the Group's joint ventures in Guangdong province	0.7
	Seek to identify suitable joint venture partners in Chengdu and Taiwan	0.2
	Continue to solicit potential customers and explore the water treatment markets in Shanghai, Beijing, Tangshan and Guangdong province, with target customers including building management companies	0.3
	Complete a total of at least two projects for Guangdong province	
	Expand marketing of chemical dosing equipment for wastewater treatment into Tangshan and Guangdong province	0.1
	Expand marketing of de-watering equipment and sludge drying systems into Tangshan and Guangdong province	0.1
		1.4

## STATEMENT OF BUSINESS OBJECTIVES

Application:	Complete the development of an UV disinfection device to target legionellae in central air conditioning units with spray evaporators and launch the product to the market	0.4
	Develop and conduct feasibility studies of other water treatment application to be used in facilities such as poultry farm, aquaculture and medical instruments in the PRC	1.4
		1.8
Strategic Alliance:	Attend the annual environmental protection industry tradeshow held in Germany and seek opportunities to establish new consultancy or agency arrangements with leading water treatment and sanitization technology providers	0.1
	Continue to identify potential agency cooperation opportunities in the PRC, mainly located in Shanghai, Beijing and Guangdong province	0.2
		0.3
Marketing:	Place print advertisements on trade journals and participate in seminars and exhibitions to enhance the recognition of the Group in Hong Kong, Beijing, Shanghai, Tangshan and Guangdong province	0.5
	Revise the Group's website to update the latest services and products offered by the Group	
	Participate in trade fairs in Hong Kong, Beijing, Shanghai and Guangdong province to promote the Group's products and services	0.3
		0.8
Human Resources:	Sales and marketing	13
	Engineering	7
	Finance and administration	13
	Total	33
		4.3

## STATEMENT OF BUSINESS OBJECTIVES

**5th period: From 1 October 2004 to 31 March 2005**

		<b>Use of proceeds</b> <i>(HK\$ million)</i>
Geographic Expansion:	Commence the negotiation with prospective joint venture partners in Chengdu and Taiwan and enter into joint venture agreements, set up and commence operations of joint ventures in Chengdu and Taiwan by 2005	0.1
	Continue to identify suitable joint venture partners, in particular, other parts of the PRC where the Group has no establishment	0.2
	Continue to solicit potential customers in Beijing, Shanghai, Tangshan, and Guangdong province and explore the water treatment markets with target customers including real estate developers, hospital building management companies and factories	0.3
	Complete a total of at least five water treatment projects for each of the location in Shanghai, Beijing and Tangshan and four projects for Guangdong province	
	Continue to market chemical dosing equipment for wastewater treatment in Beijing, Shanghai, Tangshan, and Guangdong province	0.1
	Continue to market de-watering equipment and sludge drying systems in Beijing, Shanghai, Tangshan, and Guangdong province	0.1
		0.8
Application:	Develop and evaluate the products used in new application of the water treatment and sanitization systems in facilities such as country farm, aquaculture and medical instrument in the PRC	0.7
Strategic Alliance:	Form agency arrangements with at least one additional supplier in either Europe or the PRC	0.3
Marketing:	Place print advertisements on trade journals and participate in seminars and exhibitions to enhance the recognition of the Group in Hong Kong, Beijing, Shanghai, Tangshan, Guangdong province, Chengdu and Taiwan	0.6
	Revise the Group's website to update the latest services and products offered by the Group	

## STATEMENT OF BUSINESS OBJECTIVES

	Participate in trade fairs in Hong Kong, Beijing, Shanghai and Guangdong province to promote the Group's products and services	0.4	
		1.0	
Human Resources:	Sales and marketing	13	
	Engineering	7	
	Finance and administration	13	
		33	2.8
	Total	33	2.8

### BASES AND ASSUMPTIONS

The business objectives and strategies as stipulated by the Directors are based on the following general assumptions:

- there shall be no material change in the existing laws (whether in Hong Kong, the PRC, Taiwan or any parts of the world), policies or industry or regulatory treatment relating to the Group, or in the political, economic or market conditions in which the Group operates;
- inflation, interest rate and exchange rates will not differ materially from those prevailing as at the date of this prospectus;
- there shall be no material change in the bases or rates of taxation applicable to the Group;
- suitable personnel can be recruited and retained by the Group;
- there shall be no material change in the funding requirement for each of the business objectives and strategies described herein from the amount as currently estimated by the management of the Company;
- external financing will be readily available to the Group; and
- there shall be no disaster, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its property or facilities.

The aforesaid plans are based on the existing plans and intentions of the Group which are either in a conceptual stage or preliminary stage. Furthermore, such intentions and plans are based on assumptions of future events, which by their nature are subject to uncertainty. Accordingly, the Group's actual course of action may therefore vary from the intentions and plans set out above. Although the Directors will endeavour to execute such plans in accordance with the aforesaid terms and timeframe, there can be no assurance that the plans of the Group will materialise, result in the conclusion of any agreement or be executed in accordance with the aforesaid timeframe or that, the objectives of the Group will be fully accomplished or accomplished at all.

## STATEMENT OF BUSINESS OBJECTIVES

### USE OF PROCEEDS

The total amount of net proceeds under the Placing is about HK\$24.7 million, out of which about HK\$9.9 million will be payable to the Vendors for sale of the Sale Shares and about HK\$14.8 million will be payable to the Company. The Directors intend to use the net proceeds from the New Issue as follows:

*(HK\$ million)*

	From the Latest Practicable Date to 31 March 2003	Six months ending 30 September 2003	Six months ending		Six months ending 31 March 2005	Total
			31 March 2004	30 September 2004		
Expansion of the Group's operations into the PRC and Taiwan	0.6	2.5	0.7	1.4	0.8	6.0
Development of new applications of water treatment technologies	–	–	0.8	1.8	0.7	3.3
Strategic alliance	0.3	0.3	0.3	0.3	0.3	1.5
Marketing	0.6	0.8	0.8	0.8	1.0	4.0
	<u>1.5</u>	<u>3.6</u>	<u>2.6</u>	<u>4.3</u>	<u>2.8</u>	<u>14.8</u>
Total	<u>1.5</u>	<u>3.6</u>	<u>2.6</u>	<u>4.3</u>	<u>2.8</u>	<u>14.8</u>

Pending the application of the net proceeds from the New Issue as described above, the net proceeds may be placed as short-term deposits with banks or financial institutions in Hong Kong. Should there be any material modification to the use of proceeds as set out above, an appropriate announcement will be made by the Company to clarify the effect.

As to about HK\$6.0 million for expanding the Group's operations into the PRC and Taiwan, the Group will assign about HK\$1.7 million for Beijing, HK\$1.6 million for Shanghai, HK\$1.2 million for Tangshan, HK\$0.9 million for Guangdong province, HK\$0.3 million for Chengdu and HK\$0.3 million for Taiwan.

As to about HK\$4.0 million for marketing of the Group's products and services, the Group will assign about HK\$1.0 million for Beijing, HK\$1.0 million for Shanghai, HK\$0.4 million for Tangshan, HK\$0.7 million for Guangdong province, HK\$0.1 million for Chengdu, HK\$0.1 million for Taiwan and HK\$0.7 million for Hong Kong.

The Directors believe that the estimated net proceeds from the New Issue will be sufficient to finance all of the Group's scheduled activities mentioned above up to the year ending 31 March 2005. In case of shortfall in funds, the Directors expect that the Company could use internal resources or raise additional finance from various sources including, but not limited to, the international and domestic capital markets, banks or through a combination of these sources. In the event that additional financing cannot be obtained, the Company may have to scale back or abandon its scheduled activities referred to above.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### DIRECTORS

#### Executive Directors

**Mr. Yung Wah King** (容華經), aged 70, is the chairman of the Company and a co-founder of the Group. Mr. Yung had worked for over thirty years in the Education Department of the Government in the area of school administration. He is responsible for the design and formulation of the overall strategies and policies of the Group.

**Mr. Wu Sai Keung Richard** (胡世強), aged 43, is the vice-chairman and managing director of the Company and a co-founder of the Group. Mr. Wu is responsible for the overall strategic planning and corporate policies of the Group, as well as project management, engineering design and cost control. He holds a bachelor's degree in mechanical engineering from the Sunderland Polytechnic (currently known as Sunderland University) and a master's degree in environmental design and engineering from the University College, the University of London. He was an associate member of Institution of Mechanical Engineers, a graduate member of Chartered Institution of Building Services Engineers and a member of the Lighting Division of the Institution. Mr. Wu has over fifteen years of experience in management of water treatment, power plant, and environmental projects. He had worked for Asea Brown Boveri Limited, a company engaged in environmental projects, as project manager for five years focusing on the design, sales promotion, cost control, project management and tendering for environmental projects including water treatment, instrumentation and control, power plant and steel industry in Hong Kong and the PRC.

**Mr. Lee Wing Yin** (李永賢), aged 33, is the financial controller of the Group responsible for the financial management and reporting of the Group. He is currently an associate member of the Hong Kong Society of Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Lee has over nine years of experience in auditing and business advisory services with six years in international accounting firms. He joined the Group in April 2002.

#### Independent non-executive Directors

**Dr. Wai Tze Kong** (韋子剛), aged 66, was appointed as an independent non-executive Director in July 2002. Dr. Wai has over twenty years' experience in environmental services industry and with most of the time in Oriental Environmental Services Limited as managing director. He is the founder and chairman of Fivemount Company Ltd. and Hangsan Environmental Services Limited. Dr. Wai obtained a bachelor's degree from the South China Agricultural University and a doctoral degree from the University of York. He is a chartered biologist of the Institute of Biology. Dr. Wai was the head of the Department of Biology in the Lingnan College (currently known as Lingnan University) and a former deputy of the People's Congress in the Guangdong Province. He is a member of the Chinese People's Political Consultative Conference, and committee member of the Chinese General Chamber of Commerce and the Chinese Importers and Exporters Association of Hong Kong.

**Mr. Lo Chi Man** (羅志文), aged 40, was appointed as an independent non-executive Director in July 2002. Mr. Lo is a certified public accountant in Hong Kong and is the sole proprietor of Daniel C M Lo & Co, Certified Public Accountants in Hong Kong. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He holds a bachelor's degree of laws from the Peking University, the PRC. Mr. Lo is also an independent non-executive director of Loulan Holdings Limited, a company listed on GEM.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. Wu Man Kam (胡文錦)**, aged 48, was appointed as an independent non-executive Director in July 2002. Mr. Wu has over twenty years' experience in legal practice, thirteen years of which as the sole proprietor of Messrs. Raymond M.K. Wu & Co.. He is presently a consultant in Jesse H.Y. Kwok & Co, Solicitors & Notaries in Hong Kong. Mr. Wu holds a bachelor's degree of law from the Polytechnic of North London (currently known as North London University). He was admitted as a solicitor of the Supreme Court of Hong Kong in 1983 and a solicitor and advocate of the Supreme Court of the Republic of Singapore in 1995. In 2000, Mr. Wu was appointed as a China-appointed attesting officer in the PRC.

### SENIOR MANAGEMENT

**Ms. Law Man Yan Tansy (羅曼茵)**, aged 34, is the vice-president of marketing, and a co-founder of the Group. Ms. Law is responsible for the marketing development and supplier relationship management of the Group. She holds a bachelor's degree of social science from the Chinese University of Hong Kong. She has over six years of experience in marketing development of water treatment projects with the Group.

**Mr. Ho Kwong Hung Thomas (何光鴻)**, aged 37, is the head of sales and marketing of the Group and company secretary of the Company responsible for formulation of marketing, legal and commercial strategies of the Group. He was admitted as a solicitor of Supreme Court of Hong Kong in 1993 and has over nine years of commercial law experience in international law firms including Lovell White Durrant Hong Kong, Baker & Mckenzie Hong Kong, Sinclair Roche & Temperley Hong Kong and Masons Hong Kong. He joined the Group in March, 2002.

**Mr. Leung Chun Fai Allen (梁俊輝)**, aged 37, is the administration manager of the Group responsible for general administration of the Group. Mr. Leung obtained a bachelor's degree in science from the University of London. He is a holder of certificate of ISO9000 for auditors. Mr. Leung has over twelve years of experience in personnel and administration management. He had worked for Rheem (HK) Limited, a manufacturing company, as administration officer for five years responsible for the company operational policy and procedures documentary drafting, ISO9000 compliances auditing and personnel and administration works. He joined the Group in March, 2002.

**Mr. Shum Yau Kung (沈有功)**, aged 37, is the project manager of the Group responsible for project management and engineering design. He holds a bachelor's degree in automatic control from Xian University of Communications. Mr. Shum has over ten years' experience in mechanical and electrical engineering, engineering design, project management and tendering. He had worked as engineer and deputy sales manager in P&A Engineering Limited, a company engaged in environmental civil engineering projects, for six years responsible for design, tendering and project management, site supervision and sales coordination. He also has extensive experience in water treatment projects involving the application of ozone. He joined the Group in June, 2002.



## DIRECTORS, SENIOR MANAGEMENT AND STAFF

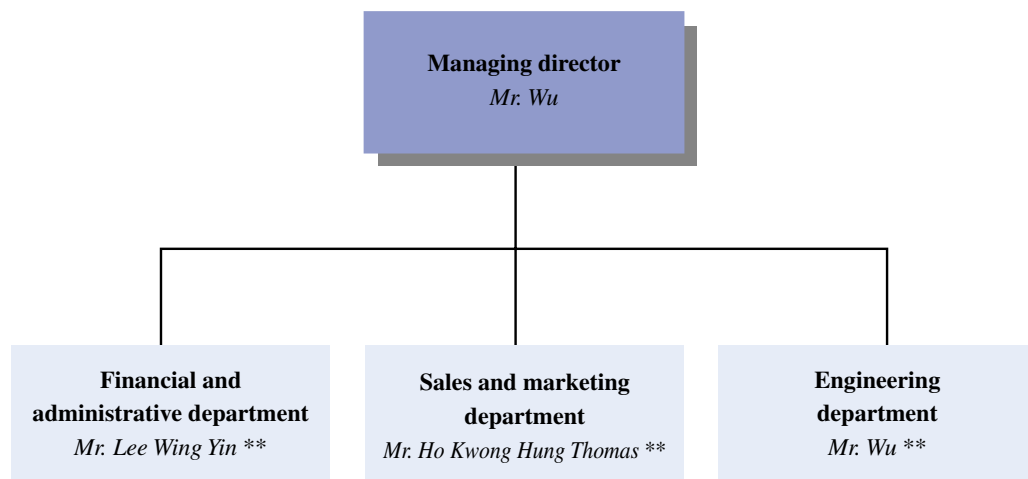
**Mr. Kwan Shiu Yin Louis** (關紹賢), aged 31, is a project engineer of the Group responsible for project management and engineering design. He holds a bachelor's degree in environmental engineering from National Cheng Kung University, Taiwan and a master's degree in environmental and water resources engineering from the Vanderbilt University. He is a graduate member of Hong Kong Institution of Engineers and the Chartered Institution of Water & Environmental Management. Mr. Kwan has over four years of experience in project management of water treatment and environmental projects, working in Binnie Black & Veatch Hong Kong Limited as assistant engineer and Camp Dresser and McKee International Inc. as project engineer. He joined the Group in April 2002.

### AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 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 will report its findings and make recommendation to the board of Directors.

The audit committee has three members comprising Messrs. Lo Chi Man and Wu Man Kam, both independent non-executive Directors, and Mr. Lee Wing Yin, an executive Director and financial controller of the Group. The chairman of the audit committee is Mr. Lo Chi Man.

### ORGANISATION CHART



\*\* department head

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

### STAFF

As at the Latest Practicable Date, the Group had staff engaged in the following operations of the Group:

Sales and marketing	3
Engineering	3
Finance and administration	3
	<hr/>
Total	<u>9</u>

### Relationship with staff

The Group has not experienced any disruption of its operations due to labour disputes in the past. The Directors consider that the Group has good relationship with its employees.

### Share Option Scheme

The Company has conditionally adopted the Share Option Scheme pursuant to which an eligible person, including but not limited to any director, employee or consultant of the Group or any person or entity whose service to the Group or business with the Group may contribute to the business or operation of the Group, may be granted options to subscribe for Shares. A summary of the principal terms of the Share Option Scheme is set forth in Appendix IV to this prospectus.

### Benefits

The Group provides a retirement benefits scheme for its staff in Hong Kong pursuant to a defined contribution mandatory provident fund scheme, details of which are contained in note (e) to the paragraph headed “Results” in the accountants’ report set out in Appendix I to this prospectus.

## SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Placing and the Capitalisation Issue (excluding any Shares which may be taken up under the Placing), the only persons directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company will be as follows:

Name	Number of Shares	Percentage of voting power
WG Engineering Limited ( <i>Note 1</i> )	193,200,000	52.5%
Mr. Wu ( <i>Note 2</i> )	62,100,000	16.875%

### INITIAL MANAGEMENT SHAREHOLDERS

The shareholdings of the Initial Management Shareholders in the Company immediately after completion of the Placing and the Capitalisation Issue will be as follows:

Name	Number of Shares	Percentage of Shareholding
WG Engineering Limited ( <i>Note 1</i> )	193,200,000	52.5%
Mr. Wu ( <i>Note 2</i> )	62,100,000	16.875%
Ms. Law ( <i>Note 3</i> )	20,700,000	5.625%

*Notes:*

1. WG Engineering Limited is a company wholly owned by Mr. Yung, the chairman of the Company and a co-founder of the Group.
2. Mr. Wu is the vice-chairman and managing director of the Company and a co-founder of the Group.
3. Ms. Law is a director of UCL Water Technology (HK) Limited, a wholly owned subsidiary of the Company and a co-founder of the Group.

### UNDERTAKINGS

Each of the Initial Management Shareholders has undertaken with the Company, the Sponsor and the Stock Exchange that for a period of twelve months from the Listing Date (the “Moratorium Period”):

- a. he, she or it will not, save as provided in Rule 13.18 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) any Shares owned (or deemed to be interested) by or deemed to be held by him, her or it under Rule 13.15(4) of the GEM Listing Rules immediately before the Listing Date (the “Relevant Shares”) or any interest therein or shares held in any company which is the beneficial owner of such Relevant Shares or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his or her or its direct or indirect interests in the Relevant Shares;

## SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

- b. in the event that he, she or it pledges or charges any direct or indirect interest in the Relevant Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he, she or it must inform (or procure to inform) the Company and the Sponsor immediately thereafter, disclosing the details as specified in the GEM Listing Rules; and
  
- c. having pledged or charged any of his, her or its interests in the Relevant Shares under sub-paragraph (b) above, he, she or it must inform (or procure to inform) the Company immediately in the event that he or she or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Shares affected.

Each of WG Engineering Limited, Mr. Wu and Ms. Law has undertaken to the Company, the Sponsor and the Stock Exchange that during the Moratorium Period, it, he or she will place (or procure to be placed) in escrow, with an escrow agent acceptable to the Stock Exchange, the Relevant Shares on terms acceptable to the Stock Exchange. Mr. Yung has undertaken to the Company, the Sponsor and the Stock Exchange that he will not dispose of or enter into agreement to dispose of any of his interest in WG Engineering Limited during the Moratorium Period.

## SHARE CAPITAL

*HK\$*

*Authorised:*

<u>1,000,000,000</u> Shares	<u>50,000,000</u>
-----------------------------	-------------------

*Issued and to be issued, fully paid or credited as fully paid:*

4,000,000 Shares in issue	200,000
308,800,000 Shares to be issued pursuant to the Capitalisation Issue	15,440,000
<u>55,200,000</u> Shares to be issued pursuant to the New Issue	<u>2,760,000</u>
 <u>368,000,000</u> Shares	 <u>18,400,000</u>

The minimum level of public float to be maintained by the Company at all times after listing under the GEM Listing Rules is 25% of its share capital in issue from time to time.

### **Assumptions**

The table above assumes that the Placing becomes unconditional and takes no account of any Shares which may be allotted and issued upon the exercise of the options granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company under the general mandates referred to below.

### **Ranking**

The Placing Shares will rank equally with all of the Shares in issue or to be issued as mentioned in this prospectus, and will qualify for all dividends or other distributions hereafter declared, made or paid on the Shares except in respect of the Capitalisation Issue.

### **Share Option Scheme**

The Company has conditionally adopted the Share Option Scheme. A summary of the main terms of the Share Option Scheme is set out in the section headed “Share Option Scheme” in Appendix IV to this prospectus.

Under the Share Option Scheme, an eligible person, including but not limited to any director, employee or consultant of the Group or any person or entity whose service to the Group or business with the Group contributes to the business or operation of the Group, may be granted options which entitle them to subscribe for Shares.

### **General mandate to issue Shares**

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue; and
- (ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed “General mandate to repurchase Shares” below.

## SHARE CAPITAL

This mandate does not apply to situations where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangements, or upon the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (i) at the end of the Company's next annual general meeting;
- (ii) at the end of the period within which the Company is required by Bermuda law or its bye-laws to hold its next annual general meeting; and
- (iii) when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

For further details of this mandate, please see the paragraph headed "Written resolutions of shareholders of the Company dated 28 October 2002" under the section headed "Further information about the Company" in Appendix IV to this prospectus.

### **General mandate to repurchase Shares**

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the Shares in issue immediately following completion of the Placing and the Capitalisation Issue.

This mandate only relates to repurchases made on GEM, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own shares" under the section headed "Further information about the Company" in Appendix IV to this prospectus.

This mandate will expire:

- (i) at the end of the Company's next annual general meeting;
- (ii) at the end of the period within which the Company is required by Bermuda law or its bye-laws to hold its next annual general meeting; and
- (iii) when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

For further details of this mandate, please see the paragraph headed "Written resolutions of shareholders of the Company dated 28 October 2002" in the section headed "Further information about the Company" in Appendix IV to this prospectus.

## FINANCIAL INFORMATION

### TRADING RECORD

#### Summary of combined results of the Group

The following table summarises the Group's combined results for the Track Record Period, prepared on the basis that the existing group structure had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2001</b>	<b>2002</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(1)	4,149	6,866
Cost of sales		(3,075)	(3,713)
Gross profit		1,074	3,153
Other revenue		46	29
Selling expenses		(270)	(267)
Administrative expenses		(1,110)	(1,362)
Profit/(loss) before tax		(260)	1,553
Tax		–	(60)
Net profit/(loss) from ordinary activities attributable to shareholders		<u>(260)</u>	<u>1,493</u>
Earnings/(loss) per share	(2)	<u>(0.08) cent</u>	<u>0.48 cent</u>

*Notes:*

1. Turnover represents the invoiced value of services provided and invoiced value of goods sold, net of discounts and returns. All significant intra-Group transactions have been eliminated on combination.
2. The calculation of the basic (loss)/earnings per share for the Track Record Period is based on the net (loss)/profit from ordinary activities attributable to shareholders for each of the relevant year and on the assumption that 312,800,000 Shares had been in issue throughout the Track Record Period, comprising 4,000,000 Shares in issue at the date of the Prospectus and 308,800,000 Shares to be issued pursuant to the Capitalisation Issue.

**The Directors are aware of the requirement of Rule 11.11 of the GEM Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The Company has sought and obtained a waiver from compliance with such requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial or trading position of the Group since 31 March 2002, and there is no event which would materially affect the information shown in the accountants' report as set out in Appendix I to this prospectus.**

## FINANCIAL INFORMATION

### *For the year ended 31 March 2001*

For the year ended 31 March 2001, the Group recorded a turnover of approximately HK\$4.1 million, which was derived from sales of chemicals and equipment in relation to water treatment systems of approximately HK\$2.3 million and the provision of set-up services on water treatment systems of approximately HK\$1.8 million.

The gross profit was approximately HK\$1 million, representing a gross profit margin of approximately 26%. The Group recorded a net loss from ordinary activities attributable to shareholders of about HK\$0.26 million.

The administrative expenses for the year ended 31 March 2001 were approximately HK\$1.1 million, which mainly comprised directors' remuneration, salaries and allowance, rent and rates, and general office expenses.

No provision for Hong Kong profit tax had been made for the year ended 31 March 2001 as the Group had no assessable profits arising in or derived from Hong Kong.

### *For the year ended 31 March 2002*

For the year ended 31 March 2002, the turnover increased to approximately HK\$6.9 million, representing an increase of approximately 65% over the previous financial year. The turnover comprised the sales of chemicals and equipment in relation to water treatment systems of about HK\$1.4 million and the provision of set-up services on water treatment systems of about HK\$5.5 million. The growth in turnover was mainly attributable to the increase in number of major contracts completed in relation to set-up services on water treatment systems for the public sector from nil in 2001 to three in 2002.

The gross profit for the year ended 31 March 2002 was approximately HK\$3.2 million, representing a gross profit margin of approximately 46%, against the gross profit margin of about 26% for the year ended 31 March 2001. The increase in the gross profit margin was mainly attributable to the growth in turnover for the provision of set-up services on water treatment systems, which have a higher profit margin. The Group recorded a net profit from ordinary activities attributable to shareholders of about HK\$1.5 million.

For the year ended 31 March 2002, the administrative expenses were approximately HK\$1.4 million against about HK\$1.1 million in the previous year. The upsurge was mainly attributed to increase in the directors' remuneration and audit fee.

For the year ended 31 March 2002, Hong Kong profits tax of HK\$60,000 was provided at the rate of 16% on the estimated assessable profits in Hong Kong during the year. It represented an effective tax rate of about 4%. The low effective tax rate was due to the losses accumulated from previous years.



## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Borrowings

As at the close of business on 31 August 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had amounts due to WG Engineering Limited, Mr. Wu and Ms. Law, three shareholders of the Company, of HK\$3,500,000, HK\$1,125,000 and HK\$375,000, respectively. These amounts were unsecured and interest-free. The amounts due to shareholders were subsequently capitalised on 26 October 2002, particulars of which are set out in the paragraph headed “corporate reorganisation” in Appendix IV to the prospectus.

#### Foreign exchange risk

The Group earns revenue and incurs costs and expenses mainly in Hong Kong dollars, Euro and Sterling Pounds. After listing of the Shares on GEM, the Company’s accounts will be stated in Hong Kong dollars and the payment of dividend will also be in Hong Kong dollars. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of foreign currencies. The Directors believe that having regard to the working capital position of the Group, the Group is able to meet its foreign exchange liabilities as they become due.

#### Guarantees and charge

As at 31 August 2002, a deed of indemnity and charge was executed by the Group in favour of a bank in connection with a bank guarantee for the performance of a contract of the Group, amounting to HK\$121,600. The bank guarantee was secured by a charge over the Group’s fixed deposit of HK\$125,000.

Save as aforesaid, the Group had no outstanding guarantee.

#### Contingent Liabilities

As at 31 August 2002, the Group had no significant contingent liabilities.

#### Lease commitments

As at 31 August 2002, the Group had operating lease commitments of approximately HK\$265,500.

#### Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from intra-Group liabilities, the Group did not have, at the close of business on 31 August 2002, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

## FINANCIAL INFORMATION

### Foreign currency translation

Foreign currency amounts have, for the purpose of the indebtedness statement, been translated into Hong Kong dollars at the applicable rates of exchange ruling at the close of business on 31 August 2002.

### Working capital

The Directors are of the opinion that after taking into account the Group's internally generated funds and the estimated net proceeds from the New Issue, the Group has sufficient working capital for its present requirements.

### No material changes

Save as aforesaid or as otherwise disclosed herein and apart from intra group liabilities, the Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31 August 2002.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Net current assets

As at 31 August 2002, the Group had net current assets of approximately HK\$4.8 million. Current assets comprised pledged bank deposit of approximately HK\$0.1 million cash and bank balances of approximately HK\$3.4 million, inventories of approximately HK\$0.4 million, accounts receivable of approximately HK\$0.7 million and prepayments, deposits and other receivables of approximately HK\$1.4 million. Current liabilities comprised of accounts payable of approximately HK\$0.4 million, accrued liabilities and other payables of approximately HK\$0.7 million and amount due to directors of approximately HK\$0.1 million.

### Capital expenditure commitments

There is no capital expenditure commitment as at 31 August 2002.

### Financial resources

The Group generally finances its operations with cash generated from its business operations.

As at 31 August 2002, the Group did not have any banking or other loan facilities.

As at 31 August 2002, the Group had cash and bank balances of approximately HK\$3.4 million.

### Rules 17.15 to 17.21 of the GEM Listing Rules

The Group has not advanced any money to any entity which exceeded 25% of the Company's audited combined net assets, has not provided any financial assistance or guarantees to affiliated companies of the Company which in aggregate exceeded 25% of the Company's audited combined net assets and has not entered into any loan agreements importing specific performance obligations on the controlling shareholder. The Company's controlling shareholder has not pledged any interest of its Shares to secure debts, guarantees or support of other obligations of the Group. The Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## FINANCIAL INFORMATION

### ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 March 2002 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	<i>HK\$'000</i>
Audited combined net assets of the Group as at 31 March 2002	1,468
Unaudited combined loss after tax and minority interests of the Group for the five months ended 31 August 2002 based on its unaudited management accounts	(1,597)
Capitalisation of amounts due to shareholders	5,000
Estimated net proceeds from the New Issue	14,800
Adjusted net tangible assets	<u>19,671</u>
Adjusted net tangible asset value per Share ( <i>Note</i> )	<u>5.35 cents</u>

*Note:* The adjusted net tangible asset value per Share is calculated based on 368,000,000 Shares expected to be in issue immediately following the completion of the Placing and the Capitalisation Issue but takes no account of any Shares which may fall to be issued upon the exercise of options which may be granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix IV to the prospectus.

### PROPERTY INTERESTS

#### Property interests rented and occupied by the Group in Hong Kong

The Group's office in Hong Kong is located at Unit C, 7th Floor, Seabright Plaza, Nos. 9-23 Shell Street, North Point, Hong Kong. The property has a total gross floor area of about 1,242 sq.ft., and is leased to the Group by an independent third party for a term of two years from 1 June 2002 to 31 May 2004 at a monthly rent of HK\$11,500, inclusive of rates and government rent but exclusive of management charges. The Group has an option to rent such property for a further term of 12 months at the same rent by giving one month's prior notice before the expiration of the tenancy.

The Group also rents a storeroom at Store 2 on the First Floor, Block II, Kingley Industrial Building, No. 33 Yip Kan Street, Wong Chuk Hang, Hong Kong. The property has a total gross floor area of approximately 311 sq.ft., and is leased to the Group by an independent third party for a term of two years from 27 August 2001 to 26 August 2003 at a monthly rent of HK\$2,000, inclusive of management fees, rates and government rent. The Group may terminate the tenancy agreement after 26 August 2002 by giving one month's notice or payment of one month rent in lieu of notice.

## **FINANCIAL INFORMATION**

### **Property valuation**

The property interests of the Group have been valued as having no commercial value as at 31 August 2002 by DTZ Debenham Tie Leung Limited, an independent property valuer. The texts of a letter with a summary of valuation and valuation certificate of the property interests prepared by DTZ Debenham Tie Leung Limited are set out in Appendix II to this prospectus.

### **DIVIDENDS**

The Company does not anticipate paying dividends in the foreseeable future. The Company anticipates that all earnings in the foreseeable future will be retained to finance the continuing development of its business. Future dividends, if any, will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial condition, contractual restriction and such other factors as the board of Directors may deem relevant.

### **DISTRIBUTABLE RESERVES**

There was no reserve available for distribution to the shareholders as at 31 August 2002.

### **NO MATERIAL ADVERSE CHANGE**

Save as disclosed in this prospectus, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 March 2002, being the date of which the latest audited combined financial statements of the Group were made up.

# UNDERWRITING

## UNDERWRITERS

Oriental Patron Asia Limited, Sanfull Securities Limited and DL Brokerage Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the New Shares for subscription, and the Vendors are offering the Sale Shares for sale, on and subject to the terms and conditions of this prospectus at the Placing Price. Subject to the GEM Listing Committee granting listing of, and permission to deal in the Shares (subject to despatch of the share certificates) not later than 30 November 2002 and to certain other conditions set out in the Underwriting Agreement, the Underwriters have severally agreed to subscribe or purchase or procure subscribers or purchasers for the Placing Shares on and subject to the terms and conditions set out in this prospectus.

### Grounds for termination

The respective obligations of the Underwriters to subscribe or purchase or procure subscribers or purchasers for the Placing Shares are subject to termination by notice in writing from Oriental Patron (on behalf of the Underwriters) if any of the following events, occur at any time prior to 9:00 a.m. on the business day immediately preceding the date of despatch of share certificates under the Placing:

- (a) any breach of any of the warranties or any material breach of the obligations of any party (other than the Underwriters) of the Underwriting Agreement which is considered, in the reasonable opinion of Oriental Patron, to be material in the context of the Placing;
- (b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the reasonable opinion of Oriental Patron in the context of the Placing;
- (c) any statement contained in this prospectus reasonably considered to be material by Oriental Patron is discovered to be or becomes untrue, incorrect or misleading in any material respect;
- (d) any event, act or omission which gives or is likely to give rise to any material liability of the Company or any of the Directors and the Initial Management Shareholders pursuant to the indemnities contained in the Underwriting Agreement;
- (e) any adverse change in the business or the financial or trading position of the Group which is considered to be material in the context of the Placing; and
- (f) any event or series of events, matters or circumstances concerning or relating to the following circumstances:
  - (i) any change in Hong Kong, Bermuda, the British Virgin Islands, the PRC or any other relevant jurisdiction, local or national financial, political, economic, military, industry, fiscal, regulatory or stock market conditions; or

## UNDERWRITING

- (ii) any new law or material change in existing laws or any material change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Bermuda, the British Virgin Islands, the PRC or any other relevant jurisdiction; or
- (iii) any event of force majeure affecting Hong Kong, Bermuda, the British Virgin Islands the PRC or any other relevant jurisdiction including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (iv) the conditions of the Hong Kong equity securities or other financial markets; or
- (v) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (vi) a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdiction relevant to the Group or affecting an investment in the shares or the transfer or dividend payment in respect thereof,

which, in the reasonable opinion of Oriental Patron:

- (i) is or will be materially adverse to the business, financial or other condition or prospects of the Group taken as a whole; or
- (ii) makes it inadvisable or inexpedient to proceed with the Placing; or
- (iii) has the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms.

### **Commission and expenses**

The Underwriters will receive a commission of 3.5% on the Placing Price of all Placing Shares, out of which they will pay any sub-underwriting commissions. The Sponsor will, in addition, receive a documentation fee. The underwriting commission, documentation fee, Stock Exchange listing fees, transaction levy, trading fee, legal and other professional fees together with printing and other expenses relating to the Placing are estimated to amount to approximately HK\$7.5 million in total and are payable by the Company as to 60% and the Vendors as to 40% respectively.

### **Undertakings**

The Initial Management Shareholders have given non-disposal undertakings, details of which are described in the paragraph headed “Undertakings” under the section headed “Substantial and Initial Management Shareholders” of this prospectus.

## UNDERWRITING

### **Underwriters' interest in the Company**

Save for their obligations under the Underwriting Agreement, none of the Underwriters has any shareholding interest in the Group or any right (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of the Group.

### **Sponsor's interest in the Company**

Save for its interests and obligations under the Underwriting Agreement and the Sponsor's Agreement (as defined below), neither the Sponsor nor any of its associates has or may have as a result of the successful outcome of the Placing any interests in any class of securities of any member of the Group (including options or rights to subscribe for such securities).

A sponsor's agreement will be entered into between Oriental Patron and the Company ("Sponsor's Agreement") whereby the Company will appoint Oriental Patron to act as its sponsor for the purpose of the GEM Listing Rules pursuant to which Oriental Patron will receive a fee. Such appointment will commence from the Listing Date up to 31st March, 2005 or until the Sponsor's Agreement is terminated in accordance with the terms and conditions set out therein.

No director or employee of Oriental Patron who is involved in providing advice to the Company has or may have, as a result of the successful outcome of the Placing, any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of Oriental Patron has a directorship in the Company or any other company in the Group.

Neither Oriental Patron nor its associates has accrued or will accrue any material benefit as a result of the successful outcome of the Placing, including by way of example, the repayment of material outstanding indebtedness or success fees other than the following: (i) by way of underwriting commissions to be paid to Oriental Patron for acting as one of the Underwriters pursuant to the Underwriting Agreement; (ii) the documentation fees to be paid to Oriental Patron as sponsor of the Placing; and (iii) by way of fee payable to Oriental Patron under the Sponsor's Agreement.

## **STRUCTURE AND CONDITIONS OF THE PLACING**

### **PLACING PRICE**

The Placing Price is HK\$0.35 per Share plus 1% brokerage, a 0.007% SFC transaction levy and a 0.005% Stock Exchange trading fee thereon amounting to a total of HK\$3,535.42 per board lot of 10,000 Placing Shares.

### **CONDITIONS**

Acceptance of your application(s) for the Placing Shares will be conditional upon:

- (i) the listing of, and permission to deal in, the Shares in issue and to be issued as described in this prospectus having been granted by the Stock Exchange; and
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, the waiver of any condition(s) by the Sponsor, on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 November 2002, being the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the date specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be caused to be published by the Company on the GEM Website on the next day following such lapse.

### **THE PLACING**

55,200,000 New Shares and 36,800,000 Sale Shares are being offered pursuant to the Placing. The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement.

The Underwriters are soliciting from individual, professional and institutional investors indications of interest in acquiring the Placing Shares in the Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective individual, professional and institutional investors will be required to specify the number of Placing Shares they would be prepared to acquire. This process is known as “book building”.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and the shareholders as a whole.



## **STRUCTURE AND CONDITIONS OF THE PLACING**

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on GEM are expected to commence on 15 November 2002.

The Shares will be traded in board lots of 10,000 each.

### **SHARES WILL BE ELIGIBLE FOR CCASS**

If the GEM Listing Committee grants the listing of and permission to deal in the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All the necessary arrangements have been made for the Shares to be admitted into CCASS.

In respect of dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The following is the text of a report prepared for the purpose of inclusion in this prospectus, received from the auditors and reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

31 October 2002

The Directors  
UCL Group Limited  
Oriental Patron Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding UCL Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 31 October 2002 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in Bermuda on 17 July 2002 under the Companies Act 1981 of Bermuda for the purpose of acting as the holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation, save for the acquisition on 26 October 2002 of the entire issued share capital of UCL Corporation, a company incorporated in the British Virgin Islands, which is, as at the date of this report, the intermediate holding company of the other subsidiaries set out in Section 1 below.

As at the date of this report, no audited financial statements have been prepared for the Company, UCL Corporation, UCL Management Services Limited and UCL Water Technology (PRC) Limited since their respective dates of incorporation. We have, however, performed our independent review of the management accounts of these companies since their respective dates of incorporation, and carried out such procedures as we considered necessary for the inclusion of the financial information relating to these companies in this report.

We have examined the audited financial statements or, where appropriate, management accounts of all the companies now comprising the Group for each of the periods referred to in this report (the “Relevant Periods”), or from the respective dates of their incorporation where this is a shorter period, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the reporting accountant” issued by the Hong Kong Society of Accountants.

We have acted as auditors of the companies now comprising the Group for each of the Relevant Periods except for UCL Water Technology (HK) Limited (formerly UCL Engineering Limited), which was audited by Anderson Li & Ho, Certified Public Accountants, for the year ended 31 March 2001.

The financial statements of UCL Water Technology (HK) Limited for the year ended 31 March 2001 were prepared under Section 141D of the Hong Kong Companies Ordinance. For the purpose of this report, we have carried out such additional procedures on the financial statements of UCL Water Technology (HK) Limited for the year ended 31 March 2001 as we considered necessary to satisfy ourselves that all disclosure requirements have been properly complied with and there is no impact on the combined results, combined balance sheets and combined cash flow statements of the Group for the Relevant Periods.

The summaries of the combined results, combined statements of movements in equity and combined cash flow statements of the Group for each of the Relevant Periods and of the combined balance sheets of the Group as at 31 March 2001 and 2002 (the "Summaries") set out in this report have been prepared from the audited financial statements, or where appropriate, management accounts of the companies now comprising the Group and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results and the combined cash flow statements of the Group for each of the Relevant Periods and of the combined balance sheets of the Group as at 31 March 2001 and 2002.

## **1. BASIS OF PRESENTATION**

The Summaries, which are based on the audited financial statements and management accounts of the companies now comprising the Group, include the results, statements of movements in equity, cash flow statements and balance sheets of the companies now comprising the Group as if the current Group structure had been in existence throughout the Relevant Periods, or from the respective dates of incorporation of the companies where this is a shorter period, except for UCL Management Services Limited and UCL Water Technology (PRC) Limited, which were acquired by the Group subsequent to 31 March 2002. All material intra-Group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation	Nominal value of paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
UCL Corporation	British Virgin Islands 5 March 2002	Ordinary US\$2,000	100	–	Investment holding
UCL Water Technology (HK) Limited (formerly UCL Engineering Limited)	Hong Kong 9 July 1996	Ordinary HK\$500,000	–	100	Provision of set-up services on water treatment systems and sale of related equipment and chemicals
UCL Management Services Limited (formerly Miracle Chance Limited)	Hong Kong 2 May 2002	Ordinary HK\$10,000	–	100	Provision of administrative services to the group companies
UCL Water Technology (PRC) Limited (formerly Master Success Limited)	Hong Kong 4 March 2002	Ordinary HK\$10,000	–	100	Investment holding

## 2. PRINCIPAL ACCOUNTING POLICIES

This report has been prepared in accordance with accounting principles generally accepted in Hong Kong and under historical cost convention. The principal accounting policies adopted by the Group in arriving at the financial information set out in this report are set out below:

### (a) Revenue recognition

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

- service income, when the relevant services have been rendered;
- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**(b) Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

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

Depreciation is calculated on the straight-line basis at an annual rate of 20% to write off the cost of furniture, fixtures and equipment over its estimated useful life.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**(c) Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**(d) Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

**(e) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchases, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**(f) Work in progress**

Work in progress is stated at cost and includes all direct materials, labour, subcontracting costs, and an appropriate proportion of overheads attributable to bringing the work in progress to its present condition.

**(g) Accounts receivable**

Accounts receivable, which generally have credit terms of 30 days are recognised and carried at the original invoiced amount, less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**(h) Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**(i) Operating leases**

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

**(j) Foreign currencies**

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

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**(k) Related parties**

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

**(l) Cash equivalents**

For the purpose of the combined cash flow statements, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the combined balance sheets, cash and bank balances represent assets which are not restricted as to use.

**(m) Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules 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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

**3. RESULTS**

The following is a summary of the combined results of the Group for the Relevant Periods prepared on the basis set out in Section 1 above:

		<b>Year ended 31 March</b>	
		<b>2002</b>	<b>2001</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<i>(a)</i>	6,866	4,149
Cost of sales		<u>(3,713)</u>	<u>(3,075)</u>
Gross profit		3,153	1,074
Other revenue		29	46
Selling expenses		(267)	(270)
Administrative expenses		<u>(1,362)</u>	<u>(1,110)</u>
Profit/(loss) before tax	<i>(c)</i>	1,553	(260)
Tax	<i>(f)</i>	<u>(60)</u>	<u>–</u>
Net profit/(loss) from ordinary activities attributable to shareholders		<u>1,493</u>	<u>(260)</u>
Earnings/(loss) per share	<i>(g)</i>		
Basic		<u>HK0.48 cent</u>	<u>HK(0.08) cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Notes:

(a) **Turnover**

Turnover represents the invoiced value of services provided and invoiced value of goods sold, net of discounts and returns. All significant intra-Group transactions have been eliminated on combination. An analysis of the Group's turnover is as follows:

	<b>Year ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of set-up services on water treatment system	5,456	1,868
Sale of goods	1,410	2,281
	<u>6,866</u>	<u>4,149</u>

(b) **Segment information**

Hong Kong Statement of Standard Accounting Practice 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risk or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format.

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.

(i) *Business segments*

All of the Group's profit/(loss) before tax for each of the Relevant Periods was derived from the provision of solution for water disinfection and purification system.

(ii) *Geographical segments*

All of the Group's revenue and results are derived from customers based in Hong Kong and all of the Group's assets are located in Hong Kong.

(c) **Profit/(loss) before tax**

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	<b>Year ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	1,072	1,833
Cost of services provided	2,641	1,242
Staff costs (excluding directors' remuneration – <i>note (d)</i> ):		
Wages and salaries	481	403
Retirement scheme contributions ( <i>note (e)</i> )	23	8
Depreciation	20	36
Minimum lease payments under operating leases:		
Land and buildings	113	68
Machinery	72	–
Auditors' remuneration	150	8
Exchange gains	(5)	(10)
Interest income	(24)	(36)
	<u>6,866</u>	<u>4,149</u>

Cost of inventories sold and services provided include HK\$153,000 and HK\$52,000 for the years ended 31 March 2001 and 2002, respectively, relating to staff costs and operating lease rentals on machinery, which are also included in the respective total amounts disclosed separately above.



**(d) Directors' and senior executives' remuneration**

Details of the directors' remuneration during the Relevant Periods are as follows:

	<b>Year ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	–	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	522	402
Retirement scheme contributions	12	4
	<u>534</u>	<u>406</u>

The number of director whose remuneration fell within the following band is as follows:

	<b>Year ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<b>Number of director</b>	<b>Number of director</b>
Nil–HK\$1,000,000	<u>1</u>	<u>1</u>

One of the directors of the Company received emoluments of approximately HK\$406,000 and HK\$534,000, respectively, for the years ended 31 March 2001 and 2002, respectively. No emoluments were paid to the other directors of the Company during the Relevant Periods.

The five highest paid individuals in the Group included one director of the Company during the years ended 31 March 2001 and 2002. Information relating to his emoluments has been disclosed above. Details of the emoluments and designated band of the remaining four highest paid, non-director individuals during the Relevant Periods are set out below:

	<b>Year ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	437	398
Retirement scheme contributions	20	8
	<u>457</u>	<u>406</u>

The remuneration of the four highest paid, non-director individuals for the years ended 31 March 2001 and 2002, fell within the range of nil to HK\$1,000,000 band.

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived any emoluments during the Relevant Periods.

**(e) Retirement benefits scheme**

Prior to 1 December 2000, the Group did not have a retirement benefits scheme for either of its employees or its directors in Hong Kong. With effect from 1 December 2000, the Group implemented the MPF Scheme, which is detailed in Section 2(m) above. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. There was no voluntary contribution made during the Relevant Periods.

**(f) Tax**

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the year ended 31 March 2002. Hong Kong profits tax had not been provided for the year ended 31 March 2001 as the Group did not generate any assessable profits in Hong Kong during that year.

No provision for overseas profits tax has been made as the Group did not generate any assessable profits arising in the overseas countries in which the Group operates during the Relevant Periods.

No deferred tax had been provided for the Group as there were no significant timing differences as at 31 March 2001 and 2002.

**(g) Earnings/(loss) per share**

The calculation of the basic earnings/(loss) per share for the Relevant Periods is based on the net profit/(loss) from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 312,800,000 shares had been in issue throughout the Relevant Periods, comprising 4,000,000 shares in issue as at the date of the Prospectus and 308,800,000 shares to be issued pursuant to the capitalisation issue, as described more fully in the paragraph headed "Further information about the Company" in Appendix IV to the Prospectus.

No diluted earnings/(loss) per share is presented for the Relevant Periods as no dilutive event existed during the Relevant Periods.

**4. COMBINED BALANCE SHEETS**

The following is a summary of the combined balance sheets of the Group as at 31 March 2001 and 2002 prepared on the basis set out in Section 1 above.

		<b>31 March</b>	
		<b>2002</b>	<b>2001</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	<i>(a)</i>	54	40
<b>CURRENT ASSETS</b>			
Inventories	<i>(b)</i>	160	–
Work in progress		–	217
Accounts receivable	<i>(c)</i>	1,457	973
Prepayments, deposits and other receivables		68	20
Pledged bank deposit	<i>(d)</i>	122	122
Cash and bank balances		801	1,034
		<u>2,608</u>	<u>2,366</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	<i>(e)</i>	605	297
Accrued liabilities and other payables		208	16
Receipts in advance		68	630
Due to directors	<i>(f)</i>	253	1,488
Tax payable		60	–
		<u>1,194</u>	<u>2,431</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>1,414</u>	<u>(65)</u>
		<u>1,468</u>	<u>(25)</u>
Represented by:			
Combined shareholders' equity/(deficiency in assets)		<u>1,468</u>	<u>(25)</u>

## (a) Fixed assets

	At 31 March 2001		
	Cost	Accumulated depreciation	Net book value
	HK\$'000	HK\$'000	HK\$'000
Furniture and fixtures	179	(139)	40
	<u>179</u>	<u>(139)</u>	<u>40</u>

	At 31 March 2002		
	Cost	Accumulated depreciation	Net book value
	HK\$'000	HK\$'000	HK\$'000
Furniture, fixtures and equipment	213	(159)	54
	<u>213</u>	<u>(159)</u>	<u>54</u>

## (b) Inventories

	31 March	
	2002	2001
	HK\$'000	HK\$'000
Finished goods	160	–
	<u>160</u>	<u>–</u>

At the respective balance sheet dates, no inventories were stated at net realisable value.

## (c) Accounts receivable

The Group's trading term with its customers are mainly on credit. The credit period is generally 30 days. The due date of retention receivable is generally one year after the completion of the contract work. The Group seeks to maintain strict control over its outstanding receivables to maintain credit risk. Overdue balance are reviewed regularly by senior management.

An aged analysis of the Group's accounts receivables is as follows:

	31 March	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	320	828
31 to 90 days	690	108
Over 90 days	259	–
	<u>1,269</u>	<u>936</u>
Retention receivable	188	37
	<u>188</u>	<u>37</u>
Total	<u>1,457</u>	<u>973</u>

**(d) Pledged bank deposit**

The bank deposit was pledged to support a bank guarantee for the performance of a contract of the Group as at 31 March 2001 and 2002.

**(e) Accounts payable**

An aged analysis of the Group's accounts payable is as follows:

	<b>31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	4	213
31 to 90 days	593	–
Over 90 days	8	84
	<u>605</u>	<u>297</u>

**(f) Due to directors**

The balances with directors are unsecured, interest-free and have no fixed terms of repayment.

**(g) Contingent liabilities**

As at 31 March 2001 and 2002, the Group did not have any significant contingent liabilities.

**(h) Commitments**

The Group leases its office and warehouse under operating lease arrangements for original lease terms of 2 years.

The Group had total future minimum lease payments in respect of non-cancellable operating leases committed at the respective balance sheet dates to be made as follows:

	<b>31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	30	96
In the second to fifth years, inclusive	10	16
	<u>40</u>	<u>112</u>

**(i) Net tangible assets of the Company**

The Company was incorporated on 17 July 2002. On the basis set out in Section 1 above, the net tangible assets of the Company as at 31 March 2002 would have been HK\$1,468,000, representing its investments in subsidiaries.

**(j) Distributable reserves**

As at 31 March 2002, the Company was not yet incorporated and hence there were no reserves available for distribution to shareholders of the Company at that date.

**5. COMBINED STATEMENTS OF MOVEMENTS IN EQUITY**

The movements in the combined shareholders' equity/(deficiency in assets) of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	<b>Share capital</b> <i>HK\$'000</i>	<b>Retained profits/ (accumulated losses)</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 April 2000	500	(265)	235
Net loss attributable to shareholders	—	(260)	(260)
At 31 March 2001 and 1 April 2001	500	(525)	(25)
Net profit attributable to shareholders	—	1,493	1,493
At 31 March 2002	<u>500</u>	<u>968</u>	<u>1,468</u>

As at 31 March 2002, the Company was not yet incorporated and therefore had no issued share capital. For the purpose of this report, the above share capital represents the share capital of UCL Water Technology (HK) Limited, a subsidiary of the Company.

## 6. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	<i>Notes</i>	<b>Year ended 31 March</b>	
		<b>2002</b>	<b>2001</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(a)	1,012	(515)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		24	36
Net cash inflow from returns on investments and servicing of finance		24	36
TAX		–	–
INVESTING ACTIVITIES			
Purchases of fixed assets		(34)	(28)
Pledge of bank deposit		–	(67)
Net cash outflow from investing activities		(34)	(95)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		1,002	(574)
FINANCING ACTIVITIES	(b)		
Advances from directors		–	334
Repayment of advances from directors		(1,235)	–
Net cash inflow/(outflow) from financing activities		(1,235)	334
DECREASE IN CASH AND CASH EQUIVALENTS		(233)	(240)
Cash and cash equivalents at beginning of year		1,034	1,274
CASH AND CASH EQUIVALENTS AT END OF YEAR		801	1,034
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		801	1,034

## 6. COMBINED CASH FLOW STATEMENTS

Notes:

### (a) Reconciliation of profit/(loss) before tax to net cash inflow/(outflow) from operating activities

	Year ended 31 March	
	2002	2001
	HK\$'000	HK\$'000
Profit/(loss) before tax	1,553	(260)
Interest income	(24)	(36)
Depreciation	20	36
Increase in inventories	(160)	–
Decrease/(increase) in work in progress	217	(217)
Increase in accounts receivable	(484)	(610)
Increase in prepayments, deposits and other receivables	(48)	(1)
Increase in accounts payable	308	77
Increase/(decrease) in accrued liabilities and other payables	192	(133)
Increase/(decrease) in receipts in advance	(562)	629
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<u>1,012</u>	<u>(515)</u>

### (b) Analysis of changes in financing during the years

	Due to directors HK\$'000
Balance at 1 April 2000	1,154
Cash inflow from financing, net	<hr/> 334
Balance at 31 March 2001 and 1 April 2001	1,488
Cash inflow/(outflow) from financing, net	<hr/> (1,235)
Balance at 31 March 2002	<hr/> <u>253</u>

## 7. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the directors of the Company in respect of any of the Relevant Periods referred to in this report by the Company, or any of the companies now comprising the Group. Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors of the Company for the year ending 31 March 2003 will be approximately HK\$1.2 million, excluding discretionary bonuses payable under the directors' service contracts. Further details of the directors' service contracts are set out in the paragraph headed "Particulars of service contracts" in the section headed "Further information about directors, management and experts" in Appendix IV of the Prospectus.

**8. SUBSEQUENT EVENTS**

Subsequent to 31 March 2002, there were the following significant events:

- (a) On 6 May 2002, UCL Corporation acquired the entire issued capital of UCL Water Technology (PRC) Limited, which was then dormant, at a consideration of HK\$2.
- (b) On 26 June 2002, UCL Corporation acquired the entire issued capital of UCL Management Services Limited, which was then dormant, at a consideration of HK\$2.
- (c) During June and July 2002, WG Engineering Limited (“WG”), Mr. Wu Sai Keung, Richard (“Mr. Wu”) and Ms. Law Man Yan, Tansy (“Ms. Law”), the shareholders of the Company, advanced shareholders’ loans (the “Shareholders’ Loans”) of HK\$3,500,000, HK\$1,125,000 and HK\$375,000, respectively, to the Group. The Shareholders’ Loans are unsecured and interest-free.
- (d) On 26 October 2002, the Company issued 700,000 shares, 225,000 shares and 75,000 shares of the Company to WG, Mr. Wu and Ms. Law, respectively, to settle the Shareholders’ Loans.
- (e) On 26 October 2002, the Company became the holding company of the Group.
- (f) The companies now comprising the Group underwent a reorganisation in preparation for the listing of the Company’s shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Further details of the reorganisation are set out in the paragraph headed “Corporate reorganisation” under the section headed “Further information about the Company” in Appendix IV to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 31 March 2002.

**9. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2002.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong



The followings are the texts of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with their valuations as at 31 August 2002 of the property interests of the Group.



31 October 2002

The Directors  
UCL Group Limited  
Unit C, 7th Floor  
Seabright Plaza  
Nos. 9-23 Shell Street  
North Point  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by the Company or its subsidiaries (together referred to as the “Group”) in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property interests as at 31 August 2002 (the “date of valuation”).

Our valuation of each of the property interests represents its open market value which we would define as intended to mean “an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:–

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been made on the assumption that the Group sells the property interests on the open market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangement which could serve to affect the values of the property interests.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, lease term, rental, floor plans and areas, and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by the Group and are therefore only approximations. No on-site measurement has been carried out. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group or its legal adviser which are material to the valuations. We were also advised by the Group or its legal adviser that no material facts have been omitted from the information supplied.

We have been provided with copies of each of the tenancy agreements relating to the property interests. We have not caused searches to be made at the appropriate Land Registry. We have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

The property interests leased by the Group in Hong Kong have no commercial value due to prohibition against assignment or otherwise due to lack of substantial profit rents.

We have, where possible, inspected the properties. However, no structural survey has been made, but in the course of our inspections, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We enclose herewith our summary of valuation and valuation certificate.

Yours faithfully,  
for and on behalf of  
**DTZ Debenham Tie Leung Limited**  
**Andrew K.F. Chan**  
*Registered Professional Surveyor*  
*A.H.K.I.S., M.R.I.C.S.*  
*Director*

*Note:* Mr. Andrew K.F. Chan is a registered professional surveyor who has extensive experience in the valuation of properties in Hong Kong.

## SUMMARY OF VALUATION

<b>Property</b>	<b>Capital value in existing state as at 31 August 2002 HK\$</b>
1. Unit C, 7th Floor Seabright Plaza Nos. 9-23 Shell Street North Point Hong Kong	No commercial value
2. Store 2 on the First Floor Block II Kingley Industrial Building No. 33 Yip Kan Street Wong Chuk Hang Hong Kong	No commercial value
<b>Total:</b>	<hr/> <u><u>No commercial value</u></u>

## VALUATION CERTIFICATE

Property	Description and tenancy particulars	Capital value in existing state as at 31 August 2002 HK\$
1. Unit C, 7th Floor Seabright Plaza Nos. 9-23 Shell Street North Point Hong Kong	<p>The property comprises an office unit on the 7th floor of a 29-storey commercial/office building completed in 1992.</p> <p>The property has a gross floor area of approximately 115.38 sq.m. (1,242 sq.ft.) and is currently occupied by the Group as office.</p> <p>The property is currently leased to the Group for a term of 2 years from 1 June 2002 to 31 May 2004 at a monthly rent of HK\$11,500, inclusive of rates and government rent but exclusive of management charges. The Group has an option to lease the property for a further term of 1 year at the same rent.</p>	No commercial value
2. Store 2 on the First Floor Block II Kingley Industrial Building No. 33 Yip Kan Street Wong Chuk Hang Hong Kong	<p>The property comprises a storeroom on the 1st floor of a 26-storey industrial building completed in 1983.</p> <p>The property has a gross floor area of approximately 28.89 sq.m. (311 sq.ft.) and is currently occupied by the Group as storeroom.</p> <p>The property is currently leased to the Group for a term of 2 years from 27 August 2001 to 26 August 2003 at a monthly rent of HK\$2,000, inclusive of management fees, rates and government rent. The Group may terminate the tenancy of the property after 26 August 2002 by giving one month's notice or payment of one month rent in lieu of notice.</p>	No commercial value

*Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.*

## **1. MEMORANDUM OF ASSOCIATION**

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

## **2. BYE-LAWS**

The Bye-laws were adopted on 28 October 2002. The following is a summary of certain provisions of the Bye-laws:

### **(a) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

*Note:* The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

*(v) Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

*(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration

provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.



The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(viii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

*Note:* There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served

on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(ix) Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

**(b) Alterations to constitutional documents**

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

**(e) Special resolution-majority required**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

**(f) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to

the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for the Company to purchase its own shares**

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

**(l) Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of

shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

**(o) Call on shares and forfeiture of shares**

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.



If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the board determines.

**(p) Inspection of register of members**

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of \$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

**(q) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Other provisions**

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

**3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS**

The Memorandum of Association may be altered by the Company in general meeting. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it

has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

#### **4. BERMUDA COMPANY LAW**

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

##### **(a) Share capital**

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

However, only premiums arising on the same class of shares can be used to pay up bonus shares or in providing for the premiums payable on redemption of shares referred to in (i) and (iii) above respectively.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

**(b) Financial assistance to purchase shares of a company or its holding company**

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

**(c) Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased will be treated as cancelled and the company's issued but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the

directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

**(d) Dividends and distributions**

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

**(e) Protection of minorities**

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

**(f) Management**

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

**(g) Accounting and auditing requirements**

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least seven days before the general meeting of the company at which the financial statements are to be tabled.

**(h) Auditors**

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

**(i) Exchange control**

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

**(j) Taxation**

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28 March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

**(k) Stamp duty**

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

**(l) Loans to directors**

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

**(m) Inspection of corporate records**

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company’s certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company’s memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company’s audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members



established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge.

**(n) Winding up**

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

## **5. GENERAL**

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT THE COMPANY****Incorporation**

The Company was incorporated as an exempted company in Bermuda under the Companies Act on 17 July 2002 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued nil-paid on 18 July 2002.

**Changes in share capital**

On 18 July 2002, every issued and unissued share of HK\$0.10 in the share capital of the Company was subdivided into 2 shares of HK\$0.05 each.

By written resolutions of the shareholders of the Company dated 26 October 2002:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by the creation of an additional 998,000,000 Shares;
- (b) the Directors were authorised to allot and issue an aggregate of 1,000,000 Shares, credited as fully paid, as to 700,000 Shares, 225,000 Shares and 75,000 Shares to WG Engineering Limited, Mr. Wu and Ms. Law respectively as consideration for the acquisition of the entire issued share capital of UCL Corporation from the Vendors;
- (c) the Directors were authorised to apply a sum of HK\$100,000 being part of the amount credited to the contributed surplus account of the Company arising from the issue by the Company of the Shares referred to in paragraph (b) above to pay up in full at par the 1,000,000 shares of HK\$0.10 each issued nil paid on 18 July 2002 and which were subdivided into 2,000,000 Shares on 18 July, 2002; and
- (d) the Directors were authorised to allot and issue an aggregate of 1,000,000 Shares, as to 700,000 Shares, 225,000 Shares and 75,000 Shares to WG Engineering Limited, Mr. Wu and Ms. Law respectively as consideration for the acquisition of shareholders' loans of HK\$3,500,000, HK\$1,125,000 and HK\$375,000 advanced to UCL Corporation by WG Engineering Limited, Mr. Wu and Ms. Law respectively.

Save as aforesaid and as mentioned in the paragraph headed "Written resolutions of shareholders of the Company dated 28 October, 2002" below, there has been no alteration in the share capital of the Company since its incorporation.

**Written resolutions of shareholders of the Company dated 28 October 2002**

By written resolutions of the shareholders of the Company dated 28 October 2002:

- (a) the Company confirmed the adoption of the existing bye-laws;
- (b) conditionally on the same conditions as stated in the paragraph headed "Conditions" in the section headed "Structure and Conditions of the Placing" herein:
  - (i) the New Issue was approved and the Directors were authorised to allot and issue the New Shares pursuant thereto; and

- (ii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto;
- (c) conditional on the share premium account of the Company being credited as a result of the New Issue, HK\$15,440,000 of such amount was directed to be capitalised and applied in paying up in full at par 308,800,000 Shares for allotment and issue to holders of Shares on the register of members at the close of business on 28 October 2002 (or as they may direct) in proportion as nearly as may be to their then existing holdings;
- (d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or pursuant to the exercise of the options under the Share Option Scheme, Shares with an aggregate nominal value not exceeding (i) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein and (ii) the aggregate nominal amount of shares repurchased under the authority granted to the Directors referred to in paragraph (e) below, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held, or the revocation or variation by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earlier; and
- (e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held, or the revocation or variation by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earlier.

Immediately following the Placing becoming unconditional and the issues of Shares as mentioned herein being made, the authorised share capital of the Company will be HK\$50,000,000 divided into 1,000,000,000 Shares and the issued share capital will be HK\$18,400,000 divided into 368,000,000 Shares, all fully paid or credited as fully paid. 632,000,000 Shares will remain unissued. Other than pursuant to the exercise of the options granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and no issue of Shares which would effectively alter the control of the Company will be made without the prior approval of members in general meeting.

#### **Corporate reorganisation**

The companies in the Group underwent a reorganisation in preparation for the listing on GEM which involved the following:

- (a) on 3 May 2002, WG Engineering Limited, Mr. Wu and Ms. Law subscribed for 700 shares, 225 shares and 75 shares, all of US\$1 each, of UCL Corporation respectively for cash at par;

- (b) on 6 May 2002, UCL Corporation acquired two shares of HK\$1 each of UCL Water Technology (PRC) Limited (formerly known as Master Success Limited) from two independent third parties for cash at par and subscribed for 9,998 shares of HK\$1 each in such company for cash at par;
- (c) on 26 June 2002, UCL Corporation acquired two shares of HK\$1 each of UCL Management Services Limited (formerly known as Miracle Chance Limited) from two independent third parties for cash at par and subscribed for 9,998 shares of HK\$1 each in such company for cash at par;
- (d) on 25 October 2002, UCL Corporation acquired the entire issued share capital of UCL Water Technology (HK) Limited (“UCL(HK)”) from Mr. Yung, Mr. Wu and Ms. Law (the “Major Shareholders”) at a total consideration of HK\$287,000 to be satisfied by the issue of 700 shares, 225 shares and 75 shares, all of US\$1 each, credited as fully paid, to WG Engineering Limited (as directed by Mr. Yung), Mr. Wu and Ms. Law respectively;
- (e) on 26 October 2002, the Company acquired the entire issued share capital of UCL Corporation from the Vendors and issued 700,000 Shares, 225,000 Shares and 75,000 Shares to WG Engineering Limited, Mr. Wu and Ms. Law respectively as consideration thereof; and
- (f) on 26 October 2002, the Company acquired the benefits of shareholders’ loans of HK\$3,500,000, HK\$1,125,000 and HK\$375,000 advanced to UCL Corporation by WG Engineering Limited, Mr. Wu and Ms. Law respectively and issued 700,000 Shares, 225,000 Shares and 75,000 Shares to WG Engineering Limited, Mr. Wu and Ms. Law respectively as consideration thereof.

#### **Changes in share capital of subsidiaries**

The Company has the subsidiaries referred to in appendix I.

On 3 May 2002, UCL Corporation issued 700 shares, 225 shares and 75 shares, all of US\$1 each, to WG Engineering Limited, Mr. Wu and Ms. Law respectively for cash at par.

On 6 May 2002, UCL Water Technology (PRC) Limited issued 9,998 shares of HK\$1 each to UCL Corporation for cash at par.

On 26 June 2002, UCL Management Services Limited issued 9,998 shares of HK\$1 each to UCL Corporation for cash at par.

On 25 October 2002, UCL Corporation issued 700 shares, 225 shares and 75 shares, all of US\$1 each, to WG Engineering Limited (as directed by Mr. Yung), Mr. Wu and Ms. Law respectively as consideration for the acquisition of the entire issued share capital of UCL (HK).

Save as mentioned herein, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

**Repurchase by the Company of its own shares**

## (a) GEM Listing Rules

The GEM Listing Rules of the Stock Exchange permit companies whose primary listings are on GEM to repurchase their shares on GEM subject to certain restrictions, the most important of which are that all shares repurchases on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, which may be by way of general mandate, or by special resolution in relation to specific transactions and that repurchases must be funded out of funds legally available for the purpose.

## (b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its shareholders to have general authority from shareholders to enable the Directors to repurchase Shares on GEM. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

## (c) Funding of repurchases

In repurchasing shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and bye-laws and the laws of Bermuda.

Based on the financial position of the Group as at 31 March 2002, the Directors consider that there would be a material adverse impact on the working capital and on the gearing position of the Company in the event that the proposed repurchases were to be carried out in full during the proposed repurchase period. The Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

## (d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the GEM Listing Rules and the applicable laws of Bermuda.

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so.

If as a result of a share repurchase a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Hong Kong Code on Takeovers and Mergers and the provision may apply as a result of any such increase.

(e) Share capital

Exercise in full of the repurchase mandate referred to in the paragraph headed "Written resolutions of shareholders of the Company dated 28 October 2002" in this appendix, on the basis of 368,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue, could accordingly result in up to 36,800,000 Shares being repurchased by the Company during the course of the period prior to the annual general meeting in 2003.

## FURTHER INFORMATION ABOUT THE BUSINESS

### Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an agreement dated 25 October 2002 between (1) the Major Shareholders and (2) UCL Corporation whereby UCL Corporation acquired from the Major Shareholders the entire issued share capital of UCL (HK) at a total consideration of HK\$287,000 to be satisfied by the issue of a total of 1,000 shares of US\$1 each of UCL Corporation to the Major Shareholders or their nominees;
- (b) an agreement dated 26 October 2002 between (1) the Vendors and (2) the Company whereby the Company acquired from the Vendors the entire issued share capital of UCL Corporation and issued a total of 1,000,000 Shares to the Vendors as consideration thereof;
- (c) an agreement dated 26 October 2002 between (1) the Vendors and (2) the Company whereby the Company acquired from the Vendors the benefits of shareholders' loans of an aggregate of HK\$5 million advanced to UCL Corporation and issued a total of 1,000,000 Shares to the Vendors as consideration thereof;
- (d) a deed of indemnity dated 28 October 2002 given by WG Engineering Limited, Mr. Yung, Mr. Wu and Ms. Law (the "Indemnifiers") in favour of the Company and its subsidiaries being the deed of indemnity containing indemnities in respect of, inter alia, Hong Kong estate duty referred to in the paragraph headed "Estate duty and tax indemnity" in this appendix; and
- (e) the Underwriting Agreement.

**Intellectual property**

The Group has applied for registration of the following trademarks in the territories specified below:

<b>Trademark</b>	<b>Place</b>	<b>Class</b>	<b>Specification of goods and services</b>	<b>Filing Date</b>
UCL 康富潤華 (hong fu yun wah in traditional & simplified Chinese characters) (in series)	Hong Kong	35	Wholesaling and retailing apparatus services relating to and installations for water supply and sanitary purposes, disinfecting, water disinfection, water purification; parts and fittings for all the aforesaid goods; and panel instruments, flow meters, water quality analyzers and monitoring equipments.	20 June 2002
UCL 康富潤華 (hong fu yun wah in traditional & simplified Chinese characters) (in series)	Hong Kong	42	Laboratory testing, analysis and research services; design of systems and installations for disinfecting, water disinfection and water purification; research and development of products; engineering research.	20 June 2002
UCL 康富潤華	PRC	35	Import-export agencies, sales (contracts) agencies and sales promotion for others.	25 June 2002
UCL 康富潤華	PRC	42	Laboratory testing, analysis and research services; design of systems and installations for disinfecting, water disinfection and water purification; research and development of products; engineering research.	25 June 2002

The above trademarks are subject to the International Classification of Goods and Services, relevant classes of which are described briefly as follows:–

Class 35 refers to the provision of services in respect of advertising, business management business administration and office function, etc

Class 42 refers to the provision of services in respect of scientific and industrial research, computer programming, etc



**FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND EXPERTS****Disclosure of interests**

Mr. Yung is the sole director of WG Engineering Limited.

**Particulars of service contracts**

Each of Mr. Yung, Mr. Wu and Mr. Lee Wing Yin has entered into a service contract with the Company for a term of three years from 1 October 2002, which may be terminated by either party by giving to the other three months' prior written notice (the "Written Notice"), until 30 September 2005 and may continue thereafter until determination by either party serving the Written Notice to the other. The three executive Directors are entitled to an aggregate monthly remuneration of HK\$111,000. Under the service contracts, after each completed year of service, their remuneration shall be increased by not more than 20% at the discretion of the Directors and they will each be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the Directors for such year shall not exceed 5% of the combined/consolidated profit after taxation but before extraordinary items of the Group for the relevant year.

**Directors' remuneration**

The total remuneration paid to the Directors for the year ended 31 March 2002 was about HK\$534,000.

The Directors will be entitled to receive remuneration which, for the year ending 31 March 2003, is expected to be not more than HK\$1.2 million.

**Interests of Directors in the share capital of the Company after the Placing and the Capitalisation Issue**

Immediately following the Placing and the Capitalisation Issue, the beneficial interests of the Directors in the share capital of the Company which will have to be notified to the Company and the Stock Exchange pursuant to section 28 or section 31 of the SDI Ordinance once the Shares are listed, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or will be required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Stock Exchange, once the Shares are listed, will be as follows:

<b>Name</b>	<b>Type of interest</b>	<b>Number of Shares</b>
Mr. Yung ( <i>Note</i> )	Corporate	193,200,000
Mr. Wu	Personal	62,100,000

*Note:* These Shares will be held by WG Engineering Limited, a company wholly owned by Mr. Yung.

**Agency fees or commissions received**

None of the Directors, the promoters of the Company or the experts named in the paragraph headed "Consents" in this appendix has received any agency fees or commissions from any member of the Group within the two years immediately preceding the date of this prospectus.

**Disclaimers**

Save as disclosed in this prospectus:

- (a) none of the Directors has any direct or indirect interest in the promotion of the Company or in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus;
- (b) none of the Directors or any chief executive of the Company has an interest in any shares in or debentures of, the Company or any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he is taken or deemed to have under section 31 or Part I of the Schedule to the SDI Ordinance) once the Shares are listed or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, once the Shares are listed;
- (c) no Director is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) taking no account of Shares which may be taken up under the Placing, the Directors are not aware of any person who will immediately following the Placing and the Capitalisation Issue hold or be beneficially interested in 10 per cent. or more of the Shares then in issue; and
- (e) there are no existing or proposed service contracts between any member of the Group and the Directors, excluding contracts expiring or terminable by the Group within one year without payment of compensation, other than statutory compensation.

**SHARE OPTION SCHEME****Summary of terms***Purpose of the scheme*

The Share Option Scheme is set up for the purpose of attracting and retaining quality personnel and other persons to provide incentive to them to contribute to the business and operation of the Group.

*Who may join*

The Directors may at their discretion grant options to (i) any director, employee or consultant of the Group or a company in which the Group holds an equity interest or a subsidiary of such company (“Affiliate”); or (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee or consultant of the Group or an Affiliate; or (iv) any person or entity whose service to the Group or business with the Group contributes to the business or operation of the Group as may be determined by the Directors from time to time to subscribe for Shares.

*Price of Shares*

Options may be granted without any initial payment at a price (subject to adjustments as provided therein) equal to the highest of (i) the nominal value of the Shares; (ii) the closing price per Share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and (iii) the average closing price per Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option.

*Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10 per cent. of the share capital of the Company in issue at the date of commencement of dealings of Shares on the Stock Exchange (the "General Mandate Limit") provided that:

- (a) the Company may seek approval by shareholders in general meeting to renew the General Mandate Limit up to 10 per cent. of the issued share capital of the Company at the date of the shareholders' approval to renew the limit; and
- (b) the Company may seek separate shareholders' approval in general meeting to grant options beyond the General Mandate Limit provided that the options in excess of the General Mandate Limit are granted only to participants specifically identified by the Company before such approval is sought,

subject to the limitation that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 30 per cent. of the issued share capital of the Company from time to time.

The maximum number of Shares (issued and to be issued) in respect of which options may be granted under the Share Option Scheme to any one grantee in any 12-month period shall not exceed 1 per cent. of the share capital of the Company in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the GEM Listing Rules.

*Grant of options to connected persons*

Any grant of options to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

Where options are proposed to be granted to a substantial shareholder or an independent non-executive Director or any of their respective associates, and the proposed grant of options would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the grant of such options to represent in aggregate over 0.1 per cent. of the total issued Shares for the time being and have an aggregate value (based

on the closing price of a Share at each date of the grant of these options) exceeding HK\$5,000,000, the proposed grant shall be subject to the approval of shareholders of the Company in general meeting in accordance with the requirements of the GEM Listing Rules.

*Time of exercise of option*

The holder of the option may subscribe for Shares during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option).

*Performance targets*

The Directors may at their absolute discretion specify the performance targets, if any, that must be achieved before the option can be exercised.

*Rights are personal to grantee*

An option may not be transferred or assigned and will be personal to the holder of the option.

*Rights on ceasing employment*

If a holder of an option is disabled or retires in accordance with the terms of his employment, the holder may exercise the option within a period of three months thereafter or at the expiration of the relevant option period, whichever is earlier, failing which the option will lapse.

*Rights on death*

If a holder of an option dies, the personal representatives of the holder may exercise the option within a period of twelve months thereafter or at the expiration of the relevant option period, whichever is earlier, failing which the option will lapse.

*Rights on dismissal*

If the holder of an option resigns or is dismissed from the employment of the Group or if the relationship between the holder and any member of the Group or an Affiliate terminates, the option of such holder will thereupon lapse.

*Effect of alterations to capital*

In the event of any reduction, sub-division or consolidation of the share capital of the Company or capitalisation issue, rights issue or distribution of capital assets by the Company, the number or nominal amount of Shares comprised in each option and/or the option price may be adjusted in such manner as the Directors (having received a statement in writing from the auditors of the Company that in their opinion the adjustments proposed are fair and reasonable) may deem appropriate, provided always that an option holder shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments and no increase shall be made in the aggregate subscription price relating to any option.

*Rights on a general offer*

If a general offer is made to the holders of Shares, each holder of option shall be entitled at any time within the period of six months after such control has been obtained to exercise any option in whole or in part, and to the extent that it has not been so exercised, any option shall upon the expiry of such period cease and determine.

*Rights on winding up*

If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every option shall be exercisable in whole or in part at any time thereafter until the resolution is duly passed or defeated or the meeting concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon cease and terminate.

*Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its members or creditors is proposed, each holder of option may exercise his option forthwith until the expiry of two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the Court, whichever is earlier, subject to such compromise or arrangement being sanctioned by the Court and becoming effective.

*Ranking of Shares*

Shares allotted on the exercise of options will rank pari passu with the other Shares in issue at the date of exercise of the relevant option except in respect of any dividend or other distribution previously resolved or announced to be paid or made if the record date therefor is before the relevant exercise date.

*Period of the scheme*

The Share Option Scheme will remain in force for a period of 10 years from the date of adoption of such scheme.

*Variation*

Except as allowed by the GEM Listing Rules in effect from time to time or with the prior approval of shareholders in general meeting, no alteration shall be made to the provisions of the Share Option Scheme relating to any of the above matters or of the terms or conditions of the Share Option Scheme which are of a material nature or change the terms of options granted under the Share Option Scheme, except where the alteration take effect automatically under the existing terms of the Share Option Scheme. The Directors may terminate the Share Option Scheme at any time, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the rules of the Share Option Scheme.

*Cancellation of unexercised option*

The Company may cancel an option granted under the Share Option Scheme but not exercised with the approval of the holder of such option. If the Company cancels options and issues new ones to the same option holder, the issue of such new options may only be made under the Share

Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by shareholder as mentioned in the paragraph headed “Maximum number of Shares” above.

**Present status of the Share Option Scheme**

Application has been made to the GEM Listing Committee for the approval of the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme. As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

**OTHER INFORMATION****Estate duty and tax indemnity**

The Indemnifiers have given joint and several indemnities in respect of any liability for Hong Kong estate duty which might be payable by the Company or any of its subsidiaries by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to the Company or any of its subsidiaries on or before the date on which the Placing becomes unconditional except in certain circumstances, including where provisions have been made in the audited accounts of the Group.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Bermuda.

The Indemnifiers have also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional.

**Litigation**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**Sponsor**

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee for listing of and permission to deal in the Shares in issue and to be issued as mentioned herein and any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.

**Preliminary expenses**

The estimated preliminary expenses of the Company are approximately US\$6,500 and are payable by the Company.

**Promoters**

The promoters of the Company are WG Engineering Limited, Mr. Wu and Ms. Law.

WG Engineering Limited was incorporated in the BVI on 1 February 2002. As at the Latest Practicable Date, the issued share capital of WG Engineering Limited was US\$2 divided into 2 shares of US\$1 each, fully paid or credited as fully paid. Mr. Yung is the sole director of WG Engineering Limited. As at the Latest Practicable Date, WG Engineering Limited did not have a banker or auditor.

Save as disclosed in this prospectus and within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any of these promoters in connection with the Placing or the related transactions described in this prospectus.

### **Qualification of experts**

The qualifications of the experts who have given opinion in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified public accountants
DTZ Debenham Tie Leung Limited	Professional property surveyors and valuers
Conyers Dill & Pearman	Bermuda barristers and attorneys

### **Consents**

Ernst & Young, DTZ Debenham Tie Leung Limited and Conyers Dill & Pearman have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation or letters (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

### **Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

### **Miscellaneous**

The Company has established its principal place of business at Unit C, 7th Floor, Seabright Plaza, Nos. 9-23 Shell Street, Hong Kong and has submitted an application to the Registrar of Companies in Hong Kong to be registered in Hong Kong under Part XI of the Companies Ordinance, such application containing a notice of the appointment of Mr. Lee Wing Yin as the agent of the Company for the acceptance of service of process in Hong Kong.

The Company has no founders shares, management shares or deferred shares.

Save as disclosed herein, since the date two years immediately prior to the date of this prospectus:

- (a) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

- (b) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
- (c) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

Save as disclosed herein, none of the experts named in the paragraph headed “Consents” in this appendix has:

- (a) any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any company in the Group; or
- (b) any direct or indirect interest in the promotion of the Company or in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus.



**1.      DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the paragraph headed “Consents” under the section headed “Other information” in Appendix IV to this prospectus, copies of the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business” in Appendix IV to this prospectus and a statement of particulars of the Vendors. A copy of this prospectus has been delivered to the Registrar of Companies in Bermuda.

**2.      DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Jennifer Cheung & Co. at Unit A, 19th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong, during normal business hours up to and including 14 November 2002:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the audited accounts of UCL (HK) for the two years ended 31 March 2002;
- (d) the letter, summary of valuation and valuation certificate relating to the property interests of the Group prepared by DTZ Debenham Tie Leung Limited, the texts of which are set out in Appendix II to this prospectus;
- (e) the letter of advice summarising certain aspects of Bermuda company law prepared by Conyers Dill & Pearman and referred to in Appendix III to this prospectus;
- (f) the rules of the Share Option Scheme;
- (g) the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business” in Appendix IV to this prospectus;
- (h) the written consents referred to in the paragraph headed “Consents” under the section headed “Other information” in Appendix IV to this prospectus;
- (i) the Companies Act;
- (j) the service contracts referred to in the paragraph headed “Particulars of service contracts” under the section headed “Further information about directors, management and experts” in Appendix IV to this prospectus; and
- (k) the statement of particulars of the Vendors.