



## Eco-Tek Holdings Limited

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 8169

# Annual Report **2010**

**HEALTHY** environment  
**Quality** life





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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospectus 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.

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*This report, for which the directors (the “Directors”) of Eco-Tek Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief (1) the information contained in this report is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



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## BOARD OF DIRECTORS

### Executive directors

NG Chi Fai (*Chief Executive Officer*)  
KWOK Tsun Kee

### Non-executive directors

HUI Wai Man Shirley (*Chairman*)  
LUI Sun Wing

### Independent non-executive directors

CHAU Kam Wing Donald  
CHAN Siu Ping Rosa  
NI Jun  
TAKEUCHI Yutaka

## COMPLIANCE OFFICER

NG Chi Fai

## COMPANY SECRETARY

LO Kam Fan

## CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

## AUDIT COMMITTEE

CHAU Kam Wing Donald  
CHAN Siu Ping Rosa  
NI Jun  
TAKEUCHI Yutaka

## AUDITORS

BDO Limited  
*Certified Public Accountants*

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HONG KONG SHARE REGISTRAR

Union Registrars Limited  
18/F., Fook Lee Commercial Centre,  
Town Place, 33 Lockhart Road, Wanchai,  
Hong Kong

## PRINCIPAL BANKERS

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

## GEM STOCK CODE

8169

## WEBSITE ADDRESS

[www.eco-tek.com.hk](http://www.eco-tek.com.hk)

I am pleased to report to our valued shareholders and investors the results of Eco-Tek Holdings Limited (the "Company") and its subsidiaries (collectively called the "Group") for the financial year ended 31 October 2010.

## FINANCIAL HIGHLIGHTS

During the year under review, the Group recorded a turnover of HK\$182 million for the year ended 31 October 2010, a 41% increase as compared to HK\$129 million turnover last year. Profit attributable to shareholders of the Company increased 49% from HK\$8.8 million for the year ended 31 October 2009 to HK\$13.1 million for the year ended 31 October 2010.

The board of directors (the "Directors") of the Company recommend a payment of final dividend of HK0.60 cent for the year ended 31 October 2010 to shareholders whose names appear on the Register of Members of the Company on 21 February 2011. The dividend will be paid on 1 April 2011.

## BUSINESS OVERVIEW

During the year, the Group continued marketing and promoting its industrial environmental products in the PRC through the representative offices in Changsha, Ningbo, Shanghai, Shunde and Chengdu. Following the extremely difficult trading conditions in 2009 of our industrial environmental products, the Group has been making a steady recovery since the first quarter of 2010.

The consumption stimulation policies introduced by the PRC Government has had a positive effect on domestic economic growth during this financial year. Corporate capital expenditure has grown as increasing domestic consumption has created a favorable operating environment for the machinery and construction industry in the PRC. In particular, the automotive and construction industries have experienced rapid growth. Demand for our industrial environmental products for both machinery and construction industries has increased rapidly this financial year. To increase our market penetration for industrial environmental products, the Group has established the Tokawa Precision Hydraulic Retail Shops in Foshan and Changsha in the fourth quarter of 2010.

The Group has also completed the laying of new water supply pipes in the Baodi District of Tianjin City. These pipes connect our plant to a newly developed commercial and residential area. With the continued development of the Baodi District, the daily water consumption of the plant has increased from an average of 3,000 tonnes in 2009 to an average of 7,000 tonnes in 2010. The Group has confidence that revenue generated from the water supply will continue to increase gradually as the area continues to develop.





## PROSPECTS

Last year's PRC economy grew by 10.6% for the first nine months. It is very clear that the growth rate of the PRC economy will continue to lead the rest of the world. As our business concentrated in the PRC market, we are in a prime position to benefit from this growth. The industrial environmental products in both the machinery and the construction industries are expected to continue to be in demand this coming financial year. The Group will continue to promote existing industrial environmental products, explore and introduce new products, and open additional new representative offices as well as the new retail shops in the PRC.

Nevertheless, the impact from an increasingly strong Japanese Yen will continue to have an adverse affect on our business as the purchases of the Group are mainly denominated in Japanese Yen. The Group remains prudent in planning its future strategies under the optimistic sentiment. We will monitor the situation cautiously and adjust our development plan accordingly.

The Group is also dedicated to exploring opportunities that leverage our strengths and advance the Group's toward its next stage of development.

## APPRECIATION

The changes during the year, both inside and outside the Group provided valuable experiences to us, uniting the board, management, and employees together. The experiences this year will enable us to face and survive new challenges to come.

On behalf of the board, I would like to acknowledge the commitment of our staff, past and present, and the continued support of our business partners and shareholders. I would also like to express my personal appreciation to my fellow board members for their continuous valuable contributions.

**HUI Wai Man, Shirley**

*Chairman*

Hong Kong, 20 January 2011



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

## CHAIRMAN

Ms. HUI Wai Man Shirley, aged 43, is the Chairman and non-executive Director. She has over 22 years of experience in public accounting and corporate finance. Ms. Hui is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She is also a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Ms. Hui joined the Company in October 2004. Save as disclosed herein, Ms. Hui has not previously held and is not holding any other position within the Group. Ms. Hui is an independent non-executive director of Goldin Financial Holdings Limited and New Media Group Holdings Limited, both of which are listed public companies in Hong Kong.

## CHIEF EXECUTIVE OFFICER

Mr. NG Chi Fai, aged 37, is the chief executive officer and the executive Director. Mr. Ng graduated from the Hong Kong Polytechnic University with a Bachelor of Arts degree in accountancy in 1995. He has over 13 years experience in auditing, accounting and finance fields. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Before joining the Group, he worked for several private companies as accounting manager. Mr. Ng was appointed as an executive Director of the Company on 24 March 2006.

## EXECUTIVE DIRECTORS

Mr. NG Chi Fai — Please refer to the paragraph under “CHIEF EXECUTIVE OFFICER” above for his profile.

Mr. KWOK Tsun Kee, aged 73, is the executive Director of the Company and is responsible for Greater China business development. Mr. Kwok holds a master degree of Philosophy and he is the College Tutor of Shaw College of The Chinese University of Hong Kong. He has over 40 years of extensive experience with academic and technology fields. Mr. Kwok joined the Company in November 2009.

## NON-EXECUTIVE DIRECTORS

Ms. HUI Wai Man Shirley — Please refer to the paragraph under “CHAIRMAN” above for her profile.

Dr. LUI Sun Wing, aged 60, is the non-executive Director. He is a former Vice-President of The Hong Kong Polytechnic University responsible for partnership development. Dr. Lui is also the former chief executive officer of the Institute for Enterprise, the PolyU Technology and Consultancy Company Limited and the Hong Kong Enterprise Limited. Prior to joining the Hong Kong Polytechnic University, Dr. Lui was the Branch Director of the Hong Kong Productivity Council in charge of the Materials and Process Branch which provides R & D, consultancy and training services in new materials, advanced manufacturing and environmental technologies to the industry. Dr. Lui obtained his degree of doctor of philosophy in mechanical engineering from the University of Birmingham in UK. He is the Founding Chairman of the Society of Automotive Engineers — HK, Former President of the Hong Kong Association for the Advancement of Science and Technology as well as Honorary Presidents and Honorary Advisors of various commercial, industrial and professional associations. Dr. Lui also sits as an independent and non-executive director of Eva Precision Industrial Holdings Limited, Leepport (Holdings) Limited and Shanghai Electric Group Company Limited, both of which are listed public companies in Hong Kong. Dr. Lui was appointed as a non-executive director of the Company on 16 January 2001.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald, aged 48, is an independent non-executive Director. He obtained a Master Degree in Business Administration from the University of San Francisco, USA and is a fellow member of the Association of Chartered Certified Accountants and a practicing member of Hong Kong Institute of Certified Chartered Accountants. He is now practicing as a Certified Public Accountant in Hong Kong and is a council member of the Society of Chinese Accountants & Auditors in Hong Kong. He has over 20 years' experience in auditing, taxation and financial management of various listed companies. Mr. Chau is currently an independent non-executive director of China Water Affairs Group Limited and Carpenter Tan Holdings Limited, both companies listed on the Main Board of the Stock Exchange, and China Nonferrous Metals Company Limited and Zhejiang Shibao Company Limited, both companies listed on the GEM of the Stock Exchange. He joined the Company in March 2008. He is also the Chairman of the audit committee and nomination committee of the Company, and a member of the remuneration committee of the Company.

Ms. CHAN Siu Ping Rosa, aged 51, is an independent non-executive Director. She has over 23 years of experience in management, production and marketing in manufacturing industry. Ms. Chan holds directorship in several private companies. Ms. Chan obtained her Bachelor of Arts degree majoring in business administration from the Simon Fraser University in Canada. She joined the Company in August 2002. She is also the chairman of the remuneration committee and a member of the nomination committee and the audit committee of the Company.

Mr. TAKEUCHI Yutaka, aged 60, is an independent non-executive Director. He has more than 23 years of experience in electronic industry and management. Mr. Takeuchi is the director of several Japanese private companies including JAI. Mr. Takeuchi graduated from Osaka Technical College in 1971 in Japan, majoring in electrotechnics. Mr. Takeuchi joined the Company in August 2002 and is a member of the audit, remuneration and nomination committees of the Company.

Professor NI Jun, aged 48, is an independent non-executive Director. He is now a professor of the Mechanical Engineering Department in the College of Engineering at the University of Michigan, the U.S.. Professor Ni graduated from Shanghai Jiaotong University with a Bachelor degree in mechanical engineering in 1982 and graduated from the University of Wisconsin-Madison with a Master degree in mechanical engineering in 1984. He also obtained his Ph.D in mechanical engineering in 1987 from the University of Wisconsin-Madison. After that, Professor Ni joined the University of Michigan as research fellow in 1987 and promoted to the professor in 1997. Currently, he serves as a director in various non-profit making research centres such as the S.M. Wu Manufacturing Research Centre and the Multi-Campus National Science Foundation Center for Intelligent Maintenance Systems of the University of Michigan. He joined the Company in February 2003 and is a member of the audit, remuneration and nomination committees of the Company.



## SENIOR MANAGEMENT

Mr. LO Kam Fan, aged 36, is the company secretary and the financial controller of the Group and is responsible for the financial management, reporting and secretarial matters of the Group. He has over 13 years experience in auditing, taxation and finance fields. He obtained a Master of Finance from Curtin University of Technology Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, he worked in a Red Chip company listed on the Main Board of The Stock Exchange of Hong Kong Limited for years.

Dr. ZHAO Zhen, aged 34, is the marketing manager of the Group. He obtained his Bachelor and Master degree in Thermal Engineering from the Xian Jiaotong University in 1999 and 2002. Dr. Zhao obtained his degree of doctor of philosophy in mechanical engineering from the Hong Kong Polytechnic University in 2006. He was the research associate and visiting lecturer in the Hong Kong Polytechnic University before joining the Group in October 2007.

## FINANCIAL REVIEW

The Group's turnover for the year ended 31 October 2010 was HK\$182 million, an increase of 41% as compared with the last corresponding year (2009: HK\$129 million). It was mainly due to the increase in the business of industrial environmental products.

The Group recorded a net profit attributable to equity shareholders of the Company was approximately HK\$13.1 million, an increase of 49% as compared with the last corresponding year (2009: HK\$8.8 million).

### Gross margin

Gross profit for the year ended 31 October 2010 was HK\$41.5 million, representing an increase of 58% as compared with the last corresponding year (2009: HK\$26.3 million). The gross profit margin was 22.8% for the year ended 31 October 2010, representing an increase of 2.4% as compared with the last corresponding year (2009: 20.4%).

### Expenses

The Group's administrative expenses for the year ended 31 October 2010 was HK\$21.8 million, representing an increase of 15% as compared with the last corresponding year (2009: HK\$19 million). The Group's selling expenses for the year ended 31 October 2010 was HK\$2.9 million, representing an increase of 26% as compared with the last corresponding year (2009: HK\$2.3 million). The Group's finance costs for the year ended was HK\$1.1 million, representing a decrease of 15% as compared with the last corresponding year (2009: HK\$1.3 million).

### Working capital management

As at 31 October 2010, the Group maintained bank balances and cash of approximately HK\$36.6 million (31 October 2009: HK\$20.2 million). The Group's average inventory turnover was about 91 days (31 October 2009: 112 days). The Group's average accounts receivable turnover was about 86 days (31 October 2009: 133 days).



## BUSINESS REVIEW

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

The Group had successfully recovered the turnover of the industrial environmental products to the pre-financial crisis. The demand of the industrial environmental products in both the machinery and the construction industries is increase rapidly in this financial year. In addition, the Group has established the Tokawa Precision Hydraulic Retail Shops in Foshan and Changsha in fourth quarter of 2010 in order to achieve higher market penetration of the industrial environmental protection related products in PRC.

The water supply plant in Tianjin has the exclusive right to supply processed water to certain areas inside and near Baodi District of Tianjin City. During the financial year, the Group had completed the construction of new water supply pipes for the newly developed commercial and residential area in the Baodi District of Tainjin City. As a result, the revenue contributed by the plant in the second half of the financial year is increase gradually.

Since the purchases of the Group are mainly denominated in Japanese Yen, United States Dollars and Sterling Pounds, the Group expect the volatility of the foreign exchange currencies will continue to have adverse effect to the business and operation in the coming year. To reduce the effect of the appreciation of Japanese yen, the Group had negotiated with the suppliers for further discounts during the year.

## FINANCING AND CAPITAL STRUCTURE

For the year under review, the Group financed its operations with its own available funding. Taking into account the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirement.

## TREASURY POLICY

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

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Sales of the Group are mainly denominated in Hong Kong dollars, United States dollars, Japanese yen, Sterling Pounds and PRC Renminbi, forward exchange contracts were used for hedging payment in certain volatile foreign currencies during the year. As at 31 October 2010, the Group had no outstanding hedging instruments.



## EMPLOYEE INFORMATION

As at 31 October 2010, the Group had 125 employees (2009: 74 employees) working in Hong Kong, Macau and in the PRC. The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the year under review amounted to approximately HK\$13.5 million (2009: HK\$9.3 million). The dedication and hard work of the Group's staff during the year ended 31 October 2010 are greatly appreciated and recognized.

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

## CAPITAL STRUCTURE

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

## SIGNIFICANT INVESTMENT

For the year ended 31 October 2010, the Company has no significant investments during the year.

## CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 October 2010, the Group has pledged its bank deposits of approximately HK\$9.0 million to secure for the performance bond facilities and has pledged its accounts receivable with carrying amount of approximately HK\$6.1 million to secure a bank loan of the Group. Further details are set out in notes 21, 23, 31 and 33 to the financial statements.

Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 October 2010.

## GEARING RATIO

As at 31 October 2010, the Group has a healthy financial position with net assets amounted to approximately HK\$157 million. There is a net current asset of around HK\$35.9 million with current ratio of approximately 1.41 (2009: 1.35).

The Group's gearing ratio (defined as the total borrowings over total equity, including minority interests) fell from 25% as at 31 October 2009 to 21% as at 31 October 2010.



## INTRODUCTION

The Company is committed to achieving high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 October 2010. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors’ securities transactions in securities of the Company. Upon the Group’s specific enquiry, each director had confirmed that during the year ended 31 October 2010, he had fully complied with the required standard of dealings and there was no event of noncompliance.

## THE BOARD OF DIRECTORS

### Composition

The Board of directors, which currently comprises 8 directors, is responsible for supervising the management of the Group. Details of the Chairman and the other directors of the Group are set in the section “Biographical Details of the Directors and Senior Management” of this report. All directors give sufficient time and attention to the affairs of the Group.

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

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

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



## BOARD MEETINGS

In the financial year ended 31 October 2010, 4 board meetings were held and the following is an attendance record of the meetings by each director:

<b>Attendants</b>	<b>Number of meetings attended/total</b>
<b>Executive Directors</b>	
NG Chi Fai ( <i>Chief Executive Officer</i> )	4/4
KWOK Tsun Kee	4/4
HAN Ka Lun ( <i>retired on 3 March 2010</i> )	1/4
<b>Non-executive Directors</b>	
HUI Wai Man Shirley ( <i>Chairman</i> )	4/4
LUI Sun Wing	4/4
YOUNG Meng Cheung Andrew ( <i>resigned on 1 August 2010</i> )	3/4
<b>Independent Non-executive Directors</b>	
CHAU Kam Wing Donald	4/4
CHAN Siu Ping Rosa	4/4
TAKEUCHI Yutaka	1/4
NI Jun	1/4

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

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

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

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

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

## CHAIRMAN OF THE GROUP

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

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

## NON-EXECUTIVE DIRECTORS

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

## REMUNERATION OF DIRECTORS

The remuneration committee was established in March 2005. The chairman of the committee is Ms. CHAN Sin Ping Rosa, an independent non-executive Director, and other members include Mr. CHAU Kam Wing Donald, Mr. TAKEUCHI Yutaka and Professor NI Jun, all are independent non-executive Directors.

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

For the financial year ended 31 October 2010, a meeting of the remuneration committee were held in October 2010. Details of the attendance of the remuneration committee meetings are as follows:

<b>Members</b>	<b>Number of meetings attended/total</b>
CHAU Kam Wing Donald	1/1
CHAN Siu Ping Rosa	1/1
TAKEUCHI Yutaka	1/1
NI Jun	1/1

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

## NOMINATION OF DIRECTORS

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

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

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

For the financial year ended 31 October 2010, a meeting of the nomination committee was held in January 2010. Details of the attendance of the meeting are as follows:

<b>Members</b>	<b>Number of meetings attended/total</b>
CHAU Kam Wing Donald	1/1
CHAN Siu Ping Rosa	1/1
TAKEUCHI Yutaka	1/1
NI Jun	1/1

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

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises Ms. CHAU Kam Wing Donald, Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka and Professor NI Jun, all are independent non-executive Directors. The Chairman of the audit committee is Mr. CHAU Kam Wing Donald.

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

<b>Members</b>	<b>Number of meetings attended/total</b>
CHAU Kam Wing Donald	4/4
CHAN Siu Ping Rosa	4/4
TAKEUCHI Yutaka	1/4
NI Jun	1/4

The Group's unaudited quarterly and interim results and audited annual results for the year ended 31 October 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

The level of fees in respect of audit services provided by the external auditors to the Company for the year ended 31 October 2010 is set out on page 54 of this annual report. No other significant fee was incurred for non-audit services during the year.

## **DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

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

## **INTERNAL CONTROL**

In addition to perform internal controls review annually by Finance Department on different operations of the Group, the Company has also conducted a review of its system of internal controls by an independent CPA firm since November 2008 to ensure the effective and adequate internal control system. The Board considered the internal control system of the Group to be adequate and effective. The Board has also conducted a review of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget which are considered to be adequate. The Company also convened meetings periodically to discuss financial, operational and risk management control.

The directors present their report and the audited financial statements of Eco-Tek Holdings Limited (the "Company") and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 October 2010.

## PRINCIPAL ACTIVITIES

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

## SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution to the profit from operations by principal activity and geographical area of operations for the year ended 31 October 2010 is set out in note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 October 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 82.

The directors recommend the payment of a final dividend of HK0.60 cent per ordinary share in respect of the year, to the shareholders whose names appear on the register of members of the Company on 21 February 2011. The register of members of the Company will be closed from 22 to 24 February 2011, both days inclusive during which period no transfer of shares of the Company will be effected. In order to qualify for this final dividend, shareholders must ensure that all transfers accompanied by the relevant share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at 18 Floor, Fook Lee Commercial Centre, 33 Lockhart Road Wanchai, Hong Kong for registration not later than 4:00 p.m. on 21 February 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 9 to the financial statements.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out in pages 83 to 84 in the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share option schemes are set out in notes 14 and 29 to the financial statements.



## RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 30 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## DISTRIBUTABLE RESERVES

At 31 October 2010, the Company's reserves available for distribution, calculated in accordance with the Company's Law of the Cayman Islands, amounted to HK\$35,911,000. This includes the Company's share premium in the amount of HK\$30,537,000 at 31 October 2010, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 44.2% in aggregate for the Group's total turnover for the year. The largest customer of the Group accounted for approximately 17% of the Group's total turnover.

Purchases from the Group's five largest suppliers accounted for approximately 82.5% in aggregate for the Group's total purchases for the year. The largest supplier of the Group accounted for approximately 33.6% of the Group's total purchases.

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

## DIRECTORS

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

### Executive directors

Mr. NG Chi Fai (*Chief Executive Officer*)  
Mr. HAN Ka Lun (*retired on 3 March 2010*)  
Mr. KWOK Tsun Kee

### Non-executive directors

Ms. HUI Wai Man Shirley (*Chairman*)  
Dr. LUI Sun Wing  
Mr. YOUNG Meng Cheung Andrew (*resigned on 1 August 2010*)

## Independent non-executive directors

Mr. CHAU Kam Wing Donald  
Ms. CHAN Siu Ping Rosa  
Mr. TAKEUCHI Yutaka  
Professor NI Jun

In accordance with the Company's articles of association, Ms. HUI Wai Man Shirley, Professor NI Jun and Dr. LUI Sun wing will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SENIOR MANAGEMENT'S BIOGRAPHIES

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

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors of the Company and the five highest paid individuals of the Group are set out in notes 12 and 13 to the financial statements, respectively.

## DIRECTORS' SERVICE CONTRACTS

Mr. NG Chi Fai, the executive director, has entered into a service contract with the Company for a term of 2 years which commenced from 24 March 2006 and shall be entitled to terminate the contract thereafter without cause by giving not less than three months' prior written notice to the Company. Mr. KWOK Tsun Kee, the executive director, has entered into a service contract with the Company for a term of 2 years which commenced from 1 November 2009 and shall be entitled to terminate the contract thereafter without cause by giving not less than three months' prior written notice to the Company.

The non-executive directors, Dr. LUI Sun Wing, have entered into a service contract with the Company for an initial term of 30 months which commenced from 21 November 2001 and shall be entitled to terminate the contract at any time after that initial term of 30 months without cause by giving 3 months' prior written notice to the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the company within one year without payment of compensation, other than statutory compensation.

## MANAGEMENT CONTRACTS

As at 31 October 2010, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 October 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Future Ordinance ("SFO")) which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Interest in underlying shares of the Company

Pursuant to a share option scheme (the "Scheme") adopted by the Company on 21 November 2001, the Company had granted share options on the Company's ordinary shares to various Directors. Details of share options to subscribe for shares in the Company granted to these Directors as at 31 October 2010 were as follows:

Name	Date of grant	Exercise period	Numbers of Options Outstanding as at 1 November 2009	Number of Options expired during the period	Number of options outstanding as at 31 October 2010	Exercise price per share
<i>HK\$</i>						
<b>Executive Director and Chief Executive Officer</b>						
Mr. NG Chi Fai	13/8/2007	13/8/2007-12/8/2010	500,000	500,000	—	0.350
<b>Non-Executive Director and Chairman</b>						
Ms. HUI Wai Man Shirley	2/4/2007	2/10/2007-1/10/2010	500,000	500,000	—	0.235
<b>Independent Non-Executive Directors</b>						
Ms. CHAN Siu Ping Rosa	2/4/2007	2/10/2007-1/10/2010	500,000	500,000	—	0.235
Mr. TAKEUCHI Yutaka	2/4/2007	2/10/2007-1/10/2010	500,000	500,000	—	0.235
Professor NI Jun	2/4/2007	2/10/2007-1/10/2010	500,000	500,000	—	0.235
			2,500,000	2,500,000	—	

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

As at 31 October 2010, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Director's and chief executives' interests and short positions in shares, underlying shares and debentures" above and the share option scheme disclosures in note 14 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## DIRECTORS' INTEREST IN CONTRACTS

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

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

So far as is known to the Directors or chief executives of the Company, as at 31 October 2010, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long positions in ordinary shares of the Company

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as at 31 October 2010
<b>Substantial shareholders</b>			
Cititrust (Cayman) Limited (Note 1)	Through a unit trust and controlled corporation	344,941,200	53.11
Wide Sky Management (PTC) Limited (Note 1)	Through a controlled corporation	344,941,200	53.11
Team Drive Limited (Note 1)	Directly beneficially owned	344,941,200	53.11
The Hong Kong Polytechnic University (Note 2)	Through a controlled corporation	66,410,800	10.23
Advanced New Technology Limited (Note 2)	Directly beneficially owned	66,410,800	10.23
BOS Trust Company (Jersey) Limited (Note 3)	Through a controlled corporation	44,224,000	6.81
Crayne Company Limited (Note 3)	Directly beneficially owned	44,224,000	6.81
<b>Other shareholder</b>			
Mr. Lee Wai Man	Directly beneficially owned	35,620,000	5.49



*Notes:*

1. These shares are held by Team Drive Limited which is wholly-owned by Wide Sky Management (PTC) Limited, being the trustee of a unit trust of which the entire issued units are held by Cititrust (Cayman) Limited. By virtue of the SFO, Wide Sky Management (PTC) Limited and Cititrust (Cayman) Limited are deemed to be interested in all the shares held by Team Drive Limited.
2. Advance New Technology Limited is ultimately owned by The Hong Kong Polytechnic University ("PolyU"). By virtue of its interest in Advance New Technology Limited, PolyU is deemed to be interested in all the shares of the Company held by Advance New Technology Limited.
3. The shares are held by Crayne Company Limited, a company wholly-owned by BOS Trust Company (Jersey) Limited as trustee of the Crayne Trust, which is a discretionary trust founded by Dr. Pau Kwok Ping.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 October 2010. The Company had not redeemed any of its listed securities during the year ended 31 October 2010.

## **COMPETITION AND CONFLICT OF INTEREST**

None of the directors, the management shareholders or substantial shareholders of the Company or any of its respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during year ended 31 October 2010.

## **AUDIT COMMITTEE**

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

In the course of the supervision of the financial reporting process and internal control system of the Group, 4 meetings were held during the year ended 31 October 2010 to review the operations.

The Group's results for the year ended 31 October 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## AUDITORS

The financial statements since the financial year ended 31 October 2004 were audited by Grant Thornton Hong Kong. Pursuant to the merger of the practice of Grant Thornton Hong Kong with that of BDO Limited, Grant Thornton Hong Kong resigned and BDO Limited was appointed as auditor of the Company. The financial statements of the Company for the year ended 31 October 2010 were audited by BDO Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

ON BEHALF OF THE BOARD

**Ms. HUI Wai Man, Shirley**

*Chairman*

Hong Kong, 20 January 2011

# Independent Auditors' Report



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

We have audited the consolidated financial statements of Eco-Tek Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) set out on pages 26 to 82, which comprise the consolidated and company statements of financial position as at 31 October 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 October 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **BDO Limited**

*Certified Public Accountants*

### **Li Wing Yin**

Practising Certificate Number P05035

Hong Kong, 20 January 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 October 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>Revenue</b>	5	182,304	129,236
Cost of sales		(140,770)	(102,873)
<b>Gross profit</b>		41,534	26,363
Other income		925	5,092
Selling expenses		(2,890)	(2,291)
Administrative expenses		(21,756)	(19,008)
Other operating income		204	809
<b>Profit from operations</b>	6	18,017	10,965
Finance costs	7	(1,144)	(1,294)
Share of profit of a jointly controlled entity		318	972
<b>Profit before taxation</b>		17,191	10,643
Taxation	8	(3,610)	(1,936)
<b>Profit for the year</b>		13,581	8,707
<b>Other comprehensive income for the year</b>			
Exchange gain/(loss) on translation of financial statements of foreign operations		1,810	(2,723)
<b>Total comprehensive income for the year</b>		15,391	5,984
<b>Profit for the year attributable to:</b>			
Equity holders of the Company	11	13,145	8,786
Non-controlling interests		436	(79)
		13,581	8,707
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Company		13,945	7,060
Non-controlling interests		1,446	(1,076)
		15,391	5,984
<b>Earnings per share for profit attributable to equity holders of the Company during the year</b>	10		
—Basic		HK2.02 cents	HK1.35 cents
—Diluted		N/A	N/A

# Consolidated Statement of Financial Position

As at 31 October 2010

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	Notes	2010 HK\$'000	2009 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	133,148	130,814
Interest in leasehold land	16	5,464	5,462
Interest in a jointly controlled entity	18	2,910	2,592
Deferred tax assets	19	1,839	927
Accounts receivable	21	—	2,763
Pledged bank deposits	23	9,020	9,020
		<b>152,381</b>	<b>151,578</b>
<b>Current assets</b>			
Inventories	20	43,158	27,390
Accounts receivable	21	42,506	37,560
Deposits, prepayments and other receivables		7,638	9,481
Tax recoverable		1,755	1,755
Cash and cash equivalents	23	27,603	11,214
		<b>122,660</b>	<b>87,400</b>
<b>Current liabilities</b>			
Accounts and bills payable	24	56,804	42,987
Accrued liabilities and other payables		18,345	7,561
Provision for warranty	25	—	482
Loan from a shareholder	26	—	3,500
Provision for tax		3,140	1,548
Bank loans	27	8,514	8,664
		<b>86,803</b>	<b>64,742</b>
<b>Net current assets</b>		<b>35,857</b>	<b>22,658</b>
<b>Total assets less current liabilities</b>		<b>188,238</b>	<b>174,236</b>
<b>Non-current liabilities</b>			
Loan from a third party	28	14,779	—
Deferred tax liabilities	19	7,423	7,423
Loans from minority shareholders	28	9,526	23,745
		<b>31,728</b>	<b>31,168</b>
<b>Net assets</b>		<b>156,510</b>	<b>143,068</b>



# Consolidated Statement of Financial Position

As at 31 October 2010

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	Notes	2010 HK\$'000	2009 HK\$'000
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	29	6,495	6,495
Share premium	30(a)	19,586	19,586
Capital reserve	30(a)	95	95
Exchange translation reserve	30(a)	10,825	8,023
Capital contribution reserve	30(a)	7,971	7,971
Share option reserve		—	326
Retained profits		102,283	87,376
Proposed final dividend	9	3,897	1,949
		<b>151,152</b>	<b>131,821</b>
<b>Non-controlling interests</b>		<b>5,358</b>	<b>11,247</b>
<b>Total equity</b>		<b>156,510</b>	<b>143,068</b>

On behalf of the Board

**Mr. NG Chi Fai**  
*Director*

**Mr. KWOK Tsun Kee**  
*Director*

# Statement of Financial Position

As at 31 October 2010

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	Notes	2010 HK\$'000	2009 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	17	10,957	10,957
Deferred tax assets	19	169	169
		11,126	11,126
<b>Current assets</b>			
Deposits, prepayments and other receivables		30	33
Amounts due from subsidiaries	22	44,201	53,604
Cash and cash equivalents	23	69	91
		44,300	53,728
<b>Current liabilities</b>			
Accrued liabilities and other payables		271	266
Amounts due to subsidiaries	22	12,749	23,255
		13,020	23,521
<b>Net current assets</b>		31,280	30,207
<b>Net assets</b>		42,406	41,333
<b>EQUITY</b>			
<b>Equity attributable to the equity holders of the Company</b>			
Share capital	29	6,495	6,495
Share premium	30(b)	30,537	30,537
Share option reserve	30(b)	—	326
Retained profits	30(b)	1,477	2,026
Proposed final dividend	9	3,897	1,949
<b>Total equity</b>		42,406	41,333

On behalf of the Board

**Mr. NG Chi Fai**  
Director

**Mr. KWOK Tsun Kee**  
Director

# Consolidated Statement of Cash Flows

For the year ended 31 October 2010

	Notes	2010 HK\$'000	2009 HK\$'000
<b>Cash flows from operating activities</b>			
Profit before taxation		17,191	10,643
Adjustments for:			
Interest income	6	(54)	(50)
Interest expense	7	1,144	1,294
Share of profit of a jointly controlled entity		(318)	(972)
Depreciation of property, plant and equipment	6	8,241	7,205
Gain on disposal of property, plant and equipment	6	(6)	—
Amortisation of interest in leasehold land	6	121	118
Provision/(Write back) for slow-moving inventories	6	1,426	(226)
Write back of provision for accounts receivable	6	—	(2,001)
Bad debts written off	6	—	45
Write back of provision for warranty, net	6	(204)	(809)
Exchange losses, net	6	3,203	986
Operating profit before working capital changes		30,744	16,233
(Increase)/Decrease in inventories		(17,194)	8,665
(Increase)/Decrease in accounts receivable		(2,183)	10,804
Decrease in deposits, prepayments and other receivables		1,843	3,396
Increase/(Decrease) in accounts and bills payable		10,677	(19,502)
Increase/(Decrease) in accrued liabilities and other payables		10,784	(4,633)
Utilisation of warranty provision	25	(278)	(300)
Cash generated from operations		34,393	14,663
Tax paid		(2,918)	(1,469)
<i>Net cash generated from operating activities</i>		31,475	13,194
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(7,854)	(7,678)
Proceeds from disposal of property, plant and equipment		140	—
Interest received		54	50
<i>Net cash used in investing activities</i>		(7,660)	(7,628)
<b>Cash flows from financing activities</b>			
Repayment of bank loans		(150)	(11,836)
Repayment of loans from minority shareholders		—	(2,506)
(Repayment)/Advance from a shareholder		(3,500)	3,500
Interest paid		(382)	(532)
Dividend paid		(1,949)	(3,897)
<i>Net cash used in financing activities</i>		(5,981)	(15,271)
<b>Increase /(Decrease) in cash and cash equivalents</b>		17,834	(9,705)
Effect of foreign exchange rate changes		(1,445)	(1,265)
<b>Cash and cash equivalents at beginning of the year</b>		11,214	22,184
<b>Cash and cash equivalents at end of the year</b>		27,603	11,214

## MAJOR NON-CASH TRANSACTIONS

During the year ended 31 October 2010, a minority shareholder became a third party of the Group. The loan from this former minority shareholder of approximately 14,779,000 was reallocated to loan from a third party.

During the year ended 31 October 2009, other payables of approximately HK\$26,179,000 were assigned and settled by a minority shareholder of the Company.

During the year ended 31 October 2009, the purchases of property, plant and equipment from a customer of approximately HK\$5,883,000 had been offset with the accounts receivable account with that customer.

# Consolidated Statement of Changes in Equity

For the year ended 31 October 2010

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	Equity attributable to equity holders of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange translation reserve	Capital contribution reserve	Share option reserve	Retained profits	Proposed final dividend	Total		
	HK\$'000 (Note 29)	HK\$'000 (Note 30(a))	HK\$'000 (Note 30(a))	HK\$'000 (Note 30(a))	HK\$'000 (Note 30(a))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 November 2008	6,495	19,586	95	9,749	11,126	326	80,539	3,897	131,813	16,591	148,404
Exchange difference recognised directly in equity	–	–	–	(1,726)	–	–	–	–	(1,726)	(997)	(2,723)
Profit for the year	–	–	–	–	–	–	8,786	–	8,786	(79)	8,707
Total comprehensive income for the year	–	–	–	(1,726)	–	–	8,786	–	7,060	(1,076)	5,984
Deferred taxation (note 19)	–	–	–	–	(3,155)	–	–	–	(3,155)	(4,268)	(7,423)
2008 final dividend declared	–	–	–	–	–	–	–	(3,897)	(3,897)	–	(3,897)
2009 proposed final dividend	–	–	–	–	–	–	(1,949)	1,949	–	–	–
<b>At 31 October 2009 and 1 November 2009</b>	<b>6,495</b>	<b>19,586</b>	<b>95</b>	<b>8,023</b>	<b>7,971</b>	<b>326</b>	<b>87,376</b>	<b>1,949</b>	<b>131,821</b>	<b>11,247</b>	<b>143,068</b>
Exchange difference recognised directly in equity	–	–	–	800	–	–	–	–	800	1,010	1,810
Profit for the year	–	–	–	–	–	–	13,145	–	13,145	436	13,581
Total comprehensive income for the year	–	–	–	800	–	–	13,145	–	13,945	1,446	15,391
Reversal on expiry of share-based compensation benefit	–	–	–	–	–	(326)	326	–	–	–	–
Further acquisition of 37.5% share of a subsidiary from a minority shareholder (note 36)	–	–	–	2,002	–	–	5,333	–	7,335	(7,335)	–
2009 final dividend declared	–	–	–	–	–	–	–	(1,949)	(1,949)	–	(1,949)
2010 proposed final dividend	–	–	–	–	–	–	(3,897)	3,897	–	–	–
<b>At 31 October 2010</b>	<b>6,495</b>	<b>19,586</b>	<b>95</b>	<b>10,825</b>	<b>7,971</b>	<b>–</b>	<b>102,283</b>	<b>3,897</b>	<b>151,152</b>	<b>5,358</b>	<b>156,510</b>

# Notes to the Financial Statements

For the year ended 31 October 2010

## 1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively known as the “Group”) are principally involved in the marketing, sales, servicing, research and development of environmental protection related products and services and water supply operation in Tianjin, the People’s Republic of China (the “PRC”).

The directors consider the ultimate holding company to be Cititrust (Cayman) Limited, a company incorporated in the Cayman Islands.

The financial statements on pages 26 to 82 are prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The financial statements for the year ended 31 October 2010 were approved for issue by the board of directors on 20 January 2011.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied, for the first time the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 November 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendments)	Share-based Payment — Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Various	Annual Improvements to HKFRSs 2008

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or company statement of financial position at 1 November 2008 and accordingly this statement is not presented.

### HKAS 27 (Revised) Consolidated and separate financial statements (Revised 2008)

HKAS 27 (Revised) introduced changes to the accounting requirements for transactions with non-controlling interests (previously known as minority interest) and the loss of control of a subsidiary. The adoption of HKAS 27 (Revised) is applied prospectively. The Group did not dispose of any equity interests in its subsidiaries. Therefore, the adoption of HKAS 27 (Revised) did not have a material impact in the current year financial statements.

### HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

There is no impact on the effect of the application of the amendments in respect of the Company's interest in subsidiaries and retained earnings at 31 October 2010 in the separate statement of financial position.



# Notes to the Financial Statements

For the year ended 31 October 2010

## 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### HKFRS 3 Business combinations (Revised 2008)

HKFRS 3 (Revised) introduced material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests in the acquiree. The adoption of HKFRS 3 (Revised) is applied prospectively. As the Group did not have business combination occurred in the current period and therefore the adoption of HKFRS 3 (Revised) did not have any impact on the current year financial statements.

### HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

### HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

### HKAS 1 (Amendment) Presentation of financial statements

The standard is effective for accounting periods beginning on or after 1 January 2010. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply HKAS 1 (Amendment) from 1 November 2010. It is not expected to have a material impact on the Group's consolidated financial statements.

### HKAS 7 (Amendment) Statement of cash flows

The standard is effective for accounting periods beginning on or after 1 January 2010. Only expenditures that result in a recognised asset are eligible for classification as investing activities. The Group will apply HKAS 7 (Amendment) from 1 November 2010.

### HKAS 32 Financial Instruments: Presentation (Amendment)

The amendment alters HKAS 32 so that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the amendment, rights issues denominated in a foreign currency "failed" equity classification and were required to be accounted for as derivative liabilities. The amendment should be applied for annual periods beginning on or after 1 February 2010.

### HKAS 36 (Amendment) Impairment of assets

The standard is effective for accounting periods beginning on or after 1 January 2010. This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in HKFRS 8. The Group will apply HKAS 36 (Amendment) from 1 November 2010.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

### HKAS 39 (Amendment) Financial instruments: recognition and measurement

The standard is effective for accounting periods beginning on or after 1 January 2010. Loan prepayment penalties are treated as closely related embedded derivatives, only if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. In addition, the scope exemption to business combination contracts only applies to forward contracts that are firmly committed to be completed between the acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date. Therefore option contracts are not in this scope exemption. This amendment also clarifies that in a cash flow hedge of a forecast transaction that a reclassification of the gains or losses on the hedged item from equity to profit or loss is made during the period, the hedged forecast cash flows affect profit or loss. The Group will apply HKAS 39 (Amendment) from 1 November 2010.

### HK(IFRIC)-Int 19 Extinguishing financial liabilities with equity instruments

The HK(IFRIC)-Int 19 clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.

### Annual Improvements 2010

The HKICPA has issued "Improvements to Hong Kong Financial Reporting Standards 2010". Most of the amendments become effective for annual periods beginning on or after 1 January 2011. The directors of the Company are currently assessing the possible impacts of the amendments on the Group's results and financial position in the first year of application.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared on the historical cost basis. The measurement basis is fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 October each year.

### (b) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the acquisition method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests (previously Known as minority interest) represent the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separate from the equity attributable to the equity holders of the Company. Profit or loss attributable to the non-controlling interests are presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results. Total comprehensive income and expense of a subsidiary is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

# Notes to the Financial Statements

For the year ended 31 October 2010

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (c) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In the consolidated financial statements, interest in a jointly controlled entity is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the jointly controlled entity's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entity for the year.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

In the Company's statement of financial position, interest in a jointly controlled entity is stated at cost less any provision for impairment losses. The results of the jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable at the reporting date.

### (d) Borrowing costs

Borrowing costs incurred for construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (e) Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- (i) sales of goods are recognised upon transfer the significant risks and rewards of ownership to customer. This is usually taken at the time when the goods are delivered and the customer has accepted the goods;
- (ii) interest income is recognised on a time-proportion basis using the effective interest rate applicable; and
- (iii) revenue arising from water supply is recognised based on water supplied as recorded by meters read.

### (f) Property, plant and equipment

#### (i) Depreciation

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

Motor vehicles	20%
Office equipment	20%
Plant, moulds and machinery	5% to 20%
Furniture and fixtures	20%
Leasehold improvements	The shorter of the lease terms and 20%
Buildings and structure	The shorter of the lease terms and 3.33%

#### (ii) Measurement bases

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.



## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (g) Impairment of non-financial assets

Property, plant and equipment, interest in leasehold land, investments in subsidiaries and interest in a jointly controlled entity are subject to impairment testing. These assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and valued in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

Impairment losses recognised for cash-generating units are charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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

### (h) Leases

#### (i) **Operating lease**

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 has the right to use of assets held under operating leases, rentals payable under the operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

#### (ii) **Interest in leasehold land**

Interest in leasehold land is up-front payments to acquire long term interests for the usage of land. They are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the up-front payments over the lease terms.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (i) Employee benefits

#### (i) ***Paid leave carried forward***

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

#### (ii) ***Pension scheme***

The Group operates a defined 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. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit or loss as they become payable in accordance with the rule of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in the PRC except Macau and Hong Kong are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute certain percentage of their respective payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### (iii) ***Share-based employee compensation***

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

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

# Notes to the Financial Statements

For the year ended 31 October 2010

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (i) Employee benefits (Continued)

#### (iii) **Share-based employee compensation** (Continued)

All share-based compensation is ultimately recognised as an expense in profit or loss unless it qualifies for recognition as asset, with a corresponding credit to equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

### (j) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

### (k) Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and interest in a jointly controlled entity are set out below.

The Group's and Company's financial assets include accounts and other receivables, amounts due from subsidiaries and cash and cash equivalents. The Group's financial assets are classified as loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised initially, at fair value, plus, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (k) Financial assets (Continued)

At each reporting date, financial assets are reviewed to determine whether there is objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the Group and, national or local economic conditions that correlate with defaults on the assets in the Group.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (k) Financial assets (Continued)

Financial assets other than trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

### (l) Financial liabilities

The Group's financial liabilities include bank loans, accounts and bills payable, accrued liabilities and other payables, loans from minority shareholders, a shareholder and a third party.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

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

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

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (m) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

### (n) Income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.



# Notes to the Financial Statements

For the year ended 31 October 2010

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (n) Income tax (Continued)

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in equity if they relate to items that are charged or credited directly to equity.

### (o) Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short term bank deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### (p) Share capital

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (q) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (r) Foreign currencies

The consolidated financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company. The functional currency of subsidiaries incorporated in the PRC is Renminbi (RMB).

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (r) Foreign currencies (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the reporting date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

### (s) Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

### (t) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### (t) Segment reporting (Continued)

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- share of profit or loss of jointly controlled entity accounted for using the equity method
- finance costs
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but interest in a jointly controlled entity. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include borrowings attributable to the Group's headquarters.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### Depreciation

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

### Impairment of receivables

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

### Net realisable value of inventories

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(Continued)

### Provision for warranty

Provision for warranty is made on an accrual basis by reference to the directors' best estimates of the expenditure required to settle the obligations. These calculations require the use of estimates.

### Estimate of current tax and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in periods in which such determination are made.

During the year and up to the date of these financial statements, the Inland Revenue Department ("IRD") of Hong Kong is in the process of reviewing the tax affairs of certain subsidiaries of the Group and has issued assessments to certain subsidiaries for the year of assessment 2003/2004. After taking into account the up-to-date development of the IRD's review, the directors of the Company are of the opinion that the Group's provision for tax is adequate and fairly presented.

## 5. REVENUE AND SEGMENT REPORTING

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

	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	165,792	118,573
Supply of water	16,512	10,663
	<b>182,304</b>	129,236

The executive directors have identified the Group's four services lines as reportable segments as follows :

General environmental protection related products and services	:	Sale of particulate removal devices and related ancillary services
Production of machines	:	Manufacturing and sale of plastic injection moulding machine and other related accessories
Industrial environmental products	:	Sale of hydraulic components and other related accessories
Water supply plant	:	Supply of processed water in the PRC

# Notes to the Financial Statements

For the year ended 31 October 2010

## 5. REVENUE AND SEGMENT REPORTING (Continued)

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	General environmental protection related products and services		Production of machines		Industrial environmental products		Water supply plant		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	933	541	9,706	6,005	155,153	112,027	16,512	10,663	182,304	129,236
<b>Reportable segment revenue</b>	<b>933</b>	<b>541</b>	<b>9,706</b>	<b>6,005</b>	<b>155,153</b>	<b>112,027</b>	<b>16,512</b>	<b>10,663</b>	<b>182,304</b>	<b>129,236</b>
<b>Reporting segment profit/(loss)</b>	<b>4</b>	<b>(88)</b>	<b>(1,590)</b>	<b>(1,732)</b>	<b>35,380</b>	<b>23,489</b>	<b>4,850</b>	<b>2,403</b>	<b>38,644</b>	<b>24,072</b>
Interest income	23	41	–	–	13	9	18	–	54	50
Depreciation and amortisation	(172)	(165)	(1,533)	(624)	(215)	(272)	(6,442)	(6,262)	(8,362)	(7,323)
(Provision)/Write back for slow-moving inventories	17	81	(1,162)	–	(281)	145	–	–	(1,426)	226
<b>Reportable segment assets</b>	<b>18,924</b>	<b>19,272</b>	<b>42,362</b>	<b>31,612</b>	<b>76,886</b>	<b>58,561</b>	<b>130,231</b>	<b>124,098</b>	<b>268,403</b>	<b>233,543</b>
Additions to non-current segment assets	90	24	1,748	13,208	81	43	5,935	286	7,854	13,561
<b>Reportable segment liabilities</b>	<b>9,306</b>	<b>8,831</b>	<b>4,465</b>	<b>4,499</b>	<b>64,022</b>	<b>44,828</b>	<b>5,562</b>	<b>4,252</b>	<b>83,355</b>	<b>62,410</b>



# Notes to the Financial Statements

For the year ended 31 October 2010

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## 5. REVENUE AND SEGMENT REPORTING (Continued)

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2010 HK\$'000	2009 HK\$'000
Reportable segment revenue	182,304	129,236
Group revenue	182,304	129,236
Reportable segment profit	38,644	24,072
Other corporate expenses	(20,627)	(13,107)
Finance costs	(1,144)	(1,294)
Share of profit from a jointly controlled entity	318	972
Profit before taxation	17,191	10,643
Reportable segment assets	268,403	233,543
Interest in a jointly controlled entity	2,910	2,592
Other corporate assets	3,728	2,843
Group assets	275,041	238,978
Reportable segment liabilities	83,355	62,410
Other corporate liabilities	35,176	33,500
Group liabilities	118,531	95,910

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Hong Kong (domicile)	15,785	25,134	9,648	12,678
PRC	165,358	100,458	140,886	137,969
Other	1,161	3,644	8	4
	182,304	129,236	150,542	150,651

The country of domicile is determined by referring to the country which the Group regards as its home country, has the majority of operations and centre of management.

The geographical location of customers is based on the location at which the services were provided. The geographical location of the non-current assets is based on the physical location of the asset.

The Group has a large number of customers, and there is no significant revenue derived from specific external customers for the years ended 2009 and 2010.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 6. PROFIT FROM OPERATIONS

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

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Auditors' remuneration	500	440
Amortisation of interest in leasehold land	121	118
Bad debts written off	—	45
Cost of inventories sold*	118,578	88,766
Depreciation	8,241	7,205
Exchange losses, net	3,203	986
Gain on disposal of property, plant and equipment	(6)	—
Operating lease charges in respect of land and buildings	1,674	2,002
Provision/(Write back) for slow-moving inventories	1,426	(226)
Write back of provision for accounts receivable	—	(2,001)
Write back of provision for warranty, net**	(204)	(809)
Staff costs (including directors' remuneration (note 12))		
— Wages and salaries	13,518	9,317
— Pension scheme contributions	157	143
	<b>13,675</b>	9,460
Interest income	<b>(54)</b>	(50)

\* The costs of inventories sold is included in cost of sales for the year which includes a total amount of approximately HK\$14,081,000 (2009: HK\$9,944,000), relating to direct staff costs, depreciation, provision for slow-moving inventories and exchange losses, which are also included in the respective amounts disclosed separately above for each of these types of expenses for the year.

\*\* The amount is included in "Other operating income" on the face of the consolidated statement of comprehensive income.

## 7. FINANCE COSTS

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Interest charges on:		
Bank loans wholly repayable within five years	382	532
Imputed interest expense on loan from a third party	463	—
Imputed interest expense on loans from minority shareholders	299	762
	<b>1,144</b>	1,294

# Notes to the Financial Statements

For the year ended 31 October 2010

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## 8. TAXATION

	2010	2009
	HK\$'000	HK\$'000
<b>Current tax</b>		
— Hong Kong		
Tax for the year	1,601	40
Under provision in respect of prior years	2,783	136
	4,384	176
— The PRC		
Tax for the year	126	950
	4,510	1,126
<b>Deferred tax (note 19)</b>	(900)	810
<b>Total income tax</b>	<b>3,610</b>	<b>1,936</b>

Hong Kong profits tax has been provided for at 16.5% (2009: 16.5%) on the estimated assessable profit for the year.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The representative offices of certain group companies established in the PRC are subject to the PRC enterprise income tax at the rate of 25% on operating expenses for the year (2009: 25%).

Ningbo Tokawa Precision Hydraulic Components Co. Ltd.#(寧波東川精確液壓設備有限公司) (“Ningbo Tokawa Precision”), a wholly-owned subsidiary of the Group established in the PRC, is subject to the PRC enterprise income tax. PRC enterprise income tax has been provided at the rate of 25% on the estimated assessable profits arising in the PRC for the year (2009: 25%).

Dongguan Kangli Machinery Co. Ltd.#(東莞康力機械有限公司) (“Dongguan Kangli”), a subsidiary of the Group established in the PRC, is subject to the PRC enterprise income tax. The subsidiary is entitled to full exemption from PRC enterprise income tax for the first two profitable years of operations, followed by a 50% reduction in the profits tax rate for the next three years. The subsidiary has applied the year ended 31 December 2005 as the first profit-making year for the aforesaid tax holiday. PRC enterprise income tax has been provided at the rate of 25% on the estimated assessable profits arising in the PRC after the aforesaid tax holiday.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 8. TAXATION (Continued)

Tianjin Asian Way Estate Development Co., Ltd.# (天津華永房地產開發有限公司) ("Tianjin Asian Way"), a subsidiary of the Group established in the PRC, is subject to the PRC enterprise income tax. PRC enterprise income tax has been provided at the rate of 25% on the estimated assessable profits arising in the PRC for the year (2009: 25%).

Macau complementary profits tax had been calculated at the rate of 15.75% on the estimated assessable profits of Tokawa Precision (Overseas) Co. Limited, a subsidiary of the Group which was engaged in the marketing and sale of environmental protection related products for the year ended 31 October 2003. No Macau complementary profits tax was provided for the years ended 31 October 2009 and 2010 as this subsidiary was inactive during the years.

According to the relevant laws and regulations in Macau, Tokawa Precision (Overseas) Company Limited — Macao Commercial Offshore, a subsidiary of the Group established and operating in Macau, was exempted from Macau complementary profits tax for the year ended 31 October 2010 (2009: Nil).

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

	2010	2009
	HK\$'000	HK\$'000
Profit before taxation	17,191	10,643
Tax at the domestic rates applicable to profits in the jurisdictions concerned	3,300	2,471
Tax effect of non-taxable revenue	(5,474)	(3,715)
Tax effect of non-deductible expenses	2,757	1,948
Utilisation of tax losses previously not recognised	(232)	—
Tax losses not recognised	462	837
Under provision in prior years	2,783	136
Others	14	259
Tax charge at the effective tax rate	3,610	1,936

# English translation only

## 9. DIVIDENDS

	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed final dividend of HK0.60 cent (2009: HK0.30 cent) per ordinary share	<b>3,897</b>	1,949

The above final dividend was proposed after the reporting date and has not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits for the years ended 31 October 2009 and 2010.

The proposed final dividend for the year ended 31 October 2010 is based on the 649,540,000 ordinary shares in issue as at 31 October 2010. The aforesaid dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend for the year ended 31 October 2009 was proposed on 21 January 2010. The proposed amount was based on 649,540,000 ordinary shares in issue as at 31 October 2009.

## 10. EARNINGS PER SHARE

The basic earnings per share for the year is calculated based on the consolidated profit attributable to equity holders of the Company for the year of HK\$13,145,000 (2009: HK\$8,786,000) and the weighted average of 649,540,000 (2009: 649,540,000) ordinary shares in issue during the year.

No diluted earnings per share is calculated for the years ended 31 October 2009 and 2010 since the exercise price of the Company's options was higher than the average market price for the years.

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of approximately HK\$13,145,000 (2009: HK\$8,786,000), a profit of approximately HK\$3,022,000 (2009: HK\$794,000) has been dealt with in the financial statements of the Company.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 12. DIRECTORS' EMOLUMENTS

The remunerations of each director for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Fees	Salaries	Bonus	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2010</b>					
<i>Executive directors:</i>					
Mr. NG Chi Fai	—	840	852	12	1,704
Mr. HAN Ka Lun ( <i>note (a)</i> )	13	—	—	—	13
Mr. KWOK Tsun Kee ( <i>note (b)</i> )	100	—	—	—	100
<i>Non-executive directors:</i>					
Dr. LUI Sun Wing	100	—	—	—	100
Mr. YOUNG Meng Cheung Andrew ( <i>note (c)</i> )	75	—	—	—	75
Ms HUI Wai Man Shirley	150	—	—	—	150
<i>Independent non-executive directors:</i>					
Ms. CHAN Siu Ping Rosa	—	—	—	—	—
Mr. TAKEUCHI Yutaka	—	—	—	—	—
Professor NI Jun	—	—	—	—	—
Mr. CHAU Kam Wing Donald	100	—	—	—	100
	538	840	852	12	2,242

Notes (a): The director was retired on 3 March 2010.

(b): The director was appointed on 1 November 2009.

(c): The director was resigned on 1 August 2010.

# Notes to the Financial Statements

For the year ended 31 October 2010

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## 12. DIRECTORS' EMOLUMENTS (Continued)

	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2009</b>				
<i>Executive directors:</i>				
Mr. NG Chi Fai	—	840	12	852
Mr. HAN Ka Lun	40	—	—	40
<i>Non-executive directors:</i>				
Dr. LUI Sun Wing	100	—	—	100
Mr. YOUNG Meng Cheung Andrew	100	—	—	100
Ms HUI Wai Man Shirley	150	—	—	150
<i>Independent non-executive directors:</i>				
Ms. CHAN Siu Ping Rosa	—	—	—	—
Mr. TAKEUCHI Yutaka	—	—	—	—
Professor NI Jun	—	—	—	—
Mr. CHAU Kam Wing Donald	100	—	—	100
	490	840	12	1,342

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil). None of the directors has waived or agreed to waive any emoluments during the year (2009: Nil).

## 13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included one director (2009: one director), details of whose remuneration are set out in note 12 above. Details of the remuneration of the remaining four (2009: four) non-director, highest paid employees of the Group for the year are as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	3,197	2,861
Pension scheme contributions	44	36
	3,241	2,897



# Notes to the Financial Statements

For the year ended 31 October 2010

## 13. FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments of three of the remaining non-director, highest paid individuals fell within the band of nil to HK\$1,000,000, and one fell within the band of HK\$1,000,001 to HK\$1,500,000 (2009: three highest paid individuals fell within the band of nil to HK\$1,000,000, and one fell within the band of HK\$1,000,001 to HK\$1,500,000).

During the year, no emolument was paid by the Group to any of the remaining non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

## 14. SHARE OPTION SCHEME

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

Date of grant	Group 1				Group 2		Total
	2/4/2007				13/8/2007		
Exercisable period	2/10/2007 to 1/10/2010				13/8/2007 to 12/8/2010		
Exercise price	HK\$0.235				HK\$0.35		
Grant to	Ms. CHAN Siu Ping Rosa	Mr. TAKEUCHI Yutaka	Professor NI Jun	Ms. HUI Wai Man Shirley	Mr. NG Chi Fai		
At 1 November 2008 and 2009	500,000	500,000	500,000	500,000	500,000		2,500,000
Expired during the year	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)		(2,500,000)
At 31 October 2010	–	–	–	–	–		–

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

## 14. SHARE OPTION SCHEME (Continued)

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

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

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

The options vest after three years from the date of grant. All share options will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The Company did not grant any share options of the Scheme during the year ended 31 October 2010 (2009: Nil). No options were exercised pursuant to the Scheme during the year ended 31 October 2010 (2009: Nil). The Company has 2,500,000 number of share options are not exercised at the expiry date, the amount of approximately HK\$326,000 previously recognised in share option reserve are transferred to retained profit during the year ended 31 October 2010.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 15. PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	Motor vehicles HK\$'000	Office equipment HK\$'000	Plant, moulds and machinery HK\$'000	Furniture and fixture HK\$'000	Leasehold improvements HK\$'000	Buildings and structure HK\$'000	Total HK\$'000
<b>At 1 November 2008</b>							
Cost	1,719	1,074	39,052	807	627	92,143	135,422
Accumulated depreciation	(818)	(599)	(5,873)	(298)	(459)	(3,645)	(11,692)
<b>Net book amount</b>	<b>901</b>	<b>475</b>	<b>33,179</b>	<b>509</b>	<b>168</b>	<b>88,498</b>	<b>123,730</b>
<b>Year ended 31 October 2009</b>							
Opening net book amount	901	475	33,179	509	168	88,498	123,730
Additions	–	75	13,340	13	–	133	13,561
Depreciation	(326)	(157)	(3,607)	(116)	(133)	(2,866)	(7,205)
Translation differences	–	3	212	–	1	512	728
<b>Closing net book amount</b>	<b>575</b>	<b>396</b>	<b>43,124</b>	<b>406</b>	<b>36</b>	<b>86,277</b>	<b>130,814</b>
<b>At 31 October 2009</b>							
Cost	1,719	1,152	52,607	820	628	92,791	149,717
Accumulated depreciation	(1,144)	(756)	(9,483)	(414)	(592)	(6,514)	(18,903)
<b>Net book amount</b>	<b>575</b>	<b>396</b>	<b>43,124</b>	<b>406</b>	<b>36</b>	<b>86,277</b>	<b>130,814</b>
<b>Year ended 31 October 2010</b>							
Opening net book amount	575	396	43,124	406	36	86,277	130,814
Additions	132	220	2,089	39	–	5,374	7,854
Disposal	(134)	–	–	–	–	–	(134)
Depreciation	(241)	(171)	(4,700)	(120)	(36)	(2,973)	(8,241)
Translation differences	4	7	1,017	–	–	1,827	2,855
<b>Closing net book amount</b>	<b>336</b>	<b>452</b>	<b>41,530</b>	<b>325</b>	<b>–</b>	<b>90,505</b>	<b>133,148</b>
<b>At 31 October 2010</b>							
Cost	<b>1,721</b>	<b>1,379</b>	<b>55,713</b>	<b>859</b>	<b>628</b>	<b>99,992</b>	<b>160,292</b>
Accumulated depreciation	<b>(1,385)</b>	<b>(927)</b>	<b>(14,183)</b>	<b>(534)</b>	<b>(628)</b>	<b>(9,487)</b>	<b>(27,144)</b>
<b>Net book amount</b>	<b>336</b>	<b>452</b>	<b>41,530</b>	<b>325</b>	<b>–</b>	<b>90,505</b>	<b>133,148</b>

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## 16. INTEREST IN LEASEHOLD LAND – THE GROUP

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

	2010	2009
	HK\$'000	HK\$'000
Carrying amount at the beginning of the year	5,462	5,547
Amortisation charge for the year	(121)	(118)
Translation differences	123	33
<b>Carrying amount at the end of the year</b>	<b>5,464</b>	<b>5,462</b>

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

## 17. INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	2010	2009
	HK\$'000	HK\$'000
Unlisted investments, at cost	10,957	10,957

Particulars of the subsidiaries of the Company as at 31 October 2010 are as follows:

Company name	Place of incorporation/ establishment and kind of legal entity	Issued/paid-up capital	Percentage of equity attributable to the Group	Principal activities and place of operation
<i>Directly held</i>				
Eco-Tek (BVI) Investment Holdings Limited <sup>^</sup>	British Virgin Islands ("BVI"), limited liability company	30,000 ordinary shares of US\$1 each	100%	Investment holding in Hong Kong
<i>Indirectly held</i>				
Asian Way International Limited ("Asian Way")	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	80% (2009: 42.5%)	Investment holding in Hong Kong
Eco-Tek Company Limited	Hong Kong, limited liability company	100,000 ordinary shares of HK\$1 each	100%	Marketing, sale servicing, research and development of environmental protection related products and services in Hong Kong

# Notes to the Financial Statements

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## 17. INVESTMENTS IN SUBSIDIARIES — THE COMPANY (Continued)

Company name	Place of incorporation/ establishment and kind of legal entity	Issued/ paid-up capital	Percentage of equity attributable to the Group	Principal activities and place of operation
<i>Indirectly held (Continued)</i>				
Eco-Tek Technology Limited <sup>^</sup>	BVI, limited liability company	101 ordinary shares of US\$1 each	100%	Holding of intellectual properties in Hong Kong
East Miles International Limited <sup>^</sup>	BVI, limited liability company	1 ordinary share of US\$1	100%	Investment holding in Hong Kong
Elegant Well Investment Limited (“Elegant Well”)	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	Investment holding in Hong Kong
Ningbo Tokawa Precision <sup>^</sup> (note (a))	PRC, wholly foreign owned limited liability company	US\$100,000	100%	Marketing and sales of industrial environmental products in the PRC
Skyidea International Limited	BVI, limited liability company	2 ordinary shares of US\$1 each	100%	Marketing and advertising business in Hong Kong
Tianjin Asian Way <sup>^</sup> (note (b))	PRC, wholly foreign owned limited liability company	US\$4,500,000	80%	Operation of a water supply plant in the PRC
Tokawa Precision (Overseas) Co. Limited <sup>^</sup>	BVI, limited liability company	1 ordinary share of US\$1	100%	Investment holding
Tokawa Precision Co. Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	100%	Marketing and sales of industrial environmental products in Hong Kong
Tokawa Precision (Overseas) Company Limited — Macao Commercial Offshore <sup>^</sup>	Macau, limited liability company	MOP100,000	100%	Marketing and sales of environmental protection related products in Macau
Well Spread Investment Limited (“Well Spread”)	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	Investment holding in Hong Kong
Dongguan Kangli <sup>^</sup> (note (c))	PRC, wholly foreign owned limited liability company	HK\$4,820,000	100%	Production and sales of machinery and related spare parts in the PRC

<sup>^</sup> Not audited by BDO International member firms

## 17. INVESTMENTS IN SUBSIDIARIES – THE COMPANY (Continued)

Notes:

- (a) Ningbo Tokawa Precision is a wholly foreign owned enterprise established by Tokawa Precision (Overseas) Co. Limited in the PRC for a period of 10 years commencing from the date of issuance of its business licence on 18 July 2002.
- (b) Tianjin Asian Way is a wholly foreign owned enterprise in the PRC for a period of 30 years commencing from the date of issuance of its business licence on 7 August 2002.
- (c) Dongguan Kangli is a wholly foreign owned enterprise established by Elegant Well in the PRC for a period of 12 years commencing from the date of issuance of its business licence on 14 September 2004.

## 18. INTEREST IN A JOINTLY CONTROLLED ENTITY – THE GROUP

	2010	2009
	HK\$'000	HK\$'000
Unlisted investment, at cost	2,385	2,385
Share of post-acquisition results	525	207
	<b>2,910</b>	<b>2,592</b>

As at 31 October 2010, the Group has interest in the following jointly controlled entity:

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

<sup>#</sup> English translation only

# Notes to the Financial Statements

For the year ended 31 October 2010

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

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

	Year ended 31 October	
	2010	2009
	HK\$'000	HK\$'000
Share of jointly-controlled entity's results		
Income	5,887	4,647
Expenses	(5,569)	(3,675)

	As at 31 October	
	2010	2009
	HK\$'000	HK\$'000
Share of jointly-controlled entity's assets and liabilities		
Non-current assets	63	26
Current assets	4,945	4,660
Current liabilities	(2,098)	(2,094)
	2,910	2,592



# Notes to the Financial Statements

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## 19. DEFERRED TAXATION

Deferred taxation is calculated on temporary differences under the liability method using the applicable tax rates at reporting date.

The movement in deferred tax assets/(liabilities) arising from temporary differences are as follows:

	Group					Company	
	Provision for warranty HK\$'000	Provision for doubtful debts HK\$'000	Provision for slow- moving inventories HK\$'000	Tax loss HK\$'000	Capital contribution from a minority shareholder HK\$'000	Total HK\$'000	Tax loss HK\$'000
At 1 November 2008	263	500	601	370	–	1,734	370
Debited to the consolidated statement of comprehensive income	(183)	(500)	–	(127)	–	(810)	(201)
Debited to capital contribution reserve	–	–	–	–	(3,155)	(3,155)	–
Debited to non-controlling interests	–	–	–	–	(4,268)	(4,268)	–
Translation differences	–	–	3	–	–	3	–
At 31 October and 1 November 2009	80	–	604	243	(7,423)	(6,496)	169
(Debited)/credited to the consolidated statement of comprehensive income	(80)	–	980	–	–	900	–
Translation differences	–	–	12	–	–	12	–
<b>At 31 October 2010</b>	<b>–</b>	<b>–</b>	<b>1,596</b>	<b>243</b>	<b>(7,423)</b>	<b>(5,584)</b>	<b>169</b>

Deferred tax assets are recognised to the extent the realisation of related tax benefits through the future taxable profits is probable. As at 31 October 2010, the Group has tax losses arising in Hong Kong of approximately HK\$2,066,000 (2009: HK\$416,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As at 31 October 2010, the tax losses arising in the PRC was amounted to HK\$4,655,000 (2009: HK\$4,824,000) which are available for offsetting against future taxable profits of the companies will expire in 2015. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 19. DEFERRED TAXATION (Continued)

At 31 October 2010, deferred tax liabilities of approximately HK\$7,423,000 (2009: HK\$7,423,000) have been established for the taxation that would be payable in relation to the capital contribution made by a minority shareholder.

No deferred tax liabilities have been recognised in respect of the temporary differences associated with undistributed earnings of certain subsidiaries because the Group is in a position to control the dividend policies of its subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

The following is the analysis of the deferred taxation balances for financial reporting purposes:

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Deferred tax assets	1,839	927	169	169
Deferred tax liabilities	(7,423)	(7,423)	—	—
	(5,584)	(6,496)	169	169

## 20. INVENTORIES – THE GROUP

	2010 HK\$'000	2009 HK\$'000
Raw materials	12,120	7,014
Work in progress	4,398	2,240
Finished goods	36,669	26,609
	53,187	35,863
Provision for slow-moving inventories	(10,029)	(8,473)
	43,158	27,390

# Notes to the Financial Statements

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## 21. ACCOUNTS RECEIVABLE – THE GROUP

Accounts receivable are non-interest bearing and they are recognised at their original invoice amounts which represent their fair values at initial recognition.

The Group has a policy of allowing an average credit period of 90 days to its trade customers, except for one customer. This customer's repayment term is to pay (i) 70%-80% of the invoice amount to the Group one month after the invoice date; (ii) another 10% of the invoice amount to the Group three months or twelve months after the invoice date; and (iii) the remaining 10%-20% of the invoice amount to the Group after expiry of warranty period if no complaints are received in respect of the products sold to the customer. An ageing analysis of accounts receivable classified as current portion as at the reporting date, based on invoice date, is as follows:

	2010	2009
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 90 days	30,779	22,999
91 – 180 days	9,004	5,089
181 – 365 days	2,339	9,151
Over 365 days	384	321
	42,506	37,560
Provision for impairment	–	–
Included in current assets	42,506	37,560
Carrying amount analysed for reporting purposes as		
– Current	42,506	37,560
– Non-current ( <i>note (a)</i> )	–	2,763
	42,506	40,323

- (a) The balance shall be payable by the Environmental Protection Department of the Government at the expiry of warranty period of five years from the date of performance of installation services.
- (b) Accounts receivable with carrying amount of approximately HK\$6,068,000 (2009: HK\$8,664,000) was pledged to secure a bank loan of the Group (*note 31(c)*).

# Notes to the Financial Statements

For the year ended 31 October 2010

## 21. ACCOUNTS RECEIVABLE – THE GROUP (Continued)

Impairment losses in respect of accounts receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable directly. Based on this assessment, no bad debt was written off against accounts receivable directly during the year (2009: bad debt written off of HK\$45,000). The movement in the allowance for doubtful debts during the year is as follows:

	2010 HK\$'000	2009 HK\$'000
At beginning of the year	—	2,001
Write back of provision for accounts receivable	—	(2,001)
At end of the year	—	—

The ageing analysis of the Group's accounts receivable that were past due as at the reporting date but not impaired, based on due date is as follows:

	2010 HK\$'000	2009 HK\$'000
Not more than 90 days past due	19,157	5,089
91 to 180 days past due	2,586	3,400
181 to 360 days past due	875	2,895
Over 360 days past due	2,844	3,177
	25,462	14,561
Neither past due nor impaired	17,044	25,762
	42,506	40,323

Accounts receivable that were neither past due nor impaired related to a number of customers for whom there was no recent history of default.

Accounts receivable that were past due but not impaired related to a number of customers that had a good track record of credit with the Group. Based on past credit history, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of accounts receivable past due but not impaired.

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

The amounts due from/(to) subsidiaries were unsecured, interest-free and repayable on demand as at 31 October 2010 (2009: except for one subsidiary, in which the amount due from this subsidiary with principal amount of HK\$19,200,000 bore interest at prevailing prime rate plus 5.5% per annum).

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Cash and bank balances	27,603	11,214	69	91
Bank deposits	9,020	9,020	—	—
	36,623	20,234	69	91
Less: Pledged bank deposits for performance bond facilities (note 33)	(9,020)	(9,020)	—	—
Cash and cash equivalents	27,603	11,214	69	91
Pledged deposits analysed for reporting purposes as non-current	9,020	9,020	—	—

The effective interest rate of pledged bank deposits was 0.5% (2009: ranging from 1.50% to 2.00%) per annum as at 31 October 2010. These deposits had no maturity date and were pledged to bank to secure the Group's performance bond facilities (note 31(a)). The pledge will not be released within twelve months from the reporting date.

# Notes to the Financial Statements

For the year ended 31 October 2010

## 24. ACCOUNTS AND BILLS PAYABLE – THE GROUP

The credit terms granted by suppliers are generally for a period of 60-180 days. The ageing analysis of accounts and bills payable as at the reporting date, based on invoice date, is as follows:

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Within 90 days	47,898	27,480
91 – 180 days	6,831	11,367
181 – 365 days	95	2,047
Over 365 days	1,980	2,093
	<b>56,804</b>	<b>42,987</b>

## 25. PROVISION FOR WARRANTY – THE GROUP

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	482	1,591
Less: Unused amounts reversed and credited to the consolidated income statement	(204)	(809)
	<b>278</b>	<b>782</b>
Less: Amounts utilised	(278)	(300)
At end of the year	—	482

The provision for warranty was made for warranties granted to the eligible vehicle owners for the free-of-charge materials and workmanship of particulate removal devices and accessories, up to a period of five years from the date of installation.

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

## 26. LOAN FROM A SHAREHOLDER

The loan from a shareholder was unsecured, repayable before March 2010 and bore interest at the higher of prevailing prime rate plus 1% or 6% per annum as at 31 October 2009.

# Notes to the Financial Statements

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## 27. BANK LOANS – THE GROUP

	2010 HK\$'000	2009 HK\$'000
Bank loan repayable within one year – Secured	8,514	8,664

Bank loans were denominated in Hong Kong Dollars and bore interests at variable rates of 2% over 1 to 3 months HIBOR (2009: 1.75% to 3.25% over 1 to 3 months HIBOR) per annum at 31 October 2010. Further details of securities were set out in note 31 to the financial statements.

## 28. LOANS FROM MINORITY SHAREHOLDERS AND A THIRD PARTY – THE GROUP

The loans were unsecured, interest-free and not repayable within twelve months from the reporting date.

During the year, the loan from a minority shareholder amounted to approximately HK\$14,779,000 was reclassified from loans from minority shareholders to loan from a third party.

The fair value of the loans was calculated using cash flows discounted by reference to a market interest rate of 5.9% (2009: 5.9%) per annum.

## 29. SHARE CAPITAL

	2010 HK\$'000	2009 HK\$'000
Authorised: 5,000,000,000 (2009: 5,000,000,000) ordinary shares of HK\$0.01 each	50,000	50,000
Issued and fully paid: 649,540,000 (2009: 649,540,000) ordinary shares of HK\$0.01 each	6,495	6,495



# Notes to the Financial Statements

For the year ended 31 October 2010

## 30. RESERVES

### (a) Group

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

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

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

The exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3.

The capital contribution reserve of the Group represents the contribution made by a minority shareholder shared by the Group (note 36).

### (b) Company

	Share premium HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 November 2008	30,537	326	3,181	3,897	37,941
Profit for the year	—	—	794	—	794
2008 final dividend declared	—	—	—	(3,897)	(3,897)
2009 proposed final dividend	—	—	(1,949)	1,949	—
At 31 October 2009 and 1 November 2009	30,537	326	2,026	1,949	34,838
Profit for the year	—	—	3,022	—	3,022
2009 final dividend declared	—	—	—	(1,949)	(1,949)
2010 proposed final dividend	—	—	(3,897)	3,897	—
Reversal on expiry of share-based compensation benefit	—	(326)	326	—	—
<b>At 31 October 2010</b>	<b>30,537</b>	<b>—</b>	<b>1,477</b>	<b>3,897</b>	<b>35,911</b>

## 30. RESERVES (Continued)

### (b) Company (Continued)

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

## 31. BANKING FACILITIES – THE GROUP

As at 31 October 2010, certain of the Group's banking facilities were secured by the followings:

- (a) bank deposits of the Group amounting to approximately HK\$9,020,000 (2009: HK\$9,020,000) (note 23);
- (b) corporate guarantees executed by the Company (note 32); and
- (c) assignment of certain of the Group's accounts receivable (note 21(b)).

## 32. FINANCIAL GUARANTEE CONTRACTS – THE COMPANY

The Company had financial guarantee contracts with certain banks as follows:

	2010	2009
	HK\$'000	HK\$'000
Guarantee for banking facilities granted to subsidiaries	44,587	34,125

## 33. PERFORMANCE BONDS – THE GROUP

The Group concluded totally 7 (2009: 7) non-exclusive contracts with the Environmental Protection Department of the Government. Pursuant to the terms of the contracts, the Group has procured a bank to provide 7 (2009: 7) performance bonds with an aggregate amount of approximately HK\$9 million (2009: HK\$9 million) to the Government for the performance of supply and installation of particulate removal devices to reduce particulate from the pre-Euro emission standard diesel vehicles. The aforesaid performance bond facilities were secured by the Group's pledged bank deposits (note 31(a)).

# Notes to the Financial Statements

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## 34. OPERATING LEASE COMMITMENTS

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

	2010	2009
	HK\$'000	HK\$'000
Within one year	1,606	839
In the second to fifth years, inclusive	1,050	468
	<b>2,656</b>	<b>1,307</b>

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years (2009: one to three years), without any option to renew the lease terms at the expiry date and do not include contingent rentals.

## 35. RELATED PARTY TRANSACTIONS

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

	2010	2009
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,156	4,498
Bonuses	1,182	—
Pension scheme contributions	56	60
	<b>5,394</b>	<b>4,558</b>

## 36. ACQUISITION OF ASIAN WAY AND PLEDGE OF SHARES OF ASIAN WAY HELD BY A MINORITY SHAREHOLDER

On 16 November 2005, the Group entered into a legally binding memorandum of understanding and a sale and purchase agreement (collectively known as the "Agreements") in relation to the acquisition of 42.5% interest in Asian Way which holds 100% interest in Tianjin Asian Way.

Pursuant to the Agreements, 3,750 shares of Asian Way held by Mr. Tang, which represents 37.5% equity interest in Asian Way, were pledged to Well Spread as security on a loan facility of RMB60.0 million (equivalent to HK\$69.6 million as at 31 October 2010) granted to Asian Way by a subsidiary of the Group.

## 36. ACQUISITION OF ASIAN WAY AND PLEDGE OF SHARES OF ASIAN WAY HELD BY A MINORITY SHAREHOLDER

(Continued)

During the year ended 31 October 2010, the above pledged shares have been enforced by the Group as a result of continuing default in payment of loan interest by Asian Way under the loan agreements dated 16 November 2005 in respect of which Mr. Tang acted as a warrantor thereunder. The non-controlling interests amounted to approximately HK\$7,335,000 has been transferred to retained profits and exchange translation reserve of approximately HK\$5,333,000 and HK\$2,002,000 respectively. After the enforcement, the Group has become the legal and beneficial owner of a total of 8,000 shares in Asian Way, representing 80% of its entire issued share capital.

According to the Agreements, the total construction fee for the water supply plant was estimated to be RMB80 million and any excess sum of construction fee should be solely borne by Mr. Tang Hin Lun ("Mr. Tang"), the minority shareholder of Asian Way. A confirmation ("Confirmation") was signed by Mr. Tang to the Group on 22 January 2008 to confirm the amount agreed by the Group and Mr. Tang under the Agreements. Pursuant to the Confirmation, the construction fee borne by the Group was amounted to approximately RMB85,218,000 (equivalent to HK\$88,769,000) and the remaining amount of approximately RMB25,132,000 (equivalent to HK\$26,179,000) was solely born by Mr. Tang and this amount was reported as "amount due from a minority shareholder" under current assets and "capital contribution reserve" under equity in the consolidated financial statements as it was contribution from Mr. Tang. On 13 November 2008, Mr. Tang settled the amount of RMB25,132,000 directly to the construction company. This amount was offset between other payables and amount due from a minority shareholder during the year ended 31 October 2009 pursuant to the Agreements.

## 37. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### (a) Credit risk

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

As at 31 October 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, management of the Group has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debt on a collective basis at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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## 37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Foreign currency risk

The Group's purchases are mainly denominated in Sterling Pounds, Japanese Yen and US Dollars. The sales of the Group are predominantly in RMB and Hong Kong Dollars. The management monitors foreign exchange exposure and will hedge significant foreign currency exposure should the need arises.

In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The carrying amounts of foreign currency denominated monetary assets, monetary liabilities and derivative financial instruments of the Group at the reporting date that are considered significant by management are as follows:

	Assets		Liabilities	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Japanese Yen ("JPY")	589	3,414	32,306	26,492
Sterling Pounds ("GBP")	3,563	2,572	2,767	1,742
US Dollars ("USD")	11,641	5,888	6,861	1,962
Euro ("EUR")	45	12	10,409	138
Renminbi ("RMB")	5,727	4,667	—	—

**37. RISK MANAGEMENT OBJECTIVES AND POLICIES** (Continued)**(c) Foreign currency sensitivity analysis**

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% increase in foreign currency rates. A positive (negative) number below indicates an increase (a decrease) in profit for the year and retained earnings where the functional currencies of the relevant group entities strengthen against the relevant foreign currencies. For a 5% weakening of the functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year and retained earnings. There is no impact on other components of equity in response to the general change in foreign exchange rates.

	2010					2009				
	HK\$'000					HK\$'000				
	USD	EUR	JPY	RMB	GBP	USD	EUR	JPY	RMB	GBP
Increase/decrease in foreign exchange rate	+/-5%	+/-5%	+/-5%	+/-5%	+/-5%	+/-5%	+/-5%	+/-5%	+/-5%	+/-5%
Effect on profit for the year and retained earnings	219	(433)	(1,705)	217	35	175	(5)	(1,064)	177	34

**(d) Interest rate risk**

The Group has no significant interest bearing assets except bank balances in note 23. The Group borrows bank loans with floating interest rates. Exposure to floating interest rate presents when there are unexpected adverse interest rate movements. The interest rates and terms of repayment of bank loans are disclosed in note 27. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no unduly exposures to significant interest rate movements and rates are approximately fixed when necessary. The directors considered that the Group's cash flow interest rate risk is minimal.

# Notes to the Financial Statements

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## 37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (e) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements in the short and long terms. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations.

The following table summarises the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flows.

	Less than 3 months <i>HK\$'000</i>	3 months to 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total contractual undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
<b>As at 31 October 2010</b>					
Accounts and bills payable	47,898	8,906	—	56,804	56,804
Accrued liabilities and other payables	7,904	—	—	7,904	7,904
Bank loans	8,514	—	—	8,514	8,514
Loan from a third party	—	—	14,779	14,779	14,779
Loan from a minority shareholder	—	—	9,526	9,526	9,526
	64,316	8,906	24,305	97,527	97,527
<b>As at 31 October 2009</b>					
Accounts and bills payable	27,480	15,507	—	42,987	42,987
Accrued liabilities and other payables	5,754	—	—	5,754	5,754
Bank loans	—	8,664	—	8,664	8,664
Loan from a shareholder	—	3,500	—	3,500	3,500
Loans from minority shareholders	—	—	23,745	23,745	23,745
	33,234	27,671	23,745	84,650	84,650

## 37. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (f) Summary of financial assets and liabilities by category

	2010	2009
	HK\$'000	HK\$'000
<b>Group</b>		
<b>Financial assets</b>		
Loans and receivable:		
– Accounts receivable	42,506	40,323
– Deposits and other receivables	5,077	7,228
Pledged bank deposits	9,020	9,020
Cash and cash equivalents	27,603	11,214
	<b>84,206</b>	<b>67,785</b>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised costs:		
– Accounts and bills payable	56,804	42,987
– Accrued liabilities and other payables	7,904	5,754
– Bank loans	8,514	8,664
– Loan from a shareholder	–	3,500
– Loan from a third party	14,779	–
– Loans from minority shareholders	9,526	23,745
	<b>97,527</b>	<b>84,650</b>
<b>Company</b>		
<b>Financial assets</b>		
Loans and receivable:		
– Deposits and other receivables	5	1
– Amounts due from subsidiaries	44,201	53,604
Cash and cash equivalents	69	91
	<b>44,275</b>	<b>53,696</b>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost:		
– Accrued liabilities and other payables	271	266
– Amounts due to subsidiaries	12,749	23,255
	<b>13,020</b>	<b>23,521</b>



# Notes to the Financial Statements

For the year ended 31 October 2010

## 38. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

The Group sets the amount of equity capital in proportion to its overall financial structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares, or sell assets to reduce debt.

The capital-to-overall financing ratio at the reporting date was as follows.

	2010	2009
	HK\$'000	HK\$'000
Capital		
Total equity	156,510	143,068
Overall financing		
Bank loans	8,514	8,664
Loan from a shareholder	—	3,500
Loan from a third party	14,779	—
Loans from minority shareholders	9,526	23,745
	32,819	35,909
<b>Capital-to-overall financing ratio</b>	<b>4.77 times</b>	3.98 times

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

## RESULTS

	Year ended 31 October				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>Revenue</b>	<b>182,304</b>	129,236	175,982	115,909	91,941
Cost of sales	(140,770)	(102,873)	(139,221)	(90,123)	(65,312)
<b>Gross profit</b>	<b>41,534</b>	26,363	36,761	25,786	26,629
Other income	925	5,092	6,672	3,277	2,191
Selling expenses	(2,890)	(2,291)	(2,943)	(3,329)	(2,884)
Administrative expenses	(21,756)	(19,008)	(19,249)	(15,097)	(13,692)
Other operating income	204	809	1,441	1,350	614
<b>Profit from operations</b>	<b>18,017</b>	10,965	22,682	11,987	12,858
Finance costs	(1,144)	(1,294)	(1,813)	(387)	—
Share of profit/(loss) of a jointly controlled entity	318	972	(147)	149	(500)
<b>Profit before taxation</b>	<b>17,191</b>	10,643	20,722	11,749	12,358
Taxation	(3,610)	(1,936)	(3,336)	(225)	(696)
<b>Profit for the year</b>	<b>13,581</b>	8,707	17,386	11,524	11,662
<b>ASSETS AND LIABILITIES</b>					
Non-current assets	152,381	151,578	150,743	149,434	109,282
Current assets	122,660	87,400	144,866	114,892	59,540
Current liabilities	86,803	64,742	119,734	110,713	62,630
<b>Net current assets/ (liabilities)</b>	<b>35,857</b>	22,658	25,132	4,179	(3,090)
Non-current liabilities	31,728	31,168	27,471	26,736	18,885
<b>Net assets</b>	<b>156,510</b>	143,068	148,404	126,877	87,307



# Summary of Financial Information

31 October 2010

*Notes:*

1. The consolidated results of the Group for the years ended 31 October 2006, 2007 and 2008 are as set out in the annual reports of the Company for those years. The consolidated statement of comprehensive income for the years ended 31 October 2009 and 2010 are as set out on page 26 of the audited consolidated financial statements.
2. The consolidated statement of financial position as at 31 October 2006, 2007 and 2008 are as set out in the annual reports of the Company for those years. The consolidated statement of financial position as at 31 October 2009 and 2010 are as set out on page 27 to 28 of the audited consolidated financial statements.