



Eco-Tek Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Placing

Sponsor and Joint Lead Manager



Co-Sponsor and Joint Lead Manager



IMPORTANT

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



Eco-Tek Holdings Limited 環康集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

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

BY WAY OF PLACING

Number of Placing Shares	:	138,200,000 Shares (subject to Over-allotment Option)
Issue Price range	:	not more than HK\$0.25 per Share and not less than HK\$0.23 per Share
Nominal value	:	HK\$0.01 each
Stock code	:	8169

Sponsor



Celestial Capital Limited

Co-sponsor



SBI E2-Capital (HK) Limited

Joint Lead Managers



SBI E2-Capital Securities Limited



Celestial Capital Limited

Co-lead manager

Kim Eng Securities (Hong Kong) Limited

Co-managers

Core Pacific-Yamaichi International (H.K.) Limited
GC Securities Limited
Kingston Securities Limited
OpenIBN (HK) Limited
Quest Stockbrokers (HK) Limited

First Shanghai Securities Limited
ICEA Capital Limited
Kingsway SW Securities Limited
Pacific Foundation Securities Limited
South China Securities Limited

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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Prospective investors of the Placing Shares should note that the Joint Lead Managers for themselves and on behalf of the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to the Company given by the Joint Lead Managers, upon the occurrence of any events set out under "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 5:00 p.m. (Hong Kong time) on the day immediately preceding the date on which dealing in Shares first commence on the Stock Exchange. Such events include, but without limitation to, any change in Hong Kong, the PRC and Taiwan financial, political, military, industrial or economic conditions or prospects or any change in the conditions of the Hong Kong or international securities market.

The Issue Price is expected to be fixed on or about 28 November 2001, by agreement between SBI E2-Capital Securities Limited (on behalf of the Joint Lead Managers and the Underwriters) and to be not more than HK\$0.25 per Share and not less than HK\$0.23 per Share. If SBI E2-Capital Securities Limited (on behalf of the Joint Lead Managers and the Underwriters) are unable to reach an agreement with the Company on the Issue Price on or before 9:30 p.m. on 2 December 2001, the Placing will lapse. In such circumstances, an announcement will be issued and published on the GEM website (in English and Chinese) no later than the morning of 4 December 2001.

* for identification only

27 November 2001

CHARACTERISTICS OF GEM

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

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

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

EXPECTED TIMETABLE

2001

(Note 1)

Expected Issue Price determination date on or around (Note 2) . . . Wednesday, 28 November

Allocation to placees on or before Thursday, 29 November

Announcement of Issue Price and the results of the Placing to be published
on the GEM Website at *www.hkgem.com* on Friday, 30 November

Despatch of share certificates on (Note 3) Monday, 3 December

Dealings in Shares on GEM to commence on Wednesday, 5 December

Notes:

1. All times refer to Hong Kong local time, except as otherwise stated.
2. The Issue Price determination date is expected to be on or around 28 November 2001, and in any event will be on or before 2 December 2001. If, for any reason, the Issue Price is not agreed by 9:30 p.m. on 2 December 2001, the Placing will lapse.
3. Placees of the Shares will receive their Placing Shares via CCASS. The share certificate(s) for the Placing Shares to be distributed via CCASS is/are expected to be issued in the name of HKSCC Nominees Limited and deposited into CCASS on 3 December 2001 for credit to the respective CCASS participants' or investor participants' stock accounts designated by the Underwriters, the placees or their agents, as the case may be.

For details of the structure of the Placing, including conditions thereto, please see the section headed "Structure and conditions of the Placing" in this prospectus.

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

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

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

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SUMMARY

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

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

INTRODUCTION

The Group is principally engaged in the development, sales and marketing of innovative environmental protection related products and ancillary services. It is the mission of the Group to become one of the leading providers of environmental protection related products and ancillary services in Hong Kong and overseas.

The Group was founded by Dr. Chiang in October 1999. The Group has successfully expanded its range of environmental protection related products under the efforts of Dr. Chiang and Dr. Pau. Given the growing awareness of environmental protection in Hong Kong and overseas, the Directors believe that there is tremendous market potential in the environmental protection industry. The Group has a strong and committed management team, which possesses in-depth knowledge and hands-on experience in industrial engineering and commercialisation of industrial products.

BUSINESS

Since the establishment of the Group in October 1999, the Group focuses on the application of innovative technologies to the research and development of practical and economical environmental protection related products and services. The marketed products of the Group include *Eco-Trap*, suction filter and return line filter (being two of the three kinds of hydraulic filters developed or under development by the Group) and the products under research and development include soundproof barriers, diesel oxidation catalysts and pressure line filter, another kind of hydraulic filter. The Group also provides cleaning services of the filter cartridges of *Eco-Trap* in the Company's head office in Kwun Tong.

Eco-Trap

Eco-Trap is a particulate reduction device which can effectively reduce the emission of diesel particulate emitted by pre-Euro standard light diesel vehicles by trapping the diesel emission particulate physically. It was developed by the Group under a cooperative arrangement with PolyU in the third quarter of 1999. As diesel particulate is considered to be one of the major causes of air pollution in Hong Kong, with an aim to reduce air pollution in Hong

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Kong, the Hong Kong government has been taking various initiatives and control measures on vehicle emission. One of such initiatives is the introduction of the Voluntary Installation and Subsidy Program to provide grants to about 42,000 diesel light vehicle owners to install particulate reduction devices on their pre-Euro standard diesel vehicles. In August 2000, the Group was selected by the EPD as one of the two designated contractors for the supply and installation of particulate reduction devices under the Voluntary Installation and Subsidy Program for a period of 14 months which expired in mid-October 2001. As at the Latest Practicable Date, the Group continued to supply and install *Eco-Trap* for those diesel light vehicle owners who registered with the Group for such installation before the expiry date of the Voluntary Installation and Subsidy Program on 17 October 2001 and for certain diesel light vehicle owners who possess re-issue notice of the EPD and who had registered with the Group before 31 October 2001. The Directors expect that the installation of *Eco-Trap* under the Voluntary Installation and Subsidy Program will be completed by the end of December 2001. After the expiry of the Voluntary Installation and Subsidy Program, it is the Group's intention to market *Eco-Trap* to the owners of diesel light vehicles not installed with *Eco-Trap* by promoting the effectiveness and the low installation costs of the product against the tougher action and penalties for smoky vehicles introduced by the Hong Kong government.

Hydraulic filters

In October 1999, the Group commenced the development of various types of hydraulic filters, which are designed principally for hydraulic systems installed in industrial machinery. Hydraulic oil used in hydraulic systems, when contaminated, has to be disposed of and replaced to prevent any damage to the hydraulic systems and the industrial machinery.

Currently, the hydraulic filters launched by the Group include the suction filter and the return line filter. The hydraulic filter under development is the pressure line filter. In view of the wide application of these hydraulic filters in industrial machinery, the Directors believe that there is great market potential for these products.

Diesel oxidation catalysts

In May 2000, the Group commenced the research and development of its diesel oxidation catalyst in regular model.

Diesel oxidation catalyst in regular model is designed to reduce the exhaust pollutants emitted by diesel heavy vehicles by converting several pollutants such as CO, gas phase HC and SOF through oxidation into harmless substances such as CO₂ and water vapor. The Directors believe that with the experience gained from the commercialisation of *Eco-Trap* in Hong Kong, the Group will be able to provide and install diesel oxidation catalyst in regular model for diesel heavy vehicles under similar installation and subsidy program which is expected to be launched by the EPD in the near future.

SUMMARY

Since September 2001, the Group has been engaged in the research and development of regenerative diesel oxidation catalyst which is designed to provide both physical trapping function and the oxidation effect to reduce vehicle emission and pollutants. The regenerative diesel oxidation catalyst is targeted at the high end market, including government vehicles.

Soundproof barrier

In addition, the Group is developing soundproof barrier which adopts ASE technology to reduce noise pollution generated by road traffic. The major deficiency of conventional noise proof barriers currently used in Hong Kong is that high barriers are necessary to isolate noise instead of extinguishing it. To overcome this deficiency, the Group's soundproof barrier under development is designed to extinguish noise. The height of the panel on which the Group's soundproof barrier is installed will be adjusted in accordance with the environment in the vicinity and the targeted level of noise control.

Ancillary services

Furthermore, the Group also provides ancillary services to support the use of environmental protection products of the Group. Since late April 2001, the Group has been providing cleaning services of the filter cartridges of *Eco-Trap* in its head office in Kwun Tong. In May 2001, the Group commenced *Eco-Trap* installation service in its head office in Kwun Tong.

THE STRENGTHS OF THE GROUP

The Directors consider that the principal strengths of the Group are as follows:

- the Group's dedicated management team which has extensive experience and technical expertise in the development and commercialisation of industrial products;
- the Group's alliance and collaboration with PolyU which strengthen the Group's research and development capability in environmental protection related products and services;
- an effective communication channel built up between the management team of the Group and the relevant authorities of the Hong Kong government; and
- a low-cost strategy in the development and supply of environmental protection related products and services.

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BUSINESS STRATEGIES

It is the mission of the Group to contribute towards sustaining a healthy and pleasant environment for both existing and future generations of mankind. Leveraging on the technical expertise and experience of the senior management and the research and development team of the Group, the Group focuses on the application of innovative technology to develop practical and economical environmental protection related products and services in order to improve and protect the environment.

Since environmental protection has become an issue of increasing global concern, the Directors believe that there is tremendous market potential in the environmental protection industry. With a view to achieving the Group's objective to become one of the leading providers of environmental protection related products and services in Hong Kong and overseas markets, the Group has formulated major business strategies which comprise (i) research and development of innovative products and services; (ii) expansion into new markets; (iii) improvement in production capabilities; (iv) improvement of the quality of existing products and services; (v) establishment of extensive distribution network; (vi) securing government support; and (vii) promotion of public awareness towards environmental protection issues.

The Directors believe that the key to success in the environmental protection industry lies with the ability to introduce innovative products and services using new technologies. The Group has established a research and development team to explore and develop innovative products and services. In addition, by leveraging on its success in the development and commercialisation of *Eco-Trap* with PolyU under a cooperative arrangement, the Group intends to work closely with PolyU to develop and launch other environmental protection related products and services through consultancy with PolyU or joint research programs. The Group has set up a research and development committee, comprising representatives of both the Group and PolyU.

In addition, the Group plans to commence a feasibility study of a waste plastic recycling process to convert waste plastic into energy in the coming future. The Group has retained Professor Georg Menges, an expert in the area of plastic processing and a professor in the Institute of Plastics Processing, Technical University of Aachen, Germany, as the Group's consultant and technical adviser to assist the Group in developing the waste plastic recycling process in Hong Kong. The proposed waste plastic recycling process is designed to convert waste plastic into oil substances and finally, into energy. The Group's proposed waste plastic recycling process, in particular, its strategy to turn waste into energy will correspond to the overall objectives of the Hong Kong government with respect to waste reduction and waste recycling. The Directors believe that with the assistance from Professor Menges, the Group will be able to develop successfully the waste plastic recycling process in the future.

SUMMARY

TRADING RECORD

The following table is a summary of the audited combined results of the Group for the period from 27 October 1999 (being the date of establishment of the Group) to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001. The summary is prepared on the assumption that the current structure of the Group had been in place throughout the period under review and should be read in conjunction with the accountants' report, the text of which is set out in Appendix I to this prospectus.

		Period from 27 October 1999 to 31 October 1999	Year ended 31 October 2000	Nine months ended 31 July 2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(1)	–	1,621	16,906
Cost of sales		–	(421)	(4,254)
Gross profit		–	1,200	12,652
Other income		–	–	387
Selling expenses		–	(51)	(416)
Administrative expenses		–	(1,057)	(4,077)
Profit before tax		–	92	8,546
Tax		–	–	(1,366)
Net profit from ordinary activities attributable to shareholders		–	92	7,180
Dividends		–	–	–
Earnings per share:				
Basic	(2)	–	HK0.02 cents	HK1.73 cents
Diluted	(3)	–	HK0.02 cents	HK1.41 cents

Notes:

- Turnover represents the invoiced value of goods sold, after allowance for returns and trade discounts. Turnover generated from the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program represented 100% and 96% of the Group's total turnover for the year ended 31 October 2000 and the nine months ended 31 July 2001, respectively.

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2. The calculation of basic earnings per Share for the year ended 31 October 2000 and for the nine months ended 31 July 2001 are based on the net profits from ordinary activities attributable to shareholders of the Company for the year ended 31 October 2000 and for the nine months ended 31 July 2001 and on 414,600,000 Shares deemed to have been in issue, comprising 600,000 Shares in issue and 414,000,000 Shares to be issued pursuant to the Capitalisation Issue, as described more fully in the paragraph headed “Written resolutions of all shareholders of the Company passed on 21 November 2001” under the section headed “Statutory and general information” in Appendix IV to this prospectus.
3. The calculation of diluted earnings per Share for the year ended 31 October 2000 and for the nine months ended 31 July 2001 are based on the net profits from ordinary activities attributable to shareholders of the Company for the year ended 31 October 2000 and the nine months ended 31 July 2001 and on 508,691,167 Shares, being the 414,600,000 Shares as used in the calculation of basic earnings per Share, and the weighted average of 94,091,167 Shares assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Share Options and the ANT-Option as set out in Appendix IV to this prospectus.

For the purpose of calculating diluted earnings per Share, the fair value of Shares assumed to have been issued upon exercise of these options is determined as the mid-point of the stated Issue Price range of HK\$0.24 per Share in respect of the Company’s initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of ordinary Shares for no consideration.

The SFC has granted a waiver in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule of the Companies Ordinance and the Stock Exchange has granted a waiver from strict compliance with Rule 7.03(1) and 11.10 of the GEM Listing Rules so that the Group is only required to include in this prospectus the trading record, financial results and information covering the period from 27 October 1999 to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001. Please refer to the paragraphs headed “Financial periods” and “Companies Ordinance waiver” respectively under the section headed “Waivers from compliance with the GEM Listing Rules and the Companies Ordinance” in this prospectus for details of such waivers.

The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed in this prospectus, there has been no material adverse change in the financial position of the Group since 1 August 2001 up to the date of issue of this prospectus, and there is no event which would materially affect the information shown in the accountants’ report of the Group as set out in Appendix I to this prospectus.

PLACING STATISTICS

Issue Price (per Share)	HK\$0.25	HK\$0.23
Market capitalisation (<i>Note 1</i>)	HK\$138.20 million	HK\$127.14 million
Adjusted net tangible asset value per Share (<i>Note 2</i>)	6.31 cents	5.80 cents

Notes:

1. The calculation of market capitalisation of the Shares is based on the maximum and minimum points of the stated price range of HK\$0.25 and HK\$0.23 per Share respectively and 552,800,000 Shares expected to be in issue immediately after completion of the Placing and the Capitalisation Issue but takes no account of (i) any Shares which may be issued upon exercise of the Over-allotment Option and the ANT-Option; (ii) any Shares which may be issued upon the exercise of any Pre-IPO Share Options or any options which may be granted under the Post-IPO Share Option Scheme; and (iii) any Shares which may be issued or repurchased by the Company pursuant to the mandates referred to in Appendix IV to this prospectus.

SUMMARY

2. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed “Adjusted net tangible assets” under the section headed “Financial information” in this prospectus and on the basis of 552,800,000 Shares expected to be in issue immediately after completion of the Placing and the Capitalisation Issue but takes no account of (i) any Shares which may be issued upon exercise of the Over-allotment Option and the ANT-Option; (ii) any Shares which may be issued upon the exercise of any Pre-IPO Share Options or any options which may be granted under the Post-IPO Share Option Scheme; and (iii) any Shares which may be issued or repurchased by the Company pursuant to the mandates referred to in Appendix IV to this prospectus.

Upon the exercise of the ANT-Option and the Pre-IPO Share Options in full, 13,820,000 Shares and 96,740,000 Shares will be issued at aggregate considerations of approximately HK\$3.0 million and HK\$1.0 million, respectively. The adjusted net tangible asset value per Share will be 5.87 cents and 5.41 cents, on the basis of 663,360,000 Shares expected to be issued immediately after the completion of the Placing and the Capitalisation Issue and upon the exercise of the ANT-Option and the Pre-IPO Share Options, based on the maximum and minimum points of the stated price range.

If the Over-allotment Option is exercised in full, the adjusted net tangible asset value of the Group and the adjusted net tangible asset value per Share will be about HK\$40.1 million and HK\$36.8 million and 6.99 cents and 6.42 cents, respectively, based on the maximum and minimum points of the stated price range. The adjusted net tangible asset value per Share will be 6.45 cents and 5.95 cents, on the basis of 684,090,000 Shares expected to be in issue immediately after completion of the Placing and the Capitalisation Issue and upon the exercise of the Over-allotment Option, the ANT-Option and the Pre-IPO Share Options, based on the maximum and minimum points of the stated price range.

USE OF PROCEEDS

The Directors believe that the listing of the Shares will enhance the Group’s profile and will provide funding for the Group’s expansion in the environmental protection industry. The net proceeds from the Placing (assuming that the Over-allotment Option is not exercised), after deducting the relevant expenses payable by the Company in relation to the Placing, are estimated to be approximately HK\$23.8 million based on the minimum point of the stated price range of HK\$0.23 per Share. If the Over-allotment Option, which comprises 20,730,000 new Shares to be issued by the Company, is exercised in full, the net proceeds from the Placing together with exercise of Over-allotment Option will be approximately HK\$28.6 million based on the minimum point of the stated price range of HK\$0.23 per Share. The Company intends to apply the net proceeds from the Placing as follows:

- as to approximately HK\$2.0 million, for promotion and marketing activities of *Eco-Trap* in Hong Kong and the PRC;
- as to approximately HK\$1.8 million, for the development of the diesel oxidation catalyst for diesel heavy vehicles with gross weight over 4 tonnes and for the diesel engine driven machinery;
- as to approximately HK\$1.0 million, for the development of the hydraulic filters for industrial use;
- as to approximately HK\$4.0 million, for the development of the Group’s soundproof barrier;

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- as to approximately HK\$1.0 million, for the research and development of the proposed waste plastic recycling process;
- as to approximately HK\$7.0 million, to set up the Group's production facilities in the PRC; and
- the balance of approximately HK\$7.0 million, as general working capital of the Group.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$4.8 million based on the minimum point of the stated price range of HK\$0.23 per Share will be applied by the Company as general working capital of the Group to support its ongoing operations and expansion.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short term deposits with financial institutions in Hong Kong.

If the Issue Price is above HK\$0.23, the net proceeds will be increased and the amount to be used as general working capital will be increased accordingly.

In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors will evaluate carefully the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold the funds as short term deposits so long as the Directors consider to be in the best interests of the Company and its shareholders taken as a whole. The Company will make an announcement if there is any change of the intended use of proceeds.

SUMMARY

EXISTING SHAREHOLDERS OF THE COMPANY FOLLOWING THE COMPLETION OF THE PLACING AND THE CAPITALISATION ISSUE

The interests of the existing shareholders in the Company immediately following the completion of the Placing and the Capitalisation Issue (assuming the ANT-Option, the Over-allotment Option and the Pre-IPO Share Options are not exercised) are summarised as follows:

Name of shareholders	Number of Shares held immediately after completion of the Placing and the Capitalisation Issue	Approximate percentage of shareholding immediately after completion of the Placing and the Capitalisation Issue	Date of entry	Approximate cost of investment per Share HK\$	Approximate total cost of investment HK\$	Moratorium Period
Team Drive <i>(notes 1, 7 and 8)</i>	299,341,200	54.15%	25 May 2000	0.00034	100,790	12 months
Advance New Technology <i>(notes 2 and 8)</i>	89,000,800	16.10%	16 January 2001	<i>(note 6)</i>	<i>(note 6)</i>	12 months
Dr. Pau <i>(notes 3 and 8)</i>	16,584,000	3%	16 January 2001	0.00056 <i>(note 5)</i>	9,360	12 months
Ms. Yip Yuk Chun <i>(note 4)</i>	8,844,800	1.6%	16 January 2001	0.00056 <i>(note 5)</i>	4,992	N/A
Mr. Shah Tahir Hussain <i>(notes 3 and 8)</i>	552,800	0.1%	16 January 2001	0.00056 <i>(note 5)</i>	312	6 months
Ms. Chow Yuk Ngor <i>(note 4)</i>	276,400	0.05%	16 January 2001	0.00056 <i>(note 5)</i>	156	N/A

Notes:

- (1) Team Drive is wholly owned by Peace City, a company the entire issued share of which are beneficially owned by Dr. Chiang.
- (2) The entire issued share capital of Advance New Technology is beneficially owned by PolyU. Advance New Technology has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities for a period of 12 months from the Listing Date.

PolyU has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in Advance New Technology for a period of 12 months from the Listing Date.

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- (3) Each of Dr. Pau and Mr. Shah Tahir Hussain, both executive Directors and Initial Management Shareholders, has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his direct or indirect interest in the Relevant Securities for a period of 12 months and 6 months from the Listing Date respectively.
- (4) Ms. Yip Yuk Chun and Ms. Chow Yuk Ngor are the administration manager and secretary of the Group respectively and independent third parties. The Shares were allotted and issued to them as an incentive. The 8,844,800 Shares and 276,400 Shares held by Ms. Yip Yuk Chun and Ms. Chow Yuk Ngor will not be counted as part of the public float of Shares under the GEM Listing Rules. Ms. Yip Yuk Chun and Ms. Chow Yuk Ngor are independent of and not connected with the Company, its Directors, chief executive, substantial shareholders or Initial Management Shareholders or any of their respective associates (as defined under the GEM Listing Rules).
- (5) The cost of investment per Share is arrived at by using the total purchase price paid by the relevant shareholder for the shares in Eco-Tek (BVI) divided by the number of Shares held by the relevant shareholder immediately after the Placing and the Capitalisation Issue.
- (6) On 21 November 2001, in consideration and in exchange for PTeC's transfer of all technologies and intellectual properties on *Eco-Trap* to Eco-Tek Technology, Eco-Tek (BVI) allotted and issued 6,440 shares of US\$1 each in Eco-Tek (BVI) to Advance New Technology.
- (7) Team Drive has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities for a period of 12 months from the Listing Date.

Each of Dr. Chiang and Peace City has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of her/its direct or indirect interest in Peace City and Team Drive for a period of 12 months from the Listing Date.

Dr. Chiang has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange that she will procure Peace City and Team Drive, and Peace City has undertaken to the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange that it will procure Team Drive, not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities for a period of 12 months from the Listing Date.

- (8) Team Drive, Peace City, Dr. Chiang, Dr. Pau, Mr. Shah Tahir Hussain, Advance New Technology and PolyU are considered to be the Initial Management Shareholders of the Company under the GEM Listing Rules.

SUMMARY

SUMMARY OF RISK FACTORS

The Directors consider that the Group's business and investment in the Shares are subject to a number of risk factors, which include those set out in the section headed "Risk factors" in this prospectus and are summarised as follows:

Risks relating to the Group

- reliance on limited commercialised products and limited geographical markets
- reliance on government contracts
- limited operating history
- limited insurance coverage
- reliance on certain key management personnel
- relationship with PolyU
- reliance on contractors
- implementation of business plans and strategies
- effective management of the expanding operations
- expansion into the PRC market
- requirement for additional funds
- use of intellectual property rights
- use of proceeds from the Placing

SUMMARY

Risks relating to *Eco-Trap*

- future marketability of *Eco-Trap*
- technological advancement in the manufacture of diesel light vehicles and the gradual replacement of diesel vehicles
- changes of government policy on emission control

Risks relating to the industry

- product substitution
- competition
- legal framework governing the industry

Macro risks

- possible impact arising from the attack at the World Trade Centre in New York, the US, on 11 September 2001
- political and economic risks associated with doing business in Hong Kong
- foreign exchange exposure
- political and economic risks associated with doing business in the PRC

Risks relating to the Shares

- trading market for shares and volatility in market price
- dilution of shareholders' interests in the Company

DEFINITIONS

In this prospectus, the following expressions have the following meanings, unless the context otherwise requires.

“Advance New Technology”	Advance New Technology Limited, a company incorporated in Hong Kong on 8 November 2000 with limited liability and a wholly owned subsidiary of PolyU
“ANT-Option”	the option granted by the Company to Advance New Technology on 21 November 2001 to subscribe for such number of Shares that shall represent 2.5% of the issued share capital of the Company immediately after completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the ANT-Option and the options granted under the Share Option Schemes) at an exercise price equivalent to 90% of the Issue Price, which may be exercised at any time between the 1st and 3rd anniversary of the Listing Date, a summary of the principal terms of which is set out in Appendix IV to this prospectus
“ANT-Option Agreement”	the option agreement dated 21 November 2001 entered into between the Company and Advance New Technology in respect of the grant of the ANT-Option
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of Directors
“Caltex”	Caltex Oil Hong Kong Limited
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed “Written resolutions of all shareholders of the Company passed on 21 November 2001” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing

DEFINITIONS

“Celestial Capital” or “Sponsor”	Celestial Capital Limited, an investment adviser and dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and an approved sponsor for listing on GEM, and the sponsor to the Placing
“Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
“Company”	Eco-Tek Holdings Limited, a company incorporated on 6 December 2000 in the Cayman Islands with limited liability
“Director(s)”	the director(s) of the Company
“Dr. Chiang”	Dr. Lily Chiang, the founder of the Group and the Chairman of the Company
“Dr. Pau”	Dr. Pau Kwok Ping, the Managing Director of the Company
“Eco-Tek”	Eco-Tek Company Limited, a company incorporated in Hong Kong on 27 October 1999 with limited liability and a wholly-owned subsidiary of the Company
“Eco-Tek (BVI)”	Eco-Tek (BVI) Investment Holdings Limited, a company incorporated in the British Virgin Islands on 2 October 2000 with limited liability and a wholly-owned subsidiary of the Company
“Eco-Tek Technology”	Eco-Tek Technology Limited, a company incorporated in the British Virgin Islands on 9 November 2000 with limited liability and a wholly-owned subsidiary of the Company
“ <i>Eco-Trap</i> ”	the diesel particulate trap launched by the Group under the name of “ <i>Eco-Trap</i> 環康保” which consists of two different sizes, one for the installation in diesel vehicles of below 3,000 c.c. and the other for the installation in diesel vehicles of 3,000 c.c. or above
“EPD”	Environmental Protection Department of Hong Kong

DEFINITIONS

“Filter”	the vehicle emission filter initially developed by PolyU and Dr. Chiang
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM Website”	the Internet website of GEM operated by the Stock Exchange and located at <i>www.hkgem.com</i>
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Patent”	the Short-Term Patent No. HK1015620 granted by the Patents Registry of the Intellectual Property Department of Hong Kong to PolyU on 30 September 1999 in respect of a filter, which was further modified and developed by PolyU and Eco-Tek into <i>Eco-Trap</i> under a cooperative arrangement for a term of four years commencing from 12 July 1999 and renewable for a further term of four years
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Initial Management Shareholders”	collectively, Dr. Chiang, Peace City, Team Drive, Dr. Pau, Mr. Shah Tahir Hussain, Advance New Technology and PolyU
“Issue Price”	the price per Placing Share (exclusive of brokerage, the SFC transaction levy and the Stock Exchange trading fee) at which the Shares are to be subscribed and issued pursuant to the Placing, and which is expected to be not more than HK\$0.25 and not less than HK\$0.23, subject to determination as described in section headed “Structure and conditions of the Placing” in this prospectus
“Joint Lead Managers”	SBI E2-Capital Securities and Celestial Capital

DEFINITIONS

“Latest Practicable Date”	21 November 2001, being the latest practicable date for ascertaining certain information contained in this prospectus prior to its printing
“Listing Date”	the date on which trading in the Shares on GEM commences
“management shareholder”	has the meaning as ascribed thereto in the GEM Listing Rules
“Over-allotment Option”	the option granted by the Company to SBI E2-Capital Securities, exercisable by SBI E2-Capital Securities, pursuant to the Underwriting Agreement under which the Company may be required to issue up to 20,730,000 additional new Shares, representing 15% of the number of the Shares initially available for subscription under the Placing, to cover over-allocations in the Placing
“Patents”	Hong Kong Patent and PRC Patent
“Patent Applications”	the patent applications set out in the paragraph headed “Intellectual property rights of the Group” under the section headed “Statutory and general information” in Appendix IV to this prospectus
“Peace City”	Peace City Development Limited, a company incorporated in Hong Kong on 3 November 1989 with limited liability and wholly owned by Dr. Chiang
“Placing”	the conditional placing by the Underwriters of the Placing Shares with professional, institutional and private investors for cash at the Issue Price on and subject to the terms and conditions stated in this prospectus
“Placing Shares”	138,200,000 new Shares initially being offered by the Company for subscription under the Placing together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
“PolyU”	The Hong Kong Polytechnic University (香港理工大學)

DEFINITIONS

“Post-IPO Share Option Scheme”	the share option scheme adopted by the Company on 21 November 2001, the principal terms of which are summarised in the paragraph headed “Share Option Schemes – Post-IPO Share Option Scheme” under the section headed “Statutory and general information” in Appendix IV to this prospectus
“PRC”	the People’s Republic of China which for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC-EPA”	中華人民共和國國家環境保護總局 (State Environmental Protection Administration of the PRC), an organ directly under the State Council of the PRC responsible for environmental protection
“PRC Patent”	the Patent No. ZL99209774.6 granted by 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC) to PolyU on 26 February 2000 in respect of a filter, which was further modified and developed by PolyU and Eco-Tek into <i>Eco-Trap</i> under a cooperative arrangement for a term of 10 years commencing from 12 May 1999 and expiring on 11 May 2009
“Pre-IPO Share Option(s)”	option(s) granted by the Company pursuant to the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 21 November 2001, the principal terms of which are summarised in the paragraph headed “Share Option Schemes – Pre-IPO Share Option Scheme” under the section headed “Statutory and general information” in Appendix IV to this prospectus
“PTeC”	PolyU Technology & Consultancy Co. Limited, a company limited by guarantee incorporated in Hong Kong and wholly owned by PolyU
“Relevant Securities”	has the meaning ascribed thereto under Rule 13.15 of the GEM Listing Rules
“Reorganisation”	the corporate reorganisation of the Group in preparation for the listing of the Shares on GEM as described in the paragraph headed “Group reorganisation” under the section headed “Statutory and general information” in Appendix IV to this prospectus

DEFINITIONS

“SBI E2-Capital” or “Co-sponsor”	SBI E2-Capital (HK) Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the co-sponsor to the Placing
“SBI E2-Capital Securities”	SBI E2-Capital Securities Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and one of the Joint Lead Managers
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (as amended from time to time)
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company
“Share Option Schemes”	the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme
“SFC”	Securities and Futures Commission of Hong Kong
“Sponsors”	Celestial Capital and SBI E2-Capital
“Stock Borrowing Agreement”	the stock borrowing agreement dated 26 November 2001 and entered into between Team Drive and the Joint Lead Managers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Team Drive”	Team Drive Limited, a company incorporated in the British Virgin Islands on 14 March 2000 with limited liability and wholly owned by Peace City
“Underwriters”	SBI E2-Capital Securities, Celestial Capital, Kim Eng Securities (Hong Kong) Limited, Core Pacific-Yamaichi International (H.K.) Limited, First Shanghai Securities Limited, GC Securities Limited, ICEA Capital Limited, Kingston Securities Limited, Kingsway SW Securities Limited, OpenIBN (HK) Limited, Pacific Foundation Securities Limited, Quest Stockbrokers (HK) Limited and South China Securities Limited

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 23 November 2001 entered into between the Company, the executive Directors, the Initial Management Shareholders, the Sponsors, the Joint Lead Managers and the Underwriters in relation to the Placing, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“US” or “United States”	the United States of America
“Voluntary Installation and Subsidy Program”	a program launched by the EPD, which commenced on 18 August 2000 and expired on 17 October 2001, in relation to the provision of grants by the Hong Kong government to owners of diesel light vehicles including private diesel cars, light diesel buses and light diesel goods vehicles, which are up to gross weight of four tonnes and first registered on or before 31 March 1995, and diesel taxis first registered on or before 31 December 1995, to install particulate reduction devices
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“NT\$”	New Taiwan dollars, the lawful currency of Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“US\$” or “US dollars”	United States dollars, the lawful currency of the US
“%”	per cent.
“c.c.”	cubic centimetres
“kg/cm ² ”	kilogramme per square centimetre
“sq.ft.”	square feet
“sq.m.”	square metres
“g/m ³ ”	gramme per cubic metre

Unless otherwise specified in this prospectus, amounts denominated in US dollars, Renminbi and New Taiwan dollars have been translated, for the purpose of illustration only, into Hong Kong dollars at the respective rates of HK\$7.80 = US\$1.00, HK\$1.00 = RMB1.06 and HK\$1.00 = NT\$3.95. No representation is made that any amounts in US dollars, Renminbi, New Taiwan dollars or Hong Kong dollars could have been or could be converted at the above rates or at any other rates or at all.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“ANC”	active noise control, a technology which control circuit shifts sound waves up to 180 degrees, then the speaker output negative sound waves to cancel the noise received
“ASE”	active sound edge, the total system that tackles traffic noise. It consists of the location of the frame, microphones and speakers
“CO”	carbon monoxide
“CO ₂ ”	carbon dioxide
“Euro I, II, III”	European regulations for diesel engine emission introduced in 1992, 1995 and 1999 respectively
“HC”	hydrocarbons
“Hz”	Hertz
“LPG”	liquefied petroleum gas
“NO ₂ ”	nitrogen dioxide
“NO _x ”	nitrogen oxide
“O ₂ ”	oxygen
“O ₃ ”	ozone
“particulate”	particulate is any matter dispersed in the atmosphere whether solid or liquid
“RSP”	respirable suspended particulates, particulates in extremely small sizes which can be breathe in by human beings
“SO ₂ ”	sulphur dioxide
“SOF”	soluble organic fraction which is heavy hydrocarbons absorbed and condensed on the carbon particles
“TSP”	total suspended particulates

RISK FACTORS

An investment in the Placing Shares involves a high degree of risk and is speculative. Potential investors should consider carefully all of the information set out in this prospectus and, in particular, should evaluate the following risk factors and special considerations associated with an investment in the Group before making any investment decision in relation to the Group. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial could also have an adverse impact on the business, operating results and financial condition of the Group.

This prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions. The cautionary statements in this prospectus should be read as applicable to all forward-looking statements herein. The Group's future financial results or operations could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this prospectus.

RISKS RELATING TO THE GROUP

Reliance on limited commercialised products and limited geographical markets

Since its establishment, almost all the Group's revenue has been solely derived from the sale of *Eco-Trap* under the Voluntary Installation and Subsidy Program. As stated in the subsection headed "Risks relating to *Eco-Trap*" under this section, the continued success of *Eco-Trap* is dependent on a number of factors and there is no assurance that *Eco-Trap* can gain or continue to gain market acceptance in Hong Kong. In addition, as the suction filter and return line filter were only officially launched in May 2001 and are currently distributed in the PRC and Taiwan only, there is also no assurance that the suction filters and return line filters can capture any market and generate operating income for the Group. The Group plans to expand the market for *Eco-Trap* into the PRC, and to introduce new products, including diesel oxidation catalysts and soundproof barrier upon their successful development in the future. Any new products or services that appear to be promising at the early phases of development may fail to reach the market for a number of reasons, including the successful commercialisation of other technologies or inventions by competitors that impact on the viability or competitiveness of the Group's products and services and the Group's failure to anticipate or respond adequately to changes in technology and customer requirements in relation to environmental protection related products and services. Accordingly, there is no assurance that the Group is able to (i) diversify its product line or revenue source by developing and commercialising any or all of its products under development, including pressure line filter, soundproof barrier, diesel oxidation catalyst and waste plastic recycling or (ii) expand the markets for *Eco-Trap* and other products of the Group to overseas markets. The failure of the Group to expand the geographical market for *Eco-Trap* and other products of the Group and to develop and commercialise new products and services according to its business plans could have a material adverse effect on the business prospect, operating results and financial conditions of the Group.

RISK FACTORS

Reliance on government contracts

The Group's operating income is mainly derived from the sale and installation of *Eco-Trap* under the Voluntary Installation and Subsidy Program during the financial periods reported in this prospectus. For the year ended 31 October 2000 and the nine months ended 31 July 2001, the Group sold 1,241 and 12,446 units of *Eco-Trap* under the Voluntary Installation and Subsidy Program, which predominantly represent 100% and about 96% of the turnover generated during the respective periods. The Voluntary Installation and Subsidy Program expired on 17 October 2001. The Directors expect that the future operating income of the Group will be substantially dependent on the availability of government contracts for the supply of most of the Group's future products and/or services, such as the diesel oxidation catalysts and soundproof barrier. Notwithstanding the Hong Kong government has indicated its intention to support the installation of diesel oxidation catalysts on heavy diesel vehicles, the retrofitting of noise proof barrier on roads and flyovers and to conduct preliminary feasibility study for waste recycling in Hong Kong, as at the Latest Practicable Date, the government has not announced any official and concrete schedules for such plans. Accordingly, the Group's operating income recorded during the financial periods reported in this prospectus might not be indicative of its earning potential in the future. Further, there is no assurance that any or all of these plans will be implemented as expected by the Directors, the failure of carrying out any or all of such plans or any delay of which may have a material adverse effect on the business prospects and financial conditions of the Group. In addition, as government contracts of similar nature are normally not exclusive contracts, there is no assurance that the Group may successfully obtain the necessary government contracts for any or all of its new products, the failure of which may have a material adverse effect on the business prospects and profitability of the Group.

Limited operating history

The Group has only a limited operating history for investors to evaluate its business. The Group commenced its operations upon the establishment of its wholly-owned subsidiary, Eco-Tek, in October 1999. *Eco-Trap* was officially launched in September 2000 and suction filter and return line filter were only officially launched in May 2001. Due to the Group's limited operating history, its business strategy is unproven and there is no assurance that the Group will achieve its business objectives or that the Group will be able to compete successfully and its commercialised products will achieve market acceptance or otherwise address the risk factors disclosed in this prospectus. It is possible that the Group would generate operating losses in the foreseeable future due to a high level of planned operating and capital expenditures which may not be matched by a corresponding increase in revenue in the near term.

Limited insurance coverage

As a supplier of environmental protection related products which are mostly operated mechanically, the Group may face claims in relation to the function or mechanical structure of any of its products. Any product liability claim which may be brought against the Group may have an adverse effect on the Group. Although the Group has subscribed for general liability

RISK FACTORS

insurance which limit of liability amounts to HK\$10,000,000 in any one incident and in aggregate, there may be circumstances in which the Group will not be covered and/or compensated in full by its insurance in respect of claims and liabilities arising from or in connection with product liability. In such cases, the Group's business operation and profitability may be adversely affected.

Reliance on certain key management personnel

The Group's success is, to a large extent, attributable to the expertise and experience of Dr. Chiang, Dr. Pau and the Group's senior management. Each of the executive Directors has entered into a service agreement for an initial term of 3 years commencing from 21 November 2001. The loss of the services of any of these key management personnel may have a material adverse effect on the Group's business and results of operations.

Relationship with PolyU

The Group's existing product, *Eco-Trap*, was developed jointly by the Group and PolyU. The Group plans to work with PolyU on other potential environmental related projects. Eight representatives nominated by PolyU have joined the Group's research and development committee. Notwithstanding that there is a mutual understanding between the Group and PolyU to maintain future cooperation, no exclusive or contractual relationship has been established between the parties to govern their future cooperation. There is a risk that such relationship cannot be maintained, or that no fruitful results in terms of improvement of existing products and services of the Group or development of new ones evolve from such relationship. In addition, there is also a risk that PolyU could have economic or business interests or goals that are inconsistent with or even in competition with those of the Group. In such cases, the Group's ability to launch new products and services and its future prospects and business may be adversely affected.

Reliance on contractors

At present, the Group does not have its own production facilities and it wholly depends on independent third party contractors to manufacture all its products. For the year ended 31 October 2000 and the nine months ended 31 July 2001, the total purchase of the Group from these contractors amounted to approximately HK\$0.3 million and HK\$1.5 million respectively. As the Group plans to diversify its market as well as its products and services, there will be an increasing demand in the Group's products in terms of quality, quantity and variety.

As stated in the paragraph headed "Overall business objectives – Improvement in production capabilities" under the section headed "Business objectives and implementation plans" in this prospectus, the Group plans to establish its own production facilities in the PRC, which are expected to commence operation before second or third quarter of 2003. In the event that the production capacity of the Group's existing contractors is unable to meet the

RISK FACTORS

Group's increasing demand and the Group is unable to find suitable replacement contractors or the Group's production facilities in the PRC cannot commence operation on schedule, the Group's business may be adversely affected.

Implementation of business plans and strategies

Details of the Group's business plans and strategies are set out in the section headed "Business objectives and implementation plans" in this prospectus. The Directors have prepared the business plans and strategies after due consideration by reference to, among other things, their perceptions of the prospects of the environmental protection industry in Hong Kong, the PRC and other targeted markets for the Group's products and services. The Group's plans are based on developing and commercialising environmental protection related products and services that compete in terms of function, quality and price. The successful implementation of the Group's business plans and strategies depends on a number of factors including the availability of funds to the Group, government policies on environmental protection, and possible competition from alternative products and services and new entrants to the environmental protection industry. There is no assurance that all business plans and strategies of the Group can be implemented successfully as scheduled. The failure of the Group to implement any or all of its business plans and strategies may have a material adverse effect on the business prospects, operating results and financial condition of the Group.

Effective management of the expanding operations

The Directors anticipate that significant expansion in terms of headcount, facilities and infrastructure will be required to address the projected growth in the Group's business and the launch of the Group's new products in the future. Such expansion may place a significant strain on the Group's management, operational and financial resources.

To manage the expected growth of its operations and personnel, the Group will be required to improve existing and implement new management, operational and financial systems, procedures and controls, and to train and manage its growing employee base. The Group's failure to manage its expansion effectively could cause its expenses to grow at an unexpectedly fast rate and/or its revenues to grow more slowly than expected or even decline, and could otherwise have a material adverse effect on its business, operating results and financial condition.

Expansion into the PRC market

The planned expansion of the Group into the PRC market could also expose the business of the Group to a number of risks relating to the PRC including any adverse political and economic movements or situations, differences in regulatory requirements, potentially adverse tax consequences, export and import restrictions and controls, tariffs and other trade barrier burdens in complying with foreign laws and regulations and administrative difficulties in staffing and managing foreign operations.

RISK FACTORS

There can be no assurance that the PRC government will not seek to control or regulate the proposed business activities which the Group expects to carry out in the PRC. In addition, there can be no assurance that one or more of the factors discussed above will not have a material adverse effect on the Group's future PRC operations and, consequently, on the Group's overall business, operating results and financial condition.

Requirement for additional funds

The Directors consider that the Group will continue to require additional funds to conduct research and development of new products, and market its new products upon their successful development. Although the Directors believe that the Group's internally generated cashflow, together with the net proceeds of the Placing, will be sufficient to cover its expenditure and financing needs for the current financial year ending 31 October 2002 and the following two financial years ending 31 October 2004, the Group's expenditure and financing needs may grow faster than expected and the Group may therefore need to obtain additional financing in future. The failure of the Group to obtain additional financing or to finance itself through the cashflow generated from its business, in particular, the successful commercial launch of any or all of its products under development, could have a material adverse effect on the business, operating results and financial condition of the Group.

Use of intellectual property rights

As the Group continues to introduce new products and services that require the employment of new technologies, the Directors believe that the Group may be adversely affected by the following risks:

- *The Group may not be able to obtain technology licences*

The Directors anticipate that the Group may need to obtain technology licences to use third party technologies in future. There is no assurance that these technology licences will be available to the Group. Furthermore, the Group may be required to pay a substantial amount of consideration for any such technology licences. In either event, the terms of such technology licences could be comprised of less favourable terms to the Group or the introduction of new products and services by the Group could be delayed, which could in turn materially and adversely affect the business and financial conditions of the Group.

- *The Group may inadvertently infringe on the intellectual property rights of others and face liabilities for such infringements*

It is possible that in the course of employing technology not developed by the Group, the Group may inadvertently infringe on the intellectual property rights of others and face liabilities for such infringements. The Group may also be exposed to infringement claims as the number of products and competitors in the environmental protection industry grows and the functionality of products and services in the market overlaps. Any of these claims, regardless of its merits, could result in costly litigation.

RISK FACTORS

- *There can be no assurance that steps taken by the Group will prevent misappropriation or infringement of its licensed or patented technology*

It is possible that a third party may misappropriate or obtain unauthorised use of the Group's licensed or patented technology. In addition, there are territories where effective copyright, trademark and trade secret protection may not be available or limited. Policing unauthorised use of the licensed or patented technology of the Group may be difficult and costly and there can be no assurance that any steps taken by the Group will effectively prevent any such misappropriation or infringement from occurring.

Use of proceeds from the Placing

The business plans of the Group as described in the section headed "Business objectives and implementation plans" in this prospectus are based on various bases and assumptions made by the Directors which, by their nature, are subject to uncertainty and there is no assurance that the business plans of the Group will materialise as scheduled. If any part or parts of the business plans of the Group does/do not materialise or proceed as planned, the net proceeds of the Placing may not be utilised as described in the section headed "Use of proceeds" in this prospectus and the Directors may need to reallocate the relevant intended part of the net proceeds of the Placing to other business plans or projects of the Group or hold such amount as short term deposits so long as the Directors consider such reallocation of proceeds is in the best interests of the Group. If there are any material changes to the use of proceeds of the Placing, an appropriate announcement will be made by the Company.

RISKS RELATING TO *ECO-TRAP*

Future marketability of *Eco-Trap*

During the financial periods reported in this prospectus, nearly all of the customers of *Eco-Trap* are subsidised by the Hong Kong government under the Voluntary Installation and Subsidy Program, which had expired in October 2001. There is no assurance that the Group will be able to sell *Eco-Trap* to non-subsidised private diesel car owners successfully after the expiration of the Voluntary Installation and Subsidy Program or the revenue income derived from the sale of *Eco-Trap* to non-subsidised private diesel car owners successfully can be sustained after the expiration of the Voluntary Installation and Subsidy Program. The failure of the Group to market *Eco-Trap* after the end of the Voluntary Installation and Subsidy Program could have a material adverse impact on the business, operating results and financial condition of the Group.

RISK FACTORS

Technological advancement in the manufacture of diesel light vehicles and the gradual replacement of diesel vehicles

All of the pre-Euro standard models were manufactured and launched before 1995. These pre-Euro standard diesel light vehicles have been replaced or are expected to be replaced gradually by advanced models with improved engine and emission control design. For instance, approximately 70% of the diesel taxis in Hong Kong have been replaced by LPG taxis, which are powered by LPG, a cleaner source of energy, up to the Latest Practicable Date. Accordingly, the product life of *Eco-Trap* may be shortened by the introduction of such new models of vehicles or the replacement of diesel vehicles by vehicles powered by cleaner source of energy. If the Group is unable to expand the overseas markets for *Eco-Trap* or to diversify its product line and revenue source by developing and commercialising any or all of its products under development as set out in the section headed “Business objectives and implementation plans” of this prospectus, the business prospects and financial condition of the Group may be adversely affected.

Changes of government policy on emission control

In 1999, there were about 159,000 diesel vehicles in Hong Kong. In order to improve the air quality, it is the current intention of the Hong Kong government to impose tighter control over vehicle emission in the coming years. However, if any new policies, laws and regulations or changes to any existing policies, laws and regulations are introduced to relax or lessen the control over vehicle emission, the sales of *Eco-Trap* will be adversely affected which may, in turn, adversely affect the business, operating results and financial condition of the Group.

Furthermore, the Hong Kong government has indicated its intention to replace all diesel taxis and light buses by other alternative cleaner modes of transport, such as LPG vehicles, by 2005. Should the Hong Kong government accelerate the imposition of such replacement, the product life of *Eco-Trap* may be shortened which may in turn have an adverse impact on the Group’s business, operating profit and financial condition.

RISKS RELATING TO THE INDUSTRY

Product substitution

The environmental protection industry is subject to changes in technology. New technological developments which may impact on the Group’s products and services, and other aspects of the Group’s operations are expected to continue at a rapid pace. It is difficult to predict the effect of emerging and future technological changes and inventions on the viability or competitiveness of *Eco-Trap* and other environmental protection related products and services of the Group in the development pipeline. It is essential for the Group to respond to these changes and inventions by enhancing its existing products and services and developing

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new ones in a timely manner to meet or anticipate technological advances in the market. In addition, new alliances may have to be formed with new technological partners to enable the Group to have access to emerging technologies and new industry standards. The Group has to adopt and modify development methods, processes and programs in response to new technologies and industry standards. The failure of the Group to respond rapidly to changing technologies and new industry standards could have a material and adverse impact on the business and the prospects of the Group.

Competition

As different kinds of environmental protection related products will be required to control different nature of pollution problems, the market for the environmental protection products is fragmented. While the entry barriers to the industry in terms of technological development and marketing capability are high, there is a proliferation of companies and institutions offering or developing environmental protection related products and services. The growing potential of the market is also expected to attract a number of new entrants. As the market is still evolving, new entrants may better position themselves to compete in this market.

New entrants to the environmental protection industry may have substantially more capital, research and development and marketing capability and experience than the Group. These competitors may succeed in developing products and services that are more effective or less costly than those developed by the Group.

Any increase in competition could result in price reduction which erodes the Group's market share and have an adverse impact on the Group's business.

Legal framework governing the industry

The environmental protection industry is developing continuously. Laws, regulations and policies (including such policies supporting the research, development and launch of environmental protection products) may be introduced to govern various aspects of the industry including controls over air, noise and water pollution. In particular, the interpretation and enforcement of any existing laws and regulations may change.

The introduction of any new laws, regulations and policies or changes to any existing laws, regulations and policies (including such policies that support the research, development and launch of environmental protection products) that impose more stringent product standards and specifications to the Group's existing products and services or those under development would have an adverse impact on the Group's business and operations as the development, commercialisation and the sale of the Group's products depend, to a great extent, on the supportive laws, regulations and policies.

RISK FACTORS

MACRO RISKS

Possible impact arising from the attack at the World Trade Centre in New York, the US, on 11 September 2001

The attack at the World Trade Centre in New York, the US, on 11 September 2001 is generally expected to exert considerable direct and indirect influence on the global economy. It is also generally expected among economists and analysts that further short-term growth of global economy may slow down. If such economic slow-down takes place in the near future, the overall economy of Hong Kong and other targeted markets of the Group's products may be adversely affected which, in turn, could have an adverse impact on the performance and profitability of the Group.

Political and economic risks associated with doing business in Hong Kong

Most of the facilities and operations of the Group are currently located in Hong Kong. Accordingly, the Group's results of operations, financial position and prospects are, to a significant degree, subject to the economic, political and legal system developments in Hong Kong. On 1 July 1997, Hong Kong became a Special Administrative Region of the PRC when the PRC resumed the exercise of sovereignty over Hong Kong. The basic policies of the PRC regarding Hong Kong are embodied in the Basic Law of Hong Kong, which was adopted by the National People's Congress of the PRC on 4 April 1990 and came into effect on 1 July 1997. The Basic Law provides that Hong Kong will have a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of the final adjudication, in accordance with the provisions of the Basic Law. Under the principle of "one country, two systems", the socialist system and policies will not be practiced in Hong Kong, and the previous capitalist system and way of life shall remain unchanged for 50 years. There can be no assurance that the economic, political and legal system developments in Hong Kong will not adversely affect the Company's operations.

The US dollar: Hong Kong dollar exchange rate has remained stable since 1983 due to the US dollar peg and currency board system that have been in effect in Hong Kong. As a result of the Asian financial crisis commenced from mid-1997, interest rates in Hong Kong rose significantly, real estate values and retail sales declined and the Hong Kong economy went into recession until the second quarter of 1999. Also, Hong Kong has been suffering from deflation. The Hong Kong dollar was subject to currency speculation in 1998 and the Hong Kong government supported the market for the Hong Kong dollar, both directly and indirectly through the purchase of securities listed on the Stock Exchange in 1998. There can be no assurance that such economic factors will not recur or that the currency peg of the Hong Kong dollar to the US dollar will be maintained. Recurrence of recession in Hong Kong, continuing deflation or the discontinuation of the currency peg could materially and adversely affect the business, financial condition and operating results of the Group.

RISK FACTORS

Foreign exchange exposure

Historically, all revenues, expenses and liabilities of the Group have been settled in US dollars and Hong Kong dollars. The Group plans to conduct operations and businesses which could generate revenues and incur expenses and liabilities in other currencies such as Renminbi in future. As a result, the Group will be subject to fluctuations in the exchange rates and such fluctuations could have a material adverse effect on the business, financial condition and operations of the Group.

Political and economic risks associated with doing business in the PRC

The PRC economy has traditionally been a planned economy. Five-year State Plans have been adopted by the PRC government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the PRC's industrial output, in general, the PRC government has been reducing the level of direct control which it exercises over the economy through State Plans and other measures, and there has been an increasing degree of liberalisation in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a socialist market economy. However, there is no assurance that the PRC government will not change its policies on economic development. Any change in such policies could have adverse effect on the political and economic environment of the PRC which could affect the operations and business prospects of the Group in the PRC adversely.

During the last two decades, the PRC government has been reforming, and is expected to continue to reform its economic and political systems. Many of the reforms are unprecedented or experimental and are expected to be refined and improved upon. Other political, economic and social factors may also lead to further readjustments of the reform measures. Any implementation of new reforms and readjustments of the existing reform measures by the PRC government in future may lead to changes in the PRC's laws and regulations (or the interpretation thereof) and any such changes may in turn affect the Group's operations and business prospects in the PRC adversely.

The PRC economy has experienced growth in the last five years. However, the PRC government has implemented from time to time various policies and measures to regulate the economic expansion and control the resultant inflation with a view to prevent overheating of its economy. There is no assurance that the PRC government will not implement these regulatory and controlling policies and measures again in the future. Although the Group could benefit from the lessening of inflation, certain of such policies and measures or any other actions by the PRC government could have a material adverse effect on the economic conditions in the PRC as well as the operations and business prospects of the Group in the PRC.

With effect from 1 January 1994, the PRC government abolished its two-tier exchange rate system and replaced it with a unified floating exchange rate system largely based on market supply and demand of currencies. Since the introduction of this unified floating rate

RISK FACTORS

system, movements in the exchange rate of the Renminbi against other currencies, such as US dollars, are to some extent subject to market forces. Despite such developments, Renminbi is still not a freely convertible currency. In addition, there is no assurance that Renminbi will not be subject to devaluation or depreciation due to administrative or legislative intervention by the PRC government or adverse market conditions, or a shortage in the availability of foreign currency in the PRC will not occur. The value of the Group's proposed investment and the profitability of its future operations and businesses in the PRC may be adversely affected by any devaluation or depreciation of Renminbi.

RISKS RELATING TO THE SHARES

Trading market for Shares and volatility in market price

An active trading market for the Shares may not develop and the trading price for the Shares may fluctuate significantly. Prior to the Placing, there has been no public market for any of the Shares. The Issue Price was determined after negotiation between the Group and the Underwriters. The Issue Price may not be indicative of the price at which the Shares will be traded following completion of the Placing, and the market price of the Shares may decline below the Issue Price thereafter. In addition, there can be no guarantee that an active trading market for Shares will develop, or, if it does develop, that it will be sustained following the completion of the Placing.

The trading price of the Shares would also be subject to significant volatility in response to, among other factors:

- investors' perception of the Group and the Group's business plans, products and services;
- developments in the environmental protection industry;
- announcements of new products or services by the Group;
- technological and production innovations in relation to environmental protection industry;
- changes in pricing made by the Group, the Group's competitors or providers of alternative environmental protection related products and services;
- changes in senior management of the Group;
- changes in policies towards environmental protection by the Hong Kong government and other governments;
- changes in share prices of other companies in the environmental protection sector;

RISK FACTORS

- the depth and liquidity of the market for the Shares and the development of GEM as a stock market; and

- general economic and other factors.

Dilution of shareholders' interests in the Company

The Group may need to raise additional funds in future to finance, among other things, expansion of or new developments relating to its existing and planned operations or new acquisitions. If additional funds are raised through the issue of new Shares or securities or equity-linked securities of the Company other than on a pro rata basis to the then existing shareholders of the Company, the percentage ownership of these shareholders may be reduced so that their interests in the Company may be diluted, or such securities may have rights, preferences and privileges senior to those of the Company's then existing Shares in issue.

Without the approval of the Stock Exchange, no further Shares or securities convertible into equity securities of the Company may be issued or form the subject of any agreement to issue within the first six months of the Listing Date, pursuant to Rule 17.29 of the GEM Listing Rules. For the avoidance of doubt, no waiver from compliance with such requirement has been sought as at the Latest Practicable Date.

The Group has in place the Pre-IPO Share Option Scheme and the ANT-Option Agreement under which options in aggregate of 110,560,000 Shares were outstanding as at the Latest Practicable Date. The full exercise of these options would result in the issue of 110,560,000 Shares, representing approximately 20% of the issued share capital of the Company immediately following listing (and before the issue of Shares pursuant to any exercise of the Over-allotment Option or ANT-Option or any options granted under the Post-IPO Share Option Scheme). This would result in a reduction in the percentage ownership of the shareholders and may result in dilution in the assets and earnings per Share.

The Group has also in place the Post-IPO Share Option Scheme under which options may be granted after listing of the Shares. The exercise of the options granted under the Post-IPO Share Option Scheme to subscribe for new Shares would result in a reduction in the percentage ownership of the shareholders of the Company.

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

For the purpose of the listing of the Shares on GEM, the Company has sought the following waivers from the GEM Listing Committee and the SFC in connection with certain requirements under the GEM Listing Rules and the Companies Ordinance respectively. Details of such waivers are described below.

Two years active business pursuits

Pursuant to Rule 11.12 of the GEM Listing Rules, unless a new applicant satisfies the conditions specified in Rule 11.12(3), it must demonstrate that, throughout the period of at least 24 months immediately preceding the date of submission of the listing application by the new applicant, it has, either by itself or through one or more of its subsidiaries, actively pursued one focused line of business under substantially the same management and ownership as existing at the time of application for listing.

The Group was founded on 27 October 1999 upon the incorporation of Eco-Tek. Eco-Tek and PolyU signed a memorandum of intent on 10 February 2000 for the grant of an exclusive licence to Eco-Tek to manufacture, distribute, sell and install the modified version of the Filter in Hong Kong and the PRC. In addition, from February 2000, the Group commenced preparation for tender for the installation of diesel particulate reduction device under the Voluntary Installation and Subsidy Program and procurement of the distribution and installation of Eco-Trap by Caltex Gas stations. Eco-Tek is the main operating subsidiary of the Group. Hence, the Group has only about 21 months' active business pursuits before the date of this prospectus and does not have 24 months' active business pursuits as required under Rule 11.12 of the GEM Listing Rules. In addition, the Group does not satisfy the conditions specified in Rule 11.12(3) of the GEM Listing Rules.

The Company has applied for a waiver from strict compliance with Rule 11.12 of the GEM Listing Rules from the Stock Exchange. The Stock Exchange has granted such waiver so that the statement of active business pursuits covers only the period from 27 October 1999 to the Latest Practicable Date.

Financial periods

Pursuant to Rules 7.03(1) and 11.10 of the GEM Listing Rules, unless the Company satisfies the conditions specified in Rule 11.12(3), it is required to include in this prospectus an accountants' report covering at least the two financial years immediately preceding the issue of this prospectus. As the financial year of the Group ends on 31 October, it is also required to include in this prospectus an accountants' report in respect of the financial year ended on 31 October 2001 so as to comply with Rules 7.03(1) and 11.10 of the GEM Listing Rules.

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

As stated in the above paragraph headed “Two years active business pursuits”, the Group was founded on 27 October 1999 upon the incorporation of Eco-Tek. In addition, the Group does not satisfy the conditions specified in Rule 11.12(3) of the GEM Listing Rules. The Company has applied for waivers from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules from the Stock Exchange. The Stock Exchange has granted such waivers so that the accountants’ report covers only the period from 27 October 1999 to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, save as disclosed in this prospectus, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 1 August 2001, and there is no event which would materially affect the information shown in the accountants’ report of the Group as set out in Appendix I to this prospectus.

Companies Ordinance waiver

The Company has also sought a waiver from the SFC in relation to certain requirements under the Companies Ordinance.

According to paragraph 27 of Part I of the Third Schedule of the Companies Ordinance (“Paragraph 27”) as amended by the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (L.N.76 of 2001) (“Exempt Notice”), the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the two preceding years.

According to paragraph 31 of Part II of the Third Schedule of the Companies Ordinance (“Paragraph 31”) as amended by the Exempt Notice, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group for each of the two financial years immediately preceding the issue of this prospectus.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that save as disclosed in this prospectus, there has been no material adverse change in the financial position of the Group since 1 August 2001 up to the date of this prospectus, and there is no event which would materially affect the information shown in the accountants’ report set out in Appendix I to this prospectus.

The SFC has granted a waiver in relation to Paragraph 27 and Paragraph 31 so that the Group is only required to include in this prospectus its trading record, financial results and information covering the period from 27 October 1999 to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

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

THE PLACING IS FULLY UNDERWRITTEN

The Placing comprises an offer by the Company of a total of 138,200,000 new Shares for subscription, at the Issue Price. The Placing is sponsored by Celestial Capital and co-sponsored by SBI E2-Capital, managed by the Joint Lead Managers and is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement. Please refer to the section headed "Underwriting" in this prospectus for further details in relation to the underwriting arrangement.

PLACING SHARES TO BE OFFERED IN CERTAIN JURISDICTIONS ONLY

Hong Kong

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

The Placing Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information or representation not contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorised by any member of the Group, the Sponsor, the Co-sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person involved in the Placing.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Singapore

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore. Accordingly, this prospectus and any other offering document or materials in connection with the Placing may not be issued, circulated or distributed in Singapore nor may any of the Placing Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Placing Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 106C of the Singapore Companies Act (Chapter 50); or (b) otherwise pursuant to, and in accordance with the conditions of any other relevant provision of the Singapore Companies Act. The Registrar of Companies and Businesses in Singapore takes no responsibility as to the contents of this prospectus.

Cayman Islands

No invitation may be made directly or indirectly by or on behalf of the Company to the public in the Cayman Islands to subscribe for or acquire any of the Placing Shares.

Each person acquiring the Placing Shares will be required to or deemed by its acquisition of the Placing Shares to confirm that it is aware of the restrictions on offers of the Placing Shares described in this prospectus.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, its existing issued Shares, the Shares to be issued pursuant to the Placing and the Capitalisation Issue, any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the ANT-Option, and any shares which may fall to be issued upon exercise of options granted under the Share Option Schemes.

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

HONG KONG SHARE REGISTER

All Shares in issue and to be issued as mentioned in this prospectus will be registered on the Company's register of members to be maintained by the share registrar in Hong Kong, Tengis Limited.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Placing Shares, you should consult an expert.

None of any member of the Company, the Sponsor, the Co-sponsor, the Underwriters, any of their respective directors and any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Placing Shares.

STAMP DUTY

Dealings in the Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

STRUCTURE OF THE PLACING

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

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on GEM by the Stock Exchange as well as the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date Hongkong Clearing chooses.

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

DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence on 5 December 2001.

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

The Company will not issue any temporary documents of title.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Dr. CHIANG Lily	Flat A 1st Floor 47 Stubbs Road Hong Kong	British
Dr. PAU Kwok Ping	Flat A Ground Floor No. 17 Fa Po Street Village Garden Yau Yat Chuen Kowloon Hong Kong	British
Mr. SHAH Tahir Hussain	Flat B 5th Floor Valley Ville No. 4B Wong Nei Chung Gap Road Hong Kong	British
<i>Non-executive Directors</i>		
Dr. LUI Sun Wing	Flat 2 1st Floor Block B Peninsula Height 63 Broadcast Drive Kowloon Tong Kowloon Hong Kong	Chinese
Mr. YOUNG Meng Cheung Andrew	No. 99 18th Street Hong Lok Yuen Tai Po New Territories Hong Kong	Australian

DIRECTORS

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Mr. CHENG Ming Fun Paul	30B Century Tower I No. 1 Tregunter Path Hong Kong	United States
Dr. WOON Yi Teng Eden	18B Tregunter Tower II 14 Tregunter Path Hong Kong	United States

PARTIES INVOLVED IN THE PLACING

Sponsor	Celestial Capital Limited 21st Floor The Center 99 Queen's Road Central Hong Kong
Co-sponsor	SBI E2-Capital (HK) Limited 4th Floor Henley Building 5 Queen's Road Central Hong Kong
Joint Lead Managers	SBI E2-Capital Securities Limited 20th Floor Henley Building 5 Queen's Road Central Hong Kong Celestial Capital Limited 21st Floor The Center 99 Queen's Road Central Hong Kong
Co-lead manager	Kim Eng Securities (Hong Kong) Limited 8th Floor, Alexandra House 16-20 Chater Road Central, Hong Kong
Co-managers	Core Pacific – Yamaichi International (H.K.) Limited 30th Floor, Two Pacific Place 88 Queensway Hong Kong First Shanghai Securities Limited 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong GC Securities Limited Unit 6501-6, The Center 99 Queen's Road Central Hong Kong

PARTIES INVOLVED IN THE PLACING

ICEA Capital Limited
42nd Floor, Jardine House
1 Connaught Place
Central, Hong Kong

Kingston Securities Limited
Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Kingsway SW Securities Limited
5th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong

OpenIBN (HK) Limited
4th Floor
Henley Building
5 Queen's Road Central
Hong Kong

Pacific Foundation Securities Limited
Room 702, New World Tower I
16-18 Queen's Road Central
Hong Kong

Quest Stockbrokers (HK) Limited
Unit 2302 and 24th Floor
Onfem Tower
29 Wyndham Street
Central, Hong Kong

South China Securities Limited
28th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

PARTIES INVOLVED IN THE PLACING

Legal advisers to the Company

as to Hong Kong Law:

Fong & Ng
8th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

as to Cayman Islands Law:

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

Legal advisers to the Underwriters

Chiu & Partners
41st Floor
Jardine House
1 Connaught Place
Hong Kong

Reporting accountants and auditors

Ernst & Young
Certified Public Accountants
15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

Property valuer

Chesterton Petty Ltd.
16th Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	Flat B Ground Floor Fu Hop Factory Building Nos. 209 and 211 Wai Yip Street Kowloon Hong Kong
Website address	<i>www.eco-tek.com.hk</i> (information on this website does not form part of this prospectus)
Company secretary	Mr. TSUI Siu Chuen FCCA, AHKSA
Authorised representatives	Dr. PAU Kwok Ping Flat A Ground Floor No.17 Fa Po Street Village Garden Yau Yat Chuen Kowloon Hong Kong Mr. TSUI Siu Chuen FCCA, AHKSA Flat H 33rd Floor Tower 3 Island Resort Hong Kong
Compliance officer	Dr. PAU Kwok Ping
Qualified accountant	Mr. TSUI Siu Chuen FCCA, AHKSA
Audit committee	Mr. CHENG Ming Fun Paul Dr. WOON Yi Teng Eden

CORPORATE INFORMATION

Principal banker

Standard Chartered Bank
Kwun Tong Branch
13th Floor
Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

Hong Kong share registrar

Tengis Limited
4th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

INDUSTRY OVERVIEW

The information provided in this section is derived from various private and/or government publications and publicly available documents. This information has not been prepared or independently verified by the Company, the Sponsor, the Co-sponsor, the Joint Lead Managers and the Underwriters or any of their respective advisers or affiliates, or any other parties involved in the Placing.

INTRODUCTION

Over the past decade, environmental protection has attracted increasing worldwide attention. In general, people of developed countries and fast growing developing countries have created and accumulated more wealth than the other developing countries. The growing affluence of people leads to demands for a better quality of living environment and results in creation of initiatives for promoting environmental protection. In addition, various kinds of environmental pollution not only cause negative effects on the environment but also have a long term deteriorating impact on the earth.

The provision of environmental protection solutions are generally carried out in two aspects: to abate the existing environmental problems and to provide environment friendly products which help to prevent further environmental problems.

ENVIRONMENTAL PROBLEMS IN HONG KONG

Throughout the 1970s and 1980s, industrial pollution pervaded local waters and local air. Since then, Hong Kong has become an important financial center in the region and no longer heavily depends on the manufacturing industry. However, pollution problems in Hong Kong have yet to be resolved. The development of Hong Kong's economy, together with the geographical limitation and population pressure on Hong Kong, has intensified the pollution problems.

Hong Kong is a small place with enormous pressures on its environment. Its population has grown by at least one million people every decade over the past fifty years. There are now over 6.97 million people crammed into about 1,000 square kilometres, who all need housing, water and other living necessities.

At the same time, the economy of Hong Kong has burst forth with its demands for land in housing the population and in accommodating the business establishments growing rapidly. The increase in road traffic has led to the construction of more roads.

The consequence of the rapid development of the overall economy of Hong Kong is that infrastructure and building constructions have been built speedily over the past 20 years, but many such developments did not properly consider the negative consequential impacts on the environment.

INDUSTRY OVERVIEW

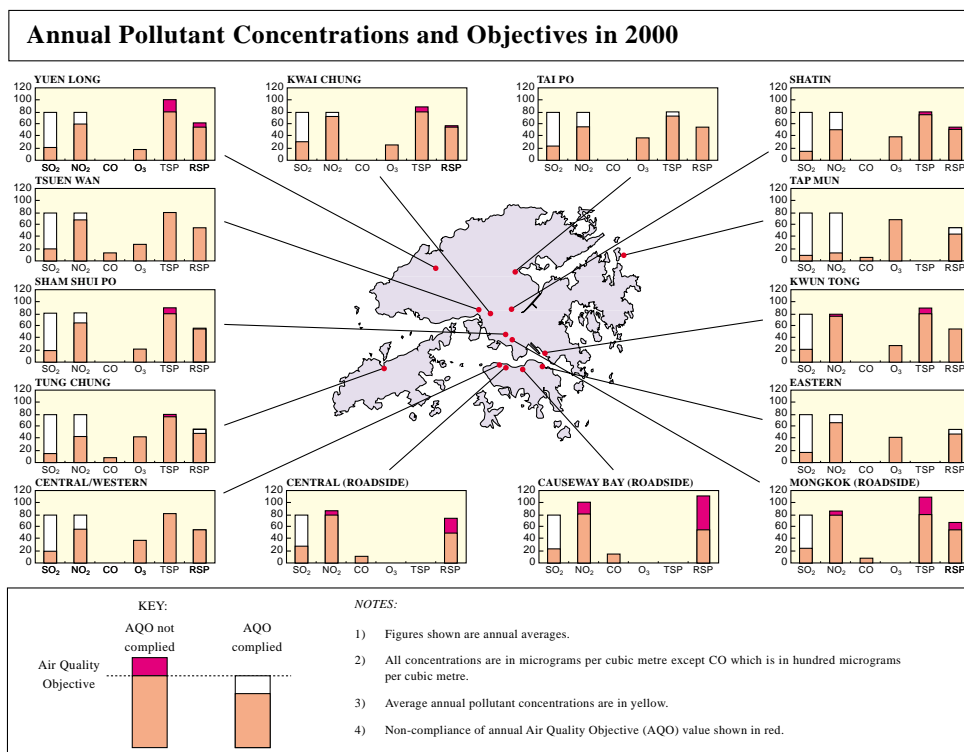
Today the environmental problems in Hong Kong are so severe that both the government and the community have paid more attention to the issue. It is clear that pollution brings about health hazard to the citizens. Moreover, acute pollution problems will inevitably give travellers and international investors a negative impression of Hong Kong which in turn may hinder the development of tourism and deter the establishment of business operation in Hong Kong. In response to these various concerns, the 1999 Policy Address of the Chief Executive of Hong Kong was the first time that the environment had ever been figured so prominently in a high-level policy announcement. Both short and long-term strategies to tackle the pollution problems and to protect the environment from future damages were laid down in the Policy Address.

Air pollution: Problems caused by diesel vehicles

Pollution at street level, mainly caused by vehicle emissions, has been cited as one of the major causes of air quality deterioration in Hong Kong. As compared with other cities in developed countries, the average road utilisation rate in Hong Kong is at a level which is four and five times higher than the respective rates in Japan and the United Kingdom. 30% of existing fleet of vehicles in Hong Kong are diesel-powered while there are only 17% and 10% of existing fleet of vehicles in Singapore and the United Kingdom respectively are diesel-powered. Diesel vehicles account for nearly 70% of the total distance travelled on roads in Hong Kong. Hence, diesel vehicles account for about 52% of the respirable particulates and for about 60% of the ambient nitrogen oxide in the air throughout the urban area in Hong Kong. The average level of respirable particulates in Hong Kong, as recorded at most of the air quality monitoring stations operated by the EPD, is about 50% higher than that in New York. The average level of respirable particulates in Hong Kong also consistently approaches or exceeds the maximum level laid down in the Air Quality Objectives of the Hong Kong government. (Source: The 1999 Policy Address of the Chief Executive, Tung Chee-hwa)

INDUSTRY OVERVIEW

Figure 1 below shows the comparison between the annual average pollutant concentration for 1999 collected by the EPD at its air quality monitoring stations and the Air Quality Objectives established by the Hong Kong government in 1987 under the Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong).



Glossary used in Figure 1:

“AQO”	Air Quality Objective established by the Hong Kong government in 1987
“CO”	carbon monoxide
“NO ₂ ”	nitrogen dioxide
“O ₃ ”	ozone
“RSP”	respirable suspended particulates
“SO ₂ ”	sulphur dioxide
“TSP”	total suspended particulates

Figure 1: Annual average pollutant concentrations and objectives in 2000
(Source: 2001 annual report of EPD: “Environment Hong Kong 2001”)

The above Figure 1 shows that the average level of respirable suspended particulate in Hong Kong is not acceptable according to the Air Quality Objectives.

Respirable suspended particulates are pollutants which can damage human lungs and have been linked in studies with higher death rates of human beings. The Hong Kong government considers that one of the key methods to prevent and abate air pollution at street level is to control the use of diesel vehicles which emissions is one of the major causes of air quality deterioration in Hong Kong. To this end, reducing the emission level of diesel vehicles and to gradually phase out diesel vehicle with vehicles powered by other cleaner source of energy, such as LPG or electricity and other measures have to be implemented.

INDUSTRY OVERVIEW

The European emission standard for diesel, petrol and new vehicles and the Euro norms such as Euro I, Euro II and Euro III under European emission standard, which refer to different levels of permissible emission standards of vehicles, have been adopted and commonly referred to in Hong Kong. Each subsequent standard has a stricter emission standard than the previous one. In Hong Kong, all newly registered vehicles have to comply with stringent emission standards since 1995 and the emission standards have been progressively tightened. The Euro I standard was adopted in 1995 and the Euro II standard was adopted by various stages since 1997. The emission standard has been further tightened to Euro III standards in January 2001 for new vehicles up to 2.5 tonnes and legislation requiring the compliance of Euro III standard by new vehicles over 3.5 tonnes is expected to come into effect in late 2001. For the new vehicles weighted not more than 3.5 tonnes, the requirement for complying with Euro III standard will come into effect in January 2002.

As short to medium-term measures to deal with air pollution caused by diesel vehicles in Hong Kong, the Hong Kong government has launched the Voluntary Installation and Subsidy Program in September 2000. Under the program, the Hong Kong government provides grants to about 42,000 diesel light vehicle owners to install particulate reduction devices for their pre-Euro standard diesel vehicles. Eligible grantees under the program are owners of private diesel cars, light diesel buses and light diesel goods vehicles with a gross weight up to four tonnes and first registered on or before 31 March 1995, as well as diesel taxis first registered on or before 31 December 1995. For diesel heavy vehicles which are above a gross weight of four tonnes, the Hong Kong government proposes to assist their owners to install diesel oxidation catalysts in 2001. As at the Latest Practicable Date, no official announcement has been made by the Hong Kong Government in respect of the official launch of any subsidy program to heavy diesel vehicles owners for the installation of diesel oxidation catalysts. In 1999, there were about 50,000 diesel heavy vehicles in Hong Kong.

The Hong Kong government plans that commencing from around 2002, all pre-Euro standard diesel vehicles, which are diesel vehicles produced before the introduction of Euro I standard in 1992, will be required to be retrofitted with diesel oxidation catalysts or particulate traps before renewing their registration. Since January 2001, the Hong Kong government has adopted the more stringent Euro III emission standard and no new diesel vehicle may be imported unless it complies with the Euro III emission standard.

To complement the measures of emission standards, the Hong Kong government has also launched stricter enforcement actions. Starting from 1 November 2000, all fuel consuming vehicles (except motorcycles, motor tricycles and vehicles manufactured before 1 January 1975) have been required to have their exhaust emissions tested in their annual roadworthiness test. In addition, the fixed penalty for smoky vehicles was increased from HK\$450 to HK\$1,000 with effect from 1 December 2000.

Noise pollution

The Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) was introduced in 1989 to control noise pollution. Under the Ordinance, noise from construction sites, intruder alarm systems installed in any premises or vehicle and noise from domestic premises and public places are generally controlled and breaches of the Ordinance are considered as committing offences. In addition, manufacturing and/or use of noisy equipment emitting noise in excess of the standard prescribed under the Ordinance is also an offence. Despite the enactment of the Ordinance, 10,000 complaints in relation to noise pollution were recorded in 1999.

Apart from the above-mentioned sources of noise pollution, noises created by road traffic and aircraft traffic are also major sources of noise pollution in the urban areas. The noise pollution created by aircraft was substantially alleviated by the relocation of the airport in Kai Tak to Chek Lap Kok in 1998. Since the move of the airport from Kai Tak to Chek Lap Kok, less than 200 persons are affected by aircraft noise above generally accepted standards of about 65 to 70 dB(A) in accordance to the updated statistics contained in “Environment Hong Kong 2001”, as compared with 380,000 persons affected before the relocation of the airport.

Hence, noise from ground transport is currently the major concern of the Hong Kong government among the other sources of noise pollution. It was estimated by the EPD in 1999 that about one million people or more than 15% of the population in Hong Kong is exposed to road traffic noise of about 70 dB(A). As shown in Figure 2 below, the level of population exposed to road traffic noise (above 65 dB(A)) ranked third among those countries included in the chart.

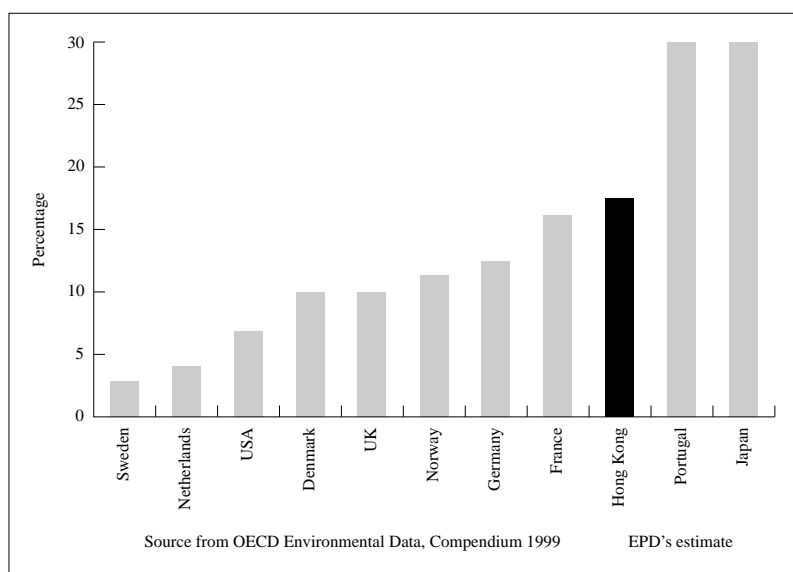


Figure 2: Proportion of population exposed to road traffic noise (above 65 decibel in “A” scale per day) (Source: 2000 annual report of EPD: “Environment Hong Kong 2000”)

INDUSTRY OVERVIEW

Similar to aircraft noise, road traffic noise in Hong Kong is also a planning problem. Busy highways run through the middle of residential districts at the eye-level to people's living rooms. Railway yards are erected next to residential blocks. But unlike the airport, the roads and railways cannot be removed, and it would severely limit economic activity to restrict their hours of usage. Other solutions have had to be found.

Road traffic noise is being addressed at two levels. Firstly, more careful consideration has been given by the Hong Kong government to the planning of new roads and the layout of new developments to minimize noise impacts. Good planning is the best long-term option.

Secondly, existing road noise has to be abated effectively. Roads are being re-surfaced with materials which would produce less noise, where possible. Schools affected by road noise, rail noise or aircraft noise, have been insulated with noise proof materials. The proposal of retrofitting noise barriers on existing roads and along the tracks of the Kowloon Canton Railway Corporation is being discussed between the relevant authorities. Subject to the approval by the Legislative Council, the Hong Kong government is prepared to build noise barriers on existing roads and flyovers if people living nearby are exposed to the level of noise above 70 decibels. As a result, it is estimated that the retrofitting of noise barriers would have to be done on more than 29 roads and flyovers. The total estimated cost for this project is about HK\$2.34 billion.

Waste management

In 1989 the statutory Waste Disposal Plan was unveiled under the Waste Disposal Ordinance in 1989, setting out a 10-year plan for developing new waste management facilities and closing the old ones. The Waste Disposal Plan sets out a strategy for municipal solid waste disposal in Hong Kong. This includes a programme for the phasing out of old waste facilities and the development of new and cost-effective facilities of higher environmental standards, under the management of the EPD.

The new facilities include three strategic landfills and a network of refuse transfer stations. The three landfills have a total capacity of about 135 million cubic metres that would cater for waste arisings over the next 10 to 15 years. Seven refuse transfer stations are operating and another three will be commissioned over the next few years. The total handling capacity of the transfer stations will reach 14,500 tonnes a day by 2007.

INDUSTRY OVERVIEW

The following Figure 3 shows the quantity of municipal solid waste disposed of and recovered in each year from 1990 to 2000.

Quantity of Municipal Solid Waste Disposed of and Recovered 1990-2000

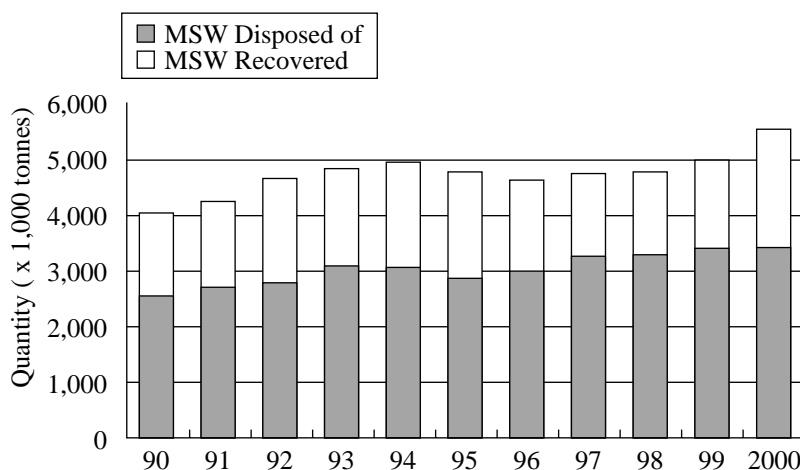


Figure 3: Quantity of municipal solid waste disposed of and recovered in each year from 1990 to 2000 (Source: 2001 annual report of EPD: “Environment Hong Kong 2001”)

According to 2000 annual report of EPD “Environment Hong Kong 2000”, about 9,300 tonnes of municipal solid waste were dumped in landfills every day in 1999, up from about 6,000 tonnes in 1986, and construction waste loads fluctuated between 6,000 to 16,000 tonnes a day throughout the 1990s in Hong Kong. According to 2001 annual report of EPD “Environment Hong Kong 2001”, municipal waste grew by 32 per cent. between 1990 and 2000, to 9,350 tonnes per day. There are three large state-of-the-art landfills which were built in the 1990s, at a cost of \$6 million. They were expected to accept waste until at least 2020. But population growth and construction waste have skewed the figures that were used to plan the landfills. All three landfills in West New Territories, South East New Territories and North East New Territories will be full by about 2015 at the latest, even with better recycling and waste reduction. If construction waste loads should increase or if alternatives are not found for the waste, then the Southeast New Territories landfill could run out as early as 2005. Hence, as stated in the “Waste Reduction Framework Plan” released by the EPD, given the lead time required to create a modern landfill, about another 860 hectares of space will have to be identified for new landfills within the next few years to serve Hong Kong from 2016 up to 2045. This is almost two-thirds the area of the new airport at Chek Lap Kok, or almost sufficient land to house Hong Kong’s population growth for the next decade.

INDUSTRY OVERVIEW

The urgency of the problem was addressed in the Waste Reduction Framework Plan unveiled by the Hong Kong government in November 1998. Its immediate goal has been to almost double the recycling of municipal waste from 30% in 1998 to 58% by 2007. Aiming to this target, supports have been provided by the Hong Kong government. Land has been identified for recyclers, collection facilities have been set up in public and private housing estates, and it was announced in the 1999 Policy Address of the Chief Executive of Hong Kong that the Hong Kong government would seek funds in 2000 to build waste separation facilities. In addition, the Waste Reduction Framework Plan has also aimed to improve the recovery rate for domestic waste which is only around 8%, while that for commercial and industrial sector is about 53% in 1999 and 2000. A waste-recycling scheme in housing estates that began in 1998 was extended to 300 private and public housing estates in 1999. For commerce and industry, the Wastewi\$e Scheme, a scheme aiming to promote waste recycling, was launched by the EPD in June 1999 to recognise companies that achieve their recycling targets.

According to the 2001 annual report of EPD “Environment Hong Kong 2000” through the existing informal and voluntary waste recovery system, about 1.85 million tonnes of municipal solid waste was recovered in Hong Kong in 1999, representing about 35% of the total municipal solid wastes produced in the city in that year. According to the “Facts Sheets regarding recovery and recycling of plastic waste in Hong Kong” released by the “Waste Reduction Committee”, waste plastic is one of the main components in municipal solid waste and constitutes 15% to 20% by weight and around one third by volume in the waste stream. In 1999, about 153,500 tonnes of waste plastic were recovered in Hong Kong, representing about 23% of the total waste plastic being produced in Hong Kong in that year. Of those 153,500 tonnes waste plastic, only 15% or 22,500 tonnes were recycled locally, while the remaining 85% or 131,000 tonnes were exported to the PRC or other countries for recycling. Therefore, there is room for further development of the waste plastic recycling business in Hong Kong.

Further, the Hong Kong government considers that waste-to-energy conversion is another measure for waste management. Waste to energy is a proposal to burn combustible municipal solid waste to recover energy and reduce the volume of waste which will be disposed ultimately. The Hong Kong government is now conducting a feasibility study on the development of a waste-to-energy incinerator which will help to reduce the volume of waste requiring final disposal and to recover energy from the burning process. Thus, there is business opportunity for any innovative waste management process which is in line with the Hong Kong government’s strategy to turn waste to energy.

ENVIRONMENTAL PROBLEMS IN THE PRC

Air Pollution: Problems caused by diesel vehicles

In the PRC, vehicle emissions are blamed by the PRC-EPA to be a main source of air pollution in urban areas, and cities like Guangzhou and Beijing are among the worst polluted cities in the world.

INDUSTRY OVERVIEW

In 1999, PRC-EPA estimated that there would be a total of about 60 million vehicles in the PRC in 2000, about 5.8 million and 1.0 million of which would be diesel light and heavy vehicles respectively. According to the PRC-EPA, the existing road infrastructure cannot cope with the rapidly increasing vehicle fleet. As a result, most of the vehicles in the PRC travel at low speed and thus generate higher than normal emission into air, and the average emission factors of vehicles in the PRC are several times higher than those in the developed countries. Official figures released by the PRC-EPA reported severe air pollution problems in Beijing and Guangzhou:

- there is very serious NO_x pollution in Beijing and Guangzhou. As shown in Figure 4 below, the NO_x level in these two cities were almost triple of the national standard in the PRC in 1997;

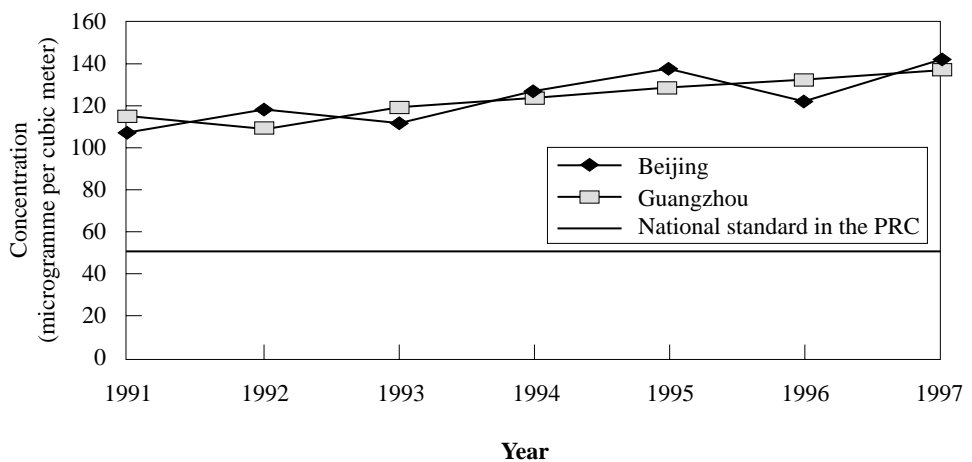


Figure 4: NO_x level in Beijing and Guangzhou compared with the national standard in the PRC (Source: "Motor vehicle emission control in China", PRC-EPA)

- daily average CO concentration is higher than the second grade national standard in the PRC of 4mg/m³ in traffic areas; and
- there is serious particulate pollution problem in Beijing and Guangzhou. The particulate levels are of 377g/m³ and 295g/m³ in Beijing and Guangzhou respectively in 1995. These levels are significantly higher than the normal acceptable standard which is about 0.20g/m³.

After taking into account the increase in vehicle usage, it was estimated by the PRC-EPA that if no effective emission control is implemented in Beijing, CO and NO_x emissions in the urban area of Beijing in 2010 would increase to a level of about 4 times of that in 1995.

INDUSTRY OVERVIEW

Long-term strategies and measures including adoption of stricter vehicle emission standards for new vehicles, phasing out of leaded gasoline and using unleaded gasoline are planned by the PRC-EPA to be carried out in the PRC. In particular, to tackle those problems related to vehicles in-use, inspection/maintenance program (“I/M Program”) has been adopted in the PRC. The I/M program includes improving annual examination for motor vehicles and reinforcing monitoring systems. The municipal environmental protection bureau will adopt measures such as implementing stringent emission standards. Such standards will be measured during the annual examination for motor vehicles. For those vehicles which do not comply with the standards, no licence will be granted or they may be suspended from use until full compliance with the standards. Under the I/M Program, replacement of old vehicles is expected to accelerate, or those old vehicles still in use will be required to be retrofitted with emission control devices so that the stricter vehicle emission standard can be met.

Further, imposition of charges on the owners of vehicles emitting pollutants will be adopted in the major cities in the PRC. Currently, a few cities in the PRC, including Beijing, Shanghai, Gulin, Chengzhou and Hanzhou have either adopted or are prepared to adopt the charges.

HYDRAULIC FILTERS AND THE RELATED HYDRAULIC INDUSTRY

Hydraulic filters are necessary components of hydraulic systems, which are broadly applied to construction, agricultural and industrial machinery to help the transmission of energy and power between components of the machinery. Hydraulic filters can help to abate environmental problems in relation to contaminated hydraulic oil being consumed by hydraulic systems for trapping the particulate in the hydraulic oil so as to abate contamination and to extend usable life of the hydraulic oil. Every hydraulic system therefore accommodates at least one filter for hydraulic oil maintenance purpose. In some dedicated hydraulic systems with servo-valves, three to four hydraulic filters are employed.

Hydraulic oil is important to the proper operation of every hydraulic system as it (i) acts as an energy transmission medium; (ii) lubricates internal moving parts of components of the hydraulic system; (iii) acts as a heat transfer medium; and (iv) seals clearances between moving parts of components of the hydraulic system. Those functions will be impaired when the hydraulic oil is contaminated. Damages caused by contaminated hydraulic oil to the hydraulic system include orifice blockage, wear of hydraulic system components, formation of rust or other oxidation, depletion of additives and bacterial growth. As a whole, the running of the hydraulic system and in turn the machinery to which it is installed will be adversely affected. Most of the hydraulic system failures are caused by contaminated hydraulic oil. Therefore, contaminated hydraulic oil has to be disposed of and replaced by clean oil frequently.

The improper disposal of contaminated hydraulic oil will however cause environmental problems such as water pollution and soil contamination. Furthermore, contaminated hydraulic oil accelerates the creation of industrial wastes of scrapped hydraulic and machinery components. In Hong Kong, hydraulic oil, being classified as chemical waste, must be collected by a licensed waste collector for proper disposal.

INDUSTRY OVERVIEW

Hydraulic filters are accommodated into hydraulic systems to continuously filter the hydraulic oil and to extend the usable life of the hydraulic oil which in turn contribute to reduce the adverse effect on the environment.

According to the International Industry Statistics in 1996, the hydraulic industry in the PRC, with the total gross production value of RMB2,348 million (equivalent to about HK\$2,215 million), ranked the sixth in the world.

It is anticipated by 中國液壓氣動密封件工業協會 (The Association of Fluid Power Industry in the PRC) that the market demand in the PRC for hydraulic system components will reach approximately 13,000,000 pieces with total revenue of RMB7,000 million (equivalent to about HK\$6,604 million) in 2005.

In the PRC, pollution control on wastage caused by any hydraulic system failure, in particular that relates to contaminated hydraulic oil, is considered being important. However, the hydraulic industry in the PRC generally acknowledges that improvements in the design and production of the hydraulic system components (including hydraulic filters) are necessary to improve the quality and performance of the hydraulic systems.

In Taiwan, the sales volume of hydraulic industry was about NT\$5,437 million (equivalent to about HK\$1,376 million) in 1998. About NT\$1,501 million (equivalent to about HK\$380 million), representing about 27.6% of the said sales volume of hydraulic industry in Taiwan in 1998, was exported. The sales turnover of hydraulic system components including hydraulic filters in 1998 was about NT\$1,248 million (equivalent to about HK\$316 million) representing a growth of about 18% from that of the previous year.

In US, the largest consumers of hydraulic systems and hydraulic system components are the aerospace, construction equipment, heavy truck, agricultural equipment, machine tool, and material handling industries. These industries account for about 75% of the total consumption of hydraulic systems and related products in US. In 1996, US imports of hydraulic systems and hydraulic system components valued at about US\$1.1 billion.

INTRODUCTION

The Group commenced its operations with the establishment of Eco-Tek, a wholly-owned subsidiary of the Company, in October 1999. Eco-Tek was founded by Dr. Chiang with an objective to capture the business opportunities perceived to arise from the public's growing concern about environmental problems. It is the mission of the Group to become one of the leading providers of environmental protection related products and services in Hong Kong and other overseas markets.

The Group is principally engaged in the development, commercialisation and sale of environmental protection related products and ancillary services. Leveraging on the experience of Dr. Chiang in industrial engineering and commercialisation of industrial products, the Group strives to develop and provide environmental protection related products and services. The common characteristics among the Group's marketed products and new products under development are (i) the adoption of mechanical process as the core working principles of these products; and (ii) usage of similar raw materials for manufacturing and application of similar manufacturing process.

The Group's commercialised environmental protection related products include *Eco-Trap* and two of the three kinds of hydraulic filters of the Group, suction filter and return line filter.

Eco-Trap is developed by the Group in collaboration with PolyU and is designed for the use by diesel light vehicles of up to four tonnes to reduce the emission of diesel particulate, which is considered to be one of the major causes of air pollution in Hong Kong. Dr. Chiang participated in the development of the former model of *Eco-Trap*, i.e. the Filter, since June 1998. For the details of the process of development of the Filter into *Eco-Trap*, please refer to the paragraphs headed "Initial business development up to 26 October 1999" and "Development and Commercialisation of *Eco-Trap*" in this section. As one of the measures to address the growing concern of deteriorating air quality, the EPD launched the Voluntary Installation and Subsidy Program in August 2000 to provide grants to about 42,000 diesel light vehicle owners to install particulate reduction devices on their pre-Euro standard diesel vehicles. The Group was one of the two contractors appointed by the EPD to supply and install devices to reduce particulate from the exhaust of diesel light vehicles under the Voluntary Installation and Subsidy Program for a period of 14 months which expired in October 2001. As at the Latest Practicable Date, the Group continued to supply and install *Eco-Trap* for those diesel light vehicle owners who registered with the Group for such installation before the expiry date of the Voluntary Installation and Subsidy Program on 17 October 2001 and for certain diesel light vehicle owners possessing re-issue notice of the EPD and who had registered with the Group before 31 October 2001. The Directors expect that the installation of *Eco-Trap* under the Voluntary Installation and Subsidy Program will be completed by the end of December 2001. As at the Latest Practicable Date, a total of 16,735 pieces of *Eco-Trap* were supplied and installed in Hong Kong.

In October 1999, the Group commenced the development of various types of hydraulic filters, which are designed principally for hydraulic systems installed in industrial machinery. Hydraulic oil used in hydraulic systems, when contaminated, has to be disposed of and replaced so as to prevent any damage to the hydraulic systems and the industrial machinery to which

the hydraulic systems form parts. Generally, improper disposal of contaminated hydraulic oil causes environmental problems such as water pollution and soil contamination. The hydraulic filters currently launched by the Group include suction filter and return line filter. Pressure line filter is another kind of hydraulic filter which is under development by the Group. In May 2001, the Group launched the suction filter and return line filter to Taiwan and the PRC. In view of the wide application of these hydraulic filters in industrial machinery, the Directors believe that there is great market potential for these products.

In addition to *Eco-Trap* and hydraulic filters, the Group is also committed to the research and development of other environmental protection related products to combat other pollution problems. As at the Latest Practicable Date, products under development by the Group included soundproof barriers, diesel oxidation catalyst and pressure line filter.

As part of its development plans based on its experience in the development and commercialisation of *Eco-Trap*, the Group also commenced the research and development of diesel oxidation catalyst in May 2000. The diesel oxidation catalyst of the Group will be designed to reduce the exhaust pollutants emitted by diesel heavy vehicles by converting several pollutants such as CO, gas phase HC and SOF through oxidation into harmless substances such as CO₂ and water vapour. The Directors believe that with the experience gained from the commercialisation and installation of *Eco-Trap* in Hong Kong, the Group has a competitive edge over other potential competitors for the provision and installation of diesel oxidation catalyst for diesel heavy vehicles under another subsidy program which is expected to be launched by the EPD in the near future.

In December 2000, the Group commenced the development of another environmental protection related product, the soundproof barrier which adopts ASE technology to reduce noise pollution generated by road traffic. The major deficiency of conventional noise proof barriers currently used in Hong Kong is that they use high barriers to isolate noise instead of extinguishing it. To overcome this deficiency, the soundproof barrier proposed to be developed by the Group is designed to extinguish noise rather than isolate noise. The height of the panel on which the Group's soundproof barrier is installed will be adjusted in accordance with the environment in the vicinity and the targeted level of noise control. At present, the Group's soundproof barrier is designed for installation on top of barrier panels with a height as low as two metres only.

The Group also provides ancillary services to support the use of its environmental protection related products. Since April 2001, the Group has been providing cleaning services of the filter cartridges of *Eco-Trap* in its head office in Kwun Tong. In addition, the Group has commenced *Eco-Trap* installation service in its head office in Kwun Tong since May 2001.

Since September 2001, the Group has also engaged in the research and development of a regenerative diesel oxidation catalyst which is designed to provide both physical trapping function and oxidation effect to reduce vehicles emission and pollutants.

BUSINESS

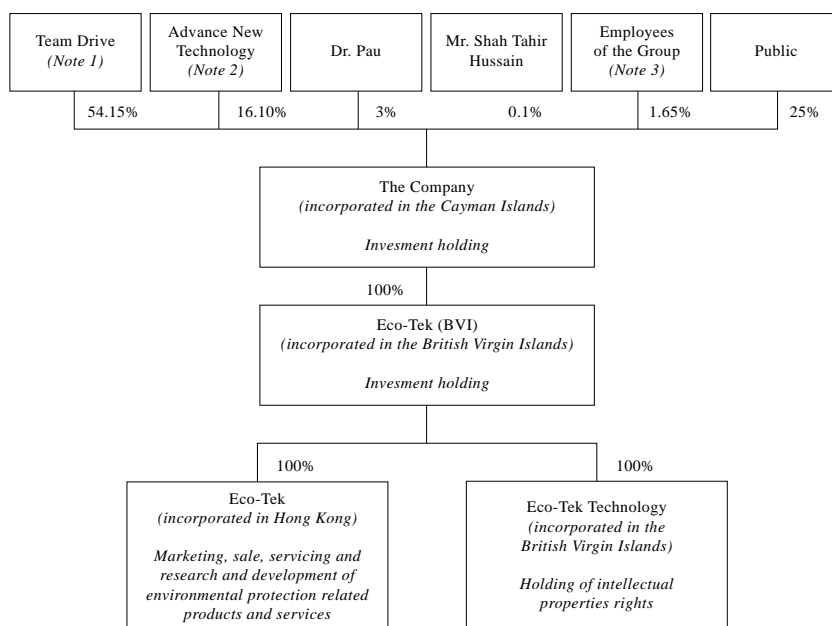
THE STRENGTHS OF THE GROUP

The Directors consider that the principal strengths of the Group are as follows:

- the Group's dedicated management team which has extensive experience and technical expertise in the development and commercialisation of industrial products;
- the Group's alliance and collaboration with PolyU which strengthen the Group's research and development capability in environmental protection related products and services;
- an effective communication channel built up between the management team of the Group and the relevant authorities of the Hong Kong government; and
- a low-cost strategy in the development and supply of environmental protection related products and services.

GROUP STRUCTURE

Set out below is the Group's corporate structure immediately following completion of the Placing and the Capitalisation Issue (assuming that the ANT-Option, the Over-allotment Option and the Pre-IPO Share Options are not exercised) and a brief description of the principal activities of the members of the Group:



Notes:

1. Team Drive is wholly-owned by Peace City, a company the entire issued share capital of which is beneficially owned by Dr. Chiang.
2. The entire issue share capital of Advance New Technology is beneficially owned by PolyU.

BUSINESS

3. The aggregate of 1.65% of the entire issued Shares will be held by Ms. Yip Yuk Chun and Ms. Chow Yuk Ngor, the employees of the Group, in the respective proportions of 1.6% and 0.05%.
4. As at the Latest Practicable Date, the Company had granted options under the Pre-IPO Share Option Scheme which entitles the grantees thereof to subscribe for Shares representing, in aggregate, about 17.5% of the entire issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (but before enlargement by the exercise of the ANT-Option the Pre-IPO Share Options and the Over-allotment Option), details of which are set out in the paragraph headed “Share Option Schemes – Pre-IPO Share Option Scheme” under the section headed “Statutory and general information” in Appendix IV to this prospectus.
5. The percentage shareholdings shown in the above chart do not take into account any Shares which may be allotted and issued upon the exercise of the ANT-Option, the Over-allotment Option and the Pre-IPO Share Options. Assuming that the Over-allotment Option is exercised in full but prior to the exercise of the ANT-Option and any Pre-IPO Share Option, the percentage shareholdings of Team Drive in the Company will become approximately 52.19%.

HISTORY AND DEVELOPMENT

Initial business development up to 26 October 1999

The founder of the Group is Dr. Chiang who has extensive experience in industrial engineering and commercialisation of industrial products. Dr. Chiang is the chairlady of the Industry and Technology Committee of the Hong Kong General Chamber of Commerce. In June 1998, Dr. Chiang was invited to act as one of the industrial advisers by PolyU to participate in the development of the Filter based on the preliminary conceptual framework designed by PolyU.

Based on the said preliminary conceptual framework of the Filter, further studies and researches were conducted by PolyU and Dr. Chiang since July 1998 with the objective of developing the Filter into a marketable product with improved function and practicality that would meet the market demand. Studies and researches were also conducted to develop an associated cleaning method or system for the contaminated cartridge of the Filter. Meetings were held between Dr. Chiang and the representatives of PolyU. During the meetings, practical suggestions on the refinement of and the production specifications of the Filter were contributed by Dr. Chiang.

In September 1999, Dr. Chiang and PolyU agreed to a co-operative arrangement for the joint development and commercialisation of the Filter. Dr. Chiang was responsible for the commercialisation of the Filter which includes the improvement on its practicability, the use of suitable materials, the design of casing, the design of vibration resistance and waste water treatment technology while PolyU was mainly responsible for the testing of the modified Filter.

On 30 September 1999, PolyU obtained from the Patents Registry of Hong Kong the Hong Kong Patent for the design of the Filter, which was subsequently modified into *Eco-Trap*.

BUSINESS

Since the initial business development and up to 26 October 1999, the Group has been financing its operations by advances from the Directors and has not had any bank borrowings.

Business development since 27 October 1999 up to 31 October 2000

The Group was founded by Dr. Chiang when Eco-Tek was incorporated on 27 October 1999 as a vehicle to carry on the business of the development and commercialisation of the Filter and to capture future business opportunities arising from the increasing awareness in environmental protection by developing and providing an array of environmental protection related products and ancillary services. As at 31 October 2000, there were 10 staff in the Group.

When Eco-Tek was incorporated on 27 October 1999, one share was allotted and issued to each of Dr. Chiang and Peace City for cash at par value of HK\$1.00 per share. On 25 May 2000, 99,998 shares in Eco-Tek were allotted and issued, credited as fully paid, to Team Drive for cash at par value. On 1 December 2000, Team Drive acquired one share of Eco-Tek from each of Dr. Chiang and Peace City. During the period from 27 October 1999 to 31 October 2000, the Group financed its operations by advances from the Directors and did not have any bank borrowings.

Details of the business activities of the Group in relation to each of its environmental protection related products and the ancillary services during the period from 27 October 1999 up to 31 October 2000 are separately discussed in the following sub-paragraphs.

Development and commercialisation of Eco-Trap

Since the establishment of Eco-Tek in October 1999, the Group has continued to participate actively in the development of the Filter, which was initially designed by PolyU, and the subsequent commercialisation of the modified version of the Filter (i.e. *Eco-Trap*).

In order to seize the business opportunity for commercialisation of the modified version of the Filter under the Voluntary Installation and Subsidy Program which was expected to be launched by the EPD shortly, Eco-Tek and PolyU entered into a memorandum of intent on 10 February 2000 ('First Memorandum of Intent') for the grant of an exclusive licence to Eco-Tek to manufacture, distribute, sell and install the modified version of the Filter in Hong Kong and the PRC in order to facilitate Eco-Tek to tender for the supply and installation of devices to reduce particulate emission from diesel light vehicles (the "Tender") under the Voluntary Installation and Subsidy Program. As the First Memorandum of Intent lapsed in the mid of April 2000, a second memorandum of intent was entered into between Eco-Tek and PolyU to extend the date of signing of a formal licence agreement which was subsequently signed by the parties in August 2000.

BUSINESS

Upon signing of the said memoranda of intent with PolyU, the Group conducted the following preparatory work to facilitate the commercialisation of the modified version of the Filter:

- the Group commenced the search for suitable contractors in the PRC to undertake mass production of the modified model of the Filter. The Directors considered that it was commercially more viable, in terms of costs, to outsource the production of the modified version of the Filter at the initial stage of the business development; and
- the Group conducted initial marketing to introduce the modified version of the Filter to the Hong Kong market by organising discussion sessions with various parties such as the representatives of the Motor Traders Association of Hong Kong.

In February 2000, PolyU obtained the PRC Patent for the Filter from 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC). In addition, from February 2000, the Group commenced preparation for tender for the installation of diesel particulate reduction devices under the Voluntary Installation and Subsidy Program and procurement of the distribution and installation of *Eco-Trap* by Caltex gas stations.

In response to the invitation for the Tender publicated by the EPD on 2 June 2000, the Group submitted the Tender to the EPD in late June 2000.

In July 2000, by an assignment entered into between PolyU and PTeC, a company wholly owned by PolyU, the Patents together with the Patent Applications were assigned by PolyU to PTeC.

In support of the Tender and pursuant to the two memoranda of intent entered into between Eco-Tek and PolyU in February and April 2000 respectively, the Group and PTeC entered into a royalty-based licence agreement in August 2000, pursuant to which the Group was granted an exclusive licence to manufacture, distribute, sell and install the modified version of the Filter in Hong Kong and the PRC.

In August 2000, the EPD awarded the Tender to the Group. The Group was one of the two contractors appointed by the EPD to provide vehicle particulate reduction devices for diesel light vehicles under the Voluntary Installation and Subsidy Program. The Group signed the first manufacturing contract with a contractor in the PRC, an independent third party, immediately after the grant of the Tender to manufacture the modified version of the Filter according to the specifications provided by the Group.

In September 2000, all modification works on the modified version of the Filter were substantially completed and it was named "*Eco-Trap*".

BUSINESS

The major modification works on the Filter carried out by the Group include:

- reviewed the design of the body of *Eco-Trap* by Dr. Chiang and assisted by Dr. Pau in December 1999
- reviewed the design of filter elements by Dr. Chiang and assisted by Dr. Pau in February 2000
- analysed the connector by Dr. Chiang and assisted by Dr. Pau in March 2000
- reinforced the connector by adding conical support by Dr. Chiang and assisted by Dr. Pau in April 2000
- combined the two-pieces-casing into one piece by Dr. Chiang and assisted by Dr. Pau in May 2000
- analysed the design of the filter element by Dr. Chiang and assisted by Dr. Pau in June 2000
- net was added to pack the filter media, and bending plate was moved from filter element to the body by Dr. Chiang and assisted by Dr. Pau in July 2000
- redesigned the mounting of the mechanism and modified the dimension for mass production by Dr. Chiang and assisted by Dr. Pau in August 2000
- redesigned the casing by reducing the thickness and adding the reinforce grooves by Dr. Chiang and assisted by Dr. Pau in September 2000
- designed the packaging and studied the safety valve by Dr. Chiang and assisted by Dr. Pau in September 2000
- isolation plate was added to avoid infiltration of exhaust gas by Dr. Pau in October 2000
- safety valve was added onto the *Eco-Trap* designed for diesel vehicles of 3,000 c.c. or above in November 2000 by Dr. Pau
- two pins were added to fix the wipe by Dr. Pau in December 2000

As the Directors consider that the core mechanical technologies of *Eco-Trap* have not been changed from that of the Filter, no patent has been applied for the modified Filter, i.e. *Eco-Trap*. The Directors believe that the Patents and other applications for patent (if granted) have provided and will provide sufficient legal protection on the design of the core mechanical technologies of *Eco-Trap*. In September 2000, the Group entered into a memorandum of understanding with Caltex pursuant to which installation services of *Eco-Trap* would be

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provided in 15 Caltex service stations, waste water disposal facilities would be provided at 30 Caltex service stations and retailing services of the filter cartridges of *Eco-Trap* would be available at 50 Caltex service stations. In addition, 3 garages were engaged to provide installation services of *Eco-Trap* and retailing services of the filter cartridges.

Eco-Trap was launched to the Hong Kong market in September 2000. From September 2000 to 31 October 2000, a total of 1,247 units of *Eco-Trap* was sold.

Pursuant to their initial understanding since May 1999, the Group and PolyU, through PolyU's wholly-owned company PTeC, implemented an appropriate legal structure to regulate their respective rights, benefits and obligations in relation to the development and commercialisation of *Eco-Trap* by entering into a deed of assignment between the Group and PTeC on 9 December 2000 ("Deed of Assignment"), the Patents and the Patent Applications together with the related intellectual property rights of *Eco-Trap* were assigned to the Group. In consideration for such transfer, Eco-Tek (BVI) agreed to allot and issue shares representing about 20.625% of the then issued share capital of Eco-Tek (BVI) and the ultimate shareholding of Advance New Technology in the Company of not less than 16.5% to Advance New Technology, a nominee of PTeC and a company wholly and beneficially owned by PolyU. On 5 June 2001, Eco-Tek Technology and PTeC entered into a supplemental deed ("First Supplemental Deed") whereby the parties agreed to amend the percentage of shares in Eco-Tek (BVI) to be allotted and issued to Advance New Technology under the deed to 21.27% and adjust the then percentage of shareholding of Advance New Technology in Eco-Tek Technology and the ultimate shareholding of Advance New Technology in the Company upon listing to about 16.1%. On 21 November 2001, Eco-Tek Technology and PTeC entered into a second supplemental deed ("Second Supplemental Deed") whereby the percentage of share in Eco-Tek (BVI) to be allotted and issued to Advance New Technology was further adjusted to 21.47% for the purpose of maintaining the percentage shareholding of Advance New Technology upon listing at about 16.1%. Following the assignment of the Patents, the royalty-based licence agreement entered into between the Group and PTeC in August 2000 was terminated. No licencing fee or royalty fee had been paid to PTeC pursuant to the licence agreement.

Development of hydraulic filters

Dr. Chiang, the Chairman of the Company and a member of both the Group's research and development committee and research and development team, has extensive experience in hydraulic system components area, which includes hydraulic filters due to her participation in the design of plastic injection moulding machines. With the market knowledge of Dr. Chiang and Dr. Pau in this area, since October 1999 the Group had undertaken a development project of hydraulic filters designed mainly for industrial machinery including a suction filter, return line filter and pressure line filter, as part of its business plan. The Group's return line filter has a relatively high pressure sustainability as compared with most of the return line filter currently available in the market. The Directors believe that return line filters with high-pressure sustainability can prevent leakage of hydraulic oil resulting from deformation of the filter caused by high-pressure operating environment.

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In order to establish the competitive edge for its hydraulic filters, the Group has adopted a low-cost strategy by taking advantage of the low production costs in the PRC for the manufacture of its hydraulic filters as the Directors believe that the low production cost will enable the Group to offer its hydraulic filters at prices lower than its overseas competitors. The Directors believe that there is great market potential for competitively priced hydraulic filters.

It is the intention of the Group to develop and manufacture return line filter with relatively high-pressure sustainability as compared with most of the return line filters currently available in the market. The Directors believe that return line filters with high-pressure sustainability can prevent leakage of hydraulic oil resulting from the deformation of the filters caused by high-pressure operating environment.

The Group therefore initiated the development project for hydraulic filters by carrying out the design work of the suction filter and the return line filter and the production of their prototype during the period from October 1999 to January 2001. In September 2000, the prototype of the suction filter was tested by a nominee of the distributor of the Group's hydraulic filters based in Taiwan. Based on the related test results of the prototype and recommendation from the distributor, the original design of the suction filter was modified by the Group to improve its practicability.

The commercial production of suction filter and return line filter commenced in June 2001 and September 2001. The commercial production of suction filters and return line filters are currently undertaken by the Group's contractor in Shunde, Guangdong Province, the PRC, an independent third party. Furthermore, the Group will continue the development of the pressure line filter and it is expected that the commercial production of the pressure line filter will commence in early 2002.

Development of diesel oxidation catalysts

The EPD announced that it would launch a program to encourage diesel heavy vehicle owners in Hong Kong to install diesel oxidation catalysts for their vehicles in 2001. Based on the Group's technical expertise and the market knowledge gained from the development of *Eco-Trap*, the Directors believe that the Group is well-positioned to capitalise on the business opportunity in this area. The Group conducted market research from January to April 2000 to assess the market potential of diesel oxidation catalyst in Hong Kong and the PRC.

Based on the results of its market research, the Group initiated the development of its diesel oxidation catalyst in May 2000. Design work of the housing of the diesel oxidation catalyst and the mounting interface for the diesel oxidation catalyst in regular model were conducted by the Group in May and June 2000 respectively. The Group has identified a suitable supplier for the catalyst as well as independent manufacturers for the housing for the diesel oxidation catalyst in regular model in the PRC. The Group will test the functionality and practicability of the composed diesel oxidation catalyst in regular model before marketing. The development of the diesel oxidation catalyst in regular model is pending the release of the final specification of the diesel oxidation catalyst from the EPD. After the Group received the

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confirmed specification, the Directors believe that the development can be resumed and completed within 40 to 45 days. The Directors expect that the diesel oxidation catalyst in regular model will be launched to the market in Hong Kong in mid 2002.

The Directors believe that with the experience gained from the commercialisation and installation of *Eco-Trap* in Hong Kong, the Group has the competitive edge over other potential competitors for the provision and installation of diesel oxidation catalyst in regular model for diesel heavy vehicles under the abovementioned program which is expected to be launched by the EPD in the near future.

In addition, the Group introduced the use of its diesel oxidation catalyst for diesel heavy vehicles in Hong Kong to the EPD during the period concerned.

Proposed development of soundproof barrier

The Group committed to develop soundproof barrier, adopting ASE technology for the reduction of noise pollution generated by road traffic. Since 21 October 2000, the Group has established working relationship with a Japanese Company, JAI Company Limited (“JAI”), which employed ASE technology in developing its noise proof barriers in 1998 in Japan. Dr. Pau, who had participated in the development of the ASE noise proof barrier in Japan initiated by JAI during the period from 1998 to 1999, has substantial knowledge in ANC technology which was adopted in the development of the ASE technology by JAI.

The Directors believe that with the assistance of JAI as well as the experience and expertise of the Group’s research and development team in industrial design and development, the Group is well positioned to undertake the proposed development of its soundproof barrier.

During the period concerned, preliminary studies and research have been carried out by the Group to prepare for the development of the Group’s soundproof barrier.

Business development since 1 November 2000 up to the Latest Practicable Date

During the period from 1 November 2000 to the Latest Practicable Date, the Group financed its operations by advances from the Directors and did not have any bank borrowings. As at the Latest Practicable Date, the Group had 17 staff.

In December 2000, the Group appointed a distributor to handle the distribution of the Group’s hydraulic filters in Hong Kong, the PRC and Taiwan.

In December 2000, the Group established its research and development committee comprising 3 representatives of the Group, Dr. Chiang, Dr. Pau and Mr. Yung Chi Kay, and 8 representatives of PolyU. At the same time, the Group also formed its research and development team initially comprising 3 representatives of the Group in the research and development committee. The committee and the team worked together to improve the existing products of the Group and initiate new product development projects.

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On 2 October 2000, Eco-Tek (BVI) was incorporated in the British Virgin Islands for the purpose of acting as the intermediate holding company of the Group. On 7 December 2000 and 21 November 2001, Eco-Tek (BVI) acquired the entire issue share capital of Eco-Tek Technology and Eco-Tek from Team Drive at the consideration of the issue and allotment of 100 and 21,559 shares in Eco-Tek (BVI) to Team Drive respectively.

On 10 January 2001, the Group entered into a new agreement with Caltex. Pursuant to the agreement, the number of Caltex service stations providing installation services of *Eco-Trap* has been increased from 15 to 18, waste water disposal facilities have been increased from 30 to 31 and retailing services of the filter cartridges of *Eco-Trap* will continue to be provided at all Caltex service stations in Hong Kong. The term of the agreement commenced from 10 January 2001 and will expire on 30 September 2003 and is terminable by either party serving 3 months' written notice on the other party.

In April 2001, the Group launched the cleaning services of the filter cartridges of *Eco-Trap*. The cleaning services include the delivery and collection services of contaminated filter cartridges from Caltex services stations for cleaning in the head office of the Company in Kwun Tong.

In May 2001, the Group commenced the *Eco-Trap* installation service in its head office in Kwun Tong.

In July 2001, Eco-Tek was granted the Silver Award of New SME Award in The 3rd Hong Kong SME Award organised by the Hong Kong Productivity Council and the Hong Kong General Chamber of Commerce.

For the period from 1 November 2000 up to the Latest Practicable Date, a total of 15,583 units of *Eco-Trap*, 7,200 units of suction filters and 700 units of return line filters were sold. As at the Latest Practicable Date, 12,861 units of *Eco-Traps* had been cleaned by the Group in its head office in Kwun Tong.

Since September 2001, the Group has also been engaging in the research and development of regenerative diesel oxidation catalyst.

To recognise the contribution of Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain, and Ms. Chow Yuk Ngor, employees of the Group, to its growth and as incentive to retain their services, Eco-Tek (BVI) allotted and issued 1,200 shares to Dr. Pau, 640 shares to Ms. Yip Yuk Chun, 40 shares to Mr. Shah Tahir Hussain and 20 shares to Ms. Chow Yuk Ngor for cash at par value of US\$1.00 per share on 21 November 2001.

Eco-Tek Technology entered into the Deed of Assignment, the First Supplemental Deed and the Second Supplemental Deed with PTeC on 9 December 2000, 5 June 2001 and 21 November 2001 respectively, pursuant to which the Patents and the Patent Applications together with the related intellectual property rights of *Eco-Trap* were assigned to the Group and 6,440 shares representing about 21.47% of the then issued share capital of Eco-Tek (BVI) were allotted to Advance New Technology on 21 November 2001. Advance New Technology is the nominee of PTeC and is wholly owned by PolyU.

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On 21 November 2001, the Group entered into the ANT-Option Agreement with Advance New Technology, pursuant to which an option was granted to Advance New Technology to subscribe for such number of Shares that shall represent 2.5% of the issued share capital of the Company immediately after completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the ANT-Option) at an exercise price equals to 90% of the Issue Price, which may be exercised at any time between the first and third anniversary of the Listing Date. The ANT-Option is granted to Advance New Technology as a reward to PolyU's continuing support and collaboration with the Group and for the purpose of enhancing future cooperative relationship between PolyU and the Group. A summary of the principal terms of the ANT-Option is set out in the paragraph headed "ANT-Option Agreement" in Appendix IV to this prospectus.

By a written resolution of all the shareholders of the Company dated 21 November 2001, the Company adopted the Pre-IPO Share Option Scheme for the benefit of the employees and the directors of the Group to recognise their contribution to its growth. As at the Latest Practicable Date, the Company has granted Pre-IPO Share Options to 3 executive Directors to subscribe for a total of 96,740,000 Shares at an exercise price of HK\$0.01, representing, in aggregate, 17.5% of the issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option and the ANT-Option are not exercised and without taking into account any Shares to be issued upon exercise of any options granted or to be granted under the Share Option Schemes). All of these Pre-IPO Share Options may be exercised within three years from the expiry of 12 months from the Listing Date. Details of the options granted under the Pre-IPO Share Option Scheme are set out in the paragraph headed "Share Option Schemes – Pre-IPO Share Option Scheme" under the section headed "Statutory and general information" in Appendix IV to this prospectus. No further options will be granted under the Pre-IPO Share Option Scheme after the listing of the Shares on GEM.

The Group underwent reorganisation on 21 November 2001 whereby the Company acquired the entire issued share capital of Eco-Tek (BVI) from its shareholders by way of share swap with the result that the Company became the holding company of Eco-Tek (BVI). Details of the corporate reorganisation of the Group are set out in the paragraph headed "Corporate reorganisation" in Appendix IV to this prospectus.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Overview

The following is the statement of active business pursuits of the Group since its establishment in October 1999:

From 27 October 1999 to 31 October 2000

Strategy

The Group focused on the development and commercialisation of *Eco-Trap* since its establishment in October 1999. It also planned to diversify its product lines by developing the diesel oxidation catalyst and hydraulic filters.

Research and development

Eco-Trap

- meetings were held between Dr. Chiang and the representatives of PolyU discussing the modifications of the Filter.
- modification works on *Eco-Trap* carried out by the Group are as follows:
 - reviewed the design of the body of *Eco-Trap* by Dr. Chiang and assisted by Dr. Pau in December 1999
 - reviewed the design of filter elements by Dr. Chiang and assisted by Dr. Pau in February 2000
 - analysed the modification of the connectors by Dr. Chiang and assisted by Dr. Pau in March 2000
 - reinforced the connector by adding conical support by Dr. Chiang and assisted by Dr. Pau in April 2000
 - combined the two-pieces-casing into one piece by Dr. Chiang and assisted by Dr. Pau in May 2000
 - analysed the design of the filter element by Dr. Chiang and assisted by Dr. Pau in June 2000
 - net was added to pack the filter media, and bending plate was moved from filter element to the body by Dr. Chiang and assisted by Dr. Pau in July 2000
 - redesigned the mounting of the mechanism and modified the dimension for mass production by Dr. Chiang and assisted by Dr. Pau in August 2000
 - redesigned the casing by reducing the thickness and adding the reinforce grooves by Dr. Chiang and assisted by Dr. Pau in September 2000
 - designed the packaging and studied the safety valve by Dr. Chiang and assisted by Dr. Pau in September 2000
 - isolation plate was added to avoid infiltration of exhaust gas by Dr. Pau in October 2000

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Hydraulic filters

- preliminary market research on the hydraulic filter industry initiated by Dr. Chiang was commenced in October 1999.
- the design suction filter by using wire mesh by Dr. Chiang was commenced in February 2000.
- the design return line filter was commenced in April 2000 by Dr. Chiang.
- testing on suction filter by perspective user in Taiwan in July 2000 and modifying suction filter in accordance with the test results was arranged in September 2000 by Dr. Chiang.
- the design of return line filter was completed in October 2000 by Dr. Chiang.
- the design of pressure line filter was commenced in November 2000 by Dr. Chiang.

Diesel oxidation catalyst

- market information of diesel oxidation catalyst was collated in January 2000 by Dr. Chiang.
- researches on the varieties of heavy diesel vehicles in Hong Kong for the design of casing of diesel oxidation catalyst were commenced in March 2000 by Dr. Chiang.
- the design of the housing of diesel oxidation catalyst for different heavy diesel vehicles was commenced in May 2000 by Dr. Chiang.
- suitable supplier of the catalyst filter was contacted in August 2000 by Dr. Chiang.
- the representative of the Group attended discussion with the EPD on the specifications of the diesel oxidation catalyst to be adopted under a subsidy program to be launched by the Hong Kong government by Dr. Chiang.

Waste plastic recycling process

- Professor Georg Menges was invited by Dr. Chiang to act as the technical adviser of the Group in December 2000.
- preliminary research on the waste plastic recycling process initiated by Dr. Chiang was commenced in December 2000.

Business development

- the Group established close working relationship with PolyU in the joint development and commercialisation of *Eco-Trap*. The parties agreed that when appropriate, they would collaborate to carry out other development projects relating to new environmental protection related products and services through consultancy services or joint development.
- the Group and PolyU agreed on a cooperative agreement for the joint development and commercialisation of *Eco-Trap* and the related techniques and processes required for production, operation, cleaning and refilling of filter cartridge of *Eco-Trap*.
- the Group established the network for retail sales and installation of *Eco-Trap* through its collaboration with Caltex. At the initial stage, installation work of *Eco-Trap* was carried out at 15 selected Caltex service stations and filter cartridges of *Eco-Trap* could be purchased at all 50 Caltex service stations. In addition, waste water disposal facilities were installed at 30 Caltex service stations collecting the polluted water used to clean the filter cartridges of *Eco-Traps*.

Sales and Marketing

- submitted application for tender to the EPD for the installation of diesel particulate reduction device under the Voluntary Installation and Subsidy Program in June 2000.
- tender in relation to the Voluntary Installation and Subsidy Program was awarded by the EPD to the Group to supply and install *Eco-Trap* in August 2000.
- 3 garages were engaged to provide installation services of *Eco-Trap* and retailing services of filter cartridges since September 2000.
- *Eco-Trap* was first launched in Hong Kong on 25 September 2000. 1,247 pieces of *Eco-Trap* were sold up to 31 October 2000 with the turnover of HK\$1,621,000, the latest financial year end of the Company.
- promotion activities of *Eco-Trap* through advertisements on newspapers and distribution of brochure were commenced in October 2000.

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Production activities

- prototype of suction filter was commenced to be produced by a contractor in the PRC in March 2000 and was completed in June 2000.
- prototype of the modified version of the Filter was produced by a contractor appointed by the Group in the PRC in June 2000.
- mass production of *Eco-Traps* by a contractor in the PRC was commenced in August 2000.
- prototype of return line filter was commenced to be produced by a contractor in the PRC in October 2000 and was completed in January 2001.
- the production of the prototype of diesel oxidation catalyst was commenced by a contractor in the PRC in December 2000 and was completed in February 2001.

Staff

- as at 31st October 1999, the number of employees of the Group was two.
- as at 31st October 2000, the number of employees was increased to 10.

Fund arrangement

- as at 31 October 2000, HK\$1,033,000, HK\$140,000 and HK\$300,000 were advanced by Dr. Chiang, Mr. Shah Tahir Hussain and a related company.

From 1 November 2000 to the Latest Practicable Date

Strategy

The Group continued to focus on the commercialisation of *Eco-Trap* and the proposed launching of the cleaning services of *Eco-Trap*. Further, research and development works of the Group's diesel oxidation catalyst and hydraulic filters were also continued. The Group also continued the studies of the development of soundproof barrier adopting ASE technology.

Research and development

Eco-Trap

- safety valve was added onto the *Eco-Trap* designed for diesel vehicles of 3,000 c.c. or above in November 2000
- two pins were added to fix the wipe by Dr. Pau in December 2000

Hydraulic filters

- the design of suction filter was completed in February 2001.
- return line filter was modified in May 2001.
- the design of return line filter was completed in July 2001.
- the design of pressure line filter was continued.

Diesel oxidation catalyst

- the design of the casing of diesel oxidation catalyst for different heavy diesel vehicles was continued by Dr. Pau.
- the research and development of regenerative diesel oxidation catalyst was commenced in September 2001.

Soundproof barrier

- negotiation between JAI and Dr. Pau to prepare the development of the Group's soundproof barrier in Hong Kong which will employ JAI's ASE technology in December 2000.
- trial installation of the soundproof barrier was liaised between Dr. Chiang, Dr. Pau and the Highways Department in January 2001.
- Dr. Pau visited Japan to discuss the design of the Group's soundproof barrier in January and March 2001.
- the design of the Group's soundproof barrier for the use in Hong Kong by Dr. Pau was commenced in March 2001.
- Dr. Pau visited Japan with the representative of the Highways Department of Hong Kong to verify the ASE in Japan in May 2001.

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- Dr. Chiang and Dr. Pau discussed with the Highways Department and the EPD to compromise a testing standard of decibel level since June 2001.
- the Group appointed an independent third party to assist the Group in developing testing method of decibel level in July 2001.

Waste plastic recycling process

- preliminary research on the waste plastic recycling process was continued.

Business development

- the Patents, the Patent Applications and their related intellectual property rights were assigned to the Group by PTeC according to a deed of assignment entered into between the Group and PolyU in December 2000.
- the Group entered into an agreement with JAI pursuant to which JAI agreed to assist the Group to develop a soundproof barrier adopting ASE technology in Hong Kong for five years from 1 December 2000 and designated the intellectual property rights of ASE technology between the Group and JAI.
- the Group appointed Professor Georg Menges, a specialist in the area of plastic recycling and a professor in the Institute for Plastics Processing, Technical University of Aachen, Germany, to act as the Group's technical consultant for the proposed development of the waste plastic recycling process in Hong Kong in December 2000.
- the Group leased a premises in Kwun Tong as its head office in Hong Kong in January 2001 and established the cleaning facilities for the filter cartridges of *Eco-Trap* at the Company's head office in Kwun Tong in April 2001.
- a new co-operation agreement was entered into between the Group and Caltex pursuant to which the number of Caltex service stations being selected to provide installation service of *Eco-Trap* and waste water disposal facilities was increased to 18 and 32 respectively in March 2001.
- the number of garages engaged for the provision of installation services of *Eco-Trap* was increased to 5 in March 2001.
- initial negotiation in respect of the adoption of soundproof barrier of the Group with relevant government authority in Hong Kong commenced in March 2001. Technical presentation of the function of the soundproof barrier of the Group was conducted to the representative of the relevant government authority and trial installation of the Group's soundproof barrier in Hong Kong was liaised.

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- Eco-Tek was granted with the Silver Award of New SME Award in The 3rd Hong Kong SME Award organised by the Hong Kong Productivity Council and the Hong Kong General Chamber of Commerce.
- the Group launched the cleaning services of the filter cartridges of *Eco-Trap* in April 2001. The cleaning services include the delivery and collection services of contaminated filter cartridges from Caltex service stations for cleaning in the head office of the Company in Kwun Tong.
- the Group commenced to install *Eco-Trap* in its head office in Kwun Tong in May 2001.
- the Group prepared to apply for Environmental Conservation Fund from the EPD to fund the research and development of waste plastic recycling process in October 2001.

Sales and Marketing

- *Eco-Trap* was promoted in a dinner party with Taxi Association and Mini Bus Association organised by PolyU and sponsored by the Group in January 2001.
- *Eco-Trap* was promoted through advertisement on newspapers, road shows and commercials in radio since October 2000.
- A PRC contractor was engaged to manufacture suction filters in June 2001 and return line filters in August 2001.
- Suction filters and return line filters were commercially launched. Orders for suction filter and return line filter from the PRC and Taiwan were received in May 2001. The suction filters ordered by the PRC client and the Taiwanese client were delivered in July 2001. The return line filters ordered by the Taiwanese client was scheduled to be delivered to Taiwan in or about December 2001.
- suction filter was promoted in an exhibition in Shanghai in July 2001.
- as at the Latest Practicable Date, a total of 16,735 *Eco-Traps* was sold for HK\$21.8 million.
- the Group appointed a distributor to carry out distribution of its hydraulic filters in the PRC and Taiwan markets in December 2000.

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Production activities

- commercial production of suction filters was commenced in June 2001.
- commercial production of return line filter was commenced in September 2001.

Staff

- as at the Latest Practicable Date, the number of employees was increased to 17.

Fund arrangement

- as at 31 July 2001, HK\$2,767,000, HK\$935,000 and HK\$313,000 were advanced by Dr. Chiang, Dr. Pau and Mr. Shah Tahir Hussain.
- all advances from the Directors were settled and the operation of the Group is funded by internal resources.

DIFFICULTIES ENCOUNTERED BY THE GROUP SINCE ITS ESTABLISHMENT

Vehicle particulate reduction devices have not been commonly employed in Hong Kong until recently. The Directors consider that the tightened control and increased penalty on smoky vehicles have contributed to the growing adoption of vehicle particulate reduction devices. Since 1 November 2000, the exhaust emission is required to be tested during the roadworthiness inspection and the fixed penalty on smoky vehicles has been increased from HK\$450 to HK\$1,000 with effect from 1 December 2000. In order to raise the public awareness about vehicle emission problem and the effective ways to abate the problem, in particular by installing *Eco-Trap*, the Group has paid great effort in promoting *Eco-Trap*, including setting up promotion booths in Caltex service stations and sending out promotional materials of *Eco-Trap* to representatives of the Motor Traders Association of Hong Kong, Taxi Association and Light Public Bus Association.

As no detailed official standard for vehicle particulate reduction devices has yet been announced by the relevant authorities of the Hong Kong government, and *Eco-Trap* being the only device approved by the EPD for installation under the Voluntary Installation and Subsidy Program that is designed to physically trap the particulates generated from fuel combustion, the Group has devoted in testing *Eco-Trap* and made necessary modifications to the design of *Eco-Trap* to ensure that it would meet the requirements of the EPD under the Tender and the demands of the market. The EPD finally awarded the Tender to the Group in August 2000 and *Eco-Trap* was first launched to the market in September 2000.

Eco-Trap requires daily cleaning for proper operations and maintenance. Some users of *Eco-Trap* may consider that it is inconvenient to remove the filter cartridge from the *Eco-Trap* and clean it everyday. In order to alleviate the inconvenience, the Group provides cleaning services in several Caltex gas stations and at the head office of the Group in Kwun Tong.

The current model of the Group's diesel oxidation catalyst is designed to control vehicle emission from diesel heavy vehicles that are fuelled with low sulphur diesel. However, the Directors believe that some truck Drivers in Hong Kong who frequently travel to the PRC usually refill their trucks with high sulphur diesel in the PRC which is relatively cheaper than diesel for sale in Hong Kong. The high sulphur diesel will not only impede the effectiveness of the diesel oxidation catalyst in purifying SOF in the vehicle commission particulate, but also damage the diesel oxidation catalyst. To counter this problem, the research and development team of the Group is in the process of finding an effective solution to the problem.

At present, most of the return line filters available in the market are for low pressure application which in general deform easily when operated under a high pressure environment and in turn cause leakage of hydraulic oil. The Group developed return line filters with higher pressure sustainability by enhancing the structure of the existing return line filters under development by the Group so that the modified return line filters can function properly in high-pressure operating environment to filter the hydraulic oil without leakage of the oil resulting from the deformation of the return line filters. The Directors anticipate that the change of the design of the return filters will inevitably lead to an increase in the cost of production, in particular, in terms of the consumption of more materials. The research and development team of the Group and the contractor is developing a new technique to form the outer casing of the return line filter with fewer fabricating procedures to avoid or limit the additional cost as the Group intends to compete on a price basis with respect to the sale of its hydraulic filters.

PRODUCTS AND SERVICES

Marketed product: *Eco-Trap*

At present, the major commercialised product of the Group is *Eco-Trap* which consists of two different sizes, one for the installation in diesel vehicles of below 3,000 c.c. and the other for the installation in diesel vehicles of 3,000 c.c. or above.

Eco-Trap is an add-on device that can be easily connected to the exhaust pipe of diesel light vehicles without affecting the normal exhaust system of the existing vehicles. It serves to physically trap the diesel emission particulates, which are SOF being the mixture of HC (unburned fuel and lubricating oil), carbon soot (carbon black generated as a result of incomplete combustion of fuel), water and sulphate (which comes from the sulphur in the diesel fuel). Those particulates are the main causes of smoke opacity which is blamed to be the major cause of air pollution problem in cities with busy traffic like Hong Kong. In comparison with the diesel particulate reduction device supplied by other contractor appointed by the EPD under the Voluntary Installation and Subsidy Program, *Eco-Trap* is a relatively economical choice for the reduction of diesel emission particulate as, no material mechanical alteration on the vehicles is required for its installation and the production cost for *Eco-Trap* is competitively low.

The basic configuration of *Eco-Trap* is shown in Figure 5 below.

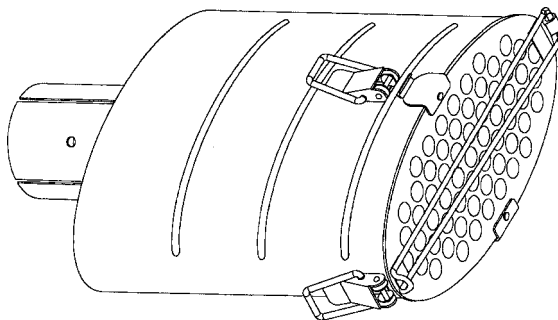


Figure 5

Each piece of *Eco-Trap* consists of two main components: a filter cartridge and a housing mounted with a connector. These two main components are made by stainless steel and are assembled to form a single component for installation to the exhaust pipe of a vehicle. The filter cartridge is divided into three compartments stuffed with stainless metallic fibrous elements. The packing densities of the stainless metallic fibrous elements are calculated to ensure good filtering efficiency and low pressure dropping through *Eco-Trap*. Within each compartment, two stainless steel struts are welded at the bottom of the compartments horizontally to avoid the twist of the stainless metallic fibrous elements in the compartments.

The particulates emitted from the exhaust pipe of a vehicle will go through *Eco-Trap*. These particulates are physically trapped by *Eco-Trap's* stainless metallic fibrous elements, through three mechanisms: interception, diffusion and inertial impaction. Figure 6 below shows the cross-section of *Eco-Trap*.

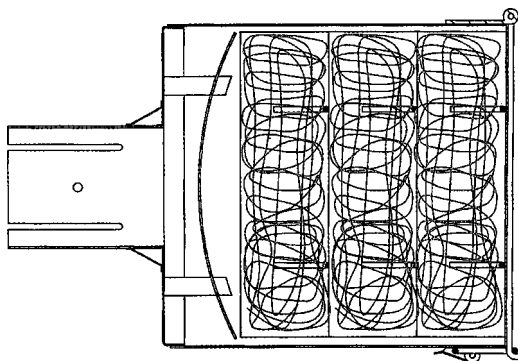


Figure 6

The filter cartridge is assembled with the housing by quick release clamps. The connector is directly connected to the exhaust pipe of a vehicle using suitable clamps and bolts. In order to further secure the connection of *Eco-Trap* to the exhaust pipe and to avoid accidental despatch of *Eco-Trap* from the exhaust pipe, a steel wire is fixed at the end of the exhaust pipe to tie up with the installed *Eco-Trap*.

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As requested by the EPD, PolyU carried out a study of performance and effectiveness of *Eco-Trap* in abating diesel vehicle emission problem for the period from August to December 1999. 60 diesel vehicles including taxis, light goods vehicles and public light buses were invited to participate in a local trial road test of *Eco-Trap*. Laboratory test on the performance of *Eco-Trap* was also performed by 天津大學內燃燒學國家重點實驗室 (the National Engine Combustion Laboratory of the Tianjin University) in December 1999. The road and laboratory tests showed that after installing *Eco-Trap*:

- the average smoke levels emitted by taxis, light goods vehicles and public light buses were reduced by about 30%, 35% and 21% respectively;
- smoke opacity and particulates emitted from the exhaust of diesel vehicles were both reduced by about 30%; and
- an average of about 20 grams of particulates were trapped for taxis in every week, 12 grams of particulates were trapped for light good vehicles in every week, and about 23 grams of particulates were trapped for light buses in every day.

The results of the tests indicate that *Eco-Trap* is effective in reducing smoke level and particulates. Hence, the Directors believe that *Eco-Trap* is effective in minimising air pollution.

Eco-Tek was one of the two contractors appointed by the EPD to supply and install particulate reduction devices under the Voluntary Installation and Subsidy Program, pursuant to which eligible diesel light vehicle owners who had received invitation letters from the EPD were entitled to claim grants of HK\$1,300 from the Hong Kong government for installation of particulate reduction devices for their vehicles from any one of the two appointed contractors.

As the price of HK\$1,300 fixed by the Group for each *Eco-Trap* under the Tender was paid by the Hong Kong government under the Voluntary Installation and Subsidy Program and the price quoted by the Group was inclusive of the installation charge, the grant of HK\$1,300 by the Hong Kong Government to each eligible diesel light vehicle owner who were subsidised under the Voluntary Installation and Subsidiary Program would not be required to pay any extra costs for the installation services. In addition, the Group will provide free replacement of *Eco-Trap* to the eligible vehicle owners of damages of *Eco-Trap* which are caused by improper installation. As at 31 July 2001, the Group had made a provision for warranty costs of HK\$775,000 by reference to the estimated costs required to settle the Group's potential obligations.

Installation of Eco-Trap

The installation of *Eco-Trap* is currently undertaken by 18 selected Caltex service stations, 5 garages and the Company's head office in Kwun Tong. To ensure sequential ordering and reservation for the installation of *Eco-Trap*, a central ordering and reservation system for

the installation is set up by the Group for prior appointment for installation service. Every customer is requested to fix the time and the specified Caltex service station or garage or the Company's head office for the installation services under the central ordering and reservation system. Upon receipt of orders from the customers, the Group is responsible to ensure that sufficient stocks are available at the designated Caltex service stations or garages. All installation work is performed by the staff of Caltex and the garages after attending the training session organised by the Group which instructs the employees of Caltex and the garages on the proper installation of *Eco-Trap* or their technicians engaged by the Group. The whole process of the installation of an *Eco-Trap* normally takes not more than 15 minutes.

Cleaning of Eco-Trap

In order to maintain the effectiveness of *Eco-Trap*, it is recommended that the filter cartridge of *Eco-Trap* should be replaced once every 6 months or after running of every 10,000 kilometres by the vehicles, whichever is the earlier. The *Eco-Trap* users may clean their *Eco-Trap* by dipping the used filter cartridge into the mixture of water and the recommended detergent. As the water will then be polluted by the particulates consisting of chemical substances, special arrangements for its disposal are required under relevant laws and regulations in Hong Kong. To comply with the statutory requirement, the Group has arranged for the installation of waste water disposal facilities in 30 selected Caltex service stations to collect the polluted water used to clean *Eco-Trap* from the *Eco-Trap* users.

In April 2001, the Group launched the cleaning services of the filter cartridges of *Eco-Trap* in the head office of the Company in Kwun Tong. The Group collects the contaminated filter cartridges from Caltex service stations. Those contaminated filter cartridges will then be delivered to the Group's cleaning centre set up in Kwun Tong for cleaning. The cleaning of the filter cartridges of *Eco-Trap* is processed through a semi-automatic washing line system which consists of a conveyor belt, three washing tanks and a continuous filtration system that helps to remove the particulates stranded in the filter cartridges. After cleaning, filter cartridges can be re-used. Currently, the cleaning services of the filter cartridges are provided by the Group to Caltex at a fixed charge. During the promotion period which is expected to expire at the end of November 2001, Caltex provides free cleaning service of filter cartridge to *Eco-Trap* users who refill petrol in Caltex gas station up to a specific amount. After the promotion period, Caltex will charge the *Eco-Trap*'s users who refill petrol in Caltex gas station up to a specific amount at a discount rate. For *Eco-Trap* user who has not consumed petrol up to a specific amount, fixed charge will be payable for the cleaning service of filter cartridge.

The Directors consider that the cleaning service will provide *Eco-Trap* users with convenience as they can leave the cleaning procedures to the Group. Besides, as usable and clean filter cartridge is provided every time the cleaning services are employed, the *Eco-Trap* users are not required to replace filter cartridges for their *Eco-Trap* once every 6 months or after running of every 10,000 kilometres by their vehicles as recommended by the Directors.

Marketed product: Hydraulic filters

In view of the wide application of hydraulic filters in the construction, agricultural and industrial machinery sectors, the Group has launched two types of hydraulic filters, i.e. suction filter and return line filter and is developing pressure line filter. Metal mesh or glass fibre are used as filtration media for the Group's filters.

The suction filter is the first component that is installed in a standard hydraulic system. It is installed between the inlet and the pump of a hydraulic system to filter the particulates of the hydraulic oil before the hydraulic oil is sucked by the pump. The suction filter is therefore a protector for the pump. It will prevent any dirt or particulate which is larger than 0.1 millimetre from entering into the hydraulic system.

The return line filter is installed in the hydraulic system such that the hydraulic oil must pass through the return line filter before it returns to the tank. It normally filters particulates larger than 0.02 millimetre to protect the hydraulic system components so that the hydraulic system can work in a good condition. The return line filter manufactured by the Group is subject to a maximum surge pressure of 30 kg/cm² and is with relatively high-pressure sustainability as compared with most of the return line filters currently available in the market.

The pressure line filter is normally installed between the pump outlet and the other components. It helps to filter particulates which are larger than 0.01 millimetre and gives further protection to the dedicated hydraulic system. The Group's pressure line filter is strong enough to withstand oil pressure that is higher than 210 kg/cm² which is with a high-pressure sustainability as compared with other types of hydraulic filters. The Directors expect that as the pressure line filter possesses the heaviest housing, the price of the pressure line filter will be about four times more expensive than the return line filter.

The return line filter and the pressure line filter both consist of metal housing and the filter elements which are installed inside the housing are made from meshed metal or glass fibre. The filter elements need to be replaced every 500 working hours. The suction filter has no housing and can be cleaned manually.

New products under development*Diesel oxidation catalysts*

The Group's diesel oxidation catalyst in regular model consists of a monolith honeycomb substrate coated with a platinum group metal catalyst ordered from the specialist manufacturer of such catalyst which can then be packaged in a stainless steel container designed by the Group. The specification of the catalyst is provided by the Group for the production by the catalyst manufacturer. The honeycomb structure with many small parallel channels presents a high catalytic contact area to exhaust gases. As the hot gases contact the catalyst, several exhaust pollutants such as CO, gas phase HC and SOF are converted into harmless substances, such as CO₂ and water vapour mainly through oxidation effect.

The Group's diesel oxidation catalyst in regular model will be particularly suitable for heavy vehicles such as heavy trucks and public buses as well as construction machinery and other diesel engine driven products. For the installation on different varieties of diesel heavy vehicles, the Group is prepared to design different fittings of the housing to suit the different mechanical designs of exhaust system installed on such diesel heavy vehicles.

Since September 2001, the Group is also engaged in the research and development of a regenerative diesel oxidation catalyst which is designed to provide both of the physical trapping function and oxidation effect to reduce vehicles emission and pollutant. The regenerative diesel oxidation catalyst is targeted at the higher end market, including government vehicles.

Soundproof barrier

Most of the noise barriers currently available to the market are installed on the roads or railways while their tops are uncovered. In that case, the barriers are able to isolate noises in areas that are surrounded by them but noises are still spread from the top of the noise barriers. As a result, the effectiveness of those noise barriers decreases. Aiming to overcome the weakness of the existing noise barriers, the Group intends to develop a new soundproof barrier using ASE technology which was employed by JAI in developing its noise proof barrier for the Japan market in 1998.

The ASE noise proof barrier developed by JAI based on the ANC technology of which Dr. Pau has substantial knowledge. The soundproof barriers utilise the ANC technology to be introduced in Hong Kong. The noise is received by the microphone at the source and the control circuit shifts sound waves up to 180 degrees, then, the speaker outputs negative sound waves to cancel the noise received. A test on the ASE noise proof barrier developed by JAI has been conducted by the Japanese Ministry of Construction in January 2000. The test shows that the ASE noise proof barrier has good noise reduction performance for both a fixed noise source and a high speed running truck. Further, the noise reduction effect of the ASE noise proof barrier was generally greater than that of the ordinary noise barriers. However, improvement in noise reduction effect of the ASE noise proof barrier, especially at 400 Hz and 800 Hz, and the appropriate position of its installation are major issues to be further researched and resolved.

As stated in the paragraph headed "History and development" under this section, the Group has entered into an agreement with JAI on 1 December 2000, pursuant to which JAI will assist the Group in the development of soundproof barrier in Hong Kong by employing the ASE technology for a term of five years commencing from 1 December 2000.

APPLICATION OF COMMON MATERIALS AND KNOW-HOW IN THE DEVELOPMENT OF THE GROUP'S DEVELOPED PRODUCTS AND PRODUCTS UNDER DEVELOPMENT

The common characteristics among the Group's marketed products and new products under development are (i) the adoption of mechanical processes as the core working principles of these products; and (ii) usage of similar raw materials for manufacturing and application of similar manufacturing process.

Adoption of mechanical processes as core working principal

The core working principal of the Group's marketed products are based on mechanical process, *Eco-Trap*, diesel oxidation catalysts and hydraulic filters apply the principle of filtration, while the mechanical process adopted in developing soundproof barrier is a mechanical barrier made by sheet metal and/or steel and using active sound edge technology which is designed to off-set traffic noise. The development of the Group's marketed products and new products under development is guided by Dr. Chiang and Dr. Pau who have strong technical knowhow in the mechanical process.

Similar raw materials and similar manufacturing process

Eco-Traps, diesel oxidation catalysts, casing of the soundproof barrier and hydraulic filters are or will be produced by similar raw materials, sheet metal and/or steel, and these marketed products and new products under development are or will be manufactured under similar manufacturing process. The manufacturing processes of the Group's products involve the sizing of metallic materials, the bending, shearing, welding and forming and structuring of the metallic components and the composition of such components into end-products. The manufacturing processes are designed and controlled by Dr. Pau who has been an active member in the industrial sector in Hong Kong for years.

RESEARCH AND DEVELOPMENT

The Directors believe that the continuing commitment to research and development is a key to maintain Group's competitiveness in the environmental protection industry, a growing industry which arises mainly due to the increasing public awareness and concern on the environmental problems and their remedies and the environmental protection. The Directors also believe that through its research and development, the Group is able to (i) identify environmental problems which are not currently tackled by any means effectively; (ii) design and develop practical and economic products and services to abate those identified problems; and (iii) carry out any necessary modification of the Group's existing products in order to improve its effectiveness in abating environmental problems.

Except for the initial design of *Eco-Trap* which was undertaken by PolyU, research and development of the Group's products are undertaken by the Group's in-house research and development team ("R&D Team"), which is supported and advised by the Group's research and development committee ("R&D Committee"). Research and development costs for the year ended 31 October 2000 and the nine months ended 31 July 2001 amounted to HK\$100,000 and HK\$960,000, respectively.

The Directors expect that the Group's R&D Team which comprises 3 full-time members as at the Latest Practicable Date, Dr. Chiang, Dr. Pau and Mr. Yung Chi Kay, the deputy general manager, will play a significant role in enhancing the Group's competitiveness. The R&D Team's primary responsibilities are:

- to conduct research and development works aiming to improve the Group's existing environmental protection related products and services in terms of performance and production efficiency; and

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- to initiate and realise potential projects with an aim to develop and commercialise new products and services.

Among the members in the R&D Team, a leader is appointed to lead the research and development of each product. Currently, Dr. Chiang is primarily responsible to lead the research and development of *Eco-Trap*, hydraulic filters and waste plastic recycling process while Dr. Pau is mainly responsible to lead the research and development of soundproof barrier and diesel oxidation catalysts.

Generally, Dr. Chiang undertakes to oversee commercialisation process, i.e. to ensure the functionality and practicability of each products, and strategic direction of the research and development of each products. Dr. Pau undertakes the mechanical design and the production process design of each product. The other member of the R&D Team is responsible to supervise the execution of the design work, such as the production of prototype and to coordinate the testing of the products in each stage of development.

The R&D Committee was set up in December 2000. At present, the R&D Committee comprises 3 representatives of the Group and 8 representatives of PolyU. Currently, representatives from PolyU comprise professors and lecturers with expertise in environmental engineering, civil and structuring engineering and mechanical engineering. In addition, PTeC has agreed to further support the Group through the nomination of professors or lecturers with expertise in additional areas, including construction and land use and health and social studies, upon request by the Group. The R&D Committee has advisory and supervisory roles and its main duties and responsibility are:

- to provide technical information to the R&D Team;
- to collate marketing information and prepare feasibility studies in the Group's proposed projects to develop and commercialise new environmental protection related products and services;
- to verify the conformity of the specifications provided by the R&D Team with any specific requirements and/or market demands;
- to advise the R&D Team on technical problems; and
- to provide general advice and supervision to the R&D Team.

PRODUCTION

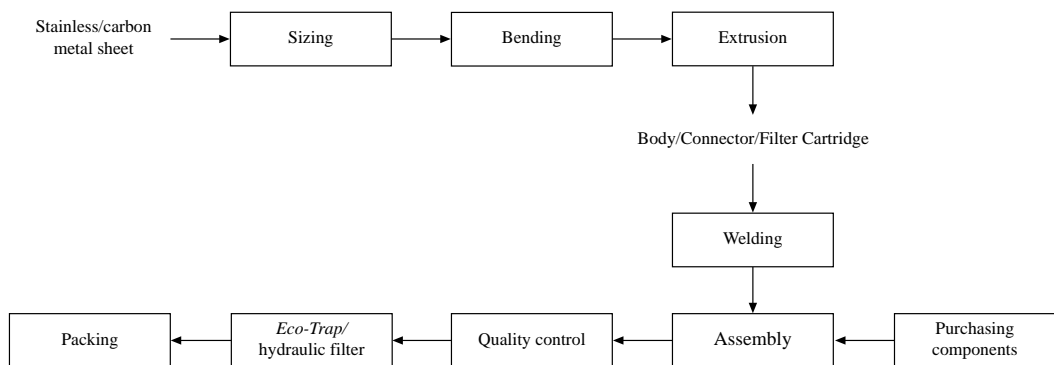
Production of *Eco-Trap* and hydraulic filters

Eco-Trap and hydraulic filter are the marketed products of the Group. *Eco-Trap* is made of stainless steel sheet while hydraulic filter is mainly made of carbon steel sheet and stainless mesh sheet. The production process of *Eco-Trap* and hydraulic filters starts with the sizing of a metal sheet by shearing machine according to a drawing provided by the Group. The rolling

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machine then bends the sized sheet to tube form. The edges of the tube will then be joined by argon gas welder and/or spot welder. The press extrudes the tube into the size as required in the drawing. The housing is finished and ready for further process. The “connector” is processed under the same procedures as the housing. Then the housing and the connector are jointed together by argon gas and/or spot welder. The manufacturing of filter cartridge body for *Eco-Trap* also follows the same procedures as that of the housing. The stainless metallic fibrous elements will be stuffed into the cartridge body at a formulated density. The steel mesh sheet of the hydraulic filter designed by the Group is bent into shape and press-fitted onto the body of the hydraulic filter. The plastic components are purchased from third party.

The production process of *Eco-Trap*, suction filter and return line filter are illustrated in the following flow chart:



The Group currently engages two contractors in Shunde and Zhongshan, the PRC to undertake the mass production of *Eco-Trap*, suction filter, return line filter and ancillary components. The two contractors are independent third parties not connected with the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates. The contractors are responsible for the entire production process, from the purchase of raw materials for production to the shipment of the finished products. The Group has provided the contractors with assistance throughout the production process including the setting up of production schedules and quality control procedures. The delivery lead times from the placement of order to the delivery of *Eco-Trap*, suction filter and return line filter are approximately 2 weeks, 4 weeks and 6 weeks respectively. The contractors have signed confidentiality agreements to confirm that they will not sell *Eco-Trap* to any third parties and agree that all information in relation to *Eco-Trap* will be kept confidential. Although there is no long-term contract between the Group and these contractors, the Directors believe that the Group will not encounter any major difficulties in engaging competent contractors for the production of the marketed products of the Group as there are numerous manufacturers engaging in the production of stainless steel parts and components and the Group will also provide such manufacturers with assistance in relation to the production and quality control. It is the Group’s strategy that it will continue to identify reliable contractors which offer competitive cost quotations to manufacture *Eco-Trap* and hydraulic filter. In order to ensure the quality of

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the finished products manufactured by the contractors, quality control inspectors are appointed by the Group to station in the PRC to attend inspection in the manufacturing plants of the contractors. The quality control inspectors are responsible to inspect the batch of finished products before the same are packed for shipment.

The sales and marketing staff of the Group monitored the sale daily. In addition, the sales and marketing staff of the Group reviewed the inventory level on a weekly basis in order to plan the production schedule with the contractor and used to maintain the inventory level below 2-month sales.

The major raw materials of the Group's marketed products are sourced by the contractors of the Group. The purchases were mainly settled in Hong Kong dollars by cheques or telegraphic transfer. In general, the major suppliers grant credit terms of 30 days to the Group. Such credit terms may be negotiated from time to time by the Group.

The top five suppliers of the Group accounted for approximately 98% and 100% in aggregate for the Group's total purchases for the year ended 31 October 2000 and the nine months ended 31 July 2001, respectively. For the same periods, the largest supplier of the Group accounted for approximately 37% and 94% of the Group's total purchases, respectively.

None of the Directors, their respective associates or, so far as the Directors are aware, shareholders who own more than 5% of the issued share capital of the Company (immediately following the completion of the Capitalisation Issue and the Placing and taking no account of the Shares which may be taken up under the Placing or issued pursuant to the exercise of Over-allotment Option and ANT-Option), has any interests in any of the top five suppliers of the Group for the period ended 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001, respectively.

In the long run, the Group intends to set up its own production facilities in the PRC for the manufacture of *Eco-Trap*, hydraulic filter and the other products of the Group such as diesel oxidation catalysts and soundproof barrier. The Directors are in the process of identifying suitable premises for the production facilities. Please refer to the paragraph headed "Overall business objectives – Improvement in production capabilities" under the section headed "Business objectives and implementation plans" in this prospectus for further details.

QUALITY CONTROL

Notwithstanding the fact that the production of *Eco-Trap* and hydraulic filter are outsourced and the installation of *Eco-Trap* is mainly conducted by the staff of Caltex at its service stations and the staff of the 5 garages, the Group has been making every effort to implement and maintain quality control as the Directors consider that quality of the Group's products is critical to the success of its business.

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To control the quality of manufacturing of *Eco-Trap* and hydraulic filter, the Group currently adopts a two tier quality control system for *Eco-Trap*. The first tier of quality control procedures of *Eco-Trap* are undertaken before the finished products are shipped to Hong Kong by members of the quality control team who are responsible for inspecting the quality of the materials and components used to produce *Eco-Trap* as well as the finishing and packing density of the finished products against the standards set by the Group at the manufacturing plants of the contractors in the PRC. The second tier of quality control procedures are undertaken upon shipments of finished products to Hong Kong whereby testings will be conducted by the members in quality control team in Hong Kong. Normally, about one-fifth of the products will be tested by the Hong Kong staff. If the passing rate of the tested product is less than 80%, the whole batch of finished products will be rejected by the Group and returned to the responsible contractor. If the passing rate of the test product is higher than 80%, only the defected products will be returned to the suppliers.

To control the quality of manufacturing of suction filter and return line filter, the members of the quality control team are responsible to inspect the quality of the materials and components used to produce suction filter and return line filter. Production and packaging processes are also inspected by the Group's inspectors. The filters will then be shipped to the distributors in Taiwan and the PRC after being inspected.

Eco-Trap can now be installed at 18 selected services stations of Caltex, 5 garages and the head office of the Company in Kwun Tong. All installation work is performed by staff of Caltex, the garages or the technicians of the Group. In order to ensure that the responsible staff is managed to master the necessary skills to install *Eco-Trap* for the customers properly, the Group has organised training sessions for the staff of Caltex and the garages in respect of the necessary skills of installation. Further, an installation report is required to be completed by the responsible staff after installing each *Eco-Trap*. Up to the Latest Practicable Date, no material complaint was received by the Group from the customers relating to the mechanical function or installation of *Eco-Trap*.

SALES AND MARKETING

The Directors consider that since the Group is a new entrant to the environmental protection industry and the environmental protection regulations and policies implemented by the government in the proposed markets for the Group's products have significant impact on the overall future development of the environmental protection industry which in turn will inevitably affect the Group's future development in the localities, it is in the interest of the Group to cultivate a close working relationship with the relevant local government authorities, such as the EPD in Hong Kong and the PRC-EPA in the PRC, to facilitate the prompt receipt of latest policies on environmental protection issues in their localities and environmental protection projects initiated by such government.

In order to ensure successful commercialisation of *Eco-Trap* in Hong Kong, the Group took its first step successfully in promoting *Eco-Trap* as one of the two particulate reduction

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devices admitted by the EPD. Since the price, i.e. HK\$1,300 fixed by the Group for the installation of each *Eco-Trap* under the Tender matched with the amount granted to the eligible diesel vehicle owner by the Hong Kong Government under the Voluntary Installation and Subsidy Program, the Group managed to capture approximately 85% of particulate reduction devices installed under the Voluntary Installation and Subsidy Program. After the expiration of the Voluntary Installation and Subsidy Program, it is the Group's intention to promote *Eco-Trap* to market *Eco-Trap* to the owners of diesel light vehicles not installed with *Eco-Trap* by promoting effectiveness and the low installation costs of the product against the tougher action and penalties for smoky vehicles introduced by the Hong Kong government.

At the moment, the Group has alliances with Caltex to install *Eco-Traps* in 18 Caltex service stations and 5 garages to sell filter cartridges in 50 Caltex service stations. As at 31 July 2001, the Group's inventories held in Caltex service stations and 5 garages amounted to HK\$95,000 and HK\$25,000 respectively.

The Group normally exercises the following control measures over the inventories held in Caltex service stations and the garages:

- staff in the Caltex service stations and the garages are required to sign on *Eco-Traps*' delivery notes to acknowledge receipt of *Eco-Traps* from the Group
- the members in the sales and marketing team maintains records for the quantity of *Eco-Traps* stocked in each Caltex service stations and the garages and the number of *Eco-Traps* installed in each Caltex service stations and the garages
- weekly report on the quantities of the stock of *Eco-Traps* in each Caltex service stations and the garages is compiled by the members in the sales and marketing team
- the members in the sales and marketing team will then formulate the quantities of *Eco-Traps* to be supplied to each Caltex service stations and the garages in accordance with the confirmed orders placed with each Caltex service stations and the garages

The Group plans to expand the retail network through the effort of the members in the sales and marketing team and the senior management. The senior management will also approach, for example, the Light Bus Association to further promote the sales of *Eco-Trap*.

For the year ended 31 October 2000 and the nine months ended 31 July 2001, the Group's turnover was predominantly attributable to the sales and installation of *Eco-Traps* to the eligible vehicle owners under the Voluntary Installation and Subsidy Program, in which the Government paid to the Group in Hong Kong dollars within 30 days after completion of installation. The other customers of *Eco-Traps* paid the Group in cash upon delivery.

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The top five customers of the Group, who are the individual eligible vehicle owners under the Voluntary Installation and Subsidy Program, accounted for less than 30% in aggregate for the Group's total turnover for the year ended 31 October 2000 and the nine months ended 31 July 2001, respectively.

None of the Directors, their respective associates or, so far as the Directors are aware, shareholders who own more than 5% of the issued share capital of the Company (immediately following the completion of the Capitalisation Issue and the Placing and taking no account of the Shares which may be taken up under the Placing or issued pursuant to the exercise of Over-allotment Option and ANT-Option), has any interests in any of the top five customers of the Group for the period ended 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001, respectively.

The Group also plans to introduce *Eco-Trap* to the PRC market in December 2001. The Group had preliminary negotiations with a number of parties in relation to the distribution of *Eco-Trap* in the PRC, including a car distributor which has already expressed its interests in distributing *Eco-Trap* in Shunde, the PRC.

Based on its experience in working with the EPD to supply and install *Eco-Trap* for diesel light vehicles in Hong Kong under the Voluntary Installation and Subsidy Program, the Group plans to capitalise the program proposed to be launched by the Hong Kong government in the second or the third quarter of 2002 to encourage the diesel heavy vehicle owners to install diesel catalyst converters for their vehicles, to first introduce the Group's diesel oxidation catalyst to the market.

The Group has appointed an experienced independent distributor to market the Group's hydraulic filters in Hong Kong, the PRC and Taiwan. In May 2001, the Group first entered into purchase orders for the sale of suction filters and return line filters to Taiwan and the PRC. The Group intends to appoint another distributor, who is experienced and who has established solid client networks in the hydraulic filter industry, to be its distribution agents for the sales and marketing of its hydraulic filters in the US by early 2002.

COMPETITION

Eco-Trap

The vehicle emission control devices currently available in the market include devices such as oxidation catalysts, continuously re-generating filters and active lean nitrogen oxide catalysts. However, retail prices of such vehicle emission control devices, including the other particulate reduction device adopted by the other contractor approved by the EPD under the Voluntary Installation and Subsidy Program, ranging from HK\$4,000 to HK\$7,500 per unit, are 3 to 6 times to that of *Eco-Trap* of HK\$1,300 per unit. Further, *Eco-Trap* has been approved by the EPD for installation under the Voluntary Installation and Subsidy Program which infers that the function of *Eco-Trap* is recognised. The Directors believe that notwithstanding the Voluntary Installation and Subsidy Program had expired, the competitive

price and the recognition on the effectiveness of *Eco-Trap* will be the competitive edges of *Eco-Trap* over the other vehicle emission control devices currently available in the market.

Hydraulic filters

The major competitors for the supply of hydraulic filter are the manufacturers from the United Kingdom, the US and Italy. Similar to the strategy adopted for diesel oxidation catalyst, the Group is prepared to adopt the low price strategy to build up and expand its market share in the industry of hydraulic filters to cut the production costs of hydraulic filters. The Group has located suitable manufacturer in the PRC to undertake the mass production of the Group's hydraulic filters.

Generally, industrial machines require return line filters with high pressure of 30 kg/cm². However, most of the existing suppliers for hydraulic filters only provide low pressure return line filters of up to 12 kg/cm². In order to build up the Group's competitive advantage in the industry of hydraulic filters, the Group intends to develop high pressure return line filter of 30 kg/cm² to meet the demand from the user of industrial machinery.

Diesel oxidation catalysts

At present, most of the diesel oxidation catalysts available in the market are produced by US based companies. The Group is now proposing to enter into the diesel oxidation catalyst market and to build up the competitive edge of its diesel oxidation catalyst in regular model by adopting a low cost strategy. Having considered that the production costs in the PRC is comparatively low, the Group plans to manufacture the Group's diesel oxidation catalysts in regular model in the PRC. The Directors expect that the production costs of the regenerative diesel oxidation catalyst will be comparatively higher than its regular model as the mechanical structure of the regenerative diesel oxidation catalyst is designed to provide both of the physical trapping function and oxidation effect. The Directors intend to promote the regenerative diesel oxidation catalyst to the higher end market, including for the use by government vehicles.

Soundproof barriers

The conventional soundproof barriers used in Hong Kong are only noise isolation barriers which are designed to isolate noise but not extinguish it. Another disadvantage of such noise proof barriers is that particularly high barrier panels are normally required to isolate noise. Apart from blocking sunlight, these high barrier panels also interrupt or obstruct radio reception or transmission.

The Group is prepared to adopt ASE technology to develop innovated soundproof barrier for the Hong Kong market. The adoption of ASE technology, being developed based on ANC technology, in the soundproof barrier proposed to be developed by the Group is designed to extinguish noise rather than only to isolate it. The height of the panel on which the Group's soundproof barrier is installed will be adjusted in accordance with environment in the vicinity

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and the targeted level of noise control. At present, the Group's soundproof barrier will be installed on the top of the barrier panels in the height as low as two metres, which is comparatively lower than the conventional noise proof barrier generally adopted in Hong Kong.

INTELLECTUAL PROPERTY

Pursuant to the Deed of Assignment, the First Supplemental Deed and the Second Supplemental Deed, PTeC assigned to Eco-Tek Technology the Patents which were registered in Hong Kong and the PRC and the Patent Applications of which applications for registration had been made in Thailand, India and Malaysia. As at the Latest Practicable Date, the Group had applied for registration of a patent and two trademarks in Hong Kong. Details of the Patents, the Patent Applications and other intellectual property rights of the Group are set out in the paragraph headed "Intellectual property rights of the Group" in Appendix IV to this prospectus.

CONNECTED AND RELATED PARTY TRANSACTIONS

For the period from 27 October 1999 to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001, the Group had entered into certain related party transactions. For further details, please refer to note (g) under the section headed "Results" in the accountants' report as set out in Appendix I to this prospectus. The related party transactions had been terminated as at 31 March 2001.

RELATIONSHIP WITH POLYU

Upon listing of the Shares, PolyU, through its interests in Advance New Technology, will be a substantial shareholder, holding about 16.1% of the entire issued Shares (assuming the Over-allotment Option, the ANT-Option and the options granted under the Share Option Schemes are not exercised).

PolyU is an academic institution in Hong Kong. PolyU, through its various academic departments, is actively involved in the research and development, study and analysis of technologies relating to environmental protection. Currently, these projects are focused on the study, experiment and analysis of issues on environment and the effectiveness and impact of proposed environmental protection technologies and/or measure(s) for academic and general research and development purposes. PolyU had confirmed that there are no product development activities being undertaken by PolyU currently that may compete or will compete with the products developed or proposed to be developed by the Group.

PolyU has agreed that if there is any research activity conducted by PolyU which may lead to the invention of technologies and/or knowhow and may result in specific environmental products that could be commercialised and may compete with the products of the Group in any respects, it will through PTeC offer a first right of refusal for the Group to commercialise products adopting such technologies and/or knowhow.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

OVERALL BUSINESS OBJECTIVES

It is the mission of the Group to contribute towards the sustaining of a healthy and pleasant environment for both existing and future generations of mankind. By capitalising on the technical expertise and experience of the senior management and the research and development team of the Group, and applying innovative technology, the Group focuses on developing practical and economical environmental protection related products and services to improve and safeguard the environment.

Since environmental protection has become an issue of increasing global concern, the Directors believe that there is tremendous market potential in the environmental protection industry. With a view to achieving the Group's objective to become one of the leading providers of environmental protection related products and services in Hong Kong and other overseas markets, the Group has formulated major business strategies which comprise (i) development of new innovative products and services; (ii) development of new markets; (iii) improvement in production capabilities; (iv) improvement of the quality of existing products and service performance; (v) establishment of extensive distribution networks; (vi) securing government support; and (vii) promotion of public awareness towards environmental protection issues.

Development of new innovative products and services

The Directors believe that the key to success in the environmental protection industry lies with the ability to introduce innovative products and services using new technologies. Leveraging on the success in the development and commercialisation of *Eco-Trap* through the collaboration with PolyU, the Group intends to work closely with PolyU to develop and launch other environmental protection related products and services through consultancy services or joint research programs. The Group has set up a research and development committee, comprising representatives of both the Group and PolyU. In addition, the Group has established a research and development team to explore and develop other innovative products and services.

Apart from *Eco-Trap*, suction filter and return line filter, the Group has commenced the development of the diesel oxidation catalyst and pressure line filter and the preliminary study of soundproof barrier. Further research and development of these three products will be undertaken by the Group. Please refer to the paragraph headed "Products and services" under the section headed "Business" in this prospectus for details of these three products. The Directors expect that the diesel oxidation catalysts and the pressure line filter of the Group will be launched in the Hong Kong market in the second or the third quarter of 2002 and the soundproof barrier will be commercialised before the end of 2004.

Hydraulic filters

The Group intends to spend an aggregate of about HK\$1.0 million to conduct further research and development, recruit experienced technical engineers, commence in-house manufacturing and appoint distributors for the markets in the PRC, Taiwan

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

and US for the Group's hydraulic filters. The Directors believe that based on the proposed competitive edge of the Group's hydraulic filters in terms of cost and quality, in particular the relatively high-pressure sustainability of its return line filter, the Group will be able to capture the market of the hydraulic filters in the targeted geographical locations in the long term.

Diesel oxidation catalysts

The Group is prepared to spend an aggregate of about HK\$1.8 million to conduct research and development on the Group's diesel oxidation catalyst, and to provide related training on its installation and maintenance. The Group intends to capitalise on the program proposed to be launched by the Hong Kong government in the second or the third quarter of 2002 in respect of the installation of diesel oxidation catalysts on diesel heavy vehicles. The Directors expect that the proposed program shall provide the Group with the opportunity to first introduce the Group's diesel oxidation catalyst in regular model to the market. The Group also plans to market its diesel oxidation catalyst in regular model for diesel engine driven machinery market in the second or the third quarter of 2003. With the technical expertise and experience gained in the development and commercialisation of *Eco-Trap*, in particular, the experience to work with the Hong Kong government in supplying and installing *Eco-Trap* for diesel light vehicles under the Voluntary Installation and Subsidy Program, the Directors believe that the Group possesses the ability to obtain a contract from the Hong Kong government to supply and install the Group's diesel oxidation catalyst for diesel heavy vehicles. The Directors consider that the Group is capable of capturing both the diesel heavy vehicle market and the diesel engine driven machinery market of the diesel oxidation catalysts in the targeted geographical locations in the long term.

Soundproof barrier

The Group plans to spend an aggregate of about HK\$4.0 million to conduct further research and development and recruit experienced technical staff for the production of the Group's soundproof barrier. Leveraging on the substantial knowledge of Dr. Pau in the ANC technology, his participation in the development of the ASE soundproof barrier of JAI Company Limited in Japan and the assistance from JAI Company Limited, the Directors believe that the Group will be able to successfully develop the Group's soundproof barrier for adoption in Hong Kong, PRC and Taiwan at later stages.

Other products and services

In addition to the three new products currently under development as mentioned above, the Group will continuously explore opportunities for developing other environmental protection related products and services in future. The Directors consider that the development of innovative products and services will allow the Group to enlarge its product and service range and to attain new sources of revenue.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

At present, the Group plans to commence the feasibility study of waste plastic recycling process. The Group intends to spend an aggregate of about HK\$1 million to conduct research and development and recruit technical staff for a project of waste plastic recycling process. The Group has retained Professor Georg Menges (“Professor Menges”), an expert in the area of plastic recycling and a professor in the Institute of Plastics Processing, Technical University of Aachen, Germany, as the Group’s technical consultant to assist it in developing the waste plastic recycling process which aims to convert waste plastic into oil substances and finally, energy, in Hong Kong. The Group’s proposed waste plastic recycling process will align with the overall objectives of the Hong Kong government in waste reduction and waste recycling, in particular, its strategy to turn waste into energy. The Directors believe that with the assistance from Professor Menges, the Group will be able to successfully develop the waste plastic recycling process, which is able to convert waste plastic into energy and the Directors will strive to gain the necessary support from the Hong Kong government for the launch of the waste plastic recycling process.

Development of new markets

The Directors consider that certain major cities in the PRC, which also encounter similar air pollution problems as Hong Kong, are potential markets for the Group’s products which are designed to abate air pollution problems, particularly with regard to the introduction of *Eco-Trap*. Accordingly, the Group has identified Shunde, the Guangdong Province as the first market in the PRC for *Eco-Trap*. The Group intends to work closely with the distribution agent(s) to be appointed to obtain necessary support and approval from the relevant environmental protection authority in Shunde for the sale of *Eco-Trap* in the fourth quarter of 2002 or the first quarter of 2003 and to formally launch *Eco-Trap* in Shunde in the second or third quarter of 2003. Thereafter, the Group plans to expand the market for *Eco-Trap* to other cities in the Guangdong Province of the PRC, including Foshan, Panyu, Zhuhai and Zhongshan and various cities in the Fujian Province. The Group plans to develop the PRC market for *Eco-Trap* through the appointment of distribution agents and carrying out direct marketing activities. After its entry into the PRC market, the Group may consider launching *Eco-Trap* in other potential markets such as Taiwan if suitable opportunities arise.

In addition, the Group intends to explore potential overseas markets for diesel oxidation catalyst and pressure line filter currently under development. There is no specific overseas market identified by the Group yet. However, for diesel oxidation catalyst, the PRC market is expected to be developed through the appointment of distribution agents and carrying out direct marketing activities by the Group. For hydraulic filter, distribution agents will be appointed to assist in developing the targeted overseas markets including the US.

The Directors consider that the development of new markets for its products and services will not only strengthen its revenue base, but will also enhance its reputation in the environmental protection industry as a result of wide distribution and usage of its environmental protection related products and services in the overseas markets.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

The following table shows the time frame or proposed time frame for the launch of the products of the Group in the targeted markets.

Product	Targeted markets				
	Hong Kong	PRC	Taiwan	US	Europe
<i>Eco-Trap</i>	Sep 2000	mid or late 2002	–	–	–
Diesel oxidation catalyst	mid 2002	late 2003 or early 2004	–	–	–
Soundproof barrier	mid or late 2004	–	–	–	–
Hydraulic filters	–	May 2001/ mid or late 2002	May 2001/ mid or late 2002	late 2001 or early 2002/ late 2002 or early 2003	late 2003
Waste plastic recycling process	late 2004	–	–	–	–

Improvement in production capabilities

The Directors consider that the establishment of the Group's own production facilities shall play a key role in enabling the Group to satisfy the market demand in the environmental protection industry and to facilitate the research and development of the Group's existing products, and services. Accordingly, the Group plans to establish its own production facilities for the production of *Eco-Trap*, diesel oxidation catalyst, hydraulic filters and soundproof barrier. It is expected that about HK\$7 million will be utilised to establish the Group's production facilities in the PRC by the second or third quarter of 2003.

In the meantime, in order to control the Group's overhead and operating expenses effectively, it is the Group's strategy to outsource its production and assembly activities. The Group has currently engaged two contractors in the PRC for the production of *Eco-Trap* and hydraulic filters. Before commencement of operation of the Group's own production facilities in 2003, the Group plans to source more quality contractors in the PRC to undertake mass production required to accommodate increasing demand for the Group's products, in terms of quantity, quality and variety.

Improvement of the quality of existing products and service performance

The Directors recognise that maintaining a high quality standard for the Group's products and service performance is vital for its reputation and continuing business growth. Improvement in the quality of its products and service performance is therefore one of the important initiatives for the Group's business development. The Group will continue to conduct research and development through its research and development team in order to enhance the performance of its existing products and services.

Establishment of extensive distribution networks

The Directors believe that an effective distribution network is essential to the successful commercialisation of the Group's products in the targeted markets.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

At present, 18 Caltex service stations have been engaged in the sale and installation of *Eco-Trap* in Hong Kong under the co-operation arrangement between the Group and Caltex. In addition, five garages have also been engaged to sell and install *Eco-Trap*. For the installation services provided by Caltex and the garages, the Group will pay Caltex and the garages an installation fee for each *Eco-Trap* installed. The Group aims to enlarge the sales network for retail and to develop the wholesale network of *Eco-Trap* in Hong Kong through the efforts of the Group's marketing team who are responsible to approach different associations, such as the Light Bus Association, garages and car accessory shops in Hong Kong.

The Group intends to sell its hydraulic filters to the distributors at fixed prices. The Group's existing distributor of hydraulic filter has distribution network in Taiwan and the PRC. The Group will negotiate with the distributors to set up sub-agents in eastern part of the PRC.

As described in the preceding paragraph headed "Development of new markets", the Group plans to establish distribution networks of its existing and future products in its targeted overseas markets by appointing experienced distribution agents. The Directors consider that this is an effective means to establish overseas distribution networks, given that a speedy establishment of distribution networks will facilitate efficient market penetration of new products in overseas markets.

Securing government support

The Directors consider that supportive government policies are crucial to the successful development of the environmental protection industry. Governments, always play important roles in promoting environmental protection, for example, the launch of the Voluntary Installation and Subsidy Program for vehicle particulate reduction devices by the Hong Kong government. Likewise, the Directors believe that most of the environmental production related products which are now under development by the Group, including diesel oxidation catalyst and soundproof barrier, together with waste plastic recycling process planned to be developed by the Group will also benefit from the Hong Kong government's initiatives in environmental protection. As such, the Group will seek to secure support from government authorities, both in Hong Kong, the PRC and other targeted overseas markets through conducting feasibility studies, technical information exchanges, negotiations and demonstrations of the prototype of the Group's products.

Promotion of public awareness towards environmental protection issues

Public awareness for environmental protection is also indispensable to the business of the Group, particularly in developing the Group's environmental protection related products in the PRC market. Accordingly, the Group will place emphasis on the promotion of environmental protection awareness through various activities such as conducting scientific research and exploration, market surveys, technical seminars, and mass media publicity in newspapers, radio and television, both in Hong Kong and in the PRC.

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

IMPLEMENTATION PLANS

The following sets out the Group's implementation plans for the period from the Latest Practicable Date up to and including 31 October 2004:

For the period from the Latest Practicable Date to 30 April 2002

Product and service development

Product	Funding required during the period	Actions to be taken
<i>Eco-Trap</i>	HK\$0.4 million	<ul style="list-style-type: none">• continue to provide cleaning services for contaminated filter cartridges of <i>Eco-Trap</i> in Hong Kong• initiate marketing efforts for promoting <i>Eco-Trap</i> and targeting at private diesel car owners in Hong Kong who are not eligible for grants to install vehicle particulate reduction devices under the Voluntary Installation and Subsidy Program ("Non-subsidised Private Diesel Car Owners") by direct advertisement and organised sales campaigns in the service stations of Caltex• commence designing of production process of <i>Eco-Trap</i> for in-house production• redesign and modify <i>Eco-Trap</i> for in-house production
Diesel oxidation catalysts	HK\$0.4 million	<ul style="list-style-type: none">• complete testing of the Group's diesel oxidation catalyst in accordance with the initial specifications specified by the relevant government authorities in Hong Kong• decide whether to purchase or to produce the Group's diesel oxidation catalyst. If the diesel oxidation catalyst is decided to be produced by the Group, the Group will start designing the production process in relation thereto• modify the design of the Group's diesel oxidation catalyst according to test result• apply and obtain the efficiency certificate for the Group's diesel oxidation catalyst specified by the relevant government authorities in Hong Kong• introduce the Group's diesel oxidation catalyst for heavy diesel vehicles in Hong Kong• continue with or, where appropriate, conclude the negotiation with the relevant government authorities in Hong Kong on the use of diesel oxidation catalysts for diesel heavy vehicles in Hong Kong under the program proposed to be launched by the Hong Kong government• identify other sales opportunities for the Group's diesel oxidation catalyst in Hong Kong

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

Hydraulic filters	HK\$0.3 million	<ul style="list-style-type: none">• continue the design and research and development of pressure line filter• recruit 1 engineer for the design, modification and customer service of hydraulic filters• complete the design of the pressure line filter, start producing prototype by contractor and carry out field tests for the pressure line filter in Taiwan• appoint 1 distributor for the Group's suction filter and return line filter in the US
Soundproof barrier	HK\$0.6 million	<ul style="list-style-type: none">• continue negotiation with the relevant government authorities in Hong Kong on the use of the Group's soundproof barrier• commence the research and development of the Group's soundproof barrier using the ASE technology and carrying out modification work to cater for the environment in Hong Kong• identify other sales opportunities for soundproof barrier in Hong Kong• test ASE by independent consultant
Waste plastic recycling process	–	<ul style="list-style-type: none">• commence the feasibility study and negotiation with the relevant government authorities in Hong Kong on the use of the Group's proposed waste plastic recycling process• continue with feasibility study and negotiation with the relevant government authorities in Hong Kong on the use of the Group's proposed waste plastic recycling process

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

For the period from 1 May 2002 to 31 October 2002

Product and service development

Product	Funding required during the period	Actions to be taken
<i>Eco-Trap</i>	HK\$0.4 million	<ul style="list-style-type: none"> • promote the use of <i>Eco-Trap</i> and the related cleaning services to non-subsidised Private Diesel Car Owners in Hong Kong • conduct feasibility study and negotiate with the PRC government authorities on the introduction of <i>Eco-Trap</i> in the PRC • commence and complete the modification of <i>Eco-Trap</i> for diesel light vehicles in the PRC • provide training to distribution agents in the PRC to market <i>Eco-Trap</i> • recruit 2 staff for management of <i>Eco-Trap</i> project in the PRC • apply and obtain the licence in the PRC for selling of <i>Eco-Trap</i> • initiate marketing efforts for promoting <i>Eco-Trap</i> to diesel light vehicle owners in Guangdong Province, the PRC through the distribution agents and by direct promotion and sales call to garages
Diesel oxidation catalysts	HK\$0.4 million	<ul style="list-style-type: none"> • continue to promote diesel oxidation catalysts for heavy diesel vehicles in Hong Kong • if the relevant contract is granted to the Group, commence sales of the Group's diesel oxidation catalyst in Hong Kong under the program launched by the Hong Kong government in relation to the use of diesel oxidation catalysts for diesel heavy vehicles in Hong Kong • modify the diesel oxidation catalyst to reduce cost for in-house production
Hydraulic filters	HK\$0.2 million	<ul style="list-style-type: none"> • modify the pressure line filter in line with test results and complete the design, research and development of the same • continue to develop the markets in the PRC, Taiwan and US • identify sales opportunities for the Group's suction filter and return line filter in other markets, such as countries in Europe • launch pressure line filter in the PRC and Taiwan
Soundproof barrier	HK\$0.7 million	<ul style="list-style-type: none"> • continue with negotiation with the relevant government authorities in Hong Kong on the use of the Group's soundproof barrier • continue with the research and development of soundproof barrier
Waste plastic recycling process	HK\$0.2 million	<ul style="list-style-type: none"> • continue with negotiation with the relevant government authorities in Hong Kong on the use of the Group's proposed waste plastic recycling process • commence research and development on the waste plastic recycling process • identify market opportunities for the Group's waste plastic recycling process in Hong Kong

Other development

Event	Funding required during the period	Actions to be taken
Establishment of production facilities	HK\$5 million	<ul style="list-style-type: none"> • identify suitable premises for the production facilities in the PRC • commence establishment of the production facilities

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

For the period from 1 November 2002 to 30 April 2003

Product and service development

Product	Funding required during the period	Actions to be taken
<i>Eco-Trap</i>	HK\$0.4 million	<ul style="list-style-type: none"> • continue to promote the use of <i>Eco-Trap</i> and the related cleaning services to Non-subsidised Private Car Owners in Hong Kong • conduct study on the possibility of replacing the stainless metallic fibrous elements in <i>Eco-Trap</i> with any other materials for easy cleaning
Diesel oxidation catalysts	HK\$0.5 million	<ul style="list-style-type: none"> • if the relevant contract is granted to the Group, continue to sell the Group's diesel oxidation catalyst in Hong Kong under the program launched by the Hong Kong government in relation to the use of diesel oxidation catalysts for diesel heavy vehicles • initiate marketing efforts for promoting the Group's diesel oxidation catalyst and targeting at diesel heavy vehicle owners who are not entitled to assistance provided by the Hong Kong government under the above program ("Diesel Heavy Vehicle Owners") • provide training to installers to maintain the diesel oxidation catalyst • conduct study on the possibility of modifying the diesel oxidation catalyst for cost reduction purpose
Hydraulic filters	HK\$0.4 million	<ul style="list-style-type: none"> • continue to develop the markets in Hong Kong, the PRC, Taiwan and US • conduct research on the hydraulic filter market in Europe
Soundproof barrier	HK\$0.4 million	<ul style="list-style-type: none"> • continue with negotiation with the relevant government authorities in Hong Kong on the use of the Group's soundproof barrier • continue with the research and development of the Group's soundproof barrier
Waste plastic recycling process	–	<ul style="list-style-type: none"> • continue with negotiation with the relevant government authorities in Hong Kong on the use of the Group's waste plastic recycling process • continue with the research and development of the Group's waste plastic recycling process

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

Other development

Event	Funding required during the period	Actions to be taken
Establishment of production facilities	HK\$2 million	<ul style="list-style-type: none"> • complete establishment of the production facilities in the PRC • recruit 2 managing staff and 2 engineering staff for the production facilities • commence operation of the production facilities which are expected to support monthly production of: <ul style="list-style-type: none"> – 1,000 pieces of <i>Eco-Traps</i> – 500 pieces of diesel oxidation catalysts – 1,000 pieces of hydraulic filters

For the period from 1 May 2003 to 31 October 2003

Product and service development

Product	Funding required during the period	Actions to be taken
<i>Eco-Trap</i>	HK\$0.4 million	<ul style="list-style-type: none"> • identify revenue generating opportunities for provision of cleaning services of <i>Eco-Trap</i> in Guangdong Province, the PRC • commence in-house production of <i>Eco-Trap</i> in the Group's production facilities in the PRC with initial production capacity of 20 <i>Eco-Traps</i> per day
Diesel oxidation catalysts	HK\$0.5 million	<ul style="list-style-type: none"> • continue to promote the use of the Group's diesel oxidation catalyst to the Diesel Heavy Vehicle Owners • modify the Group's diesel oxidation catalyst for diesel engine driven machinery market • market the Group's diesel oxidation catalyst for the diesel engine driven machinery market • recruit 1 sales engineer for the Group's diesel oxidation catalyst specifically for the diesel engine driven machinery • commence in-house production of diesel oxidation catalyst in the PRC with the initial production capacity of 20 diesel oxidation catalysts per day from February 2002
Hydraulic filters	HK\$0.1 million	<ul style="list-style-type: none"> • commence in-house production of hydraulic filters in the PRC with initial production capacity of 30 hydraulic filters per day • continue to develop the markets in the PRC, Taiwan and US • identify and appoint distributors in Europe
Soundproof barrier	HK\$1 million	<ul style="list-style-type: none"> • recruit 2 technical staff dedicated to the soundproof barrier project • continue to negotiate with the relevant government authorities in Hong Kong on the use of the Group's soundproof barrier • complete the research and development of the Group's soundproof barrier and start to build prototype • conduct testing of the Group's soundproof barrier

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

Product	Funding required during the period	Actions to be taken
Waste plastic recycling process	HK\$0.3 million	<ul style="list-style-type: none"> • continue with/conclude negotiation with the relevant government authorities in Hong Kong on the use of the Group's waste plastic recycling process • start to build prototype for requisite plant and machinery • commence testing of the Group's waste plastic recycling process

For the period from 1 November 2003 to 30 April 2004

Product and service development

Product	Funding required during the period	Actions to be taken
<i>Eco-Trap</i>	HK\$0.4 million	<ul style="list-style-type: none"> • continue to promote the use of <i>Eco-Trap</i> in Guangdong Province, the PRC • expand the promotion and commence sales of <i>Eco-Trap</i> to Fujian Province, the PRC
Diesel oxidation catalysts	–	<ul style="list-style-type: none"> • modify the Group's diesel oxidation catalyst for the PRC market • appoint distribution agents for the PRC market for the Group's diesel oxidation catalyst • initiate marketing efforts for the Group's diesel oxidation catalyst in the PRC through the distribution agents and by direct promotion and sales call to garages • provide training to distribution agents for selling the Group's diesel oxidation catalyst in the PRC (<i>Note</i>) • recruit 1 project engineer for the diesel oxidation catalyst in the PRC for its enhancement and commercialisation <p style="margin-left: 40px;"><i>(Note: if the contract under the program proposed to be launched by the Hong Kong government in relation to the use of diesel oxidation catalysts for diesel heavy vehicles in Hong Kong is not granted to the Group, all these activities relating to the PRC market will be carried out during the period from 1 May 2004 and the Group will continue to develop the PRC market for its diesel oxidation catalyst thereafter)</i></p>
Hydraulic filters	–	<ul style="list-style-type: none"> • continue to sell hydraulic filters in US and Europe
Soundproof barrier	HK\$1.0 million	<ul style="list-style-type: none"> • complete the testing of the Group's soundproof barrier • promote the idea of quiet road and rail in Hong Kong by installing soundproof barrier
Waste plastic recycling process	HK\$0.3 million	<ul style="list-style-type: none"> • complete the testing of the Group's waste plastic recycling process

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

For the period from 1 May 2004 to 30 October 2004

Product and service development

Product	Funding required during the period	Actions to be taken
<i>Eco-Trap</i>	–	<ul style="list-style-type: none">• expand the promotion and commences sales of Eco-Trap to other provinces in the PRC
Hydraulic filters	–	<ul style="list-style-type: none">• continue to sell in European market
Soundproof barrier	HK\$0.3 million	<ul style="list-style-type: none">• commence in-house production of the Group's soundproof barrier• commence sales of the Group's soundproof barrier in Hong Kong
Waste plastic recycling process	HK\$0.2 million	<ul style="list-style-type: none">• recruit 1 technical staff for the waste plastic recycling project• conduct market promotion and campaign to the public on their awareness to keep Hong Kong clean

BASES AND ASSUMPTIONS

The Directors have prepared the above implementation plans and strategies on the basis of the Group's experience in the environmental protection industry in relation to market demand and developments, and government policies. Specifically, the Directors have adopted the following assumptions in the assessment and formulation of the Group's business plans and strategies:

- there will be no material changes in the existing laws (whether in Hong Kong, the PRC, the Cayman Islands or any other part of the world), policies or industry or regulatory treatment relating to the Group, or in the political, economic or market conditions in which the Group operates;
- inflation, interest rates and exchange rates will not differ materially from those prevailing as of the Latest Practicable Date;
- no material changes in the bases or rates of taxation applicable to the Group;
- qualified personnel can be recruited and retained by the Group;
- external financing will be readily available to the Group;
- research and development progress according to schedule;
- the Group will be able to obtain patents or licences, if necessary, for applications filed in relation to the new products and services proposed to be developed and launched during the period concerned;

BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

- the Group is able to obtain contracts from the relevant government authorities in supplying the Group's new products such as diesel oxidation catalysts and soundproof barrier;
- there will be continuous demand for the Group's products and services;
- the Placing will be completed in accordance with and as described in the section headed "Structure and conditions of the Placing" in this prospectus;
- there will be no changes in the legislation or regulations of Hong Kong, the PRC, the Cayman Islands or any other part of the world which are applicable to environmental protection industry and the local governments of the countries in which any of the products and services of the Group are or shall be marketed will continue to support the environmental protection industry; and
- the Group will not encounter any problem or disruption adversely affecting its operations or development plans in any way, including but not limited to:
 - shortage or disruption in the supplies of *Eco-Trap* manufactured by its contractors, and major components and raw materials of *Eco-Trap*, or significant increases in their prices;
 - serious industrial accidents, natural or political disasters disrupting the operations of the Group;
 - serious malfunctioning of the machinery and equipment of the Group's contractors;
 - serious labour disputes or industrial actions of the Group's contractors affecting the operations of the Group;
 - serious labour shortage or significant increase in wages of the Group's contractors; and
 - any other force majeure event.

USE OF PROCEEDS

USE OF PROCEEDS

The Directors believe that the listing of the Shares will enhance the Group's profile and will provide funding for the Group's expansion in the environmental protection industry. The net proceeds from the Placing (assuming that the Over-allotment Option is not exercised) after deducting the relevant expenses payable by the Company in relation to the Placing are estimated to be approximately HK\$23.8 million based on the minimum point of the stated price range of HK\$0.23 per Share. If the Over-allotment Option, which comprises 20,730,000 new Shares to be issued by the Company, is exercised in full, the net proceeds from the Placing will be approximately HK\$28.6 million based on the minimum point of the stated price range of HK\$0.23 per Share. The Company intends to apply the net proceeds from the Placing as follows:

- as to approximately HK\$2.0 million, for promotion and marketing activities of *Eco-Trap* in Hong Kong and the PRC;
- as to approximately HK\$1.8 million, for the development of the diesel oxidation catalyst for diesel heavy vehicles with gross weight over 4 tonnes and for the diesel engine driven machinery;
- as to approximately HK\$1.0 million, for the development of the hydraulic filters for industrial use;
- as to approximately HK\$4.0 million, for the development of the Group's soundproof barrier;
- as to approximately HK\$1.0 million, for the research and development of the proposed waste plastic recycling process;
- as to approximately HK\$7.0 million, for setting up of the Group's production facilities in the PRC; and
- the balance of approximately HK\$7.0 million, as general working capital of the Group.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$4.8 million based on the minimum point of the stated price range of HK\$0.23 per Share will be applied by the Company as general working capital of the Group to support its ongoing operations and expansion.

Should there be any material modification to the use of proceeds as set out above, the Company will make an announcement to such effect.

USE OF PROCEEDS

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short term deposits with financial institutions in Hong Kong.

If the Issue Price is above HK\$0.23 per Share, the net proceeds will be increased and the amount to be used as general working capital will be increased accordingly.

In the event that any part of the business plans of the Group does not materialise or proceeds as planned, the Directors will evaluate carefully the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold the funds as short term deposits so long as the Directors consider to be in the best interests of the Company and its shareholders taken as a whole.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Dr. CHIANG Lily, Ph.D., MBA, MIMechE, MHKIE, aged 40, is the founder of the Group and chairman of the Company and is responsible for strategic development of the Group. She is the vice-chairman of the Hong Kong General Chamber of Commerce and chairman for the Industry & Technology Committee of the Chamber. Dr. Chiang was a director of Hong Kong Plastic Technology Centre Limited. She has over 16 years of management experience. Dr. Chiang was awarded one of the Ten Outstanding Young Persons in Hong Kong in 1999.

Dr. PAU Kwok Ping, Ph.D., MSc., aged 47, is the Managing Director of the Company and is responsible for overall management, and product development and day-to-day operations of the Group. He is a member of the Hong Kong Institution of Engineers. Dr. Pau joined the Group as technical consultant on 22 December 1999 and was appointed as a Director on 16 January 2001. He has over 32 years of experience in the machinery manufacturing industry. Dr. Pau was awarded one of the Ten Outstanding Young Persons in Hong Kong in 1982.

Mr. SHAH Tahir Hussain, aged 38, is a Director of the Company and is responsible for administration and marketing. Mr. Shah obtained his Bachelor of Medicine and Bachelor of Surgery from University of Karachi. Mr. Shah is a director of E1 Media Technology Limited and Pacific Challenge Holdings Limited. Mr. Shah joined the Group on 30 November 1999. He is experienced in corporate strategic planning.

Non-executive Directors

Dr. LUI Sun Wing, aged 51, was a branch director of the Hong Kong Productivity Council for the period from October 1981 to June 2000 and responsible for overseeing the materials and process branch. Dr. Lui joined PolyU as a vice president and is now responsible for partnership and continuing education. He is also the chief executive officer of the Institute for Enterprise of PolyU and the chief executive officer and the chairman of the executive committee of PTeC. Dr. Lui is also a director of Advance New Technology. Dr. Lui was appointed as a non-executive Director of the Company on 16 January 2001.

Mr. YOUNG Meng Cheung Andrew, aged 42, is the deputy general manager of PTeC. Mr. Young holds a Bachelor's Degree of Engineering in Mechanical Engineering from South Australian Institute of Technology, Australia and Master Degree in Business Administration from University of South Australia. Mr. Young is also a director of Hong Kong Plastic Technology Centre Limited and Advance New Technology. Mr. Young was appointed as a non-executive Director on 16 January 2001.

Independent non-executive Directors

Mr. CHENG Ming Fun Paul, aged 65, an independent non-executive director of Sino Land Company Limited, is a founding partner of China Key Consultants Limited. He was formerly Chairman of Inchcape Pacific Ltd, N. M. Rothschild & Sons (Hong Kong) Limited and the Hong Kong General Chambers of Commerce as well as a member of the Hong Kong

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Legislative Council. He is currently a steward of the Hong Kong Jockey Club and a Court member of the Hong Kong University of Science and Technology where he is also an adjunct professor of Management of Organisation. Mr. Cheng is also a member of the Council of the Chinese University of Hong Kong.

Dr. WOON Yi Teng Eden, aged 54, is a director of Hong Kong General Chamber of Commerce. Before that he was an executive director of the Seattle-based Washington State China Relations Council, a non-profit organisation of over 180 members. Dr. Woon was formerly an advisor on the PRC policy for the US Secretary of Defence in the Pentagon, US and a Colonel of the US Air Force. Dr. Woon has a doctorate degree in mathematics from the University of Washington. Currently, Dr. Woon is also on the respective boards of the Hong Kong Article Numbering Association, Tradelink Electronic Commerce and the Hong Kong Tennis Foundation.

SENIOR MANAGEMENT

Mr. YUNG Chi Kay, aged 53, is the deputy general manager of the Group and is responsible for quality management and research and development. Mr. Yung graduated from University of London, the United Kingdom with a Bachelor's degree in Science (Engineering). He also obtained a Master's degree in Engineering Business Management from University of Warwick in the United Kingdom. Mr. Yung has over 10 years of experience in quality control, research and development and project management. Mr. Yung joined the Group in January 2001.

Mr. TSUI Siu Chuen, aged 39, is the financial controller of the Group and is responsible for financial and accounting management. Mr Tsui graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences. He is a member of the Certified General Accountants' Association of Canada, the Chartered Association of Certified Accountants, the United Kingdom, and the Hong Kong Society of Accountants. Mr Tsui has over 8 years of experience in financial management and accounting. He joined the Group in August 2001.

REMUNERATION OF EXECUTIVE DIRECTORS

Each of Dr. Chiang, Dr. Pau and Mr. Shah Tahir Hussain has entered into a director's service agreement all dated 21 November 2001 with the Company under which he/she has been appointed to act as an executive Director for an initial term of three years commencing from the Listing Date. The initial annual remuneration pursuant to such agreements for Dr. Chiang, Dr. Pau and Mr. Shah Tahir Hussain is HK\$600,000, HK\$1,440,000 and HK\$240,000 respectively and each of them is also entitled to a management bonus which shall be in an aggregate amount equals to 10% of the audited consolidated profits of the Group before taxation and extraordinary items for the relevant financial year provided that such consolidated profit shall exceed HK\$5,000,000 which is payable within three months after the availability of the audited consolidated accounts of the Group for the relevant financial year. The aggregate amount of such bonus payable to the executive Directors shall be divided by the number of the executive Directors and the entitlement of each executive Directors shall be equal.

LITIGATION

On 8 March 2001, an independent third party (the "Petitioner") presented a petition (the "Petition") to the Supreme Court of Bermuda (the "Court") against Dr. Chiang and a company

DIRECTORS, SENIOR MANAGEMENT AND STAFF

(the “Respondent Company”) listed on the Stock Exchange of which Dr. Chiang is the chairman. In the Petition, the Petitioner sought for, inter alia, an order that Dr. Chiang and/or the Respondent Company purchase the Petitioner’s shares in the Respondent Company at a fair value to be determined by the Court or an order that the Respondent Company may be wound up by the Court. On 17 September 2001, the Respondent Company has successfully made an application to strike out the claim of the Petitioner to wind up the Respondent Company. As at the Latest Practicable Date, no date has been fixed for any further court hearing.

QUALIFIED ACCOUNTANT

Mr. **TSUI** Siu Chuen

COMPLIANCE OFFICER

Dr. **PAU** Kwok Ping

COMPANY SECRETARY

Mr. **TSUI** Siu Chuen

AUDIT COMMITTEE

Mr. **CHENG** Ming Fun Paul

Dr. **WOON** Yi Teng Eden

STAFF

Staff number

As at 31 October 1999, 31 October 2000 and the Latest Practicable Date, the Group had a total of 2, 10 and 17 full-time staff respectively. A breakdown of the number of staff of the Group by function as at 31 October 1999, 31 October 2000 and the Latest Practicable Date is set out below:

Function	Number of full-time staff		
	As at 31 October 1999	As at 31 October 2000	As at the Latest Practicable Date
Management	2	3	4
Engineering	–	2	2
Sales and marketing	–	2	2
Quality control	–	2	2
Finance and administration	–	–	3
Technical	–	–	1
Other	–	1	3
	<u>2</u>	<u>10</u>	<u>17</u>

Labour relations

The Group maintains good relations with its staff and has not encountered any major difficulties in its recruitment and retention of its experienced personnel. There has not been any interruption to its operations as a result of labour disputes.

Benefit scheme for the employees

In addition to the Share Option Schemes, the Group also provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Schemes Ordinance.

SHARE OPTION SCHEMES

The Company has adopted the Pre-IPO Share Option Scheme for the benefit of the employees and the directors of the Group. As at the Latest Practicable Date, the Company had granted Pre-IPO Share Options to three executive Directors to subscribe for a total of 96,740,000 Shares at an exercise price of HK\$0.01 each, representing, in aggregate, 17.5% of the issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (but before enlargement by the allotment and issue of the Shares pursuant to the exercise of the ANT-Option, the Over-allotment Option and the options granted or to be granted under the Share Option Schemes). All of these Pre-IPO Share Options may be exercised within three years from the expiry of 12 months from the Listing Date. The full exercise of all the Pre-IPO Share Options would result in the issue of 96,740,000 Shares. This will result in a dilution in the shareholding of the shareholders of the Company and the earnings per Share. Details of the options granted under the Pre-IPO Share Option Scheme are set out in the paragraph headed “Share Option Schemes – Pre-IPO Share Option Scheme” under the section headed “Statutory and general information” in Appendix IV to this prospectus. No further options will be granted under the Pre-IPO Share Option Scheme after the listing of the Shares on GEM.

The Group has adopted the Post-IPO Share Option Scheme under which full time employees (including any executive Directors) of the Group may be granted options to subscribe for Shares. The principle terms of the Post-IPO Share Option Scheme are summarised in the paragraph headed “Share Option Schemes – Post-IPO Share Option Scheme” under the section headed “Statutory and General Information” in Appendix IV to this prospectus.

As at the Latest Practicable Date, save as disclosed in this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Schemes.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue, but taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the ANT-Option, the Pre-IPO Share Options and the Shares which may be taken up under the Placing, the following persons will be directly or indirectly interested in 10% or more of the Shares then in issue for the purpose of SDI Ordinance:

Name	Number of Shares	Approximate percentage of holding
Team Drive (<i>Note 1</i>)	299,341,200	54.15%
Peace City (<i>Note 1</i>)	299,341,200	54.15%
Dr. Chiang (<i>Note 1</i>)	299,341,200	54.15%
Advance New Technology (<i>Note 2</i>)	89,000,800	16.10%
PolyU (<i>Note 2</i>)	89,000,800	16.10%

Notes:

1. Team Drive is wholly owned by Peace City, a company the entire issued share capital of which is beneficially owned by Dr. Chiang.
2. The entire issued share capital of Advance New Technology is beneficially owned by PolyU.

Save as disclosed herein, but taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the ANT-Option and the Pre-IPO Share Options and any Shares which may be taken up under the Placing, the Directors are not aware of any person who will immediately following completion of the Placing and the Capitalisation Issue be directly or indirectly interested in 10% or more of the Shares then in issue or equity interest in any member of the Group representing 10% or more of the equity interest in the Company.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue, but taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the ANT-Option, the Pre-IPO Share Options and the Shares which may be taken up under the Placing, the following persons will be directly or indirectly interested in the Shares then in issue and who are able, as a practical matter, to direct or influence the management of the Company:

Name	Number of Shares held	Approximate percentage of holding
Team Drive (<i>Note 1</i>)	299,341,200	54.15%
Peace City (<i>Note 1</i>)	299,341,200	54.15%
Dr. Chiang (<i>Note 1</i>)	299,341,200	54.15%
Advance New Technology (<i>Note 2</i>)	89,000,800	16.10%
PolyU (<i>Note 2</i>)	89,000,800	16.10%
Dr. Pau (<i>Note 3</i>)	16,584,000	3.00%
Mr. Shah Tahir Hussain (<i>Note 3</i>)	552,800	0.10%

Notes:

1. Team Drive is wholly owned by Peace City, a company the entire issued share capital of which is beneficially owned by Dr. Chiang.
2. The entire issued share capital of Advance New Technology is beneficially owned by PolyU.
3. Each of Dr. Pau and Mr. Shah Tahir Hussain is an executive Director.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue, but taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the ANT-Option, the Pre-IPO Share Options and the Shares which may be taken up under the Placing, apart from the substantial shareholders and the Initial Management Shareholders disclosed above, there are no other persons who will be directly or indirectly interested in 5% or more of the Shares then in issue.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

MORATORIUM PERIOD

Undertakings

1. Each of Team Drive, Advance New Technology and Dr. Pau has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its/his direct or indirect interest in the Relevant Securities for a period of 12 months from the Listing Date.
2. Each of Dr. Chiang and Peace City has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of her/its direct or indirect interest in Peace City and Team Drive for a period of 12 months from the Listing Date.
3. Dr. Chiang has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange that she will procure Peace City and Team Drive, and Peace City has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange that it will procure Team Drive, not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of her/its direct or indirect interest in the Relevant Securities for a period of 12 months from the Listing Date.
4. PolyU has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in Advance New Technology for a period of 12 months from the Listing Date.
5. Mr. Shah Tahir Hussain has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his direct or indirect interest in the Relevant Securities for a period of 6 months from the Listing Date.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

Escrow arrangements

1. Each of Team Drive, Dr. Pau and Advance New Technology has undertaken to the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange to place its/his Relevant Securities in escrow with an escrow agent acceptable to the Stock Exchange for a period of 12 months from the Listing Date.

2. Mr. Shah Tahir Hussain has undertaken with the Company, the Sponsors (acting on behalf of the Underwriters) and the Stock Exchange to place his Relevant Securities in escrow with an escrow agent acceptable to the Stock Exchange for a period of 6 months from the Listing Date.

SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:

Authorised share capital:

	<i>HK\$</i>
5,000,000,000 Shares	50,000,000

Shares in issue and to be issued:

600,000 Shares in issue	6,000
414,000,000 Shares to be issued under the Capitalisation Issue	4,140,000
138,200,000 Shares to be issued under the Placing	1,382,000
552,800,000 Shares	5,528,000

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of Listing Date and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public.

Notes:

1. Assumptions

This table above assumes the Placing and the Capitalisation Issue become unconditional. It takes no account of any Shares which may be issued upon the exercise of the ANT-Option, the Over-allotment Option and any options which has been granted or may be granted under the Share Option Schemes (see the paragraph headed “Share Option Schemes” under the section headed “Statutory and general information” in Appendix IV to this prospectus) or under the general mandate granted to the Directors for the allotment and issue of Shares (see Note 4 below) or which may be repurchased by the Company pursuant to the general mandate granted to the Directors for the repurchase of Shares (see Note 5 below).

2. Ranking

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

3. Share Option Schemes

The Company has adopted the Share Option Schemes. A summary of the main terms of the Share Option Schemes is set out in the paragraph headed “Share Option Schemes” under the section headed “Statutory and general information” in Appendix IV to this prospectus.

SHARE CAPITAL

The Company has adopted the Pre-IPO Share Option Scheme and, as at the Latest Practicable Date, had granted Pre-IPO Share Options thereunder to three executive Directors to subscribe for a total of 96,740,000 Shares. No further options will be granted under the Pre-IPO Share Option Scheme after listing of the Shares on GEM. Upon exercise of all outstanding Pre-IPO Share Options in full, a total of 96,740,000 Shares, representing in aggregate approximately 17.5% of the issued share capital of the Company immediately following the completion of the Placing and the Capitalisation Issue (but before enlargement by the allotment and issue of the Shares pursuant to the exercise of the ANT-Option, the Over-allotment Option and the options granted or to be granted under the Share Option Schemes).

The number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Schemes and any other share option schemes of the Group must not exceed 30 per cent of the Shares of the Company in issue from time to time.

4. General mandate to allot and issue new Shares

The Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of the Company with a total nominal amount of not more than the sum of:

1. 20% of the total nominal amount of the share capital of the Company in issue immediately following the completion of the Placing and the Capitalisation Issue (such share capital shall include Shares which may be issued upon the exercise of the Over-allotment Option); and
2. the total amount of share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares granted to the Directors referred to below.

The Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any options granted under the Share Option Schemes.

This mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- at the expiry of the period within which the Company is required by the applicable law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed "Written resolutions of all Shareholders of the Company passed on 21 November 2001" under the section headed "Statutory and general information" in Appendix IV to this prospectus.

SHARE CAPITAL

5. General mandate to repurchase Shares

The Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following the completion of the Placing and the Capitalisation Issue (such share capital shall include Shares which may be issued upon the exercise of the Over-allotment Option).

This general mandate only relates to repurchases made on GEM, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” under the section headed “Statutory and general information” in Appendix IV to this prospectus.

This mandate will expire:

- at the conclusion of the Company’s next annual general meeting; or
- at the expiry of the period within which the Company is required by the applicable law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed “Written resolutions of all Shareholders of the Company passed on 21 November 2001” under the section headed “Statutory and general information” in Appendix IV to this prospectus.

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INDEBTEDNESS

Borrowings

At the close of business on 30 September 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had no outstanding bank borrowings. During the period from 27 October 1999 (being the date of incorporation of Eco-Tek, the major operating company of the Group, which has been taken as the commencement date of active business pursuits and date of establishment of the Group) to 30 September 2001, the Group did not obtain or utilise any other banking facilities. As at 30 September 2001, the amounts due to directors were HK\$4,015,000, which had been settled in November 2001.

Contingent liabilities

A performance bond of HK\$1,000,000 (“Performance Bond”) was granted from a banker in favour of the Group to secure the performance of the Group under the contract entered into by the Group pursuant to the Tender. In the event of default of the performance of the services under contract in relation to the Tender, the Hong Kong government is entitled to call for payment from the banker to satisfy and discharge any damages, losses or expenses sustained by the Hong Kong government up to an amount of HK\$1,000,000. The banker has the right of recourse from the Group.

Save as aforesaid, the Group had no other significant contingent liabilities as at 30 September 2001.

Security

Prior to 27 March 2001, the Performance Bond of the Group was secured by the deposit of HK\$1,000,000 (“Deposit”) pledged by Dr. Lily Chiang, a Director of the Company.

As confirmed by the Directors, the Group did not give any fee nor provide any security to Dr. Lily Chiang in return for the pledge of the Deposit. The Deposit was released and replaced by the Group’s deposit of HK\$1,000,000 on 27 March 2001.

Disclaimer

Save as aforesaid or as otherwise disclosed in this prospectus, and apart from intra-group liabilities, the Group did not, at the close of business on 30 September 2001, have any outstanding loan capital issued and outstanding indebtedness, or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

FINANCIAL INFORMATION

No material adverse change

The Directors have confirmed that there have been no material changes in the indebtedness commitments and contingent liabilities of the companies comprising the Group since 30 September 2001.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital structure

As at 30 September 2001, the Group had net assets of approximately HK\$8.3 million comprising fixed assets of approximately HK\$0.6 million, a pledged deposit of HK\$1.0 million and net current assets of approximately HK\$6.7 million, which comprised inventories of approximately HK\$0.2 million, accounts receivable of approximately HK\$3.5 million, other receivables, prepayments and deposits of approximately HK\$1.7 million and cash and cash equivalents of approximately HK\$8.9 million, net of accounts payable of approximately HK\$0.4 million, other payables and accrued liabilities of approximately HK\$1.7 million, amounts due to Directors of approximately HK\$4.0 million and tax payable of approximately HK\$1.5 million.

Capital Commitments

As at 30 September 2001, the Group had no significant capital commitments.

Financial resources, borrowings and banking facilities

The Group generally finances its operations with internally generated resources and amounts due to directors and does not have any banking facilities.

Foreign exchange exposure and hedging instruments

Since all transactions of the Group are denominated in Hong Kong dollars or US dollars and the exchange rates of such currencies have been stable for the period under review, no hedging or other alternatives have been implemented.

As at 30 September 2001, the Group did not have outstanding hedging instruments.

Directors' opinion on the working capital position

The Directors are of the opinion that, after taking into consideration the existing financial resources available to the Group including internally generated funds and the estimated net proceeds of the Placing (assuming the Over-allotment Option is not exercised), the Group has sufficient resources to meet its foreseeable capital expenditure and working capital requirements.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, the Directors were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL INFORMATION

TRADING RECORD

The following table is a summary of the audited combined results of the Group for the period from 27 October 1999 (being the date of establishment of the Group) to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001. The summary is prepared on the assumption that the current structure of the Group had been in place throughout the period under review and should be read in conjunction with the accountants' report, the text of which is set out in Appendix I to this prospectus.

		Period from 27 October 1999 to 31 October 1999	Year ended 31 October 2000	Nine months ended 31 July 2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(1)	–	1,621	16,906
Cost of sales		–	(421)	(4,254)
Gross profit		–	1,200	12,652
Other income		–	–	387
Selling expenses		–	(51)	(416)
Administrative expenses		–	(1,057)	(4,077)
Profit before tax		–	92	8,546
Tax		–	–	(1,366)
Net profit from ordinary activities attributable to shareholders		–	92	7,180
Dividends		–	–	–
Earnings per share:				
Basic	(2)	–	0.02 cents	1.73 cents
Diluted	(3)	–	0.02 cents	1.41 cents

Notes:

- Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. Turnover generated from the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program represented 100% and 96% of the Group's total turnover for the year ended 31 October 2000 and nine months ended 31 July 2001, respectively.

FINANCIAL INFORMATION

2. The calculation of basic earnings per Share for the year ended 31 October 2000 and for the nine months ended 31 July 2001 are based on the net profit from ordinary activities attributable to shareholders of the Company for the year ended 31 October 2000 and for the nine months ended 31 July 2001 and on the 414,600,000 Shares deemed to have been in issue, comprising 600,000 Shares in issue and 414,000,000 Shares to be issued pursuant to the Capitalisation Issue, as described more fully in the paragraph headed “Written resolutions of all shareholders of the Company passed on 21 November 2001” under the section headed “Statutory and general information” in Appendix IV to this prospectus.
3. The calculation of diluted earnings per Share for the year ended 31 October 2000 and for the nine months ended 31 July 2001 are based on the net profits from ordinary activities attributable to shareholders of the Company for the year ended 31 October 2000 and the nine months ended 31 July 2001 and on 508,691,167 Shares, being the 414,600,000 Shares as used in the calculation of basic earnings per Share, and the weighted average of 94,091,167 Shares assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Share Options and the ANT-Option as set out in Appendix IV to this prospectus.

For the purpose of calculating diluted earnings per share, the fair value of Shares assumed to have been issued upon exercise of these options is determined as the mid-point of the stated Issue Price range of HK\$0.24 per Share in respect of the Company’s initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of ordinary Shares for no consideration.

The SFC has granted a waiver in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule of the Companies Ordinance and the Stock Exchange has granted a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules so that the Group is only required to include in this prospectus the trading record, financial results and information covering the period from 27 October 1999 to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001. Please refer to the paragraphs headed “Financial periods” and “Companies Ordinance waiver” respectively under the section headed “Waivers from compliance with the GEM Listing Rules and the Companies Ordinance” in this prospectus for details of such waivers.

The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed in this prospectus, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 1 August 2001, and there is no event which would materially affect the information shown in the accountants’ report of the Group as set out in Appendix I to this prospectus.

Period from 27 October 1999 to 31 October 1999

Since the Group did not generate any income or incur any costs during the period, no results were recorded accordingly.

Year ended 31 October 2000

The Group recorded a turnover of about HK\$1.6 million for the year ended 31 October 2000. It was attributable to the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program. The administrative expenses for the year ended 31 October 2000 amounted to about HK\$1.1 million which consisted mainly directors’

FINANCIAL INFORMATION

remuneration (which is also classified as the research and development costs), and staff salaries. The net profit after tax attributable to shareholders of the Company was HK\$92,000. Gross profit margin and net profit margin for that year were about 74% and 6% respectively.

Nine months ended 31 July 2001

The Group recorded a turnover of about HK\$16.9 million for the nine months ended 31 July 2001. It was also mainly attributable to the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program which accounted for 96% of the Group's total turnover. The remaining 4% of the Group's total sales mainly represented direct sales of filter cartridges and adaptors to the vehicles owners. The administrative expenses for the nine months ended 31 July 2001 amounted to about HK\$4.1 million. The net profit after tax attributable to shareholders of the Company was about HK\$7.2 million. Gross profit margin and net profit margin for the period were about 75% and 42% respectively.

Since the sales and installation of *Eco-Trap* in Hong Kong commenced in September 2000, the turnover for the year ended 31 October 2000 only represented approximately one month sales transaction. Due to the extensive advertising campaigns conducted by the Hong Kong government in relation to the Voluntary Installation and Subsidy Program, more eligible vehicles owners participated in the Voluntary Installation and Subsidy Program. Accordingly, the turnover for the nine months ended 31 July 2001 was increased dramatically in comparison with that for the year ended 31 October 2000. Besides, the Group consistently engaged independent contractors to undertake the mass production of *Eco-Traps* during the periods. Accordingly, the Group's gross profit margin remained steady during the period under review. Moreover, administrative expenses represented primarily directors' remuneration (which is also classified as the research and development costs) and staff salaries. During the year ended 31 October 2000 and the nine months ended 31 July 2001, selling expenses amounted to about HK\$0.05 million and about HK\$0.4 million primarily comprised advertising and promotional expenses and travelling expenses. Increase in administrative expenses for the nine months ended 31 July 2001 is mainly attributable to the employment of additional staff, including a director, Dr. Pau, and an accountant/financial controller, during the period. Due to the net effect of the above, the net profit margin for the nine months ended 31 July 2001 therefore increased significantly.

During the period from 27 October 1999 to 31 March 2001, the Group shared an office with E1 Media Technology Limited ("E1 Media"), a related company of the Company in which Dr. Lily Chiang has a beneficial interest. In return, E1 Media charged a management fee, including the portion of operating lease rentals and other overheads shared by the Group, of HK\$20,000 per month. Accordingly, nil operating rentals were recorded by the Group for the year ended 31 October 2000. The transaction was terminated on 31 March 2001. During the year ended 31 October 2000 and the nine months ended 31 July 2001, the management fee paid by the Group to E1 Media amounted to HK\$140,000 and HK\$100,000.

In January 2001, the Group entered into a tenancy agreement with an independent third party for the Group's factory and general office for a term of 1 year commenced from 9 January 2001 and expiring on 8 January 2002 at a monthly rental of HK\$42,000.

FINANCIAL INFORMATION

Taxation

The principal taxation liabilities of the Group are Hong Kong profits tax.

Hong Kong profits tax has not been provided as the Group did not generate any estimated assessable profits arising in Hong Kong during the period from 27 October 1999 to 31 October 1999 and the year ended 31 October 2000. Hong Kong profits tax has been provided at the rate of 16% on estimated assessable profits arising in Hong Kong during the nine months ended 31 July 2001.

ADJUSTED NET TANGIBLE ASSETS

The following is a statement of adjusted net tangible assets of the Group which is based on the combined net assets of the Group as at 31 July 2001 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	<i>HK\$'000</i>
Audited net assets of the Group as at 31 July 2001	7,373
Combined net profit after tax of the Group for the two months ended 30 September 2001 based on unaudited management accounts of companies now comprising the Group	904
Estimated net proceeds of the Placing (<i>Note 1</i>)	<u>23,800</u>
Adjusted net tangible asset	<u><u>32,077</u></u>
Adjusted net tangible asset value per Share (<i>Note 2</i>)	<u><u>5.80 cents</u></u>

Notes:

- (1) The estimated net proceeds of the Placing is based on the minimum point of the stated price range of HK\$0.23 per Share and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated additional net proceeds payable to the Company will be approximately HK\$4.8 million.
- (2) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 552,800,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the ANT-Option or any options granted or which may be granted under the Share Option Schemes or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed "Written resolutions of all shareholders of the Company passed on 21 November 2001" under the section headed "Statutory and general information" in Appendix IV to this prospectus. Upon the exercise of the ANT-Option and the Pre-IPO Share Options in full, 13,820,000 Shares and 96,740,000 Shares will be issued at aggregate considerations of approximately HK\$2.9 million and HK\$1.0 million, respectively. The adjusted net tangible asset value per Share will be 5.41 cents, on the basis of 663,360,000 Shares expected to be in issue immediately after the completion of the

FINANCIAL INFORMATION

Placing and the Capitalisation Issue and upon the exercise of the ANT-Option and the Pre-IPO Share Options, based on the minimum point of the stated price range of HK\$0.23 per Share. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value of the Group and the adjusted net tangible asset value per Share will be about HK\$36.8 million and 6.42 cents, respectively, based on the minimum point of the stated price range of HK\$0.23 per Share. The adjusted net tangible asset value per Share will be 5.95 cents, on the basis of 684,090,000 Shares expected to be in issue immediately after the completion of the Placing and the Capitalisation Issue and upon the exercise of the Over-allotment Option, the ANT-Option and the Pre-IPO Share Options, based on the minimum point of the stated price range of HK\$0.23 per Share.

PROPERTY INTERESTS

As at the Latest Practicable Date, the property leased by the Group is situated at Flat B, Ground Floor, Fu Hop Factory Building, Nos. 209 and 211, Wai Yip Street, Kowloon, Hong Kong. Details of this property is set out in Appendix II to this prospectus.

Chesterton Petty Limited, an independent property valuer, has valued the above property interests of the Group as at 31 October 2001 as having no commercial value to the Group. Details of the valuation report together with the valuation certificate from Chesterton Petty Limited are set out in Appendix II to this prospectus.

DIVIDEND POLICY

The Directors currently do not expect to recommend payment of any dividends for the two years ending 31 October 2002. The amount of any dividends to be declared in the future will depend on, among other things, the Company's results of operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends (if any) will be paid in around July and February of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

DISTRIBUTABLE RESERVES

As at 31 July 2001, the Company had no reserve available for distribution to the shareholders of the Company.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 July 2001.

UNDERWRITING

UNDERWRITERS

SBI E2-Capital Securities Limited, Celestial Capital Limited, Kim Eng Securities (Hong Kong) Limited, Core Pacific-Yamaichi International (H.K.) Limited, First Shanghai Securities Limited, GC Securities Limited, ICEA Capital Limited, Kingston Securities Limited, Kingsway SW Securities Limited, OpenIBN (HK) Limited, Pacific Foundation Securities Limited, Quest Stockbrokers (HK) Limited and South China Securities Limited.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by investors who are professional, institutional and private investors on and subject to the terms and conditions set out in the Underwriting Agreement, all at the Issue Price.

Pursuant to the Underwriting Agreement and subject to (i) the GEM Listing Committee granting listing of and permission to deal in the Shares in issue and the Shares to be issued as mentioned herein on or before 5 December 2001; (ii) the Issue Price being determined by the Company and SBI E2-Capital Securities (on behalf of the Joint Lead Managers and the Underwriters) on or about 28 November 2001 (or any time not later than 9:30 p.m. on 2 December 2001 as may be agreed between the Company and SBI E2-Capital Securities on behalf of the Joint Lead Managers and the Underwriters); and (iii) to certain other conditions set out in the Underwriting Agreement, the Underwriters have severally agreed to subscribe or procure places to subscribe for the Placing Shares according to their respective underwriting commitment.

Grounds for termination

The Joint Lead Managers for themselves and on behalf of the Sponsors and the Underwriters are entitled to terminate the Underwriting Agreement by notice in writing to the Company which may be given at any time up to 5:00 p.m. on the day immediately preceding the date on which dealing in the Shares first commence on the Stock Exchange upon occurrence of any of the following events at or prior to such time:

- (i) there shall develop, occur or come into effect:
 - (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, which in the absolute opinion of the Joint Lead Managers on behalf of the Underwriters has or may have a material adverse effect on the business or financial conditions or prospects of the Group taken as a whole;

UNDERWRITING

- (b) any change in Hong Kong, the PRC and Taiwan financial, political, military, industrial or economic conditions or prospects which in the absolute opinion of the Joint Lead Managers on behalf of the Underwriters has or may have a material adverse effect on the business or financial condition of the Group taken as a whole or has or may have a material adverse impact on the securities market in Hong Kong; or
- (c) any change in the conditions of the Hong Kong or international securities markets (or in conditions affecting a sector only of any such markets) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or
- (d) without prejudice to sub-paragraph (b) or (c) above, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (e) a change or development involving a prospective change in Hong Kong, the British Virgin Islands, the PRC, Taiwan, the Cayman Islands or other jurisdiction in taxation or exchange controls which will or can reasonably be expected to materially and adversely affect the Group as a whole or the present or prospective shareholders of the Company in their capacity as such;

and any such event, in the absolute opinion of the Joint Lead Managers on behalf of the Underwriters, has or may have a material adverse effect on the success of the Placing, or makes it inadvisable or inexpedient to proceed with the Placing; or

- (ii) there comes to the notice of the Sponsors, the Joint Lead Managers and/or the Underwriters any matter or event showing any of the representations and warranties contained in the Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Joint Lead Managers (on behalf of the Underwriters) to be material or showing any of the undertakings contained in the Underwriting Agreement or other obligations or undertakings expressed to be assumed by or imposed on the Company, the Initial Management Shareholders named therein and the executive Directors under the Underwriting Agreement not to have been complied with in any respect considered by the Joint Lead Managers to be material; or
- (iii) any material statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any respect; or

UNDERWRITING

- (iv) matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute a material omission therefrom; or
- (v) there is any adverse change in the business or in the financial or trading position or prospects of any member of the Group which in the absolute opinion of the Joint Lead Managers (on behalf of the Underwriters) is material in the context of the Placing.

Undertakings

- (i) Each of Team Drive, Peace City, Dr. Chiang, Advance New Technology, PolyU, Dr. Pau and Mr. Shah Tahir Hussain, has severally undertaken with the Company, the Sponsors, the Joint Lead Managers and the Underwriters that:
 - (a) she, he or it shall not and shall procure that none of her, his or its associates and the companies controlled by her, him or it or nominees or trustees holding in trust for her, him or it shall sell, transfer or otherwise dispose of (or enter into any agreement to dispose of), save pursuant to a pledge or charge to an authorised institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (the “Banking Ordinance”) as security for a bona fide commercial loan, any of her, his or its Relevant Securities or any interest therein, or any shares held directly or indirectly by her, him or it or her, his or its associates, in any company controlled by her, him or it which is the beneficial owner of any of the Relevant Securities or interests nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of her, his or its direct interest in the Relevant Securities during a period of 12 months from the Listing Date or, in the case of Mr. Shah Tahir Hussain, during a period of six months from the Listing Date;
 - (b) she, he or it shall enter into an escrow agreement with an escrow agent acceptable to the Stock Exchange and the Joint Lead Managers and place in escrow, with such escrow agent, her, his or its Relevant Securities during the restriction period applicable to her, him or it as referred to in sub-paragraph (a) above;
 - (c) for a further period of six months commencing on the date when the restriction under the sub-paragraph (a) above applicable to her, him or it lapses, she, he or it shall not and shall procure that none of her, his or its associates and companies controlled by her, him or it or nominees or trustees holding in trust for her, him or it will, without the prior written consent of the Sponsors on behalf of the Joint Lead Managers and the Underwriters (such consent not to be unreasonably withheld or delayed), sell, transfer or dispose of, save pursuant to a pledge or charge to an authorised institution under the Banking Ordinance as security for a bona fide commercial loan,

UNDERWRITING

any Relevant Securities or any interests therein or sell, transfer, dispose of, save pursuant to a pledge or charge to an authorised institution under the Banking Ordinance as security for a bona fide commercial loan any shares in any company controlled by her, him or it which is the beneficial owner of such Relevant Securities if, immediately following such sale, transfer and disposal any of them either individually or taken together with the others of them, would cease to be a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company;

- (ii) Each of the Initial Management Shareholders hereby severally undertakes to and covenants with the Company, the Sponsors, the Joint Lead Manager and the Underwriters that:
 - (a) in the event that she, he or it disposes of her, his or its Relevant Securities after the restriction under paragraph (i) applicable to her, him or it lapses, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the Shares; and
 - (b) in the event that she, he or it pledges or charges any direct or indirect interest in the Relevant Shares or in any shares in any company controlled by her, him or it which is the beneficial owner of the Relevant Securities within a period commencing on the date of the Underwriting Agreement and ending on the date when the restriction under paragraph (i) applicable to her, him or it lapses, she, he or it must inform the Company, the Sponsors and the Joint Lead Managers immediately thereafter, disclosing to the Company, the Sponsors and the Joint Lead Managers the details of such pledge or charge including the number and class or securities being pledged or charged and the purpose for which the pledge or charge is made and in the event that she, he or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest, of such disposal or such intention to dispose and the number of securities affected.

The Company undertakes to and covenants with the Sponsors, the Joint Lead Managers and the Underwriters that, and each of the Initial Management Shareholders and the executive Directors undertakes and covenants with the Sponsors, the Joint Lead Managers and the Underwriters to procure, without the prior written consent of the Joint Lead Managers on behalf of the Underwriters, that the Company will not, save pursuant to the Placing, the grant of option under the Share Option Schemes, the issue of Shares pursuant to the Capitalisation Issue, the exercise of the ANT-Option, the exercise of the Over-allotment Option or the exercise of any option granted under the Share Option Schemes or any capitalisation issue or any consolidation, sub-division or capital reduction of Shares or by way of scrip dividend schemes or other similar arrangement in accordance with the articles of association of the Company: (a) within the period of six months from the Listing Date, issue or agree to issue any Shares or any other securities in the Company or grant or agree to grant any options,

UNDERWRITING

warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, Shares or any other securities of the Company; and (b) at any time during the period of 12 months from the Listing Date, issue any Shares or any other securities of the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for Shares or securities in the Company so as to result in the Initial Management Shareholders either individually or taken together with the others of them cease to be controlling shareholders (within the meaning of the GEM Listing Rules) of the Company.

Each of the Company, the Initial Management Shareholders and the executive Directors undertakes to and covenants with the Sponsors, Joint Lead Managers and the Underwriters that save with the prior written consent of the Sponsors on behalf of the Underwriters, no company in the Group will within the period of six months from the Listing Date purchase any Shares or any other securities of the Company.

Commission and expenses

The Underwriters will receive a commission on 3% on the Issue Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor and the Co-sponsor will in addition receive advisory and documentation fees. The underwriting commission, advisory and documentation fees, the GEM listing fee, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees together with applicable printing and other expenses relating to the Placing are estimated to amount to a total of approximately HK\$8.0 million (assuming that the Over-allotment Option is not exercised), and are payable by the Company.

SPONSORS' AND UNDERWRITING INTEREST

Sponsor's agreement

Under a sponsor's agreement (the "Sponsor Agreement") dated 26 November 2001 and made between the Sponsor and the Company, the Company has appointed the Sponsor and the Sponsor has agreed to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the Listing Date to 31 October 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

Sponsors' and Underwriters' interest in the Company

None of the Sponsor, the Co-sponsor, the Joint Lead Managers or any of the Underwriters or any of their respective associates has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) save for:

- (i) the obligations and interests of the Sponsors and the Underwriters under the Underwriting Agreement;
- (ii) the grant by the Company of the Over-allotment Option to SBI E2-Capital Securities;
- (iii) the obligations and interests of SBI E2-Capital Securities under the Stock Borrowing Agreement;
- (iv) the advisory and documentation fees payable to the Sponsor and the Co-Sponsor, in cash, as the sponsor and the co-sponsor to the Placing; and
- (v) the Sponsor's interests under the sponsor agreement made between the Sponsor and the Company whereby the Sponsor will be retained as sponsor to the Company up to 31 October 2004 for the purpose of the GEM Listing Rules.

No director or employee of the Sponsor or the Co-sponsor who is involved in providing advice to the Company has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

STRUCTURE AND CONDITIONS OF THE PLACING

PRICE PAYABLE ON APPLICATION

The Issue Price per Placing Share plus 1% brokerage, 0.007% SFC transaction levy and 0.005% Stock Exchange trading fee will be payable on application.

CONDITIONS OF THE PLACING

The Placing is conditional on:

- (a) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus by 5 December 2001; and
- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional which requires, among other things, (i) the fixing of the Issue Price by an agreement between the Company and SBI E2-Securities (on behalf of the Joint Lead Managers and the Underwriters) on 28 November 2001 (or any other time not later than 9:30 p.m. on 2 December 2001 as may be agreed between the Company and SBI E2-Capital Securities (on behalf of the Joint Lead Managers and the Underwriters)); and (ii) the obligations under the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

If the above conditions are not fulfilled (or, where applicable, waived by the Joint Lead Managers (on behalf of the Underwriters)) at the respective times stated, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the GEM website on the next day following such lapse.

THE PLACING

The Company is offering 138,200,000 Shares for subscription under the Placing. Pursuant to the Placing, 138,200,000 Placing Shares will be conditionally placed to professional, institutional and private investors by the Underwriters or through selling agents appointed by them at the Issue Price.

Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

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

STRUCTURE AND CONDITIONS OF THE PLACING

OVER-ALLOTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted to SBI E2-Capital Securities, exercisable by SBI E2-Capital Securities the Over-allotment Option no earlier than the date of this prospectus but before 4:00 p.m. on 24 December 2001 under which SBI E2-Capital Securities will have the right but not the obligation to require the Company to issue up to 20,730,000 additional Shares, representing 15% of the Shares offered for subscription under the Placing. These Shares will be issued at the Issue Price. In connection with the Placing, SBI E2-Capital Securities may over-allocate Shares and may cover any over-allocation by exercising the Over-allotment Option, stock borrowing or making purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws and regulatory requirements of Hong Kong or elsewhere.

In order to facilitate settlement of over-allocations in connection with the Placing, the Stock Borrowing Agreement has been entered into between SBI E2-Capital Securities and Team Drive. Pursuant to the Stock Borrowing Agreement, Team Drive has agreed that, if so requested by SBI E-2 Capital Securities, it will lend to SBI E2-Capital Securities up to 20,730,000 Shares on the following terms:

- (i) the borrowed Shares will only be used to settle over-allocations under the Placing; and
- (ii) the same number of Shares must be returned to Team Drive and redeposited with the escrow agent, no later than three business days following the earlier of (a) the day on which the Over-allotment Option is exercised in full; or (b) the last day on which the Over-allotment Option may be exercised.

SBI E2-Capital Securities may also cover the over-allocations in the Placing by, among other means, purchasing Shares in the secondary market, exercising the Over-allotment Option, or by a combination of purchases in the secondary market and exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the Placing Shares will represent 27.71% of the enlarged issued share capital of the Company immediately after the completion of the Placing, the Capitalisation Issue and the exercise of the Over-allotment Option (without taking into account the exercise of options granted or to be granted under the Share Option Schemes). In the event that the Over-allotment Option is exercised, an announcement will be made on the GEM Website.

STABILISATION

In connection with the Placing, the Joint Lead Managers (on behalf of the Underwriters) may effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail in the open market, but which are not higher than the Issue Price. Such transactions may be effected in any jurisdiction where it is lawful to do so, in each case in compliance with all applicable laws and regulatory requirements. Such transaction, if commenced, may be discontinued at any time.

STRUCTURE AND CONDITIONS OF THE PLACING

Stabilisation is a practice not commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the Placing. Relevant provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances. In Hong Kong, the stabilisation price will not exceed the Issue Price.

FIXING OF THE PLACING PRICE

The Issue Price is expected to be not more than HK\$0.25 and not less than HK\$0.23 per Share. The Issue Price will be determined by the Company and SBI E2-Capital Securities (on behalf of the Joint Lead Managers and the Underwriters) at or prior to 28 November 2001, or such later date and time as may be agreed by the Company and SBI E2-Capital Securities (on behalf of the Joint Lead Managers and the Underwriters) but in any event not later than 9:30 p.m. on 2 December 2001. The Company and SBI E2-Capital Securities (on behalf of the Joint Lead Managers and the Underwriters) may agree to an Issue Price of less than HK\$0.23 per Share at any time prior to the relevant price determination time if, based on the level of interest expressed by prospective investors during the book building process, a reduction is considered appropriate. In such case, notice of the reduction in the indicative Issue Price will be published on the GEM website on the business day after such determination.

If, for any reason, the Issue Price is not agreed between the Company and SBI E2-Capital Securities (on behalf of the Joint Lead Managers and the Underwriters) at or prior to the relevant price determination time, the Placing will lapse.

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



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

27 November 2001

The Directors
Eco-Tek Holdings Limited
Celestial Capital Limited
SBI E2-Capital (HK) Limited

Dear Sirs,

We set out below our report on the financial information regarding Eco-Tek Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the period from 27 October 1999 (being the date of incorporation of Eco-Tek Company Limited, the major operating company of the Group, and has been taken as the commencement date of active business pursuits and the date of establishment of the Group) to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001 (the “Relevant Periods”). The financial information has been prepared on the basis set out in Section 1 below for inclusion in the prospectus of the Company dated 27 November 2001 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 December 2000 under the Companies Law of the Cayman Islands, for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation save for the acquisition, through a share exchange, on 21 November 2001 of the entire issued share capital of Eco-Tek (BVI) Investment Holdings Limited, a company incorporated in the British Virgin Islands, which is, at the date of this report, the intermediate holding company of the other subsidiaries set out in Section 1 below.

All of the companies now comprising the Group have adopted 31 October as their financial year end date for statutory reporting purposes.

We have acted as auditors of all the companies now comprising the Group for the Relevant Periods.

As at the date of this report, no audited financial statements have been prepared for the Company, Eco-Tek (BVI) Investment Holdings Limited or Eco-Tek Technology Limited since their respective dates of incorporation, as these companies were either newly incorporated or not subject to any statutory audit requirements in their respective jurisdictions of incorporation. We have, however, performed our own independent review of all relevant transactions of these companies since their respective dates of incorporation.

We have prepared this report in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the Relevant Periods and of the combined net assets of the Group as at 31 July 2001 (the "Summaries") set out in this report have been prepared from the audited financial statements and the unaudited management accounts of the companies now comprising the Group and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results of the Group for the Relevant Periods and of the combined net assets of the Group as at 31 July 2001.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements and the unaudited management accounts of the companies now comprising the Group, include the results and net assets of the companies now comprising the Group as if the current Group structure had been in existence throughout the Relevant Periods or from their respective dates of incorporation where this is a shorter period. All material transactions and balances among the companies comprising the Group have been eliminated on combination.

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

Company name	Place and date of incorporation	Paid-up share capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
Eco-Tek (BVI) Investment Holdings Limited (formerly Saramore Co., Ltd)	British Virgin Islands 2 October 2000	US\$30,000 ordinary	100%	–	Investment holding
Eco-Tek Technology Limited (formerly Natural Environmental Ltd.)	British Virgin Islands 9 November 2000	US\$101 ordinary	–	100%	Holding of intellectual properties
Eco-Tek Company Limited	Hong Kong 27 October 1999	HK\$100,000 ordinary	–	100%	Marketing, sales, servicing, research and development of environmental protection related products and services

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with the accounting principles generally accepted in Hong Kong, are as follows:

(a) Subsidiary

A subsidiary is a company in which the Company controls. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

(b) Revenue recognition

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

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

(c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

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

Depreciation is calculated on a straight-line basis to write off the cost of each asset over the following estimated useful lives:

Motor vehicles	2 to 5 years
Office equipment	2 to 5 years
Plant and machinery	2 to 5 years
Furniture and fixtures	2 to 5 years

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

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discount cash flows.

(d) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Development costs are capitalised and deferred only when the projects are clearly defined, the costs are separately identified and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.

Costs so deferred are amortised on the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of five years commencing in the year when the products are put into commercial production.

(e) Operating leases

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

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(g) Provision for warranty costs

Provision for warranty costs is made on an accrual basis by reference to the directors' best estimates of the expenditure required to settle the obligations, and is charged to the profit and loss account in the period in which the related sales are made. Subsequent expenditure on the settlement of such obligations is charged against the provision made, except where the expenditure exceeds the balance of the provision, in which case, it is charged to the profit and loss account as incurred.

(h) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

(i) Related parties

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

(j) Foreign currencies

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

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

(k) Cash equivalents

For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. RESULTS

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

		Period from 27 October 1999 to 31 October 1999	Year ended 31 October 2000	Nine months ended 31 July 2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<i>(a)</i>	–	1,621	16,906
Cost of sales		–	(421)	(4,254)
Gross profit		–	1,200	12,652
Other income		–	–	387
Selling expenses		–	(51)	(416)
Administrative expenses		–	(1,057)	(4,077)
Profit before tax	<i>(b)</i>	–	92	8,546
Tax	<i>(e)</i>	–	–	(1,366)
Net profit from ordinary activities attributable to shareholders		–	92	7,180
Dividends	<i>(f)</i>	–	–	–
Earnings per share:	<i>(h)</i>			
Basic		–	HK0.02 cents	HK1.73 cents
Diluted		–	HK0.02 cents	HK1.41 cents

Notes:

(a) Turnover

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

(b) Profit before tax

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

	Period from 27 October 1999 to 31 October 1999	Year ended 31 October 2000	Nine months ended 31 July 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	–	421	4,254
Auditors' remuneration	–	100	225
Depreciation	–	9	84
Staff costs, excluding directors' remuneration (<i>note (c)</i>)	–	335	1,526
Research and development costs	–	100	960
Operating lease rentals in respect of land and buildings	–	–	281
Management fee paid to a related company (<i>note (g)</i>)	–	140	100
Interest income	–	–	(196)
	<u> </u>	<u> </u>	<u> </u>

The cost of inventories sold for the periods ended 31 October 1999 and 2000, and 31 July 2001 includes nil, HK\$54,000 and HK\$110,000, respectively, relating to direct staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the Relevant Periods.

The research and development costs for the periods ended 31 October 1999 and 2000, and 31 July 2001 include nil, HK\$100,000 and HK\$960,000, respectively, relating to directors' remuneration, which are also included in the total amounts of directors' remuneration disclosed separately in note (c) below for the Relevant Periods.

(c) Directors' and senior executives' emoluments

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

	Period from 27 October 1999 to 31 October 1999	Year ended 31 October 2000	Nine months ended 31 July 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	–	–	–
Other emoluments	–	490	1,590
Bonus	–	–	–
Pension	–	–	24
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

The remuneration of each of the directors fell within the band of nil to HK\$1,000,000.

None of the executive directors of the Company received any emoluments for the period from 27 October 1999 to 31 October 1999. The three executive directors of the Company received emoluments of approximately HK\$350,000, HK\$140,000 and nil for the year ended 31 October 2000. The three executive directors of the Company received emoluments of approximately HK\$968,000, HK\$458,000 and HK\$188,000 for the nine months ended 31 July 2001.

No emoluments were paid to the non-executive directors of the Company during the Relevant Periods.

The five highest paid individuals in the Group during the year ended 31 October 2000 and the nine months ended 31 July 2001 included 2 and 3 directors, respectively, and information relating to their emoluments has been disclosed above. The emoluments of the remaining highest paid, non-director individuals during the Relevant Periods are as follows:

	Period from 27 October 1999 to 31 October 1999	Year ended 31 October 2000	Nine months ended 31 July 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	–	262	417
Bonus	–	–	–
Pension	–	–	13
	<u>–</u>	<u>262</u>	<u>430</u>

The emoluments of each of the remaining highest paid, non-director individuals fell within the band of nil to HK\$1,000,000.

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

(d) Pension scheme

For the period from 27 October 1999 to 30 November 2000, the Group did not operate a pension scheme for its employees in Hong Kong.

Commencing from 1 December 2000, the Mandatory Provident Fund Schemes Ordinance took effect and introduced certain new arrangements for the provision of employee benefits. A new Mandatory Provident Fund scheme (the "MPF Scheme") has been set up by the Group for this purpose and employer's voluntary contributions are made under the scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they became payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed to the scheme except for the Group's employer voluntary contributions which shall be refunded to the Group when the employees leave employment prior to the employer's voluntary contributions vesting fully, in accordance with the rules of the MPF Scheme. No forfeited contributions were utilised or available up to 31 July 2001.

For the nine months ended 31 July 2001, the amount of the MPF Scheme contributions dealt with in the profit and loss account of the Group was HK\$76,000.

As at 31 July 2001, the Group had no material liabilities in respect of its obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

(e) Tax

Hong Kong profits tax had not been provided as the Group did not generate any estimated assessable profits arising in Hong Kong during the period from 27 October 1999 to 31 October 2000.

Hong Kong profits tax has been provided at the rate of 16% on estimated assessable profits arising in Hong Kong during the nine months ended 31 July 2001.

(f) Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group since their respective dates of incorporation.

(g) Related party transactions

The Group had the following material transactions with related parties during the Relevant Periods:

- (i) Prior to 27 March 2001, a banking facility of one of the Company's subsidiaries (note 4(j)) was secured by deposits of HK\$1,000,000 pledged by Dr. Lily Chiang, a director of the Company.

On 27 March 2001, the Group received a consent from the relevant banker to the aforesaid pledged deposits being released and replaced by the Group's pledged bank deposit of HK\$1,000,000.

- (ii) A management fee of HK\$240,000 was paid to E1 Media Technology Limited, a related company of the Company in which Dr. Lily Chiang has a beneficial interest, at HK\$20,000 per month from April 2000 to March 2001 inclusive. The management fee is charged with reference to the costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads. The directors of the Company have confirmed that the charging of such management fees was terminated after March 2001.

In the opinion of the directors, the above related party transactions were entered into by the Group in the ordinary course of business.

(h) Earnings per share

The calculation of basic earnings per share for the Relevant Periods is based on the net profit attributable to shareholders of the Company for the Relevant Periods and on the 414,600,000 shares deemed to have been in issue and issuable, comprising 600,000 shares in issue and 414,000,000 shares to be issued pursuant to the capitalisation issue, as further described in the paragraph headed "Written resolutions of all shareholders of the Company passed on 21 November 2001" in Appendix IV to the Prospectus.

The calculation of diluted earnings per share for the Relevant Periods is based on the net profit attributable to shareholders of the Company for the Relevant Periods and on 508,691,167 shares, being the 414,600,000 shares as used in the calculation of basic earnings per share, and the weighted average of 94,091,167 shares assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Share Options and the ANT-Options as set out in Appendix IV to the Prospectus.

For the purpose of calculating diluted earnings per share, the fair value of the shares assumed to have been issued upon the deemed exercise of these options was determined as the mid-point of the issue price range of HK\$0.24 per share in respect of the Company's initial public offering of its shares. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration.

4. NET ASSETS

The following is a summary of the combined net assets of the Group as at 31 July 2001 prepared on the basis set out in Section 1 above:

	<i>Notes</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
Fixed assets	<i>(a)</i>	632
Pledged deposit	<i>(j)</i>	1,000
		<u>1,632</u>
CURRENT ASSETS		
Inventories	<i>(b)</i>	297
Accounts receivable		2,364
Prepayments, deposits and other receivables		1,814
Cash and cash equivalents	<i>(c)</i>	8,264
		<u>12,739</u>
CURRENT LIABILITIES		
Accounts payable		324
Accrued liabilities and other payables		1,293
Tax payable	<i>(d)</i>	1,366
Due to directors	<i>(e)</i>	4,015
		<u>6,998</u>
NET CURRENT ASSETS		<u>5,741</u>
		<u><u>7,373</u></u>

Notes:

(a) Fixed assets

	Cost <i>HK\$'000</i>	Accumulated depreciation <i>HK\$'000</i>	Net book value <i>HK\$'000</i>
Motor vehicles	33	6	27
Office equipment	67	7	60
Plant and equipment	618	79	539
Furniture and fixtures	7	1	6
	<u>725</u>	<u>93</u>	<u>632</u>

(b) Inventories

	<i>HK\$'000</i>
Finished goods	297
	<u>297</u>

As at 31 July 2001, no inventories were stated at net realisable values.

(c) Cash and cash equivalents

	<i>HK\$'000</i>
Cash and bank balances	3,264
Time deposits	5,000
	<u>8,264</u>

(d) Deferred tax

As at 31 July 2001, the Group had unprovided deferred tax liabilities of HK\$70,000, which represented accelerated depreciation allowances.

(e) Due to directors

The amounts due to directors were unsecured, interest-free and were fully repaid in November 2001. Should the amounts due to the directors have borne interest at the Hong Kong dollar prime rate, the notional interest charged would have been nil, HK\$67,000 and HK\$122,000 for the period from 27 October 1999 to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001, respectively.

(f) Distributable reserves

As at 31 July 2001, the Company had no reserves available for distribution to the shareholders of the Company.

(g) Contingent liabilities

A performance bond facility of HK\$1,000,000 has been granted by a banker in favour of the Group. In the event of a default by the Group in the performance of the services detailed in the tender contract, as further detailed in the paragraph headed "Development and commercialisation of *Eco-Trap*" under the section headed "Business" in the Prospectus, the Government of the Hong Kong Special Administrative Region (the "Government") is entitled to call for payment from the banker to satisfy and discharge any damages, losses or expenses sustained by the Government up to the amount of HK\$1,000,000. The banker has the right of recourse to the Group.

Save as aforesaid, the Group did not have any significant contingent liabilities as at 31 July 2001.

(h) Commitment

At 31 July 2001, the Group had an aggregate commitment of HK\$221,000 payable in the following year under a non-cancellable operating lease on land and buildings expiring within one year.

Save as aforesaid, the Group had no other commitments at 31 July 2001.

(i) Net assets of the Company

The Company was incorporated on 6 December 2000. The net assets of the Company as at 31 July 2001 were HK\$0.10, being the nominal value of its issued share capital on that date. Had the Group reorganisation, as set out in the paragraph headed "Group reorganisation" in Appendix IV to the Prospectus, been completed on 31 July 2001, the fair value of the net assets of the Company as at 31 July 2001 would have been HK\$7,373,000.

(j) Banking facility

Prior to 27 March 2001, the Group's performance bond facility was secured by deposits of HK\$1,000,000 pledged by Dr. Lily Chiang, a director of the Company. On 27 March 2001, the Group received a consent from the relevant banker to the aforesaid pledged deposits being released and replaced by the Group's bank deposit of HK\$1,000,000.

5. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of any of the Relevant Periods referred to in this report by the Company or any of the companies now comprising the Group to the directors of the Company. Under the arrangements currently in force, the estimated amount of the directors' fees and other emoluments payable to the directors of the Company for the year ending 31 October 2001 will be approximately HK\$2.3 million, excluding discretionary bonuses payable under the directors' service contracts, the terms of which are set out in the paragraph headed "Disclosure of Interests" in Appendix IV to the Prospectus.

6. ULTIMATE HOLDING COMPANY

The directors consider Team Drive Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Group.

7. SUBSEQUENT EVENTS

In addition to the matters set out in section 4, the following events took place subsequent to 31 July 2001:

- (a) On 21 November 2001, the Company became the holding company of the Group; and
- (b) The companies now comprising the Group underwent a reorganisation in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Further details of the reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix IV to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 31 July 2001.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 July 2001.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus, received from Chesterton Petty Limited, independent property valuers, in connection with their valuation as at 31 October 2001 of the property interest of the Group.



International Property Consultants

Chesterton Petty Ltd
16th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

27 November 2001

The Directors
Eco-Tek Holdings Limited
Flat B
Ground Floor
Fu Hop Factory Building
Nos. 209 and 211
Wai Yip Street
Kowloon
Hong Kong

Dear Sirs

In accordance with your instructions for us to value the property interest held by Eco-Tek Holdings Limited (the “Company”) or its subsidiaries (collectively the “Group”), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the property interest as at 31 October 2001.

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

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion”.

Our valuation has been made on the assumption that the owner sells the property interest on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest and no forced sale situation in any manner is assumed in our valuation.

The property interest is leasehold interest held by the Group and is assigned no commercial value mainly due to its short term nature, the prohibition against assignment or the lack of substantial profit rent.

We have been provided with a copy of the tenancy agreement for the property interest and we have caused land searches to be made. We have not, however, scrutinised the original document to verify ownership or to ascertain the existence of any amendment which does not appear on the copy handed to us.

We have relied to a very considerable extent on information given by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, letting, floor area and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the document provided to us and are therefore only approximations.

We have inspected the exterior of the property valued and, where possible, we have also inspected the interior of the premises. In the course of our inspection, we did not note any serious defect. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or other structural defect. No tests were carried out on any of the services.

No allowance has been made in our report for any charge, mortgage or amount owing on the property interest nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We enclose herewith our valuation certificate.

Yours faithfully
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
MSc FRICS FHKIS MCI Arb RPS(GP)
Executive Director

VALUATION CERTIFICATE

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 31 October 2001
Flat B on Ground Floor Fu Hop Factory Building 209 and 211 Wai Yip Street Kwun Tong Kowloon	<p>Fu Hop Factory Building is a 13-storey industrial building completed in 1965.</p> <p>The property comprises a factory unit on the Ground Floor of the building with a saleable area of approximately 485.23 sq.m. (5,223 sq.ft.).</p> <p>The property is held by the Group under a tenancy agreement for a term of 1 year from 9 January 2001 to 8 January 2002 at a monthly rent of HK\$42,000 exclusive of Government rent, rates and management charges with an option to renew for a further term of 1 year.</p>	The property is occupied by the Group as factory and general office.	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 December 2000 under the Companies Law. The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law of the world whether as principal, agent, contractor or otherwise whatever may be and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 21 November 2001. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules

of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

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

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

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

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

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

There are provisions in the Articles prohibiting the making of loans to Directors.

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

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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

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

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

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

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

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

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any

of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

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

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;

- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

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

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

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

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares.
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

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

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

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

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

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

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

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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

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

were the registered holder of the shares of the Company held by that clearing house (or its nominee) including the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

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

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

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction

other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

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

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors; and

- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. in nominal value of its existing issued share capital.

(j) Transfer of shares

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

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

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

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

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may

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

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

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

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange.

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

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

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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

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

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

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

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

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

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

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and

which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

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

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

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

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the

person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

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

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

(s) Procedures on liquidation

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

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

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

(t) Untraceable members

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

(u) Subscription rights reserve

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

3. CAYMAN ISLANDS COMPANY LAW

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

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

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

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

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

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test

and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m)., above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

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

(h) Accounting and auditing requirements

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

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 19 December 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

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

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

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

FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law on 6 December 2000. The Company has established a principal place of business in Hong Kong at Flat B, Ground Floor, Fu Hop Factory Building, Nos. 209 and 211 Wai Yip Street, Kowloon, Hong Kong and was registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance on 18 April 2001. Dr. Pau has been appointed as agent of the Company for the acceptance of service of process in Hong Kong and the address for service is Flat B, Ground Floor, Fu Hop Factory Building, Nos. 209 and 211 Wai Yip Street, Kowloon, Hong Kong. As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises its memorandum of association and articles of association. A summary of certain relevant parts of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital

- (a) As at the date of incorporation of the Company, its authorised share capital was HK\$100,000 divided into 1,000,000 shares of par value of HK\$0.1 each, of which one share was allotted and issued, nil paid, on 6 December 2000 to Codan Trust Company (Cayman) Limited as initial subscriber and was transferred to Team Drive for cash at par on 16 January 2001. The said one nil paid share was subsequently credited as fully paid as described in paragraph 4 below.
- (b) On 16 January, 2001, 1,599 shares of HK\$0.1 each in the Company were allotted and issued, nil paid, as to 1,199 shares to Team Drive, 330 shares to Advance New Technology, 60 shares to Dr. Pau, 5 shares to Mr. Shah Tahir Hussain, 3 shares to Mr. Wong Wai Tat and 2 shares to Ms. Chow Yuk Ngor. The said 1,599 nil paid shares were subsequently credited as fully paid as described in paragraph 4 below.
- (c) On 21 November 2001:
 - (i) Mr. Wong Wai Tat transferred 3 nil paid shares of HK\$0.1 each in the Company to Team Drive for cash at par; and
 - (ii) 28,400 shares of HK\$0.1 each in the Company were allotted and issued, nil paid, as to 20,457 shares to Team Drive, 6,110 shares to Advance New Technology, 1,140 shares to Dr. Pau, 640 shares to Ms. Yip Yuk Chun, 35 shares to Mr. Shah Tahir Hussain and 18 shares to Ms. Chow Yuk Ngor. The said 28,400 nil paid shares were subsequently credited as fully paid as described in paragraph 4 below.
- (d) Pursuant to a written resolution of all shareholders of the Company passed on 21 November 2001, each issued and unissued share of HK\$0.1 in the then share capital of the Company was subdivided into 10 shares of HK\$0.01 each.

- (e) Pursuant to a written resolution of all shareholders of the Company passed on 21 November 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by the creation of an additional 4,990,000,000 Shares.
- (f) Immediately following the completion of the Placing and the Capitalisation Issue, the authorised share capital of the Company will be HK\$50,000,000 divided into 5,000,000,000 Shares of which 552,800,000 Shares will be allotted and issued fully paid or credited as fully paid, and 4,447,200,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option, the ANT-Option or any options granted or which may be granted under the Share Option Schemes, there is no present intention to issue any of the authorised but unissued Shares of the Company and, without the prior approval of the shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.
- (g) Save as disclosed in paragraphs 1 to 3 of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of all shareholders of the Company passed on 21 November 2001

Pursuant to the written resolutions of all shareholders of the Company passed on 21 November 2001:

- (a) the Company approved and adopted its exiting articles of association;
- (b) the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by the creation of an additional 4,990,000,000 Shares;
- (c) conditional on the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares;
 - (ii) the grant of the Over-allotment Option and the ANT-Option were approved and the Directors were authorised to allot and issue such number of Shares that are required to be allotted and issued upon the exercise of the Over-allotment Option and the ANT-Option;

- (iii) conditional on the share premium account of the Company being credited as a result of the Placing, the Directors were authorised to capitalise HK\$4,140,000 standing to the credit of such account by applying such sum in paying up in full at par 414,000,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 21 November 2001 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then shareholdings in the Company;
- (iv) a general unconditional mandate was given to the Directors to allot, issue and deal with the unissued shares in the capital of the Company and to make or grant offers, agreements and options which may require the exercise of such powers, otherwise than pursuant to a rights issue, the grant and/or exercise of the Over-allotment Option and the ANT-Option, the grant of options under the Share Option Schemes and the exercise of the options which may be granted under the Share Option Schemes, or any scrip dividend scheme or similar arrangement providing for allotment of shares in lieu of the whole or in part of, any dividend in accordance with the articles of association of the Company, or the issue of Shares falling to be issued pursuant to the Placing and the Capitalisation Issue, the aggregate nominal amount of the share capital allotted or agreed to be allotted by the Directors pursuant thereto shall not exceed the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue immediate following the Placing and the Capitalisation Issue (such share capital shall include Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (bb) the aggregate nominal amount of the share capital of the Company purchased under the authority referred to in paragraph 3(c)(v) below. Such mandate shall expire at the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Companies Law or other applicable Cayman Islands law or the articles of association of the Company to be held or when revoked or varied by an ordinary resolution of shareholders of the Company in general meeting, whichever is the earliest;
- (v) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the Placing and the Capitalisation Issue (such share capital shall include Shares which may be issued upon the exercise of the Over-allotment Option) until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Companies Law or any other applicable

Cayman Islands law or the articles of association of the Company to be held or when revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest;

- (d) the rules of the Share Option Schemes were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and conditional on the GEM Listing Committee granting listings of and permission to deal in the Shares in issue and to be issued as mentioned in the prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise on or before the date falling 30 days after the date of this prospectus, to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Schemes; and
- (e) the form and substance of each of the service agreements made between the executive Directors with the Company were approved.

4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the structure of the Group in preparation for the listing of the Shares on GEM. The reorganisation involved the following:

- (a) On 2 October 2000, Eco-Tek (BVI) was incorporated in the British Virgin Islands under the name of “Saramore Co., Ltd.” with an authorised share capital of US\$50,000 divided into 50,000 share of US\$1.00 each, of which 1 share was allotted and issued on 5 December 2000 to Team Drive for cash at par.
- (b) On 9 November 2000, Eco-Tek Technology was incorporated in the British Virgin Islands under the name of “Natural Environmental Ltd.” with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 100 shares were allotted and issued on 5 December 2000 to Team Drive.
- (c) On 7 December 2000, Team Drive transferred the entire issued shares of Eco-Tek Technology to Eco-Tek (BVI). In consideration and in exchange for the transfer of shares aforesaid, Eco-Tek (BVI) allotted and issued 100 shares of US\$1 each, credited as fully paid, to Team Drive.
- (d) On 21 November 2001,
 - (i) Team Drive transferred the entire issued shares of Eco-Tek to Eco-Tek (BVI). In consideration and in exchange for the transfer of shares aforesaid, Eco-Tek (BVI) allotted and issued 21,559 shares of US\$1 each, credited as fully paid, to Team Drive;

- (ii) Eco-Tek (BVI) allotted and issued 1,200, 640, 40 and 20 shares of US\$1 each to Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain and Ms. Chow Yuk Ngor respectively for cash at par;
- (iii) in consideration of PTeC transferred all technologies and intellectual properties in *Eco-Trap* to Eco-Tek Technology, Eco-Tek (BVI) allotted and issued 6,440 shares of US\$1 each to Advance New Technology, credited as fully paid, and in consideration of Eco-Tek (BVI)'s allotment and issue of the said 6,440 shares of US\$1 each to Advance New Technology, Eco-Tek Technology allotted and issued one share of US\$1, credited as fully paid, to Eco-Tek (BVI);
- (iv) the Company acquired from Team Drive, Advance New Technology, Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain and Ms. Chow Yuk Ngor 30,000 shares of US\$1 each, being the entire issued share capital in Eco-Tek (BVI), and in consideration and in exchange for which, the Company:
 - (aa) allotted and issued, credited as fully paid, 216,600, 64,400, 12,000, 6,400, 400 and 200 Shares to Team Drive, Advance New Technology, Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain and Ms. Chow Yuk Ngor respectively; and
 - (bb) credited as fully paid, 216,600, 64,400, 12,000, 6,400, 400 and 200 nil paid Shares held by Team Drive, Advance New Technology, Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain and Ms. Chow Yuk Ngor respectively.

5. Changes in share capital of the subsidiaries of the Company

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this prospectus. In addition to the transactions referred to in the paragraph headed "Group reorganisation" above, the following alterations in the share capital of the subsidiaries of the Company took place within the two years immediately preceding the date of this prospectus :

- (a) On 25 May 2000;
 - (i) the authorised share capital of Eco-Tek was increased from HK\$10,000 to HK\$100,000 by the creation of 990,000 additional shares of HK\$1 each; and
 - (ii) 99,998 shares of HK\$1 each in Eco-Tek were allotted to Team Drive for cash at par;
- (b) On 1 December 2000, each of Dr. Chiang and Peace City transferred 1 share of HK\$1 each in Eco-Tek to Team Drive at the consideration of HK\$1.92 per share.

Save as disclosed in this Appendix, there has been no alteration in the share capital of any subsidiary of the Company within the two years preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on GEM to purchase their equity securities subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities on GEM by a company listed on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transaction.

Note: Pursuant to a resolution in writing passed by all shareholders of the Company on 21 November 2001, a general unconditional mandate (the "Buyback Mandate") was given to the Directors authorising any repurchase by the Company of Shares on GEM of up to 10% of the aggregate nominal amount of the share capital of the Company immediately following the completion of the Placing and the Capitalisation Issue (such share capital shall include Shares which may be issued upon the exercise of the Over-allotment Option), such mandate to expire at the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by the Companies Law or any other applicable Cayman Island law or the articles of association of the Company to be held or when revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose. Any repurchase will be made out of funds of the Company legally permitted to be utilised in this connection, including out of the profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if so authorised by its articles of association subject to the Companies Law out of capital. Any premium payable on a repurchase over the par value of the shares to be purchased must be provided for out of the profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital.

(b) Reasons for repurchase

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

(c) Funding of repurchases

- (i) In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and articles of association and the applicable law of the Cayman Islands.
- (ii) The Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company. However, there might be a material adverse effect on the working capital requirements of the Company or the gearing level (as compared with the position disclosed in the accountants' report, the text of which is set out in Appendix I to this prospectus) in the event the Buyback Mandate is exercised in full.
- (iii) Exercise in full of the Buyback Mandate, on the basis of 552,800,000 Shares in issue immediately after the listing of the Shares on GEM, could result in up to 55,280,000 Shares, representing 10% of the Shares in issue immediately after the listing of the Shares on GEM, being repurchased by the Company during the period up to the conclusion of the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Law or any other applicable Cayman Islands law to be held or when revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company, whichever is the earliest.

(d) General

- (i) None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention if the Buyback Mandate is exercised to sell any Shares to the Company or any of its subsidiaries.

- (ii) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules and the applicable laws of Hong Kong and the Cayman Islands.
- (iii) If as a result of a repurchase of Shares a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers ("**Takeover Code**") issued by the Securities and Futures Commission. As a result, a shareholder, or group of shareholders acting in concert, depending on the level of increase of the shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code. Save as aforesaid, the Directors are not aware of any consequences under the Takeover Code as a result of a repurchase of securities made immediately after the listing of the Shares.
- (iv) No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

7. Summary of material contracts

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

- (a) a deed dated 9 December 2000 and made between PTeC and Eco-Tek Technology (as amended by two supplemental deeds dated 5 June 2001 and 21 November 2001, respectively) for the acquisition by Eco-Tek Technology of the Patents and the Patent Applications together with the related intellectual property rights of *Eco-Trap* in consideration of the allotment and issue of such number of shares in Eco-Tek (BVI), credited as fully paid, representing 21.47% of the issued share capital of Eco-Tek (BVI) as enlarged by the allotment and issue of such shares to Advance New Technology;
- (b) the ANT-Option Agreement;
- (c) an agreement dated 21 November 2001 among (i) Team Drive, Advance New Technology, Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain and Ms. Chow Yuk Ngor as vendors; (ii) Dr. Chiang as warrantor; and (iii) the Company as purchaser for the acquisition of the entire issued share capital of Eco-Tek (BVI)

in consideration of (i) the allotment and issue, credited as fully paid, 216,600, 64,400, 12,000, 6,400, 400 and 200 Shares to Team Drive, Advance New Technology, Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain and Ms. Chow Yuk Ngor respectively; and (ii) credited as fully paid 216,600, 64,400, 12,000, 6,400, 400 and 200 nil paid Shares held by Team Drive, Advance New Technology, Dr. Pau, Ms. Yip Yuk Chun, Mr. Shah Tahir Hussain and Ms. Chow Yuk Ngor, respectively. Under this agreement, the liability of the warranties given by Dr. Chiang is limited to claims in respect of which written notice is received not later than 31 October 2004;

- (d) the Underwriting Agreement; and
- (e) a deed of indemnity dated 26 November 2001 given by Team Drive, Peace City, Dr. Chiang, Dr. Pau and Mr. Shah Tahir Hussain in favour of the Company for itself and as trustee for its subsidiaries containing, among other matters, the indemnities referred to in the sub-paragraph headed “Estate duty, tax and property indemnities” under the paragraph headed “Other information” in this Appendix.

8. Intellectual property rights of the Group

Pursuant to a deed dated 9 December 2000 (as amended by two supplemental deeds dated 5 June 2001 and 21 November 2001, respectively) referred to in the paragraph headed “Summary of material contracts” in the section headed “Further Information about the Business of the Group” in this Appendix, PTeC assigned the Patents and the Patent Applications together with the related intellectual property rights of *Eco-Trap* to the Group, details of which are set out below:

(a) *Patents for invention already granted*

Name	Country of Registration	Registration Number	Expiry Date
Filter-Short Term patent	Hong Kong	HK1015620	11 July 2003 (<i>Note</i>)
Filter	PRC	ZL99209774.6	11 May 2009

Note: The term of the patent can be renewed for a term of further four years.



(b) Patent Applications

Title of Invention	Country of Application	Application Number	Application Date
Filter	Thailand	057357	9 May 2000
Filter	India	373/MAS/2000	12 May 2000
Filter	Malaysia	PI20002050	11 May 2000

As at the Latest Practicable Date, the Group had made application for the registration of the following patent:

Title of Invention	Country of Application	Application Number	Application Date
Noise Barriers	Hong Kong	01105127.4	20 July 2001

As at the Latest Practicable Date, the Group had made applications for the registration of the following trademark/service mark:

Trademark/ Service mark	Place of Application	Class	Goods/Services Covered	Application Number	Application Date
	Hong Kong	42	(Note 1)	2000/27430	19 December 2000
	Hong Kong	7	(Note 2)	2001/12790	7 August 2001

Notes:

1. Researches on ecology products in relation to environmental protection.
2. Filters (parts of machines and engines); filters for industrial purposes; hydraulic filters; parts and fittings for all the aforesaid goods; all included in class 7.

As at the Latest Practicable Date, the Group had registered the following domain name:

Domain Name	Registration Date
www.eco-tek.com.hk	16 November 2000

FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

9. Disclosure of Interests

- (a) Immediately following the completion of the Placing and the Capitalisation Issue, the interests of the Directors in the Shares and the share capital of any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have taken under section 31 of, or Part I of the Schedule to the SDI Ordinance) or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Name	Number of Shares		Total
	Corporate interest	Personal interest	
Dr. Chiang (Note)	299,341,200	–	299,341,200
Dr. Pau	–	16,584,000	16,584,000
Mr. Shah Tahir Hussain	–	552,800	552,800

Note These Shares are held by Team Drive which is wholly owned by Peace City, a company the entire issued shares of which are beneficially owned by Dr. Chiang.

- (b) Each of Dr. Chiang, Dr. Pau and Mr. Shah Tahir Hussain has entered into a director's service agreement dated 21 November 2001 with the Company under which he/she has been appointed to act as an executive Director for an initial term of three years commencing from the Listing Date. The initial annual remuneration pursuant to such agreements for Dr. Chiang, Dr. Pau and Mr. Shah Tahir Hussain is HK\$600,000, HK\$1,440,000 and HK\$240,000 respectively and each of them is also entitled to a management bonus which shall be in an aggregate amount equals to 10% of the audited consolidated profits of the Group before taxation and extraordinary items for the relevant financial year provided that such consolidated profits shall exceed HK\$5,000,000 which is payable within three months after the availability of the audited consolidated accounts of the Group for the relevant financial year. The aggregate amount of such bonus payable to the executive Directors shall be divided by the number of the executive Directors and the entitlement of each executive Director shall be equal.
- (c) The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group for the period from 1 November 1999 to 31 July 2001 was approximately HK\$2,104,000. Further information in respect of the Directors remuneration is set out in Appendix I to this prospectus.

(d) Breakdown of directors' remuneration

	Year ended 31 October 2000 <i>HK\$'000</i>	Nine months ended 31 July 2001 <i>HK\$'000</i>
Mr. Shah Tahir Hussain	140	188
Dr. Chiang	350	458
Dr. Pau	—	968
	<u>490</u>	<u>1,614</u>

(e) During the two years preceding the date of this prospectus, the Group had entered into the related party transaction as described in note (g) under the section headed "Results" of the accountants' report set out in Appendix I to this prospectus.

(f) Save as disclosed herein:

- (i) none of the Directors has any interest in any shares in or in debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he is taken or deemed to have under section 31 of or Part I of the Schedule to the SDI Ordinance) once the Shares are listed or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered into the register referred to therein or will be required pursuant to Rule 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, once the Shares are listed;
- (ii) none of the Directors nor any of the experts whose names are listed in the paragraph headed "Consents of experts" of this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) no Director is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (iv) the Directors are not aware of any person who will, immediately following the completion of the Placing and the Capitalisation Issue, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

- (v) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (vi) none of the experts whose names are listed in the paragraph headed “Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to nominate persons to subscribe for securities in any member of the Group; and
- (vii) so far as known to the Directors, none of the Directors, their respective associates or shareholders in the Company who are interested in 5% or more of the issued share capital of the Company have any interest in the five largest customers of the Group.

10. Substantial shareholders

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue (assuming the ANT-Option, the Over-allotment Option and options granted under the Share Option Schemes are not exercised), the holders of 10% or more of Shares then in issue will be:

Name	Number of Shares directly held	Approximate percentage of direct shareholding %
Team Drive (<i>Note 1</i>)	299,341,200	54.15
Advance New Technology (<i>Note 2</i>)	89,000,800	16.10

Notes:

1. Team Drive is wholly-owned by Peace City, a company the entire issued shares of which are beneficially owned by Dr. Chiang.
2. The entire issued shares of Advance New Technology are beneficially owned by PolyU.

11. Share Option Schemes

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors and employees of the Group to its growth. The principal terms of the Pre-IPO Share Option Scheme, approved by the written resolutions of all the shareholders of the Company dated 21 November 2001, are substantially the same as the terms of the Post-IPO Share Option Scheme except that:

- (a) the subscription price for Shares under the Pre-IPO Share Option Scheme shall be a price notified by the board of Directors (the “Board”) to a grantee being not less than the nominal value of a Share;
- (b) an option may be exercised by the grantee at any time during the period to be notified by the Board to each grantee within which the Shares must be taken up commencing on the first anniversary of the Listing Date (the “Commencement Date”) and expiring on the last day of such period, and in any event such period of time shall not be more than ten years from the date on which such option is deemed to be granted in accordance with the terms of the Pre-IPO Share Option Scheme to the following extent:

Year 1	:	no Pre-IPO Share Option is exercisable;
Thereafter	:	all Shares comprised in the Pre-IPO Share Options.

For the purpose of this paragraph, the word “Year” means each successive period of twelve months, the first such period commencing on the Listing Date;

- (c) there are no similar restrictions on the maximum number of Shares and the granting of options as summarised in sub-paragraphs (e) and (t) of the paragraph headed “Post-IPO Share Option Scheme” respectively under the section headed “Share Option Schemes” in this Appendix.
- (d) the Pre-IPO Share Option Scheme is conditional on the passing of written resolutions(s) by the shareholders of the Company to approve and adopt it, and to authorise the directors of the Company to grant options to subscribe for Shares thereunder and conditional upon the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, to allot, issue and deal with Shares pursuant to the exercise of any options granted thereunder;

- (e) the total number of Shares comprised in the options granted under the Pre-IPO Share Option Scheme is 96,740,000 Shares representing 17.5% of the total issued share capital of the Company immediately following the completion of the Placing and the Capitalisation Issue (but before enlargement by the allotment and issue of Shares pursuant to the exercise of the Over-allotment Option, the ANT-Option and the Pre-IPO Share Options); and
- (f) save for the Pre-IPO Share Options, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on GEM.

As at the Latest Practicable Date, options to subscribe for an aggregate of 96,740,000 Shares at a subscription price of HK\$0.01 each have been granted under the Pre-IPO Share Option Scheme by the Company to three executive Directors. Each grantee has paid HK\$1.00 to the Company as consideration for such grant. All of these options were granted on 21 November 2001 and may be exercised within three years from the expiry of 12 months from the Listing Date.

Particulars of the outstanding options which have been granted under the Pre-IPO Share Option Scheme to the executive Directors of the Company are set out below:

Name of grantee	Address	Number of underlying Shares	Percentage of issued share capital immediately following the completion of the Placing and the Capitalisation Issue upon full exercise of the options (but before enlargement by the exercise of the Pre-IPO Share Options)
Dr. Chiang	Flat A, 1st Floor 47 Stubbs Road Hong Kong	55,280,000	10%
Dr. Pau	Flat A, Ground Floor No. 17 Fa Po Street Village Garden Yau Yat Chuen Kowloon Hong Kong	27,640,000	5%
Mr. Shah Tahir Hussain	Flat B 5th Floor Valley Ville No. 4B Wong Nei Chung Gap Road Hong Kong	13,820,000	2.5%

The Directors consider that the grant of options under the Pre-IPO Share Option Scheme with a subscription price of HK\$0.01 per Share which represents a discount of approximately 95.65% to the minimum point of the stated price range of HK\$0.23 per Share is a recognition of the contribution of the executive Directors to the growth of the Group.

Save as disclosed above, no options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme.

Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme.

Post-IPO Share Option Scheme

(a) Purpose of the Post-IPO Share Option Scheme

The purpose of the Post-IPO Share Option Scheme is to enable the Group to grant options to selected persons as incentives or rewards for their contribution to the Group.

(b) Who may join

The Board may, at its absolute discretion, invite any employee and any director of the Company or its subsidiaries (including any executive, non-executive and independent non-executive directors) (“Eligible Persons”) to take up options to subscribe for Shares at a price calculated in accordance with paragraph (d) below.

(c) Grant and acceptance of options

- (i) An offer of the grant of an option shall be made to Eligible Persons by a letter in such form as the Board may from time to time determine and shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date upon which it is made provided that no such offer shall be open for acceptance after the 10th anniversary of the date of adoption of the Post-IPO Share Option Scheme or after the Post-IPO Share Option Scheme has been terminated.
- (ii) A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the Eligible Person together with the said consideration of HK\$1.00 is received by the Company.
- (iii) Any offer of the grant of an option may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof.

(d) Price of Shares

The subscription price for Shares under the Post-IPO Share Option Scheme may be determined by the Board 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 Stock Exchange's daily quotations sheet 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 quotations sheets for the five business days immediately preceding the date of grant of the relevant option. For the purpose of calculating the exercise price where the Company has been listed for less than five business days, the Issue Price shall be used as the closing price for any business day falling within the period before listing of the Shares on GEM.

(e) Maximum number of Shares

- (i) The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time.
- (ii) Subject to (i) above, the total number of Shares available for issue under the Post-IPO Share Option Scheme and any other scheme must not in aggregate, exceed 10% of the issued share capital of the Company at the Listing Date (the "Scheme Mandate Limit") unless further shareholders' approval has been obtained pursuant to paragraphs (iii) and (iv) below, provided that options lapsed in accordance with the terms of the Post-IPO Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (iii) The Company may after sending a circular to the Shareholders containing information required under Rule 23.02(2)(d) of the GEM Listing Rules seek approval by its shareholders in general meeting for "refreshing" the Scheme Mandate Limit. However, the Scheme Mandate Limit as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the renewed limit. Options previously granted under the Post-IPO Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Post-IPO Share Option Scheme or exercised options) will not be counted for the purpose of calculating the "refreshed" limit.
- (iv) Subject to (i) above, the Company may also seek separate approval by its shareholders for granting options beyond the Scheme Mandate Limit to Eligible Persons specifically identified by the Company before such approval

is sought. A circular must be sent to the Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the options to be granted, the purpose of granting options to the identified Eligible Persons and how those options serve such purpose.

- (v) The total number of Shares issued and to be issued upon exercise of the options granted to an Eligible Person (including exercised, cancelled and outstanding options) in any 12 month period up to the date of grant to each Eligible Person shall not exceed 1% of the issued share capital of the Company from time to time, and any further grant of options in excess of such limit shall be approved by shareholders in general meeting with such Eligible Person and his associate abstaining from voting. A circular must be sent to the shareholders disclosing the identity of the Eligible Person involved, the number and terms of the options granted and to be granted (and options previously granted to such Eligible Person) and the information required under Rule 23.02(2)(d) of the GEM Listing Rules. The number and terms of options to be granted to such Eligible Person must be fixed before shareholders' meeting and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under Rule 23.03(9) of the GEM Listing Rules.

- (f) Exercise of option
 - (i) Unless the Board otherwise determined and stated in the offer of grant of options, an option may be exercised at any time 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 to each grantee, but in any event not later than 10 years from the date of grant of the option (the "Option Period"). Unless the Board otherwise determined and stated in the offer of options, there is no minimum period for which an option must be held before it can be exercised.

 - (ii) An option may be exercised in whole or in part by the grantee giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate of the Company's auditors, the Company shall allot, and shall instruct the Share Registrar to issue, the relevant Shares to the grantee (or his legal personal representative) credited as fully paid.

(g) Performance targets

Unless the Board otherwise determined and stated in the offer of grant of options, an Eligible Person to whom any option is granted is not required to achieve any performance target before any exercise of his/her options.

(h) Time of grant of options

Grant of options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published in the newspapers. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting for the approval of the Company's interim or annual results and (ii) the deadline for the company to publish its interim or annual results announcement and ending on the date of the results announcements.

(i) Rights are personal to grantees

An option is personal to the grantee and shall not be assignable. An option shall not be sold, transferred, charged, mortgaged, encumbered or created with any interest in favour of any third party.

(j) Rights on dismissal or ceasing employment

If the grantee of an option ceases to be an Eligible Person for any reason other than his death or the termination of his employment on one or more of the grounds of serious misconduct, bankruptcy, insolvency, composition with his creditors generally or conviction of any criminal offence involving his integrity or honesty, the grantee may (if the date of cessation of employment is on or after the date on which such option is deemed to be granted and accepted in accordance with the terms of the Post-IPO Share Option Scheme) exercise the option at any time on or before the date which is 3 months after the date of cessation up to his or her entitlement at the date of cessation to the extent not already exercised.

(k) Rights on death

If the grantee of an option dies before exercising the option in full and none of the events which would be a ground for termination of his or her employment under paragraph (j) above occurs, his or her legal personal representatives shall be entitled within a period of 12 months from the date of death of the grantee to exercise the option up to the entitlement of such grantee as at the date of death in part or in full to the extent not already exercised.

(l) Cancellation of options

Any cancellation of options granted but not exercised shall require approval of shareholders of the Company in general meeting, and the relevant grantees and their respective associates shall abstain from voting. Cancelled options may be re-issued to any Eligible Person after such cancellation has been approved, provided that re-issued options shall only be granted in compliance with the terms of the Post-IPO Share Option Scheme, in particular, subject to the maximum number of shares available for subscription referred to in paragraph (e) above and provided further that new options may be issued to an Eligible Person in place of his cancelled options only if there are available unissued options (excluding the cancelled options) within the Scheme Mandate Limit or the renewed Scheme Mandate Limit.

(m) Effect of alterations to share capital

In the event of any capitalisation of profits or reserves, rights issue, consolidation, sub-division, or reduction of the share capital of the Company, other than an issue of Shares as consideration in a transaction to which the Company is a party or in the event of any distribution of the Company's capital assets to its shareholders on a pro rata basis (whether in cash or in specie) other than dividend paid out of the net profits attributable to its shareholders for each financial year of the Company, such corresponding alterations (if any) shall be made to (i) the number or nominal amount of Shares subject to any option so far as unexercised and/or (ii) the subscription price as the Company's financial advisor or auditors shall certify in writing to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that the grantee shall have the same proportion of the issued share capital of the Company to which he was entitled before such alteration and the aggregate subscription price payable by the grantee on the full exercise of any option shall remain as nearly as possible the same as (but not greater than) it was before such event, but so that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The financial adviser or the auditors of the Company must confirm to the Directors in writing that such adjustments satisfy the aforesaid requirements.

(n) Rights on a general offer

If a general offer by way of takeover is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the grantee shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date of the announcement of an unconditional offer or within 3 days after a conditional offer becomes or is declared unconditional (as the case may be) provided that the grantee may only exercise any option when the offer is unconditional.

(o) Rights on winding up

In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and any grantee may by notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant option (such notice to be received by the Company not later than four business days prior to the date of the proposed shareholders' meeting) exercise the option (to the extent not already exercised even though the option period has not come into effect) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid.

(p) Rights on a reconstruction, compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the grantee may by notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant option (such notice to be received by the Company not later than two business days prior to the date of the proposed meeting) exercise the option (to the extent not already exercised even though the option period has not come into effect) either to its full extent or to the extent specified in such notice, and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid.

(q) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue as from the date when the name of the grantee is registered on the register of members of the Company and accordingly will entitle the holders thereof to participate in all dividends or other distributions (including distributions made upon the liquidation of the Company) paid or made on or after the date when the name of grantee is registered on the register of members of the Company other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date when the name of grantee is registered on the register

of members of the Company, provided always that if the date of exercise of the option falls on a date upon which the register of members of the Company is closed, then the exercise of the option shall become effective on the first business day on which the register of members of the Company is re-opened. A Share allotted upon the exercise of an option shall not carry any voting rights until the name of the grantee has been duly entered into the register of members of the Company as the holder thereof.

(r) Duration and administration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme will remain in force for a period of 10 years commencing from the date of adoption of the Post-IPO Share Option Scheme, after such period no further options will be issued but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. The Post-IPO Share Option Scheme shall be administered by the Board whose decision (save as otherwise provided therein) shall be final and bind on all parties.

(s) Alterations to the terms of the Post-IPO Share Option Scheme

The Board may from time to time at its absolute discretion waive or amend any terms of the Post-IPO Share Option Scheme provided that the Board may not amend the following provisions without the prior sanction of the Company in general meeting with the Eligible Persons and their associates abstaining from voting:-

- (i) any of the provisions relating to the matters contained in Rule 23.03 of the GEM Listing Rules to the advantage of grantees;
- (ii) any terms and conditions of the Post-IPO Share Option Scheme which are of a material nature or any terms of the options granted except where the alterations take effect automatically under the existing terms of the Post-IPO Share Option scheme;
- (iii) any provisions on the authority of the Board in relation to any alteration to the terms of the Post-IPO Share Option Scheme.

The amended terms of the Post-IPO Share Option Scheme or the options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.

- (t) Grant of options to connected persons or any of their associates
- (i) Any grant of options to a connected person or any of their respective associates must be approved by all the independent non-executive Directors of the Company (excluding any independent non-executive Director who is the grantee of the options).
 - (ii) Where any grant of options to a substantial shareholder of the Company (as such term is defined in the GEM Listing Rules) or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, then such further grant of options must be approved by shareholders of the Company in general meeting taken on a poll. All connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the proposed grant provided that his intention to do so has been stated in the shareholders' circular to be issued as stated below).
 - (iii) A shareholders' circular must be prepared by the Company explaining the proposed grant, containing (i) details of the number and terms (including the exercise price) of the options to be granted to each participant, (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee) on whether or not to vote in favour of the proposed grant, (iii) information relating to any Directors of the Company who are trustees of the scheme or have a direct or indirect interest in the trustees.
 - (iv) Any change in the terms of options granted to a connected person, a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by shareholders in general meeting.
- (u) Lapse of option

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the relevant option period;
- (ii) the expiry of the periods referred to in paragraphs (j), (k) (n), (o) and (p);

(iii) the date on which the grantee ceases to be an Eligible Person by reason of the termination of his or her employment on the grounds under paragraph (j);

(iv) the date on which the grantee commits a breach of paragraph (i).

(v) Termination

The Company by an ordinary resolution in general meeting may at any time terminate the operation of the Post-IPO Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

(w) Conditions of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall take effect subject to and is conditional on:

(i) the GEM Listing Committee granting listing of, and permission to deal in the Shares which may be issued pursuant to the exercise of options that may be granted under the Post-IPO Share Option Scheme; and

(ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder) and not being terminated in accordance with the terms of that agreement or otherwise.

As at the Latest Practicable Date, no option has been granted under the Post-IPO Share Option Scheme. Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the Shares which fall to be issued pursuant to the exercise of any options that may be granted under the Post-IPO Share Option Scheme.

12. ANT-Option Agreement

Pursuant to the ANT-Option Agreement, the Company granted the ANT-Option to Advance New Technology at the consideration of HK\$1.00 as a reward to PolyU's continuing support and collaboration with the Group and for the purpose of enhancing future cooperative relationship between PolyU and the Group. The ANT-Option Agreement, which are in compliance with the requirements of chapter 21 of the GEM Listing Rules, are summarised as follows:

Name and address of grantee:	Advance New Technology Limited Finance Office The Hong Kong Polytechnic University Hung Hom Kowloon Hong Kong
Number of underlying Shares:	Such number of Shares that shall represent 2.5% of the issued share capital of the Company immediately after the completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the ANT-Option).
Exercise period:	Between the 1st and 3rd anniversary of the Listing Date.
Exercise price:	A sum equivalent to 90% of the Issue Price.

OTHER INFORMATION

13. Estate duty, tax and property indemnities

Each of Team Drive, Peace City, Dr. Chiang, Dr. Pau and Mr. Shah Tahir Hussain (collectively the "Indemnifiers") has entered into a deed of indemnity with and in favour of the Company for itself and as trustees for its subsidiaries (being the material contract(s) referred to in paragraph 7(e) of this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Placing becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands and the British Virgin Islands.

Under the deed of indemnity, the Indemnifiers have also given indemnities in favour of the Group on a joint and several basis in relation to, among other things, taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional. The Indemnifiers however, not be liable under the deed of indemnity where:

- (a) to the extent that provision has been made for such taxation in the audited accounts of the Company or any of its subsidiaries up to 31 July 2001; or
- (b) the taxation falls on any member of the Group in respect of their current accounting periods or any accounting period commencing on or after 1 August 2001 unless the taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group effected with the prior consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 31 July 2001; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 July 2001 or pursuant to any statement of intention made in this prospectus; or
 - (iii) consisting of any member of the Group ceasing , or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or
- (c) to the extent of any provisions or reserve made for any taxation in the audited accounts of the Company or its subsidiaries up to 31 July 2001 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or
- (d) the taxation arises or is incurred as a result of a retrospective change in the law or practice coming into force after the date on which the Placing becoming unconditional or to the extent that such taxation arises or is increased by an increase in rates of taxation after the date on which the Placing becomes unconditional with retrospective effect.

The Indemnifiers have also given indemnities, on a joint and several basis in relation to, among other things, any costs, expenses, claims, losses, damages, liabilities and proceedings which may be incurred or suffered by the Group arising from the Group's being evicted from

its principal place of business in Hong Kong situated at Flat B, Ground Floor, Fu Hop Factory Building, Nos. 209-211 Wai Yip Street, Kowloon for the reason that there is and/or has been a breach of the non-alienation provision of the tenancy agreement in respect of such property.

Save for any claim under the Estate Duty Ordinance for which the Indemnifiers shall be liable in perpetuity, the Indemnifiers or any of them shall not be liable in respect of any claim under the deed of indemnity unless a notice in writing of such claim shall have been given to the Indemnifiers on or prior to the expiry of seven years from the date the deed of indemnity becomes effective.

14. Litigation

Neither the Company nor any member of the Group is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against the Company or any member of the Group.

15. Sponsor and Co-sponsor

- (a) the Sponsor and the Co-sponsor have made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may fall to be issued upon the exercise of the Over-allotment Option, the ANT-Option and options granted or which may be granted under the Share Option Schemes.
- (b) The Sponsor, will receive normal professional fees in connection with the advisory services to be provided to the company for a term period covering the remainder of the financial year ending 31 October 2002 and the two financial years thereafter.
- (c) The Sponsor and an affiliate of the Co-sponsor, will receive underwriting commission pursuant to the Underwriting Agreement in their capacity as underwriters to the Placing.

16. Preliminary expenses

The estimated preliminary expenses of the Company are approximately HK\$8 million and are payable by the Company.

17. Promoter

The promoter of the Company is Dr. Chiang. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given, or was proposed to be paid, allotted or given, to any person in connection with the Placing or the related transactions as described in this prospectus within the two years immediately preceding the date of this prospectus.

18. Qualifications of experts

The followings are the qualifications of the experts who have given their opinions or advice which are contained in this prospectus:

Name of expert	Qualifications
Celestial Capital	Investment adviser and dealer registered under the Securities Ordinance
SBI E2-Capital	Investment adviser and dealer registered under the Securities Ordinance
Ernst & Young	Certified public accountants
Chesterton Petty Limited	Chartered Surveyors and independent valuers
Conyers Dill & Pearman, Cayman	Cayman Islands barristers and attorneys

19. Consents of experts

Celestial Capital, SBI E2-Capital, Ernst & Young, Chesterton Petty Limited and Conyers Dill & Pearman, Cayman have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names in the form and context in which they are respectively included.

20. Binding effect

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

21. Taxation of holders of Shares*(a) Hong Kong*

Dealings in Shares registered on the Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

(b) Cayman Islands

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(c) *Professional tax advice recommended*

Intended holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Placing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

22. Public float

The minimum prescribed percentage for the Shares to be held by the public after listing shall be not less than 25% of the share capital of the Company in issue from time to time.

23. Miscellaneous

(a) Save as disclosed herein :

(i) within the two years preceding the date of this prospectus:

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

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(cc) no commission has been paid or payable (excluding sub-underwriting commissions) for subscribing or agreeing to subscribe or procuring or agreeing to procure subscription for any Shares; and

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) Save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Group since 31 July 2001 (being the date to which the latest audited combined financial statements of the Group were made up).

(c) The Company has no founders shares, management shares or deferred shares.

(d) The register of members of the company will be maintained in Hong Kong by Tengis Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with the Company's share registrar in Hong Kong.

(e) All necessary arrangement have been made to enable the Shares to be admitted to CCASS.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Fong & Ng, at 8th Floor, Aon China Building, 29 Queen’s Road Central, Hong Kong during normal business hours up to and including 11 December 2001:

- (a) the memorandum and articles of association of the Company;
- (b) the accountants’ report on the Group, the texts of which are set out in Appendix I prepared by Ernst & Young;
- (c) the audited financial statements for Eco-Tek for the period from 27 October 1999 to 31 October 2000 and the nine months ended 31 July 2001.
- (d) the letter, summary of value and valuation certificate prepared by Chesterton Petty Limited, the text of which is set out in Appendix II;
- (e) the rules of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme;
- (f) the Companies Law;
- (g) the letter prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of Cayman Islands company law as referred to in the paragraph headed “General” in Appendix III;
- (h) the service contracts of the Directors referred to in the paragraph headed “Further information about the Directors, management, staff, substantial shareholders and experts” in Appendix IV;
- (i) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV; and
- (j) the written consents of experts referred to in the paragraph headed “Consents of experts” in Appendix IV.