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 sub-section 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.

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 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

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 loans and regulations and administrative difficulties in staffing and managing foreign operations.

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.

- *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.

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 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.

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.

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 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;

- 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.