



Annual Report 2003



Eco-Tek

環康科技

fostering

a healthy environment

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

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

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

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

Corporate Information

BOARD OF DIRECTORS

Executive directors

CHIANG Lily (*Chairman*)

PAU Kwok Ping (*Managing Director*)

SHAH Tahir Hussain

Non-executive directors

LUI Sun Wing

YOUNG Meng Cheung Andrew

Independent non-executive directors

CHAN Siu Ping Rosa

TAKEUCHI Yutaka

NI Jun

COMPLIANCE OFFICER

PAU Kwok Ping

COMPANY SECRETARY

CHOR Ngai *FCCA, AHKSA*

CAYMAN ISLANDS ASSISTANT SECRETARY

Codan Trust Company (Cayman) Limited

QUALIFIED ACCOUNTANT

CHOR Ngai *FCCA, AHKSA*

AUDIT COMMITTEE

CHAN Siu Ping Rosa

TAKEUCHI Yutaka

NI Jun

SPONSOR

Celestial Capital Limited

AUDITORS

Ernst & Young

Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 5, 11/F

Westlands Centre

20 Westlands Road

Quarry Bay

Hong Kong

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

HONG KONG SHARE REGISTRAR

Tengis Limited

G/F., Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank

Fortis Bank Asia HK

GEM STOCK CODE

8169

WEBSITE ADDRESS

www.eco-tek.com.hk

Contents

1	Corporate Information
3-4	Chairman's Statement
5-6	Biographical Details of the Directors and Senior Management
7-10	Management Discussion and Analysis
11-13	Comparison of Business Objectives with Actual Business Progress
14	Use of Proceeds from Issuance of New Shares
15-24	Report of the Directors
25	Report of the Auditors
26	Consolidated Profit and Loss Account
27	Consolidated Balance Sheet
28	Consolidated Statement of Changes in Equity
29-30	Consolidated Cash Flow Statement
31	Balance Sheet
32-66	Notes to Financial Statements
67-68	Financial Summary
69-72	Notice of Annual General Meeting

Chairman's Statement

It gives me great pleasure to present the annual audited consolidated results of Eco-Tek Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 October 2003.

RESULTS AND BUSINESS OVERVIEW

During the year under review, the Group reported a substantial increase in turnover and net profit attributable to shareholders by 232% and 224% to approximately HK\$104.0 million (2002: HK\$31.4 million) and HK\$13.0 million (2002: HK\$4.0 million) respectively as compared to last year. The encouraging results were attributable to dedication and diligence of the management team and staff of the Group during the past year. Leveraged on our goodwill in the field of environmental related products, we had successfully bid four tenders issued by the Environmental Production Department ("EPD") of Hong Kong Government in November 2002 as one of the contractor for the supply and installation of particulate removal devices or diesel oxidation catalysts (the Group's diesel oxidation catalysts known as "Eco-Green") which employs gas exhaust filtration technology to reduce exhaust particulates according to pre-euro emission standard for qualified diesel vehicles (weight over four tons).

The Eco-Green was launched to the market in January 2003. According to the latest statistics of Distribution of Hourly Air Pollution Index ("API") for General Stations published by EPD, in the Third Quarter of 2003, approximately 44% hours was classified as "Low Pollution", 47% hours was classified as "Medium Pollution" and only 9% hours was classified as "High Pollution" (2002: approximately 29%, 51% and 20% respectively). As compared to the same period last year, the air quality has been improved obviously. To certain extent, such improvement is owing to the launch of the Group's Eco-Green in early 2003.

Sales of the Group's industrial environmental protection products also increased significantly and this also contributed to the improvement in the financial results of the Group for the year under review. Following the rapid economic development in Mainland China and the marketing efforts made by the Group's offices in Beijing, Shanghai and Ningbo, more orders had been received. The Group will continue to identify distributors in other regions of the Mainland China for further possible business opportunities.

As a supplier and service provider of environmental related products, the Company not only aims at improving air quality but also commits to offering people a more personalised quality of health. Following the outbreak of Severe Acute Respiration Syndrome ("SARS") during the first half of 2003, people's attitude towards personal hygiene and health has been greatly enhanced. In view of this, the Group has successfully developed and launched an ionized clean water system ("Eco-Water") for domestic users in September 2003 which is remarkably a technology breakthrough of life science in the 21st century. It is the first clean water system in the market with the most sophisticated functions, including but not limited to water ionization process for pH value adjustment, active carbon cartridge filtering, magnetization and UV disinfections. We anticipate that the introduction of Eco-Water can offer a better and healthier way of life.

Chairman's Statement

OUTLOOK

Looking forward, the Group will continue to develop and modify environmental protection related products so as to foster a healthy living environment and improve quality of life. Apart from these, the Group will also search for potential investments in order to create synergetic effect on its business operations and to maximum the returns of shareholders of the Company.

DIVIDEND

In view of the satisfactory results of the Group during the past year and in reward for the continuous support of the shareholders of the Company, the Board of Directors recommends the payment of a final dividend of HK1.15 cent (2002: HK0.35 cent) per share for the year ended 31 October 2003, subject to the approval by our shareholders at the forthcoming Annual General Meeting.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my greatest appreciation to our shareholders, customers and business partners for their ongoing support of the Group and to sincerely thank the directors, management team and staff for their invaluable contribution and diligence in the past year.

CHIANG Lily

Chairman

Hong Kong, 12 January 2004

Biographical Details of the Directors and Senior Management

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

DIRECTORS

Executive directors

Dr. CHIANG Lily, Ph.D., MBA, MIMechE, MHKIE, aged 42, is the founder of the Group and chairman and a director of the Company and is responsible for strategic development of the Group. She has over 17 years of management experience.

Dr. PAU Kwok Ping, Ph.D., MSc., aged 50, 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. He has over 33 years of experience in the machinery manufacturing industry. Dr. Pau was awarded one of the Ten Outstanding Young Persons in Hong Kong in 1982. Dr. Pau joined the Group in December 1999.

Mr. SHAH Tahir Hussain, aged 41, 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. He is experienced in corporate strategic planning. Mr. Shah joined the Group in November 1999.

Non-executive directors

Dr. LUI Sun Wing, aged 53, was a branch director of the Hong Kong Productivity Council for the period from October 1981 to June 2000 and was responsible for overseeing the materials and process branch. Dr. Lui joined The Hong Kong Polytechnic University ("PolyU") as a vice president and is now responsible for partnership development. He is also the chief executive officer of the Institute for Enterprise of PolyU and the chief executive officer and the chairman of the board of directors of PolyU Technology & Consultancy Co. Limited ("PTeC"). Dr. Lui is also a director of Advance New Technology Limited. Dr. Lui was appointed as a non-executive director of the Company on 16 January 2001.

Mr. YOUNG Meng Cheung Andrew, aged 44, is a director of PTeC. Mr. Young holds a Bachelor's degree of Engineering in Mechanical Engineering from South Australian Institute of Technology, Australia and a 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 Limited. Mr. Young was appointed as a non-executive director of the Company on 16 January 2001.

Biographical Details of the Directors and Senior Management

Independent non-executive directors

Ms. CHAN Siu Ping Rosa, aged 44, has over 20 years of experience in management, production and marketing in manufacturing industry. Ms. Chan holds directorship in several private companies. Ms. Chan obtained her Bachelor of Arts (Business Administration) degree from the Simon Fraser University in Canada. She joined the Company in August 2002.

Mr. TAKEUCHI Yutaka, aged 53, has more than 20 years of experience in electronic industry and management. Mr. Takeuchi is the president of several Japanese private companies. Mr. Takeuchi graduated from Osaka Technical College in Japan, majoring in electrotechnics. Mr. Takeuchi joined the Company in August 2002.

Professor NI Jun, aged 42, is a professor at the University of Michigan, the United States. Professor NI obtained his Ph.D in 1987 from the University of Wisconsin-Madison. Currently, he serves as a director in various non-profit making research centers such as the S.M. Wu Manufacturing Research Centre and the Multi-Campus National Science Foundation Centre for Intelligent Maintenance Systems of the University of Michigan. Professor NI is also an associate editor of the Journal of Manufacturing Systems. He joined the Company in February 2003.

SENIOR MANAGEMENT

Mr. YUNG Chi Kay, aged 54, is the deputy general manager of the Group and is responsible for quality management and research and development. Mr. Yung graduated from the 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 the 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. CHOR Ngai, aged 32, is the financial controller and company secretary of the Company responsible for financial management, reporting and secretarial matters. Mr. Chor graduated from the Hong Kong Polytechnic University with a Bachelor of Arts degree in Accountancy. He has over 9 years' experience in auditing, accounting and finance fields and is an associate member of the Hong Kong Society of Accountants and a fellow member of Association of Chartered Certified Accountants. Mr. Chor joined the Group in May 2003.

Management Discussion and Analysis

FINANCIAL REVIEW

The turnover of the Group for the year ended 31 October 2003 amounted to approximately HK\$104.0 million (2002: HK\$31.4 million), representing an increase of approximately 232% as compared to last financial year. The net profit attributable to shareholders of the Company also increased to approximately HK\$13.0 million (2002: HK\$4.0 million) or 224% as compared to the year ended 31 October 2002. The outstanding performance of the Group during the year ended 31 October 2003 was mainly brought by the successful bidding of four tenders issued by the Environmental Protection Department (“EPD”) of the Government of the Hong Kong Special Administrative Region (the “Government”) in November 2002 which encouraged qualified vehicle owners to adopt particulate removal devices or diesel oxidation catalysts (that of the Group known as “Eco-Green”) to reduce vehicle emission and the increase in demand for the Group’s industrial environmental protection products in the industrial sector in the People’s Republic of China (“PRC”).

The gross profit of the Group for the year ended 31 October 2003 amounted to approximately HK\$34.8 million at a margin of 33% compared with a gross profit of around HK\$11.8 million at a margin of 38% for last year. The decrease in gross margin was mainly due to the strong Euro and Japanese Yen over the past few months which had led to increase in the cost of imported goods and the change in product mix towards a lower gross profit. It is expected that the gross profit margin may further decrease in the coming year if Euro and Japanese Yen continue to be strong.

The administrative expenses for the year ended 31 October 2003 increased by approximately 38% as compared to last year. The amount included a management bonus of approximately HK\$1.6 million payable to the executive directors. Since the audited consolidated profits exceeded HK\$5 million, the executive Directors are 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 for the year ended 31 October 2003 as disclosed on pages 107 and 184 of the prospectus of the Company dated 27 November 2001 (the “Prospectus”).

The other operating expenses comprises prudent provisions made for long overdue debts of trade debtors from sales of industrial environmental protection related products in Hong Kong and the PRC and provision made for warranty of Eco-Green which amounted to approximately HK\$3.6 million and HK\$4.0 million respectively. Although the provision for doubtful debts has been made, the Group will make every effort to collect those long overdue debts.

The source of finance of the Group was primarily from the initial placing proceeds, internally generated funds, retained profits and an aggregate of HK\$36 million banking facilities granted to the Group for the issuance of letters of credit. As at 31 October 2003, the Group has pledged its bank deposits of approximately HK\$6.3 million and HK\$8.0 million to secure for trade bills facilities granted to the Group and performance bond facilities respectively. In spite of the above, the Group still had cash and bank balances of approximately HK\$32.1 million for its future expansion and development.

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

The Group was principally involved in the marketing, sale, servicing, research and development of environmental protection related products and services. In January 2003, the Eco-Green program was first launched to the market in Hong Kong. Various promotions have been made by the Group's salesmen to qualified vehicle owners from time to time. Up to the year ended 31 October 2003, approximately 30,000 brochures had been despatched to potential customers and the Group received positive responses from the qualified vehicle owners. The Eco-Green program will last for 18 months and the directors anticipate that the program will continue to generate income to the Group in the coming financial year.

Due to continuous growth of the PRC domestic economy, demands for the Group's industrial environmental protection products are increasing, especially for companies which produce processing machines and construction machines. In order to capture more market share, the Group not only enhanced its marketing effort through its offices in Beijing, Shanghai and Ningbo but also worked closely with its distributors in the PRC.

During the year, the Group had successfully developed an ionized clean water system ("Eco-Water") for domestic users. It is the first clean water system in the market with the most sophisticated functions, including but not limited to water ionization process for pH value adjustment, active carbon cartridge filtering, magnetization and UV disinfections. The Eco-Water was introduced to the market in Hong Kong in September 2003. The Directors are optimistic that the Eco-Water will sooner be accepted by the domestic users.

Apart from the Eco-Water, the Group has been also developing other environmental technologies and products such as air purification system, soundproof barriers and waste plastic recycling process. Recently, the Group has been carrying out research and study on energy saving technology. Through the launch of diversified environmental protection products and technologies, the Group's mission to foster a healthy living environment and improve the quality of life for the general public can be accomplished.

LIQUIDITY AND FINANCIAL RESOURCES

The Company was listed on the GEM of the Stock Exchange through a placement of 138,200,000 shares. The net proceeds from the placement, after deduction for relevant expenses, was approximately HK\$25,108,000. The Group intends to apply these proceeds in the manner disclosed in the Prospectus. For the year under review, the Group financed its operations with its own available funding and did not have any bank loans. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

Management Discussion and Analysis

TREASURY POLICIES

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

EMPLOYEE INFORMATION

As at 31 October 2003, the Group had 31 employees (2002: 17 employees) working in Hong Kong and in the PRC. The total of employee remuneration, including that of the directors and mandatory provident funds contributions, for the year under review amounted to approximately HK\$7.6 million (2002: HK\$5.5 million). The dedication and hard work of the Group's staff during the year ended 31 October 2003 are greatly appreciated and recognised.

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

CAPITAL STRUCTURE

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

SIGNIFICANT INVESTMENTS

For the year ended 31 October 2003, the Group had no significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group had no material acquisitions or disposals during the year ended 31 October 2003. It has no plans for material investments or capital assets other than those set out in the Prospectus.

Management Discussion and Analysis

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 October 2003, the Group has pledged its bank deposits of approximately HK\$6.3 million and approximately HK\$8.0 million to secure for the issuance of letters of credit and bills facilities granted to the Group and performance bond facilities, respectively (further details of which are set out in notes 17 and 24 to the financial statements).

Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 October 2003.

GEARING RATIO

As at 31 October 2003, the Group had cash and cash equivalents of approximately HK\$32,082,000 (2002: approximately HK\$25,119,000) and no bank borrowings. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 31 October 2003 (2002: Nil).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales of the Group are denominated either in Hong Kong dollars or United States dollars and the exchange rate of United States dollars has been stable for the periods under review. No hedging or other alternatives have been implemented.

For purchases of the Group denominated in currencies other than Hong Kong dollars or United States dollars, foreign currency exposures are immediately hedged at the time when purchases are concluded, for example, when letters of credit are issued to overseas vendors. In addition, forward exchange contracts were used for hedging payment in certain volatile foreign currencies.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress in comparison with the business objectives set out in the Prospectus for the period from 1 May 2003 to 31 October 2003.

Business Objectives as Stated in the Prospectus

Actual Business Progress

Eco-Trap

Eco-Trap

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Identify revenue generating opportunities for provision of cleaning services of Eco-Trap in Guangdong Province, the PRC 2. Commence in-house production of Eco-Trap in the Group's production facilities in the PRC with initial production capacity of 20 Eco-Traps per day | <p>The Group has postponed the study due to the buying habit of Chinese customers</p> <p>Affected by Severe Acute Respiration Syndrome ("SARS"), the Group has postponed to set up the production facilities in the PRC. The Group is analyzing the effect of SARS and will resume the project once the economic environment is stabilized. The Group will continue the production by outsourcing</p> |
|--|---|

Diesel oxidation catalysts

Diesel oxidation catalysts

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Continue to promote the use of the Group's diesel oxidation catalyst to the Diesel Heavy Vehicle Owners 2. Modify the Group's diesel oxidation catalyst for the diesel engine driven machinery market 3. Market the Group's diesel oxidation catalyst for diesel engine driven machinery market 4. Recruit 1 sales engineer for the Group's diesel oxidation catalyst specifically for the diesel engine driven machinery | <p>Promotions in relation to Eco-Green, the Group's diesel oxidation catalysts, have been made by the Group's salesmen to heavy vehicle owners from time to time, approximately 30,000 brochures have been sent out to potential customers</p> <p>The Group's diesel oxidation catalyst has been modified to cater for diesel engine driven machinery market in May 2003</p> <p>The Group has promoted the diesel oxidation catalyst for the diesel power generating market in the PRC</p> <p>One sales engineer has been recruited in October 2003</p> |
|---|---|

Comparison of Business Objectives with Actual Business Progress

**Business Objectives as Stated
in the Prospectus**

Actual Business Progress

Diesel oxidation catalysts***Diesel oxidation catalysts***

5. Commence in-house production of diesel oxidation catalyst in the PRC with the initial production capacity of 20 diesel oxidation catalyst per day from February 2003

Affected by SARS, the Group had decided to postpone the program. The Group is analyzing the effect of SARS and will resume the project once the economic environment is stabilized. The Group will continue the production by outsourcing

Hydraulic filters***Hydraulic filters***

1. Commence in-house production of hydraulic filters in the PRC with initial production capacity of 30 hydraulic filters per day

Affected by SARS, in-house production of hydraulic filters in the PRC has been postponed. The Group is analyzing the effect of SARS and will resume the project once the economic environment is stabilized. The Group will continue the production by outsourcing

2. Continue to develop the markets in the PRC, Taiwan and the United States of America ("USA")

Working closely with distributors in the PRC, Taiwan and Hong Kong and still looking for potential distributor in the USA

3. Identify and appoint distributors in Europe

Negotiations with potential distributor in Italy have been carried out

Comparison of Business Objectives with Actual Business Progress

Business Objectives as Stated in the Prospectus

Actual Business Progress

Soundproof barrier

Soundproof barrier

- | | |
|---|--|
| 1. Recruit 2 technical staff dedicated to the soundproof barrier project | 2 technicians have been dedicated to the research of soundproof barrier |
| 2. Continue to negotiate with the relevant government authorities in Hong Kong on the use of the Group's soundproof barrier | The Group has promoted to various departments including Architectural Services Department |
| 3. Complete the research and development of the Group's soundproof barrier and start to build prototype | The demand of effectiveness of the sound shadow is high compared with the original design. The research is still in progress due to the Hong Kong's market requirement |
| 4. Conduct testing of the Group's soundproof barrier | Based on preliminary research and development of the sound proof barrier, testing was done by Hong Kong Institutional Vocational Education and modification has been carried out |

Waste plastic recycling process

Waste plastic recycling process

- | | |
|---|---|
| 1. Continue with/conclude negotiation with the relevant government authorities in Hong Kong on the use of the Group's waste plastic recycling process | Negotiation with the Government has been continued but no conclusion has been made at this stage due to existing policy |
| 2. Start to build prototype per requisite plant machinery | Potential customer has not yet agreed to try the system. Therefore, building of prototype has been postponed. The project will be resumed once the customer has solid intention |
| 3. Commence testing of the Group's waste plastic recycling process | The testing has been postponed due to the building of prototype has been postponed |

Use of Proceeds from Issuance of New Shares

The actual net proceeds from issuance of new shares in December 2001 (“IPO”) was around HK\$25,108,000 as compared to the budgeted net proceeds of HK\$23,800,000 in the Prospectus. The surplus of about HK\$1,308,000 has been utilized for general working capital purpose. Details of the utilization of fundings from the actual net proceeds of issuance of new shares versus that envisaged in the Prospectus during the period from 5 December 2001 to 31 October 2003 (the “Period”) are as follows:

	Proposed total fundings required from net proceeds <i>HK\$'000</i>	Proposed fundings required during the Period <i>HK\$'000</i>	Actual fundings spent during the Period <i>HK\$'000</i>
For product and service developments			
Eco-Trap	2,000	1,600	1,491
Diesel oxidation catalysts	1,800	1,800	1,794
Hydraulic filters	1,000	1,000	999
Soundproof barrier	4,000	2,700	2,490
Waste plastic recycling process	1,000	500	473
	9,800	7,600	7,247
For setting up of the Group’s production facilities in the PRC			
	7,000	7,000	–
For general working capital of the Group			
	7,000	–	–
	23,800	14,600	7,247

As at 31 October 2003, the Group had cash and cash equivalents and pledged bank deposits of approximately HK\$46,372,000 (2002: HK\$36,770,000) and it used its internally generated funds, together with the abovementioned surplus of about HK\$1,308,000 from IPO as its working capital during the year ended 31 October 2003.

Unused proceeds are mainly kept as bank deposits as disclosed in Notes 17 and 24 to the financial statements and the Directors believe that the net proceeds will be sufficient for future business objectives as stated in the Prospectus.

Report of the Directors

The directors present their report and the audited financial statements of Eco-Tek Holdings Limited (the “Company”) and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 October 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group was principally involved in the marketing, sale, servicing, research and development of environmental protection related products and services. There were no significant changes in the nature of the Group’s principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group’s turnover and contribution to the profit from operating activities by principal activity and geographical area of operations for the year ended 31 October 2003 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group’s consolidated profit for the year ended 31 October 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 66.

The directors recommend the payment of a final dividend of HK1.15 cent per ordinary share in respect of the year, to shareholders whose names appear on the Register of Members on 16 February 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements, is set out on pages 67 and 68 in the annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group during the year are set out in note 13 to the financial statements.

Report of the Directors

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital, together with the reasons therefor, and details of the Company's share option schemes are set out in note 21 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 22 to the financial statements and in the consolidated statement of changes in equity, respectively.

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

At 31 October 2003, the Company's reserves available for distribution, calculated in accordance with the Companies' Law of the Cayman Islands, amounted to HK\$33,834,000. This includes the Company's share premium account in the amount of HK\$30,537,000 at 31 October 2003, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 57% in aggregate for the Group's total turnover for the year. The largest customer of the Group accounted for approximately 31% of the Group's total turnover.

Purchases from the Group's five largest suppliers of the Group accounted for approximately 99% in aggregate for the Group's total purchases for the year. The largest supplier of the Group accounted for approximately 41% of the Group's total purchases.

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

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Dr. CHIANG Lily (*Chairman*)
 Dr. PAU Kwok Ping (*Managing Director*)
 Mr. SHAH Tahir Hussain

Non-executive directors:

Dr. LUI Sun Wing
 Mr. YOUNG Meng Cheung Andrew

Independent non-executive directors:

Ms. CHAN Siu Ping Rosa
 Mr. TAKEUCHI Yutaka
 Professor NI Jun (appointed on 25 February 2003)
 Dr. WOON Yi Teng Eden (resigned on 1 July 2003)

In accordance with articles 87(1) and (2) of the Company's articles of association, Mr. SHAH Tahir Hussain and Mr. YOUNG Meng Cheung, Andrew will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Professor NI Jun will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors of the Company and the five highest paid individuals of the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 5 December 2001 and shall be entitled to terminate the contract at any time after that initial term of three years without cause by giving not less than six months' prior written notice to the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company within one year without payment of compensation other than statutory compensation.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 October 2003, the interests and short positions of the directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long positions in ordinary shares of the Company

Name of Directors	Number of shares held, capacity and nature of interest			Percentage of the Company's issued shares capital as at 31 October 2003
	Directly beneficially owned	Through controlled corporation	Total	
Dr. CHIANG Lily	–	299,341,200 (Note)	299,341,200 (Note)	54.15
Dr. PAU Kwok Ping	16,584,000	–	16,584,000	3.00
Mr. SHAH Tahir Hussain	552,800	–	552,800	0.10
	17,136,800	299,341,200	316,478,000	57.25

Note: These shares are held by Team Drive Limited which is a wholly owned subsidiary of Peace City Development Limited, a company of which the entire issued shares are beneficially owned by Dr. CHIANG Lily.

In addition to the above, a director has a non-beneficial personal equity interest in a subsidiary held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Report of the Directors

Interest in underlying shares of the Company

(i) Share options granted under the Pre-Scheme (Note a):

Name of directors	Number of share options beneficially directly held by the directors and outstanding as at 31 October 2003	Percentage of the Company's issued share capital as at 31 October 2003
Dr. CHIANG Lily	55,280,000	10.00
Dr. PAU Kwok Ping	27,640,000	5.00
Mr. SHAH Tahir Hussain	13,820,000	2.50
	96,740,000	17.50

Note a: Please refer to note 21 to the financial statements for details of the Pre-Scheme (as defined in such note 21 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

(ii) Share options granted under the Post-Scheme (Note b):

Name of directors	Number of share options beneficially directly held by the directors and outstanding as at 31 October 2003	Percentage of the Company's issued share capital as at 31 October 2003
Dr. LUI Sun Wing	1,000,000	0.18
Mr. YOUNG Meng Cheung Andrew	1,000,000	0.18
Ms. CHAN Siu Ping Rosa	500,000	0.09
Mr. TAKEUCHI Yutaka	500,000	0.09
	3,000,000	0.54

Note b: Please refer to note 21 to the financial statements for details of the Pre-Scheme (as defined in such note 21 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

Report of the Directors

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

Name of directors	Total number of ordinary share held	Number of share options held and outstanding as at 31 October 2003	Aggregate share capital as at in number	Percentage of the Company's issued Aggregate share capital as at 31 October 2003
Dr. CHIANG Lily	299,341,200	55,280,000	354,621,200	64.15
Dr. PAU Kwok Ping	16,584,000	27,640,000	44,224,000	8.00
Mr. SHAH Tahir Hussain	552,800	13,820,000	14,372,800	2.60
Dr. LUI Sun Wing	–	1,000,000	1,000,000	0.18
Mr. YOUNG Meng Cheung Andrew	–	1,000,000	1,000,000	0.18
Ms. CHAN Siu Ping Rosa	–	500,000	500,000	0.09
Mr. TAKEUCHI Yutaka	–	500,000	500,000	0.09
	316,478,000	99,740,000	416,218,000	75.29

Save as disclosed above, as at 31 October 2003, none of the directors and chief executive of the Company had registered an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and the share option scheme disclosures in note 21 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

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

Report of the Directors

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

As at 31 October 2003, the following persons or companies (other than the directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Number of share options held	Aggregate in number	Percentage of the Company's issued share capital
Substantial shareholders					
Peace City Development Limited (Note 1)	Through a controlled corporation	299,341,200	–	299,341,200	54.15
Team Drive Limited (Note 1)	Directly beneficially owned	299,341,200	–	299,341,200	54.15
The Hong Kong Polytechnic University (Note 2)	Through a controlled corporation	85,430,800	13,820,000	99,250,800	17.95
Advance New Technology Limited (Note 2)	Directly beneficially owned	85,430,800	13,820,000	99,250,800	17.95
Other shareholder					
Mr. LEE Wai Man	Directly beneficially owned	35,620,000	–	35,620,000	6.44

Report of the Directors

Notes:

1. These shares are held by Team Drive Limited which is a wholly-owned subsidiary of Peace City Development Limited, a company of which the entire issued shares are beneficially owned by Dr. CHIANG Lily. Pursuant to Section 347 of Part XV of the SFO, Dr. CHIANG Lily and Peace City Development Limited are deemed to be interested in all the shares held by Team Drive Limited. Such interest has been disclosed as corporate interest of Dr. CHIANG Lily in the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above.
2. Advance New Technology Limited is a wholly-owned subsidiary of The Hong Kong Polytechnic University ("PolyU"). By virtue of its interest in Advance New Technology Limited, PolyU is deemed to be interested in all the shares and share options of the Company held by Advanced New Technology Limited.

On 21 November 2001, the Company granted the ANT-Option (as defined and detailed in note 21 to the financial statements) to Advance New Technology Limited as a reward to PolyU's continuing support and collaboration with the Group and for the purpose of enhancing the future co-operation and relationship between PolyU and the Group. The ANT-Option was granted at a consideration of HK\$1.00 to subscribe for such number of shares that shall represent 2.5% of the then issued share capital of the Company immediately after completion of the initial placing of the Company's shares on the GEM and the capitalisation issue at an exercise price of HK\$0.2142 per share (equivalent to 90% of the issue price), which may be exercised at any time between the first and third anniversaries of the listing date of 5 December 2001. No ANT-Option was exercised up to the date of approval of this report.

Save as disclosed above, no person or company (other than the directors and chief executive of the Company) had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SPONSOR'S INTEREST

Celestial Capital Limited ("CCL") has been appointed as the continuing sponsor of the Company for the purpose of meeting the requirements of the GEM Listing Rules. Pursuant to the sponsorship agreement dated 26 November 2001 entered into between the Company and CCL, for a fee, CCL acts as the Company's continuing sponsor for the period up to 31 October 2004.

As updated and notified by CCL, CCL, its directors, employees and associates (as defined in the GEM Listing Rules) did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group during the year ended 31 October 2003.

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 October 2003.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 October 2003.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 October 2003.

AUDIT COMMITTEE

The Company established an audit committee on 5 December 2001 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka and Professor NI Jun, who are the independent non-executive directors of the Company. Professor NI Jun was appointed as the independent non-executive director and member of the audit committee of the Company with effect from 25 February 2003 and Dr. WOON Yi Teng Eden resigned as the independent non-executive director and member of the audit committee of the Company on 1 July 2003.

In the course of the supervision of the financial reporting process and internal control system of the Group, four meetings were held during the year ended 31 October 2003 to review the operations.

The Group's audited results for the year ended 31 October 2003 have been reviewed by the committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Report of the Directors

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Dr. PAU Kwok Ping

Managing Director

Hong Kong, 12 January 2004

Report of the Auditors



■ **Certified Public Accountants** ■ Phone: 852 2846 9888
15/F Hutchison House 852 2526 5371
10 Harcourt Road Fax: 852 2868 4432
Central, Hong Kong 852 2845 9208

To the members

Eco-Tek Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 October 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG

Certified Public Accountants
Hong Kong

12 January 2004

Consolidated Profit and Loss Account

Year ended 31 October 2003

		2003	2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	5	104,039	31,380
Cost of sales		(69,213)	(19,533)
Gross profit		34,826	11,847
Other revenue		353	1,238
Selling expenses		(1,695)	(981)
Administrative expenses		(10,026)	(7,283)
Other operating expenses		(7,621)	–
PROFIT BEFORE TAX	6	15,837	4,821
Tax	9	(2,851)	(816)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	12,986	4,005
Dividend	12	6,357	1,935
EARNINGS PER SHARE	10		
Basic		HK2.35 cents	HK0.74 cent
Diluted		HK2.00 cents	HK0.62 cent

Consolidated Balance Sheet

31 October 2003

		2003	2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	13	1,250	568
Deferred tax assets	9	1,617	–
Accounts receivable	16	3,200	–
Pledged bank deposits	17	7,200	1,000
		13,267	1,568
CURRENT ASSETS			
Inventories	15	21,223	4,511
Accounts receivable	16	21,167	11,066
Prepayments, deposits and other receivables		2,240	328
Pledged bank deposits	17	7,090	10,651
Cash and cash equivalents	17	32,082	25,119
		83,802	51,675
CURRENT LIABILITIES			
Accounts and bills payable	18	34,750	12,758
Accrued liabilities and other payables		4,526	1,551
Provision for warranty	19	720	322
Tax payable		4,918	755
Amounts due to directors	20	–	330
		44,914	15,716
NET CURRENT ASSETS		38,888	35,959
TOTAL ASSETS LESS CURRENT LIABILITIES		52,155	37,527
NON-CURRENT LIABILITIES			
Provision for warranty	19	3,577	–
		48,578	37,527
CAPITAL AND RESERVES			
Issued capital	21	5,528	5,528
Share premium account	22(a)	19,586	19,586
Reserves	22(a)	17,107	10,478
Proposed final dividend	12	6,357	1,935
		48,578	37,527

Dr. PAU Kwok Ping
Director

Mr. SHAH Tahir Hussain
Director

Consolidated Statement of Changes in Equity

Year ended 31 October 2003

	Share		Reserves (Note 22(a))			Proposed	Total
	Issued	premium	Capital	Retained	Sub-total	final	
	capital	account	reserve	profits		dividend	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 21)	(Note 22(a))					
At 1 November 2001	6	-	95	8,313	8,408	-	8,414
New issue of shares	1,382	31,510	-	-	-	-	32,892
Capitalisation issue	4,140	(4,140)	-	-	-	-	-
Share issue expenses	-	(7,784)	-	-	-	-	(7,784)
Net profit for the year	-	-	-	4,005	4,005	-	4,005
Proposed 2002 final dividend	-	-	-	(1,935)	(1,935)	1,935	-
At 31 October and 1 November 2002	5,528	19,586	95	10,383	10,478	1,935	37,527
2002 final dividend declared	-	-	-	-	-	(1,935)	(1,935)
Net profit for the year	-	-	-	12,986	12,986	-	12,986
Proposed 2003 final dividend	-	-	-	(6,357)	(6,357)	6,357	-
At 31 October 2003	5,528	19,586	95	17,012	17,107	6,357	48,578

Consolidated Cash Flow Statement

Year ended 31 October 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		15,837	4,821
Adjustments for:			
Interest income	6	(182)	(377)
Depreciation of fixed assets	6	234	160
Loss on disposal of fixed assets	6	–	21
Operating profit before working capital changes		15,889	4,625
Increase in inventories		(16,712)	(4,072)
Increase in accounts receivable		(13,301)	(9,420)
Decrease/(increase) in prepayments, deposits and other receivables		(1,917)	1,578
Increase in accounts and bills payable		21,992	12,509
Increase in accrued liabilities and other payables		2,975	855
Increase/(decrease) in provision for warranty		3,975	(178)
Decrease in amounts due to directors		(330)	(3,685)
Cash generated from operations		12,571	2,212
Hong Kong profits tax refunded/(paid)		48	(1,605)
Overseas tax paid		(353)	(4)
Net cash inflow from operating activities		12,266	603
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of fixed assets		–	1
Purchases of fixed assets		(916)	(133)
Increase in pledged bank deposits		(5,805)	(4,648)
Interest received		187	370
Net cash outflow from investing activities		(6,534)	(4,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		–	32,892
Share issue expenses		–	(7,784)
Dividend paid		(1,935)	–
Net cash inflow/(outflow) from financing activities		(1,935)	25,108
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,797	21,301
Cash and cash equivalents at beginning of year		31,122	9,821
CASH AND CASH EQUIVALENTS AT END OF YEAR		34,919	31,122

continued/...

Consolidated Cash Flow Statement

Year ended 31 October 2003

		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	22,923	9,893
Non-pledged time deposits with original maturity of less than three months when acquired	17	9,159	15,226
		32,082	25,119
Time deposits with original maturity of less than three months when acquired, pledged as security for the issuance of letters of credit and bills facilities		2,837	6,003
		34,919	31,122

Balance Sheet

31 October 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Investments in subsidiaries	14	10,957	10,957
CURRENT ASSETS			
Prepayments, deposits and other receivables		140	64
Amount due from subsidiaries	14	29,057	25,643
Cash and cash equivalents	17	304	6,415
		29,501	32,122
CURRENT LIABILITIES			
Accrued liabilities and other payables		355	237
Amount due to a subsidiary	14	741	749
Amounts due to directors	20	–	330
		1,096	1,316
NET CURRENT ASSETS		28,405	30,806
		39,362	41,763
CAPITAL AND RESERVES			
Issued capital	21	5,528	5,528
Share premium account	22(b)	30,537	30,537
Retained profits/(accumulated deficit)	22(b)	(3,060)	3,763
Proposed final dividend	12	6,357	1,935
		39,362	41,763

Dr. PAU Kwok Ping
Director

Mr. SHAH Tahir Hussain
Director

Notes to Financial Statements

31 October 2003

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 6 December 2000. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The principal activity of the Company is investment holding. During the year, the Group was principally involved in the marketing, sale, servicing, research and development of environmental protection related products and services. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company as at 31 October 2003 is Peace City Development Limited, a company incorporated in Hong Kong with limited liability.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : "Income tax"
- SSAP 34 : "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting those SSAPs are summarised as follows:

SSAP 12

For the purpose of the preparation of the financial statements for the year ended 31 October 2003, the Group has early adopted SSAP 12 (Revised) which is effective after the balance sheet date. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

Notes to Financial Statements

31 October 2003

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

SSAP 12 (continued)

The principal impact of the revision of SSAP 12 on these financial statements is described below:

Measurement and recognition:

Deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

The adoption of SSAP 12 had no significant impact for the financial statements for the year ended 31 October 2002 on the amounts recorded for income taxes.

Disclosures:

The related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 9 to the financial statements and include a reconciliation between the accounting profit and the tax income for the year.

Further details of these changes are included in the accounting policy for deferred tax in notes 3 and 9 to the financial statements.

SSAP 34

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option schemes, as detailed in note 21 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities (the "Listing Rules") on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the adoption of this SSAP.

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 October 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

The results of a subsidiary are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in a subsidiary is stated at cost less any impairment losses.

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:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) consultancy fee income, at the time when the services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis 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.

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 stated at cost less any impairment losses and are amortised on the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of five years commencing in the year when the products are available for use.

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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

Operating leases

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

Employee benefits

Paid leave carried forward

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

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employment Ordinance long service payments

The Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

Pension scheme

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

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

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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.

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 October 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the general environmental protection related products and services segment comprises the sale of diesel particulate traps, particulate removal devices and related ancillary services; and
- (b) the industrial environmental products segment refers to the sale of hydraulic components and other related accessories.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements

31 October 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group

	General environmental protection related products and services		Industrial environmental products		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	32,799	5,955	71,240	25,425	104,039	31,380
Other revenue	5	813	166	48	171	861
Total	32,804	6,768	71,406	25,473	104,210	32,241
Segment results	8,183	203	8,913	5,233	17,096	5,436
Interest income					182	377
Unallocated expenses					(1,441)	(992)
Profit before tax					15,837	4,821
Tax					(2,851)	(816)
Net profit from ordinary activities attributable to shareholders					12,986	4,005
Segment assets	24,178	1,865	40,513	26,119	64,691	27,984
Unallocated assets					32,378	25,259
Total assets					97,069	53,243
Segment liabilities	9,520	890	37,733	13,503	47,253	14,393
Unallocated liabilities					1,238	1,323
Total liabilities					48,491	15,716

Notes to Financial Statements

31 October 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	General environmental protection related products and services		Industrial environmental products		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:						
Depreciation and amortisation	220	154	4	–	224	154
Unallocated amounts					10	6
					234	160
Capital expenditure	730	84	185	–	915	84
Unallocated amount					1	49
					916	133
Provision for doubtful debts	–	–	3,646	–	3,646	–
Provision against inventories	400	–	732	–	1,132	–
Loss on disposal of fixed assets	–	21	–	–	–	21
Increase/(decrease) in provision for warranty	3,975	(178)	–	–	3,975	(178)

Notes to Financial Statements

31 October 2003

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	44,675	10,763	54,155	20,601	5,209	16	104,039	31,380
Other segment information:								
Segment assets	67,819	44,040	28,623	9,203	627	–	97,069	53,243
Capital expenditure	748	84	164	49	4	–	916	133

5. TURNOVER

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

Notes to Financial Statements

31 October 2003

6. PROFIT BEFORE TAX

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

	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold*	69,213	19,533
Depreciation of fixed assets (note 13)	234	160
Minimum lease payments under operating leases on land and buildings	695	414
Loss on disposal of fixed assets	–	21
Research and development costs**	1,027	1,096
Auditors' remuneration:		
Current year provision	300	300
Overprovision for the prior year	–	(50)
	300	250
Staff costs (excluding directors' emoluments – note 7):		
Wages and salaries	3,172	2,642
Pension scheme contributions	110	104
	3,282	2,746
Provision for warranty***:		
Additional provisions	3,975	142
Reversal of unutilised provisions	–	(320)
	3,975	(178)
Provision for doubtful debts***	3,646	–
Provision against inventories	1,132	–
Exchange losses/(gains), net	1,997	(71)
Interest income	(182)	(377)

* The costs of inventories sold for the year ended 31 October 2003 include HK\$3,287,000 (2002: HK\$152,000), relating to direct staff costs, depreciation and provision against inventories and net exchange losses, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

** The research and development costs for the year ended 31 October 2003 include HK\$720,000 (2002: HK\$900,000), relating to directors' remuneration, which is also included in the total amounts of directors' remuneration disclosed separately in note 7 to the financial statements.

*** The provision for doubtful debts and the provision for warranty for the year (2002: Nil) are included in "Other operating expenses" on the face of the consolidated profit and loss account.

Notes to Financial Statements

31 October 2003

7. DIRECTORS' EMOLUMENTS

Details of directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	200	200
Independent non-executive directors	67	255
Other emoluments paid and payable to executive directors:		
Basic salaries, allowances and benefits in kind	2,280	2,280
Performance related bonuses	1,560	–
Pension scheme contributions	36	36
	4,143	2,771

The three executive directors of the Company received emoluments of approximately HK\$1,132,000, HK\$772,000 and HK\$1,972,000 for the year (2002: HK\$612,000, HK\$252,000 and HK\$1,452,000).

Each of the two non-executive directors received fees of HK\$100,000 (2002: HK\$100,000), whereas one (2002: three) of the independent non-executive directors received fees of approximately HK\$67,000 during the year (2002: HK\$154,000, HK\$100,000 and HK\$1,000). Three (2002: One) independent non-executive directors did not receive any directors' fee during the year.

During the year, 4,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 21 to the financial statements. No value in respect of the share options granted during the year has been included in the emoluments disclosed above.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group or as compensation for loss of office (2002: Nil). None of the directors waived or agreed to waive any emoluments during the year (2002: Nil).

Notes to Financial Statements

31 October 2003

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three (2002: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees of the Group for the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	736	784
Bonuses	32	–
Pension scheme contributions	20	20
	788	804

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

During the year, no emoluments were paid by the Group to any of the remaining non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2002: Nil).

9. CURRENT AND DEFERRED TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current:		
Hong Kong	3,116	811
Elsewhere	1,352	5
	4,468	816
Deferred	(1,617)	–
Total tax charge for the year	2,851	816

Notes to Financial Statements

31 October 2003

9. CURRENT AND DEFERRED TAX (continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the financial year ended 31 October 2003. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Ningbo Tokawa Precision Co. Ltd. (寧波東川精確液壓設備有限公司), a subsidiary of the Company established in the People's Republic of China (the "PRC"), is subject to the PRC corporate income tax. PRC corporate income tax has been provided at the rate of 33% on the estimated assessable profits arising in the PRC for the year ended 31 October 2003.

The representative offices of certain Group companies established in the PRC are subject to the PRC corporate income tax at the rate of 33% on operating expenses.

Macau complementary profits tax has been calculated at the rate of 15.75% on the estimated assessable profits of Tokawa Precision (Overseas) Co. Limited, a subsidiary of the Company which was engaged in the marketing and sale of environmental products for the year ended 31 October 2003.

According to the relevant laws and regulations in Macau, Tokawa Precision (Overseas) Company Limited – Macao Company Offshore, a subsidiary of the Company established and operating in Macau, was exempted from Macau complementary profits tax.

Notes to Financial Statements

31 October 2003

9. CURRENT AND DEFERRED TAX (continued)

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

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit before tax	15,837	4,821
Tax at the applicable rates to profits in the countries concerned	2,727	720
Income not subject to tax	(26)	(216)
Expenses not deductible for tax	301	76
Tax losses utilised from previous periods	(100)	–
Tax losses not recognised	4	180
Others	(55)	56
Tax charge at the Group's effective rate	2,851	816

Deferred tax assets

Group

	Provision for warranty <i>HK\$'000</i>	Provision for doubtful debts <i>HK\$'000</i>	Provision against inventories <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 November 2002	–	–	–	–
Deferred tax credited to the profit and loss account during the year	700	638	279	1,617
Net deferred tax assets at 31 October 2003	700	638	279	1,617

Notes to Financial Statements

31 October 2003

9. CURRENT AND DEFERRED TAX (continued)

Deferred tax assets (continued)

The Group has tax losses arising in Hong Kong of HK\$22,000 (2002: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 October 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 31 October 2002. Accordingly, no prior year adjustment is included in the financial statements.

10. EARNINGS PER SHARE

The earnings per share amount for the year is calculated based on the consolidated net profit attributable to shareholders of the Company for the year of HK\$12,986,000 (2002: HK\$4,005,000) and the weighted average of 552,800,000 ordinary shares in issue during the year (2002: 540,683,836 ordinary shares, deemed to have been issued and issuable on the assumption that the group reorganisation and the capitalisation issue of 414,000,000 ordinary shares of the Company had been effective on 27 October 1999 (pro forma formation date of the Group)).

The calculation of the diluted earnings per share for the year ended 31 October 2003 is based on the consolidated net profit attributable to shareholders of the Company for the year of HK\$12,986,000 (2002: HK\$4,005,000) and 649,626,979 (2002: 642,535,091) ordinary shares, being the 552,800,000 (2002: 540,683,836) ordinary shares as used in the calculation of basic earnings per share, and the weighted average of 96,826,979 (2002: 101,851,255) ordinary shares assumed to have been issued at no consideration on the deemed exercise of the pre-IPO share options, the option granted to Advance New Technology Limited ("ANT-Option"), and the post-IPO share options as set out in note 21 to the financial statements.

Notes to Financial Statements

31 October 2003

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 October 2003 dealt with in the financial statements of the Company was HK\$466,000 (2002: net profit of HK\$5,698,000).

12. DIVIDEND

	2003	2002
	HK\$'000	HK\$'000
Proposed final dividend:		
HK1.15 cent (2002: HK0.35 cent) per ordinary share	6,357	1,935

The proposed final dividend for the year ended 31 October 2003 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. FIXED ASSETS

Group

	Motor vehicles	Office equipment	Plant and machinery	Furniture and fixtures	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:					
At 1 November 2002	33	101	649	69	852
Additions	383	204	155	174	916
At 31 October 2003	416	305	804	243	1,768
Accumulated depreciation:					
At 1 November 2002	14	27	233	10	284
Provided during the year	25	44	131	34	234
At 31 October 2003	39	71	364	44	518
Net book value:					
At 31 October 2003	377	234	440	199	1,250
At 31 October 2002	19	74	416	59	568

Notes to Financial Statements

31 October 2003

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at cost	10,957	10,957

Except for the aggregate amount due from subsidiaries of HK\$20,383,000 (2002: HK\$24,352,000) which bears interest at a fixed rate of 5.125% per annum, the balances with other subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

Particulars of the subsidiaries of the Company as at 31 October 2003 are as follows:

Company name	Place of incorporation/ establishment and operations	Issued shares/ paid-up capital	Percentage of equity attributable to the Group	Principal activities
<i>Directly held</i>				
Eco-Tek (BVI) Investment Holdings Limited ("Eco-Tek (BVI)")	British Virgin Islands/ Hong Kong	US\$30,000 ordinary	100	Investment holding
<i>Indirectly held</i>				
Eco-Tek Company Limited	Hong Kong	HK\$100,000 ordinary	100	Marketing, sale servicing, research and development of environmental protection related products and services
Eco-Tek Technology Limited	British Virgin Islands/ Hong Kong	US\$101 ordinary	100	Holding of intellectual properties

Notes to Financial Statements

31 October 2003

14. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment and operations	Issued shares/ paid-up capital	Percentage of equity attributable to the Group	Principal activities
<i>Indirectly held (continued)</i>				
East Miles International Limited	British Virgin Islands/ Hong Kong	US\$1 ordinary	100	Investment holding
Ningbo Tokawa Precision Co. Limited# (寧波東川精確液壓設備有限公司)	PRC/Mainland China	US\$100,000 (note)	100	Marketing and sale of industrial environmental products
Tokawa Precision (Overseas) Co. Limited	British Virgin Islands/Macau	US\$1 ordinary	100	Marketing and sale of environmental products
Tokawa Precision Co. Limited	Hong Kong	HK\$10,000 ordinary	100	Marketing and sale of industrial environmental products
Tokawa Precision (Overseas) Company Limited – Macao Commercial Offshore	Macau	MOP100,000	100	Marketing and sale of environmental protection related products

English translation only.

Note: Ningbo Tokawa Precision Co. Limited is a wholly foreign owned enterprise established by Tokawa Precision (Overseas) Co. Limited in Mainland China for a period of 10 years commencing from the date of issuance of its business licence on 18 July 2002.

Notes to Financial Statements

31 October 2003

15. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Finished goods	21,223	4,511

As at 31 October 2003, no inventories were stated at net realisable value (2002: Nil).

16. ACCOUNTS RECEIVABLE

The Group has a policy of allowing an average credit period of 90 days to its trade customers.

An aged analysis of accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 90 days	19,356	7,166
91–180 days	4,989	3,704
181–365 days	2,874	196
Over 365 days	794	–
	28,013	11,066
Provision for bad and doubtful debts	(3,646)	–
	24,367	11,066
Carrying amount analysed for reporting purposes as		
Non-current	3,200	–
Current	21,167	11,066
	24,367	11,066

Notes to Financial Statements

31 October 2003

17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	22,923	10,894	304	6,415
Time deposits	23,449	25,876	–	–
	46,372	36,770	304	6,415
<i>Less: Pledged for the issuance of letters of credit and bills facilities</i>	(6,255)	(10,651)	–	–
<i>Pledged for performance bond facilities (note 24)</i>	(8,035)	(1,000)	–	–
Cash and cash equivalents	32,082	25,119	304	6,415
Pledged deposits analysed for reporting purposes as				
Non-current	7,200	1,000	–	–
Current	7,090	10,651	–	–
	14,290	11,651	–	–

All pledged bank deposits secured for the letters of credit and bills facilities and certain of the pledged bank deposits of approximately HK\$835,000 secured for performance bond facilities were subsequently released in January 2004.

18. ACCOUNTS AND BILLS PAYABLE

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	21,766	8,944
91–180 days	9,698	3,387
181–365 days	610	413
Over 365 days	2,676	14
	34,750	12,758

Notes to Financial Statements

31 October 2003

19. PROVISION FOR WARRANTY

	Group	
	2003	2002
	HK\$'000	HK\$'000
At beginning of year	322	500
Increase/(decrease) in provision for the year	3,975	(178)
At 31 October	4,297	322
Portion classified as current liabilities	(720)	(322)
Long-term portion	3,577	–

An amount of HK\$322,000 (2002: HK\$322,000) included in the above provision represents a provision warranty of a free replacement of diesel particulate traps to the eligible vehicle owners for claims which are caused by improper installation, up to a period of three years from the date of installation.

During the year, the Group also provided an amount of HK\$3,975,000 for warranties granted to the eligible vehicle owners for the free-of-charge materials and workmanship of particulate removal devices and accessories, up to a period of five years from the date of installation.

Provision for warranty 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. The level of provision required is assessed by the directors annually.

20. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and repayable on demand.

Notes to Financial Statements

31 October 2003

21. SHARE CAPITAL

Shares

The following is a summary of movements in the authorised, issued and fully paid share capital of the Company:

	Notes	Number of shares		Value HK\$'000
		Ordinary shares of HK\$0.10 each	Ordinary shares of HK\$0.01 each	
<i>Authorised:</i>				
At 1 November 2001		1,000,000	–	100
Change of nominal value of shares from HK\$0.10 each to HK\$0.01 each	(ii)	(1,000,000)	10,000,000	–
Increase in authorised share capital	(ii)	–	4,990,000,000	49,900
At 31 October 2002 and 2003		Nil	5,000,000,000	50,000
<i>Issued and fully paid:</i>				
At 1 November 2001		1,600	–	–
Allotted, issued as nil paid	(i)	28,400	–	–
Change of nominal value of shares from HK\$0.10 each to HK\$0.01 each	(ii)	(30,000)	300,000	–
On acquisition of Eco-Tek (BVI)				
– consideration shares issued	(iii)	–	300,000	3
– nil paid shares credited as fully paid	(iii)	–	–	3
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public by way of placement	(iv)	–	414,000,000	–
Capitalisation of the share premium account as set out above	(iv)	–	–	4,140
New issue of shares	(v)	–	138,200,000	1,382
At 31 October 2002 and 2003		Nil	552,800,000	5,528

Notes to Financial Statements

31 October 2003

21. SHARE CAPITAL (continued)

Shares (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 1 November 2001 to 31 October 2003:

- (i) On 21 November 2001, 28,400 shares of HK\$0.10 each in the Company were allotted and issued nil paid. The said shares were subsequently credited as fully paid as described in (iii) below.
- (ii) Pursuant to a written resolution of all shareholders of the Company passed on 21 November 2001, by means of a sub-division of share capital, the par value of the shares of the Company was reduced from HK\$0.10 each to HK\$0.01 each, and each of the issued shares of HK\$0.10 each in the capital of the Company was sub-divided into ten shares. Pursuant to a further written resolution 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 4,990,000,000 additional shares of HK\$0.01 each.
- (iii) On 21 November 2001, the Company acquired the entire issued share capital of Eco-Tek (BVI) and became the holding company of the Group in exchange for the Company's allotted and issued 300,000 shares of HK\$0.01 each, credited as fully paid, and credited as fully paid another 300,000 nil paid shares held by the shareholders for the acquisition of the entire issued share capital of Eco-Tek (BVI).
- (iv) Pursuant to written resolutions of all shareholders of the Company passed on 21 November 2001, the conditions of the share placement (the "Placing") set out in the prospectus of the Company being fulfilled, an aggregate of 414,000,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK\$4,140,000 from the share premium account arising from the Placing, to the then existing shareholders of the Company in proportion to their respective shareholding.
- (v) Pursuant to the listing of the Company on the GEM on 5 December 2001, the Company issued 138,200,000 shares of HK\$0.01 each at a price of HK\$0.238 per share to the public by way of the Placing.

Notes to Financial Statements

31 October 2003

21. SHARE CAPITAL (continued)

Share options

- (i) On 21 November 2001, a pre-IPO share option scheme (the "Pre-Scheme") was approved pursuant to a written resolution of all shareholders of the Company. The purpose of the Pre-Scheme is to recognise the contribution of certain directors and employees of the Group to its growth. The Company had granted pre-IPO share options thereunder to three executive directors to subscribe for a total of 96,740,000 shares, representing in aggregate approximately 17.5% of the then issued share capital of the Company immediately following the completion of the Placing and the capitalisation issue, at a subscription price of HK\$0.01 per share. No further options can be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. All these options were granted on 21 November 2001 and may be exercised within three years from the expiry of 12 months from 5 December 2001, the listing date. Each grantee has paid HK\$1.00 to the Company as consideration for such grant.

The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 96,740,000 additional shares of HK\$0.01 each.

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

The exercise in full of the ANT-Option would, under the present capital structure of the Company, result in the issue of 13,820,000 additional shares of HK\$0.01 each.

Notes to Financial Statements

31 October 2003

21. SHARE CAPITAL (continued)

Share options (continued)

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

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

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

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

Notes to Financial Statements

31 October 2003

21. SHARE CAPITAL (continued)

Share options (continued)

- (iv) No valuation of the options granted under the above schemes is included in these financial statements.

The following share options were outstanding under the schemes during the year:

Name	Date of grant	Number of share options outstanding at beginning and end of the year	Exercise period of share options	Exercise price of share options <i>HK\$</i>
Pre-Scheme				
<i>Executive directors:</i>				
Dr. CHIANG Lily	21/11/2001	55,280,000	5/12/2002 to 4/12/2005	0.01
Dr. PAU Kwok Ping	21/11/2001	27,640,000	5/12/2002 to 4/12/2005	0.01
Mr. SHAH Tahir Hussain	21/11/2001	13,820,000	5/12/2002 to 4/12/2005	0.01
		96,740,000		
ANT-Option scheme				
<i>Shareholder:</i>				
The Hong Kong Polytechnic University	21/11/2001	13,820,000	5/12/2002 to 4/12/2005	0.2142

Notes to Financial Statements

31 October 2003

21. SHARE CAPITAL (continued)

Share options (continued)

Post-Scheme:

Name	Date of grant	Number of share options			Exercise period of share options (ii)	Exercise price of share options HK\$
		Granted during the year (i)	Lapsed or cancelled during the year	At end of the year		
<i>Non-executive directors:</i>						
Dr. LUI Sun Wing	21/3/2003	1,000,000	–	1,000,000	21/9/2003 to 20/9/2005	0.28
Mr. YOUNG Meng Cheung Andrew	21/3/2003	1,000,000	–	1,000,000	21/9/2003 to 20/9/2005	0.28
<i>Independent non-executive directors:</i>						
Ms. CHAN Siu Ping Rosa	21/3/2003	500,000	–	500,000	21/9/2003 to 20/9/2005	0.28
Mr. TAKEUCHI Yutaka	21/3/2003	500,000	–	500,000	21/9/2003 to 20/9/2005	0.28
<i>Former non-executive director:</i>						
Dr. WOON Yi Teng Eden	21/3/2003	1,000,000	(1,000,000) ⁽ⁱⁱⁱ⁾	–	21/9/2003 to 20/9/2005	0.28
		<u>4,000,000</u>	<u>(1,000,000)</u>	<u>3,000,000</u>		

Notes:

- (i) The closing price of the Company's share was HK\$0.245 per share at the grant date of share options.
- (ii) The options are vested in two exercisable periods as to (a) 50% exercisable on the expiry of 6 months from the date of grant; and (b) 50% exercisable on the expiry of 12 months from the date of grant.
- (iii) The 1,000,000 share options granted to Dr. WOON Yi Teng Eden lapsed on 2 October 2003 following his resignation as an independent non-executive director of the Company.

At 31 October 2003, the Company had 113,560,000 share options outstanding under the schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 113,560,000 additional ordinary shares of the Company and additional share capital of approximately HK\$1,136,000 and share premium account of approximately HK\$3,632,000 (before issue expenses). No share option was exercise during the year.

Notes to Financial Statements

31 October 2003

22. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

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

The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of the subsidiaries acquired by the Company and the nominal value of share capital of the Company issued as consideration in exchange therefor (*note 21(iii)*).

(b) Company

	Share premium account <i>HK\$'000</i>	Retained profits/ (accumulated deficit) <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
Arising on acquisition of Eco-Tek (BVI)	10,954	-	-	10,954
Applied in payment of 300,000 shares allotted nil paid on incorporation	(3)	-	-	(3)
New issue of shares	31,510	-	-	31,510
Capitalisation issue	(4,140)	-	-	(4,140)
Share issue expenses	(7,784)	-	-	(7,784)
Net profit for the year	-	5,698	-	5,698
Proposed 2002 final dividend	-	(1,935)	1,935	-
At 31 October 2002	30,537	3,763	1,935	36,235
2002 final dividend declared	-	-	(1,935)	(1,935)
Net loss for the year	-	(466)	-	(466)
Proposed 2003 final dividend	-	(6,357)	6,357	-
At 31 October 2003	30,537	(3,060)	6,357	33,834

Notes to Financial Statements

31 October 2003

22. RESERVES (continued)

(b) Company (continued)

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

The proposed final dividend account within the capital and reserves section of the balance sheet represents an appropriation from retained profits and therefore forms part of the total of such reserve until the dividends are declared and paid. In addition, any excess of the appropriation over the retained profits reserve will be replenished by dividends declared to the Company by its subsidiaries when they are approved subsequent to the balance sheet date. The directors of the Company anticipate that the approval of such dividends from subsidiaries will be confirmed in due course.

23. BANKING FACILITIES

As at 31 October 2003, certain of the Group's banking facilities were secured by the following:

- (a) bank deposits of the Group amounting to approximately HK\$14,290,000. Subsequent to the balance sheet date, in January 2004, certain of the Group's pledged bank deposits of approximately HK\$7,090,000 were released (*note 17*).
- (b) undertakings given by Dr. CHIANG Lily, a major shareholder of the Company, that she agrees to hold not less than 51% of the Company's issued share capital.
- (c) undertakings given by Dr. CHIANG Lily and Dr. PAU Kwok Ping that they agree to continue to serve as the chairman and managing director of the Company respectively; and
- (d) corporate guarantees executed by the Company.

Notes to Financial Statements

31 October 2003

24. CONTINGENT LIABILITIES

- (a) At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements as follows:

	Company	
	2003	2002
	HK\$'000	HK\$'000
Guarantee for banking facilities granted to subsidiaries	20,693	–

- (b) A performance bond of HK\$1,000,000 (2002: HK\$1,000,000) has been granted by a banker in favour of the Group. In the event of default by the Group in the performance of the services detailed in the tender contract offered by the Government of the Hong Kong Special Administrative Region (the "Government") for the supply and installation of devices to reduce particulates from relevant exhaust of diesel light vehicles, 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 (2002: HK\$1,000,000). The banker has the right of recourse to the Group. The aforesaid performance bond facility was secured by the Group's pledged bank deposit of HK\$1,000,000 (2002: HK\$1,000,000).
- (c) On 18 November 2002, the Group concluded four non-exclusive contracts with the Environmental Protection Department of the Government. Pursuant to the terms of the contracts, the Group has procured a bank to provide four performance bonds with an aggregate amount of approximately HK\$6,200,000 to the Government for the performance of the supply and installation of particulate devices to reduce particulates from the pre-Euro emission standard diesel vehicles. The aforesaid performance bond facilities were secured by the Group's pledged bank deposits of approximately HK\$7,000,000.

Save as aforesaid, the Company and the Group did not have any other significant contingent liabilities at 31 October 2003.

Notes to Financial Statements

31 October 2003

25. COMMITMENTS

The Group leases its office properties under an operating lease arrangements for terms ranging from one to two years.

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as at the balance sheet date falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	552	450	56	260
In the second to fifth years, inclusive	41	113	–	31
	593	563	56	291

Save as aforesaid, the Group and the Company did not have any other significant commitments at 31 October 2003.

26. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of two new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 January 2004.

Financial Summary

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

RESULTS

	Period from				
	27 October				
	1999 to				
	Year ended 31 October				
	2003	2002	2001	2000	1999
	HK\$'000	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	104,039	31,380	20,144	1,621	–
Cost of sales	(69,213)	(19,533)	(4,792)	(421)	–
Gross Profit	34,826	11,847	15,352	1,200	–
Other revenue	353	1,238	470	–	–
Selling expenses	(1,695)	(981)	(468)	(51)	–
Administrative expenses	(10,026)	(7,283)	(5,585)	(1,057)	–
Other operating expenses	(7,621)	–	–	–	–
Profit before tax	15,837	4,821	9,769	92	–
Tax	(2,851)	(816)	(1,548)	–	–
Net profit from ordinary activities attributable to shareholders	12,986	4,005	8,221	92	–

Financial Summary

ASSETS AND LIABILITIES

	31 October				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	13,267	1,568	1,617	129	–
Current assets	83,802	51,675	13,805	2,064	–
Current liabilities	44,914	15,716	7,008	2,000	–
Net current assets	38,888	35,959	6,797	64	–
Non-current liabilities	3,577	–	–	–	–
Net assets	48,578	37,527	8,414	193	–

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period. The summary of the consolidated results of the Group for the period from 27 October 1999 to 31 October 1999 and the year ended 31 October 2000 has been prepared from the financial statements of the companies now comprising the Group for the period from 27 October 1999 to 31 October 1999 and the year ended 31 October 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated results of the Group for the year ended 31 October 2001 are as set out in the annual report of the Company for that year. The consolidated results of the Group for the years ended 31 October 2002 and 2003 are as set out on page 26 of the audited financial statements.
2. The consolidated balance sheets as at 31 October 1999 and 2000 have been extracted from the published financial information of the Company for the period from 27 October 1999 to 31 October 1999 and the year ended 31 October 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated balance sheet as at 31 October 2001 is as set out in the annual report of the Company for that year. The consolidated balance sheets as at 31 October 2002 and 2003 are as set out on page 27 of the audited financial statements.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Eco-Tek Holdings Limited (the “Company”) will be held at R1109, 11/F, Shirley Chan Building, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong on Wednesday, 18 February 2004 at 10:30 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements together with the Reports of the Directors and Auditors thereon for the year ended 31 October 2003;
2. To declare a final dividend;
3. To re-elect the retiring Directors and to authorize the Board of Directors to fix their remuneration;
4. To re-appoint Auditors of the Company and to authorise the Board of Directors to fix their remuneration;
5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue or otherwise deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

Notice of Annual General Meeting

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than by way of (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of or the grant of any option under any share option scheme of the Company or similar arrangement for the time being adopted for the issue or grant to officers and/or employees of the Company and/or any of its subsidiaries of shares or options to subscribe for or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval be limited accordingly; and
- (d) for the purpose of this Resolution:
 - (aa) “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders in general meeting.”
 - (bb) “Rights Issue” means an offer of shares in the share capital of the Company or an offer or issue of warrants or options or similar instruments to subscribe for shares in the share capital of the Company open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares in the Company (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company).”

Notice of Annual General Meeting

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period as defined in Resolution No. 5(d)(aa) set out in the notice of this meeting of all powers of the Company to repurchase issued shares in the share capital of the Company on the Growth Enterprise Market of the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of issued shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” shall have the same meaning as in Resolution No. 5(d)(aa) set out in the notice of this meeting.”
7. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

conditional upon Resolutions Nos. 5 and 6 set out in the notice of this meeting being passed, the general mandate granted to the Directors of the Company and for the time being in force to exercise the power of the Company to allot, issue or otherwise deal with additional shares pursuant to Resolution No. 5 set out in the notice of this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 6 set out in the notice of this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution.”

By Order of the Board

Pau Kwok Ping
Managing Director

Hong Kong, 20 January 2004

Notice of Annual General Meeting

Notes:

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.
3. The register of members of the Company will be closed from Monday, 16 February 2004 to Wednesday, 18 February 2004, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfer document accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 13 February 2004.
4. Completion and delivery of a form of proxy shall not preclude a member from attending and voting in person at the meeting if the member so desire and in such event, the form of proxy shall be deemed to be revoked.
5. An explanatory statement containing further details regarding the proposed Resolutions Nos. 5 to 7 set out in the above notice will be dispatched to shareholders together with the 2003 Annual Report of the Company.