



GRANDY APPLIED ENVIRONMENTAL TECHNOLOGY CORPORATION
泓迪應用環保科技有限公司

(incorporated in the Cayman Islands with limited liability)

PLACING AND PUBLIC OFFER

Sponsor and Lead Manager



HANTEC CAPITAL LIMITED

Co-Sponsor



SBI E2-CAPITAL (HK) LIMITED

Lead Managers



PHOENIX CAPITAL SECURITIES LIMITED



SBI E2-CAPITAL SECURITIES LIMITED

IMPORTANT

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



GRANDY APPLIED ENVIRONMENTAL TECHNOLOGY CORPORATION

泓迪應用環保科技有限公司*

(incorporated in the Cayman Islands with limited liability)

**LISTING ON
THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED
BY WAY OF
PLACING AND PUBLIC OFFER**

Number of Offer Shares	:	160,000,000 New Shares and 40,000,000 Sale Shares (subject to Over-allotment Option)
Number of Placing Shares	:	140,000,000 New Shares and 40,000,000 Sale Shares (subject to reallocation and Over-allotment Option)
Number of Public Offer Shares	:	20,000,000 New Shares (subject to reallocation)
Offer Price	:	\$0.28 per Share
Nominal value	:	\$0.01 each
Stock code	:	8143

Sponsor and Lead Manager



HANTEC CAPITAL LIMITED

Co-sponsor



SBI E2-CAPITAL (HK) LIMITED

Lead Managers



PHOENIX CAPITAL SECURITIES LIMITED



SBI E2-CAPITAL SECURITIES LIMITED

Co-managers

CEF Capital Limited

GC Securities Limited

Underwriters

**Tanrich Securities Company Limited
Core Pacific-Yamaichi International (H.K.) Limited
Guotai Junan Securities (Hong Kong) Limited
Mayfair Securities Limited
Taiwan Concord Capital Securities (Hong Kong) Limited
Sinomax Securities Limited**

**Sanfull Securities Limited
Christfund Securities Limited
Hung Sing Securities Limited
Shenyin Wanguo Capital (H.K.) Limited
Kaiser Securities Limited
Young Champion Securities Limited**

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

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

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the company operates. 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 the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

EXPECTED TIMETABLE

2002

Application lists open (<i>Note 2</i>)	11:45 a.m. on Friday, 3rd May
Latest time for lodging WHITE and YELLOW application forms	12:00 noon on Friday, 3rd May
Application lists close	12:00 noon on Friday, 3rd May
Allotment of the New Shares and transfer of the Sale Shares to successful applicants and placees or their designated person(s) on or about	Tuesday, 7th May
Announcement of the indication of the level of interests in the Placing, the results of applications under the Public Offer and the basis of allotment of the Public Offer Shares (with successful applicants' identification number, where appropriate) to be published on the GEM website and in Hong Kong iMail (in English) and in Hong Kong Economic Times (in Chinese) on or before	Wednesday, 8th May
Refund cheques in respect of wholly or partially unsuccessful applications to be posted on or before (<i>Note 3</i>)	Wednesday, 8th May
Share certificates to be posted or available on or before (<i>Note 3</i>)	Wednesday, 8th May
Dealings in Shares on GEM commence on	Friday, 10th May

Notes:

1. All times refer to Hong Kong local time.
2. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. to 12:00 noon on Friday, 3rd May, 2002, the application lists will not be open on that day. Please refer to the paragraph headed "Effect of bad weather on the opening of the application lists" under the section headed "How to apply for the Public Offer Shares" in this prospectus.
3. If you are using a **WHITE** application form to apply for 5,000,000 Public Offer Shares or more and have indicated on your application form that you intend to collect your share certificates and refund cheque (if any), you may collect them in person from the Company's Hong Kong branch share registrar, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong between 9:00 a.m. and 1:00 p.m. on Wednesday, 8th May, 2002 or on the date notified by the Company on the GEM website as the date of despatch of share certificates and refund cheque (if any). Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Both individuals and authorised representatives (as the case may be) must produce at the time of collection evidence of identity acceptable to Tengis Limited. If you have opted for personal collection but do not collect your share certificates and refund

EXPECTED TIMETABLE

cheque (if any) by 1:00 p.m. on Wednesday, 8th May, 2002, they will be sent to the address as appeared on your application form in the afternoon on the date of despatch, by ordinary post at your own risk. If you apply for 5,000,000 Public Offer Shares or more and have not indicated on your application form that you will collect your share certificates and refund cheque (if any) in person, then your share certificates and refund cheque (if any) will be sent to the address as appeared on your application form on the date of despatch, by ordinary post at your own risk.

If you are using a **YELLOW** application form, please refer to the paragraph headed “Collection/posting of share certificates/refund cheques and deposit of share certificates into CCASS” under the section headed “How to apply for the Public Offer Shares” in this prospectus.

If there is any change in the above expected timetable, the Company will issue a separate announcement.

For details of the conditions of the Share Offer, please refer to the section headed “Structure of the Share Offer” in this prospectus.

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

The Company has not authorised any person to provide you with information that is different from what is contained in this prospectus and the application forms.

Any information or representation not made in this prospectus and the application forms must not be relied on by you as having been authorised by the Company, Hantec, SBI E2-Capital, the Underwriters, the Vendors and the directors of any of them, or any other person involved in the Share Offer.

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SUMMARY

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

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS

The Group was established with the aim to exploit business opportunities in the environmental protection industry, initially in Hong Kong. GEHK was incorporated by Mr. Tsui, Mr. Yeung, Mr. Leung and Mr. Hoang on 20th January, 1999. As “green buildings” have to meet certain objectives including protecting occupants’ health, efficient use of energy, water, and other resources, and reducing the overall adverse impact on the environment, the Directors believe that the Group has the capacity to provide services to meet some of the objectives of “green buildings”. The Group is principally engaged in the production, import, sales and marketing of environmental products and the rendering of ancillary services to combat problems caused by water and air pollution and energy wastage.

By deploying enzymes, minerals and microorganisms in different combinations, the Group manufactures a broad range of environmental products for combating water and/or air pollution problems. With a view to securing the supply of enzymes and the market position of the Group in the environmental protection industry, the Group entered into the Sole Agency Agreement with Garnett, the supplier of the Enzyme-based Materials to the Group, for the exclusive right to distribute and sell, and the right to use, the Enzyme-based Materials worldwide except in North America, South Korea and Japan for a term of 30 years expiring on 31st October, 2028.

The following products are manufactured by the Group to combat water pollution:

Name	Intended functions
<i>GreaseKil</i>	Treatment of wastewater with a high oil and grease content
<i>EcoTonic</i>	Inhibition of growth of algae, and enhancement of growth of plants and fish in ponds

SUMMARY

FlusKleen Deodourisation and purification of flush water, reduction of scaling, inhibition of the growth of bacterial colonies and degradation of sludge, so as to reduce the chance of clogging pipes

The following products are manufactured by the Group to combat air pollution:

Name	Intended functions
<i>EcoKleen</i>	Removal of foul odours, improvement of air quality, degradation of unpleasant smells and suppression of the growth of fungi and certain bacteria
<i>Aircon Fresh</i>	Removal of unpleasant smells, inhibiting bacteria and mould growth for air conditioning systems
<i>Home Fresh</i>	Removal of foul odours and prevention of moulds in household areas, especially kitchens and bathrooms
<i>Pet Luv</i>	Elimination of body odour of pets, inhibition of bacterial growth on pets and deodourisation of bad smells from pets, furniture materials and pet bedding
<i>Shoe Fresh</i>	Removal of unpleasant odours from shoes, inhibition of bacterial growth and prevention of mould

In addition, the Group provides IAQ management services which are the IAQ investigations designed to identify IAQ problems and solving the IAQ problems.

To combat problems of energy wastage, the Group commenced the sales and marketing of a range of energy saving equipment which are electronic ballasts in November 2000 and the Light Eco systems in September 2001 to reduce energy wastage of its customers, which include major owners and management companies of real properties.

Given the functions of the Group's products, the Group has established a diversified customer base covering various sectors, including public, commercial, industrial and household sectors. Some of the prominent clients of the Group include Hongkong Land (Property Management) Limited, Guardian Property Management Limited, Nixon Cleaning Company Limited, Swan Hygiene Services Limited, FPDSavills Property Management Limited, Hong Kong Aircraft Engineering Company Limited (HAECO), California Red Limited, Optimum Engineering Limited and ISS Servisystem (HK) Limited.

SUMMARY

The Group's product development team is led by Dr. Christopher Harold Phillips, the senior project manager of the Group, who has a doctor of philosophy degree in chemistry and who is a chartered engineer as well as being a chartered chemist with experience and a track record in the field of environmental protection and related fields. Technical advisers of the product development team of the Group include Mr. Uyama, the manufacturer of the Enzyme-based Materials, Dr. Yeung Lam Lung, an assistant project manager of the department of chemistry of the Hong Kong University of Science and Technology specialising in combating pollution and in analytical chemistry and Dr. Lee Shuncheng, an associate professor of the department of civil and structural engineering of the Hong Kong Polytechnic University specialising in combating indoor air pollution, combustion-related air pollution and air pollution measurement.

For the financial year ended 31st March, 2001, the Group's turnover was approximately \$7.1 million, representing an increase of approximately 223% over the financial period from 20th January, 1999 (the date of incorporation of GEHK) to 31st March, 2000.

For the six months ended 30th September, 2001, the Group's turnover was approximately \$12.2 million, with profit attributable to shareholders of approximately \$0.9 million.

The Directors believe that the Group has successfully established a diversified customer base with its ability to source and secure environmental products.

STRENGTHS

The Directors are of the view that the Group is well positioned to capture the growing demand for the Group's products and services in Hong Kong and to expand into the PRC. The principal competitive advantages of the Group are as follows:

- the established good and active long term relationships with its customers allowing the Group to attain direct market feedback regarding its products and service quality;
- the ability of the Group's management team to source and secure environmental materials/products including the Enzyme-based Materials and Light Eco systems;
- the diversified functions of the Enzyme-based Materials which enable the Group to develop its business in Hong Kong rapidly;
- the ability of the Group to offer a range of different products and ancillary services to its customers for combating problems in water and air pollution and energy wastage;

SUMMARY

- the attractive pricing strategy adopted by the Group of charging an agreed percentage of the estimated saving of the electricity expenses from each of its selected customers in a number of instalments instead of charging a single significant fixed amount;
- the established close working relationship of the Group with its suppliers and advisers, which enhances the product quality in a cost-effective and timely manner;
- the Group’s commitment to customer services, backed by the Group’s staff and technical advisers who are well experienced and have extensive knowledge about the Group’s products and services; and
- the product development team of the Group led by a senior project manager who has in-depth knowledge on the environmental protection industry.

RISK FACTORS

The Directors consider that the Group is subject to a number of risk factors, which can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; and (iii) risks relating to Hong Kong which are summarised as follows:

Risks relating to the Group:

Payment terms

Reliance on the proceeds from the Share Offer

Reliance on Garnett

Reliance on key executives and personnel

Future products and services

Expansion in market

The Group’s business objectives may not be materialised

Intellectual property rights

Risks relating to the industry:

The Group may not be able to keep up with changes in technology

The Group operates in an intensely competitive market

Risks relating to Hong Kong:

The Hong Kong economy

Stance of the Government on environmental protection

SUMMARY

SHAREHOLDING STRUCTURE

The Company was incorporated on 28th May, 2001. On 18th June, 2001, Tipmax acquired the only issued share from Offshore Incorporations (Cayman) Limited and became the sole shareholder of the Company.

The Company entered into an agreement for the acquisition of shares with, inter alia, Kong Sun and Count Wealth on 27th June, 2001, whereby Count Wealth would, subject to the completion of the Reorganisation, become a shareholder of the Company.

On 17th July, 2001, pursuant to the agreement for acquisition of shares entered into between the Company, Kong Sun and Count Wealth and in preparation for the listing of the Shares on GEM, the Reorganisation, which involved the acquisition by Worlday of the entire issued share capital of GEHK from Tipmax and Star Wave in exchange for the allotment and issue of new shares of US\$1.00 each in the Company to Tipmax and Star Wave, credited as fully paid, was completed whereby the Company became the ultimate holding company of the Group.

After completion of the Reorganisation, Count Wealth became a shareholder of 22.5% of the then issued share capital of the Company on 18th July, 2001.

In order to facilitate the listing of the Company, on 16th October, 2001, the authorised share capital of the Company was converted from US\$50,000 to \$390,000 and the 50,000 shares of \$7.80 each in the capital of the Company after such conversion were then sub-divided into 39,000,000 Shares.

On 10th November, 2001, Tipmax and Star Wave, holding 41.75% and 35.75% of the then issued share capital of the Company respectively, transferred all of their Shares to Achieve Century in return for the issue and allotment to each of them shares of US\$1.00 each in the capital of Achieve Century. Since that date, Achieve Century has been held as to 53.87% by Tipmax and as to 46.13% by Star Wave.

On 27th November, 2001, pursuant to the Eagle Option Deed and the Outshine Option Deed, additional Shares were issued and allotted to Eagle Strategy Limited and Outshine Co., Ltd. which respectively acquired 6.2% and 3.8% of the then enlarged issued share capital of the Company.

The authorised share capital of the Company was increased from \$390,000 to \$15,000,000 on 20th April, 2002 by the creation of an additional 1,461,000,000 Shares.

SUMMARY

Set out below are the respective interests of the Initial Management Shareholders and other corporate shareholders in the issued share capital of the Company immediately after completion of the Capitalisation Issue and the Share Offer but before the exercise of the Over-allotment Option or any options granted or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme:

				Number of Shares held and approximate percentage of holding of Shares immediately after the completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option and options granted under the Share Option Schemes are not exercised)		Applicable Lock-up Period for Shares from the Listing Date
	First date of investment to the Group	Cost of investment \$	Approximate average cost per Share \$	Shares	%	
<i>Initial Management Shareholders</i>						
Achieve Century (Note 1)	20th January, 1999	3,010,000	0.007	416,769,983	52.10	12 months
Count Wealth (Note 2)	18th July, 2001	20,000,000	0.154	119,229,995	14.90	12 months
				Sub-total	<u>535,999,978</u>	<u>67.00</u>
<i>Other shareholders</i>						
Eagle Strategy Limited (Note 5)	27th November, 2001	372,000	0.009	39,680,048	4.96	12 months
Outshine Co., Ltd. (Note 6)	27th November, 2001	228,000	0.009	24,319,974	3.04	12 months
				Sub-total	<u>64,000,022</u>	<u>8.00</u>
Public shareholders under the Share Offer	Listing Date	Offer Price	0.28	200,000,000	25.00	Not applicable
				Total	<u>800,000,000</u>	<u>100.00</u>

SUMMARY

Notes:

- Achieve Century is a limited liability company incorporated in BVI and the issued share capital of Achieve Century is beneficially owned as follows:

Name of shareholder	First date of investment to the Group	Number of shares held in Achieve Century	Approximate percentage of shareholding in Achieve Century
Tipmax <i>(Note 3)</i>	20th January, 1999 <i>(Note 3)</i>	4,175	53.87%
Star Wave <i>(Note 4)</i>	20th January, 1999 <i>(Note 4)</i>	3,575	46.13%
Total		<u>7,750</u>	<u>100.00%</u>

Achieve Century has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

Tipmax has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it (including Achieve Century) which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

Star Wave has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it (including Achieve Century) which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

- Count Wealth is a limited liability company incorporated in BVI and the entire issued share capital of Count Wealth is beneficially owned by Kong Sun. Mr. Kong is the representative of Count Wealth on the Board.

SUMMARY

Count Wealth has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

Kong Sun has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

3. Tipmax is a limited liability company incorporated in BVI and the entire issued share capital of Tipmax is beneficially owned by Mr. Tsui, the Managing Director of the Company. Mr. Tsui has invested in the Group since 20th January, 1999.

Mr. Tsui has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that he shall not, and shall procure that none of his associates, nominees or trustees holding in trust for him shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of his Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by him which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

4. Star Wave is a limited liability company incorporated in BVI and the issued share capital of Star Wave is beneficially owned as follows:

Name of shareholder	Cost of investment (\$)	Number of shares held in Star Wave	Approximate percentage of shareholding in Star Wave
Mr. Hoang	451,500	4,055	40.55%
Mr. Yeung	150,500	1,351	13.51%
Mr. Leung	150,500	1,351	13.51%
Mr. To	120,400	1,081	10.81%
Mr. Chan	120,400	1,081	10.81%
Mr. Mio	120,400	1,081	10.81%
Total	<u>1,113,700</u>	<u>10,000</u>	<u>100.00%</u>

SUMMARY

All of Mr. Hoang, Mr. Yeung, Mr. Leung, Mr. To and Mr. Chan are Directors and Mr. Mio is the senior manager of the retail section of the Group. All of Mr. Hoang, Mr. Yeung and Mr. Leung have invested in the Group since 20th January, 1999. Both of Mr. Chan and Mr. Mio have invested in the Group since 9th August, 2000, whereas Mr. To started to invest in the Group on 31st March, 2001.

Each of Mr. Hoang, Mr. Yeung, Mr. Leung, Mr. To, Mr. Chan, and Mr. Mio has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that he shall not, and shall procure that none of his associates, nominees or trustees holding in trust for him shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by him (including Star Wave) which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

5. Pursuant to the Eagle Option Deed dated 20th July, 2001 entered into between, inter alia, the Company and Eagle Strategy Limited and the service agreement dated 9th July, 2001 entered into between the Company and Eagle Strategy Limited, Eagle Strategy Limited agreed (i) to review and carry out due diligence on the existing businesses and operations of the Company and GEHK; (ii) to review the corporate structure and advise on the business model and strategies for business development for the Company and GEHK; (iii) to co-ordinate and assist the Company in making presentation and preparing fund raising proposals to potential investors, to assess the background of potential investors and to assist the Company in negotiations with such potential investors; (iv) to procure Fin-Ichi Asia Limited to act as the noteholder agent of the Convertible Note Holders; (v) to introduce various professionals in relation to the proposed listing of the Shares on GEM; and (vi) to promptly bring to the Company's notice of any information received by Eagle Strategy Limited which is likely to be of interest, use or benefit to the Company. As the Group wished to retain more working capital for developing its energy saving business, instead of paying a service fee to Eagle Strategy Limited, the Company granted the Eagle Option to Eagle Strategy Limited to subscribe for Shares representing 6.2% of the total number of issued shares of the Company existing at the time of the exercise in consideration of the services rendered by Eagle Strategy Limited. Eagle Strategy Limited exercised the option on 20th November, 2001. The details of the Eagle Option Deed are set out in the section headed "Further information of the business of the Group" of Appendix IV to this prospectus.

Eagle Strategy Limited is an investment holding company beneficially owned by Mr. Lau Kim Hung, Jack. He has extensive experience in setting up business models and in providing general advice in business modification. Eagle Strategy Limited is a single purpose company established solely for providing services to the Company and for acting as the investment vehicle for holding the Shares. The Directors confirm that Eagle Strategy Limited did not receive any fee from the Group save for the granting of the Eagle Option. The Directors also confirm that the exercise price of the Eagle Option was determined by mutual agreement between Eagle Strategy Limited and the Company with reference to the then registered share capital of \$3,010,000 of GEHK plus the amount of \$3,000,000 contributed from Kong Sun to the Company in July 2001. On the basis of approximately \$6,000,000, being the aggregate of the above figures, 6.2% thereof represents approximately \$372,000. If the service fee was to be determined with reference to the market capitalisation of the Company at the time of the making of the investment by Kong Sun, then based on the then market capitalisation of approximately \$88.9 million (being 100% of the cost of investment of \$20 million by Kong Sun, which represented an attributable interest of 22.5% in the Company), 6.2% of such market capitalisation would be approximately \$5.5 million. The Directors believe that the experience of Mr. Lau Kim Hung, Jack would assist the Group in identifying suitable business model and strategies for the business development of the Group. The Directors confirm that the consideration was determined after arm's length negotiations.

The Directors consider that the terms of the Eagle Option Deed were reasonable in view of (i) the significant resources deployed by Eagle Strategy Limited in rendering its services to the Group; (ii) the low liquidity of the Shares before listing; (iii) the time required for their fee to be realised and the

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default risk borne by Eagle Strategy Limited before listing; (iv) the grant of the Eagle Option would be more beneficial to the Group than an upfront payment of service fee as the Group would be able to retain more working capital for the development of its businesses, especially the energy saving business; and (v) the Eagle Option will create substantial incentive for Eagle Strategy Limited. The Directors are of the view that the terms of the Eagle Option Deed are reasonable and on normal commercial terms.

Mr. Lau Kim Hung, Jack does not have any past or present connection with any of the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates and has not been involved and currently does not intend to become involved in the management of the Company.

Eagle Strategy Limited has undertaken to and agreed and covenanted with the Company, the Sponsors, the Lead Managers and the Underwriters that it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

Mr. Lau Kim Hung, Jack has undertaken to and agreed and covenanted with the Company, the Sponsors, the Lead Managers and the Underwriters that he shall not dispose of (or enter into any agreement to dispose of) any of his interest in Eagle Strategy Limited for the Lock-up Period.

- Pursuant to the Outshine Option Deed dated 20th July, 2001 entered into between, inter alia, the Company and Outshine Co., Ltd. and the service agreement dated 18th July, 2001 entered into between the Company and Outshine Co., Ltd., Outshine Co., Ltd. agreed (i) to procure Phoenix Capital Asia Limited to arrange financing in the form of convertible notes for the Company; (ii) to introduce potential investors to subscribe for the said convertible notes; (iii) to advise the Company in general on the fund raising proposals for the Company; (iv) to provide general consultancy on building up the corporate image of the Company; and (v) to provide market information and advice for the packaging of the Company in anticipation of the listing of the Shares. As the Group wished to retain more working capital for developing its energy saving business instead of paying a service fee to Outshine Co., Ltd., the Company granted the Outshine Option to Outshine Co., Ltd. to subscribe for Shares representing 3.8% of the total number of issued shares of the Company existing at the time of the exercise in consideration of the services rendered by Outshine Co., Ltd. Outshine Co., Ltd. exercised the option on 20th November, 2001. The details of the Outshine Option Deed are set out in the section headed "Further information of the business of the Group" of Appendix IV to this prospectus.

Outshine Co., Ltd. is an investment holding company beneficially owned as to 70.4% by Mr. Ho Yiu Ming, 11.2% by Mr. Chan Siu Man, 9.7% by Mr. Chu Wai Pang and 8.7% by Mr. Lee Chiu Kang. Mr. Ho Yiu Ming, Mr. Chan Siu Man, Mr. Chu Wai Pang and Mr. Lee Chiu Kang are also ultimate beneficial owners of Phoenix Capital Investment Holdings Limited holding 98% shareholdings in Phoenix Capital Holdings Limited which in turn holds 100% shareholdings in Phoenix Capital Asia Limited. Phoenix Capital Asia Limited received \$400,000 from the Group in connection with the Convertible Notes and involved in collecting the subscription money from the investors for the Convertible Notes and managing the escrow account opened for the Company until the completion of the subscription of the Convertible Notes and execution of all necessary agreements and documents. The Directors confirm that, save for the granting of the Outshine Option, Outshine Co., Ltd. did not receive any fee from the Group. The Directors also confirm that the exercise price of the Outshine Option was determined by mutual agreement between Outshine Co., Ltd. and the Company with

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reference to the then registered share capital of \$3,010,000 of GEHK plus the amount of \$3,000,000 contributed by Kong Sun to the Company in July 2001. On the basis of approximately \$6,000,000, being the aggregate of the above figures, 3.8% thereof represents approximately \$228,000. If the service fee was to be determined with reference to the market capitalisation of the Company at the time of the making of the investment by Kong Sun, then based on the then market capitalisation was approximately \$88.9 million (being 100% of the cost of investment of \$20 million by Kong Sun, which represented an attributable interest of 22.5% in the Company), and 3.8% of such market capitalisation would be approximately \$3.4 million. The Directors believe that the experience of the beneficial owners of Outshine Co., Ltd. in the securities industry provide them with necessary connections and professional knowledge to promote the Group to the investing public and the financial market. The Directors confirm that the consideration was determined after arm's length negotiations.

In view of (i) the assistance given by Outshine Co., Ltd. to the Group in raising additional general working capital; (ii) the experience of the beneficial owners of Outshine Co., Ltd. in the securities industry provide them with necessary connections and professional knowledge to promote the Group to the investing public and the financial market; (iii) the low liquidity of the Shares before listing; (iv) the time required for their fee to be realised and the default risk borne by Outshine Co., Ltd. before listing; and (v) the grant of the the Outshine Option would be more beneficial to the Group than an upfront payment of service fee as the Group would be able to retain more working capital for the development of its businesses, especially the energy saving business, the Directors consider that the terms of the Outshine Option are reasonable and on normal commercial terms.

Each of Mr. Ho Yiu Ming, Mr. Chan Siu Man, Mr. Chu Wai Pang and Mr. Lee Chiu Kang does not have any past or present connection with any of the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates and has not been involved and currently does not intend to become involved in the management of the Company.

Outshine Co., Ltd. has undertaken to and agreed and covenanted with the Company, the Sponsors, the Lead Managers and the Underwriters that it shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein.

Each of Mr. Ho Yiu Ming, Mr. Chan Siu Man, Mr. Chu Wai Pang and Mr. Lee Chiu Kang has undertaken to and agreed and covenanted with the Company, the Sponsors, the Lead Managers and the Underwriters that he shall not dispose of (or enter into any agreement to dispose of) any of his interest in Outshine Co., Ltd for the Lock-up Period.

Mr. Ho Yiu Ming, Mr. Chan Siu Man, Mr. Chu Wai Pang and Mr. Lee Chiu Kang are the ultimate beneficial owners of Phoenix Capital Investment Holdings Limited holding 98% shareholdings in Phoenix Capital Holdings Limited which in turn holds 100% shareholding of Phoenix Capital Securities Limited, which is one of the Underwriters and has agreed to underwrite not more than 5,500,000 Public Offer Shares and not more than 49,500,000 Placing Shares pursuant to the Underwriting Agreement. Should Phoenix Capital Securities Limited be obliged under the terms of the Underwriting Agreement to take up Shares to the full extent of its underwriting commitment, such Shares would constitute about 6.88% of the issued share capital of the Company immediately following completion of the Capitalisation Issue and the Share Offer assuming that the Over-allotment Option is not exercised. Phoenix Capital Securities Limited and Outshine Co., Ltd. would then have a combined attributable holding of about 9.91% of the issued share capital of the Company immediately following completion of the Capitalisation Issue and the Share Offer assuming that the Over-allotment Option is not exercised.

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PRE-IPO SHARE OPTION SCHEME

As at the date of this prospectus, options to subscribe for an aggregate of 80,000,000 Shares representing 10% of the issued share capital of the Company as at the date on which dealings in the Shares on GEM first commence (without taking into account of any Shares which may fall to be issued pursuant to the Over-allotment Option), at a subscription price per Share equal to 50% of the Offer Price have been conditionally granted by the Company under the Pre-IPO Share Option Scheme to (i) the six executive Directors and one independent non-executive Director for an aggregate of 50,400,000 Shares; (ii) one technical adviser to the Group for 2,400,000 Shares and (iii) six full-time employees (including three senior management staff) of the Group for an aggregate of 27,200,000 Shares. All of these options have a duration of ten years from and including the date on which dealings in the Shares on GEM first commence, but each shall lapse in accordance with the terms of the Pre-IPO Share Option Scheme if the relevant grantee ceases to be a director or an employee of the Group or on any other grounds set out in the Pre-IPO Share Option Scheme. A discount to the exercise price of the options under the Pre-IPO Share Option Scheme is granted as a recognition of the past contribution of certain directors, employees and a technical adviser of the Group to its growth. Upon acceptance of the options granted under the Pre-IPO Share Option Scheme, each grantee has paid \$1.00 to the Company as consideration for the grant. Particulars of the options conditionally granted under the Pre-IPO Share Option Scheme to the six executive Directors, one independent non-executive Director, one technical adviser and six senior management staff and employees of the Group to subscribe for Shares are set out below:

Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
<i>Directors</i>					
Mr. Tsui (<i>Note</i>)	Managing Director	Flat B, 17th Floor Dragon View 5 Dragon Terrace Tin Hau Temple Road Hong Kong	8,000,000	1%	12 months

SUMMARY

Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
Mr. Chan <i>(Note)</i>	Marketing Director	Flat B, 3rd Floor, Tower I Pacific Palisades No. 1 Braemar Hill Road North Point Hong Kong	8,000,000	1%	12 months
Mr. Hoang <i>(Note)</i>	Production Director	Flat B, 10th Floor Kam Wa Building 382-388 Des Voeux Road West Hong Kong	8,000,000	1%	12 months
Mr. Leung <i>(Note)</i>	Engineering Director	Flat C, 2nd Floor Oxford Court 26 Braemar Hill Road Hong Kong	8,000,000	1%	12 months
Mr. To <i>(Note)</i>	Business Development Director	Flat G, 6th Floor Hilltop 60 Cloudview Road North Point Hong Kong	8,000,000	1%	12 months
Mr. Yeung <i>(Note)</i>	Project Director	Flat D, 11th Floor Tsuen Fung Centre 168 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong	8,000,000	1%	12 months

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Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
Dr. Yu Chai Mei	Independent Non-executive Director	Flat E, 3rd Floor, Block 8, The Paramount 23 Shan Tong Road Tai Po New Territories Hong Kong	2,400,000	0.3%	N/A
<i>Technical adviser</i>					
Dr. Yeung Lam Lung	Technical Adviser	Flat G, 12th Floor, Block 1, Metro City, Phase 2, Tseung Kwan O, Kowloon Hong Kong	2,400,000	0.3%	N/A
<i>Senior management</i>					
Mr. Mio (<i>Note</i>)	Senior Manager – Retail Section	Flat A, 15th Floor, Block 2, Harvest Garden, No. 1 Wing Fat Lane, Tuen Mun, New Territories Hong Kong	8,000,000	1%	12 months
Mr. Wong Chun Kit	Financial Controller	Flat B, 27th Floor, Tsui Lan Mansion, Westlands Court, 5 Westlands Road, Quarry Bay, Hong Kong	4,000,000	0.5%	N/A

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Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
Dr. Christopher Harold Phillips	Senior Project Manager	Flat C, 10th Floor, Block 2, Sun Shing Centre, 141 Kowloon City Road, Kowloon Hong Kong	2,400,000	0.3%	N/A
<i>Staff</i>					
Ms. Wong Miu Fan, Ophelia	Executive Secretary	Room 909, Wah Yiu House, Lai Yiu Estate, Kwai Chung, New Territories Hong Kong	8,000,000	1%	N/A
Mr. Au Wai Leung	Assistant Project Manager	Room 509, Tung Ma House, Fu Tung Estate, Lantau, Hong Kong	2,400,000	0.3%	N/A
Mr. Ho Yu Hin	Marketing Manager	Flat 2F, 4th Floor, 6 Fessenden Road, Kowloon Tong Kowloon Hong Kong	2,400,000	0.3%	N/A
Total			<u>80,000,000</u>	<u>10%</u>	

Total number of grantees: 14

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Note: Each of Mr. Tsui, Mr. Chan, Mr. Hoang, Mr. Leung, Mr. Mio, Mr. To and Mr. Yeung has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that he shall not, and shall procure that none of his associates, nominees or trustees holding in trust for him shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of his Relevant Securities or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by him which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein, (including any Shares which may be issued and allotted to him upon his exercise of the share options under the Pre-IPO Share Option Scheme during the Lock-up Period).

Under the terms of the share options granted under the Pre-IPO Share Option Scheme, these share options can only be exercised by the grantees in the following manner:

Commencement date when the share options become exercisable	Proportion of the share options granted under the Pre-IPO Share Option Scheme that can be exercised
the date falling six months from the date on which dealings in the Shares on GEM first commence <i>(Note 1)</i>	one-third
the first anniversary of the date on which dealings in the Shares on GEM first commence <i>(Note 2)</i>	one-third
the second anniversary of the date on which dealings in the Shares on GEM first commence	one-third

Notes:

1. If the relevant grantee ceases to be a director or an employee of the Group before the first anniversary of the date on which dealings in the Shares on GEM first commence and has exercised any share option which have been granted to him/her under the Pre-IPO Share Option Scheme, the said grantee shall be required, if so determined by the Board at its absolute discretion, to pay to the Company an amount equivalent to the aggregate of the market prices (see Note 3 below) of the Shares as allotted upon exercise of such share option less the total exercise prices for those Shares.
2. If the relevant grantee ceases to be a director or an employee of the Group after the end of the first anniversary but before the second anniversary of the date on which dealings in the Shares on GEM first commence and has exercised share option which only becomes exercisable after the first anniversary of the date on which dealings in the Shares on GEM commence under the Pre-IPO Share Option Scheme (the “Second Tranche Option”), the said grantee shall be required, if so determined by the Board at its absolute discretion, to pay to the Company an amount equivalent to the aggregate of the market price (see Note 3 below) of the Shares allotted upon exercise of the Second Tranche Option less the total exercise prices for those Shares.
3. For the purpose of Notes 1 and 2 above, “the market price” of any relevant Share allotted upon exercise of a share option under the Pre-IPO Share Option Scheme means the closing price for each Share on GEM at the date on which such share option is exercised.

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Where applicable, Shares to be issued and allotted pursuant to the exercise of the share options granted under the Pre-IPO Share Option Scheme will be treated as Relevant Securities and be subject to the lock-up provisions under Rule 13.15 of the GEM Listing Rules.

Save as disclosed above, no other options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme or the Share Option Scheme.

BUSINESS OBJECTIVES AND STRATEGIES

The Group's overall business objective is to become one of the market leaders in the provision of environmental protection products and services without creating harmful effects to humans, plants and animals or the environment in Hong Kong and the PRC.

Having considered the Group's existing market penetration and strengths, the Directors intend to implement the following business strategies in each of the following business areas to achieve the Group's business objectives.

Geographical expansion

To cope with the growing demand for environmental technologies in the PRC, the Directors propose to seek appropriate investment opportunities to expand the Group's water and air quality improvement and energy saving businesses in the PRC. The Group also intends to extend its distribution network to the PRC by appointing appropriate agents to carry out the sales and marketing of its products and services for combating aqueous and air-borne pollutants and energy wastage problems in the PRC. The Directors intend to set up a representative office in the PRC in 2003 to promote sales and organise seminars and workshops for potential clients.

The Group plans to undergo an expansion in Asia to broaden its customer base and minimise the economic risk on its business operations due to the concentration of its operation in a particular country. The Group plans to penetrate into all major markets in the Asian region, including Malaysia and Singapore in the year ending 31st March, 2003, Vietnam in the year ending 31st March, 2004 and Thailand in the year ending 31st March, 2005. The Group plans to ally itself with agents in the relevant countries who have the ability and capability to complement the Group's businesses.

Improvement of existing products and sourcing of new products

The Directors believe that there will be a growing demand for environmental related products given the increasing awareness of the importance of health care and environmental protection among the general public in Hong Kong and the Government. As such, the Directors intend to enhance the Group's existing products produced from the Enzyme-based Materials and to source additional products and to improve its services for environmental protection.

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Water quality improvement

The Group has continuously placed great emphasis on improving the quality and the effectiveness of its existing products produced from the Enzyme-based Materials. The Directors intend to improve the performance of *GreaseKil*, *EcoTonic* and *FlusKleen* by conducting additional product evaluation for the year ending 31st March, 2003. In addition, the Group will commence further development of its auto-dosing system so as to improve its efficiency.

The Group intends to import bio-farms and apply them in wastewater treatment systems, through which pollutants are digested by bacteria and their released enzymes. Bio-farms have advantages of a long life span as well as steady performance, and can therefore reduce the frequency of replacement and the cost of treatment. The bio-farm purchased by the Group is now under testing and trial. Upon the completion of a full report and testing on the performance of the bio-farm, the Group will only put the bio-farm into use in the event the test results are satisfactory. The Group also intends to upgrade its wastewater treatment approach by integrating an Advanced Oxidation Technology into its existing wastewater treatment systems. The Group has already commenced a study in June 2000 with a view to developing a system of wastewater treatment by using a PCO reactor, a form of Advanced Oxidation Technology, for removal of organic contaminants from wastewater. Since Advanced Oxidation Technology is a widely applicable technology, the Group will devote significant effort to commercialise this technology in practical ways.

The Directors are of the view that reductions in water wastage and technology for recycling of wastewater for industrial uses are becoming high priority topics. This is especially so in the PRC where there is an impending crisis of water shortage. Research and development for cost-effective treatments of industrial wastewater whereby treated water may be recycled for use in one or more of the upstream processes, and where the recovered waste materials may have some positive commercial value, will be carried out.

Air quality improvement

The Directors believe that there will be a growing demand for air quality improvement products as air pollution has become an area of public concern. The Group intends to place emphasis on the product evaluation of *EcoKleen* in the future so as to cope with the demand for air quality improvement services.

The Group plans to enhance its existing IAQ management services by using Advanced Oxidation Technology with the importing and installation of PCO reactors in air conditioning systems. The PCO reactor is coated with TiO₂ material which forms the basis of the innovative Advanced Oxidation Technology for reducing the concentration of the pollutants. To determine the performance and effectiveness of the IAQ management system, an IAQ management audit will be performed after each implementation of the Group's IAQ management system.

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With the promotion of Hong Kong as an “environmentally friendly city” by the Government, the Directors believe that Advanced Oxidation Technology will be widely used in Hong Kong in the future.

Energy saving

Compact Heat Exchangers

The Group also intends to broaden its energy saving services to include Compact Heat Exchangers for process industries. A heat exchanger is a device that is used for transferring heat energy from one process fluid to another during either a cooling or a heating operation. For a given amount of heat to be transferred, Compact Heat Exchangers are far more compact in size in comparison with a conventional heat exchanger that would be required for the same heat transfer duty. Such devices are significantly more effective for heat transfer for either cooling or heating operations than the conventional shell and tube heat exchanger. As measures that encourage improvements in energy efficiency are progressively introduced, the Directors believe that the Group will be able to offer consultancy services on the best practice in energy efficiency. By entering into non-exclusive technical service and agency agreements with a number of manufacturers of Compact Heat Exchangers in the future, the Group expects to be able to make independent recommendations on the best choice of equipment for a given application and facilitate the supply of such equipment.

Chemical processing improvement

Due to sub-optimal design of many chemical reactors, waste materials are formed through by-product formation and degradation of raw materials, intermediates or products or all three of these. The Group plans to develop process efficiency audits for the chemical and related process industries in the year ending 31st March, 2003. Following the audits, recommendations will be made, where appropriate, for cost-effective retrofit changes to the design and configuration of chemical reactors and other process equipment in the year ending 31st March, 2004. Given that many chemical plants in the PRC operate reactors are of sub-optimal design, the Directors believe that there is high business potential for replication of its process improvement business.

The Directors plan to further strengthen the environmental protection business of the Group, particularly through forming alliances or partnerships with professional process engineering organisations with the relevant experience and expertise. The Directors believe that leveraging on the sales consultancy agreement dated 21st December, 2001 made with BHR Group Limited, the Group will have access to solutions generated through the use of proven consultancy tools (including but not limited to): design guidelines and scale-up rules for chemical reactor and other plant equipment; advanced modelling and design services; component testing and life-time prediction services for parts such as seals, gaskets and hoses;

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well-established know-how in the area of design and optimisation of drinking water and wastewater treatment processes. Please refer to the paragraph headed “Alliances” under the section headed “Business” in this prospectus for details of BHR Group.

Establishment of application analysis and product development capabilities

The Directors believe that the Group has been dedicating considerable resources on product evaluation and cooperating with other research and academic institutions to facilitate application analysis and product development.

The Directors consider that it is essential for the Group to establish its application analysis and product development capabilities to keep abreast of the launching of new environmental products to combat water and air pollution and energy wastage. The Group plans to establish its application analysis and product development laboratory and purchase new equipment to carry out further analysis on new environmental products. The Directors intend to use approximately \$8 million of the net proceeds from the issue of the New Shares under the Share Offer to develop the application analysis and product development capabilities of the Group.

The Group intends to negotiate with a number of research and academic institutions in Hong Kong and the PRC to conduct application analysis and product development collaborative programmes in Hong Kong and/or the PRC in the future. The Directors consider that collaboration with institutions in the PRC will enhance the marketability of the Group in the PRC market.

Marketing and brand building

The Directors are of the opinion that building up the corporate brand name of the Group’s products will enhance the reputation and sales of the Group. The Directors intend to use part of the net proceeds from the issue of the New Shares under the Share Offer to finance the advertising and promotion of the Group’s products.

The Group will organise and attend various seminars to promote the environmental protection services offered by the Group. The Group will also sponsor a number of environmental related functions organised by the Government or other environmental protection associations in order to promote the brand name of the Group. The Group will produce a number of educational programmes to promote the importance of the Group’s products and services to the environment.

The Directors believe that through these marketing and brand building activities, the Group will be placed in a favourable position to enhance its reputation as an environmental protection service provider.

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USE OF PROCEEDS

The aggregate net proceeds for the Group from the Share Offer are expected to be approximately \$36.8 million (after deduction of underwriting and placing commissions and related estimated offering expenses). The following use of such proceeds are formulated on the bases and assumptions set out in the paragraph headed “Bases and assumptions” in the section headed “Business objectives” in this prospectus:

Schedule of use of net proceeds

	<i>From the Latest Practicable Date to</i>		<i>Six months</i>		<i>Six months</i>		<i>Total</i>
	<i>six months ending 30th September, 2002</i>	<i>Six months ending 31st March, 2003</i>	<i>ending 30th September, 2003</i>	<i>Six months ending 31st March, 2004</i>	<i>ending 30th September, 2004</i>	<i>Six months ending 31st March, 2005</i>	
	<i>(\$ million)</i>	<i>(\$ million)</i>	<i>(\$ million)</i>	<i>(\$ million)</i>	<i>(\$ million)</i>	<i>(\$ million)</i>	<i>(\$ million)</i>
Geographical expansion	–	–	0.90	2.30	1.40	–	4.60
Improvement of existing products and sourcing of new products	2.36	–	0.50	1.00	0.50	–	4.36
Establishment of application analysis and product development capabilities	1.60	1.00	1.60	1.30	1.30	1.20	8.00
Marketing and brand building	0.30	0.30	0.30	0.30	0.30	0.30	1.80
Redemption of the Convertible Notes	10.00	–	–	–	–	–	10.00
General working capital <i>(Note)</i>	8.04	–	–	–	–	–	8.04
	<u>22.30</u>	<u>1.30</u>	<u>3.30</u>	<u>4.90</u>	<u>3.50</u>	<u>1.50</u>	<u>36.80</u>

Note: The Directors intend to apply the amount allocated for general working capital to finance the Light Eco instalment scheme.

SUMMARY

The Company plans to use the net proceeds from the Share Offer to boost its sales and seize a greater market share. After completion of the Share Offer, the Directors believe that the Company will liaise with banks for a higher amount of banking facilities. With the availability of additional working capital, the Company will be in an advantageous position to establish its dominance rapidly in the respective market sectors.

Should the Over-allotment Option be exercised in full, additional net proceeds of approximately \$8.1 million will be available and the Directors intend to use the additional net proceeds to finance the Light Eco instalment scheme.

The Directors believe that the net proceeds from the Share Offer together with the Group's internally generated cashflow will be sufficient to finance its business plans starting from the Latest Practicable Date to 31st March, 2005 as described in the sub-section headed "Statement of business objectives" under the section headed "Business objectives" in this prospectus.

The Directors intend that the net proceeds from the Share Offer not immediately applied in the above manner will be placed with authorised financial institutions in Hong Kong.

In the event that there are any material changes or modifications to the use of net proceeds from the Share Offer as described above, appropriate announcement will be made by the Company.

SUMMARY

TRADING RECORD

The table below summarises the combined audited results of the Group for the period from 20th January, 1999 (date of incorporation of GEHK) to 31st March, 2000, the year ended 31st March, 2001 and the six months ended 30th September, 2001 as if the current Group structure had been in existence throughout such periods.

	Period from 20th January, 1999 (date of incorporation of GEHK) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	\$	\$	\$
Water quality improvement	1,754,494	5,017,380	2,210,211
Air quality improvement	449,409	2,088,667	707,087
Energy saving	–	11,606	9,312,483
Turnover (<i>Note 1</i>)	2,203,903	7,117,653	12,229,781
Cost of sales	<u>(1,019,257)</u>	<u>(2,908,761)</u>	<u>(7,176,576)</u>
Gross profit	1,184,646	4,208,892	5,053,205
Other revenue	1,731	2,589	25,117
Convertible Notes issue expenses	–	–	(727,043)
Selling and distribution expenses	(748,631)	(1,783,476)	(894,310)
Administrative expenses	<u>(2,727,585)</u>	<u>(3,526,214)</u>	<u>(2,085,515)</u>
Profit/(loss) from operating activities	(2,289,839)	(1,098,209)	1,371,454
Finance costs	<u>(14,357)</u>	<u>(76,003)</u>	<u>(454,247)</u>
Profit/(loss) before tax	(2,304,196)	(1,174,212)	917,207
Tax	<u>–</u>	<u>–</u>	<u>–</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u><u>(2,304,196)</u></u>	<u><u>(1,174,212)</u></u>	<u><u>917,207</u></u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
Earnings/(loss) per Share (<i>Note 2</i>)			
Basic (cent)	<u>(0.36)</u>	<u>(0.18)</u>	<u>0.14</u>
Diluted (cent)	<u>N/A</u>	<u>N/A</u>	<u>0.13</u>
Pro forma adjusted (cent)	<u>(0.13)</u>	<u>(0.02)</u>	<u>0.16</u>

SUMMARY

Notes:

1. Turnover represents the invoiced value of goods sold after allowances for returns and trade discounts during each of the Relevant Periods.
2. The calculation of basic earnings/(loss) per Share for each of the Relevant Periods is based on the net profit/(loss) from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 640,000,000 Shares had been in issue throughout the Relevant Periods, comprising 8,666,667 Shares in issue as at the date of this prospectus and 631,333,333 Shares issued pursuant to the Capitalisation Issue.

The calculation of diluted earnings per Share for the six months ended 30th September, 2001 is based on the net profit from ordinary activities attributable to shareholders for the six months ended 30th September, 2001. The weighted average number of ordinary shares used in the calculation of diluted earnings per Share for the six months ended 30th September, 2001 is 680,000,000 Shares, which includes 640,000,000 Shares deemed to have been in issue during the six months ended 30th September, 2001, as used in the basic earnings/(loss) per Share calculation; the weighted average number of 40,000,000 Shares for the six months ended 30th September, 2001 assumed to have been issued at nil consideration on the deemed exercise of the options granted pursuant to the Pre-IPO Share Option Scheme as set out in the paragraph headed “Pre-IPO Share Option Scheme” in the section headed “Share Option Schemes” of the Appendix IV to the Prospectus. Diluted loss per Share for the period from 20th January, 1999 (date of incorporation) to 31st March, 2000 and the year ended 31st March, 2001 had not been calculated as no diluting events existed.

For the purpose of calculating diluted earnings per Share for the six months ended 30th September, 2001, the fair value of the Shares assumed to have been issued upon the deemed exercise of the options granted pursuant to the Pre-IPO Share Option Scheme was determined at 50% of \$0.28 per Share in respect of the Company’s initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of Shares for nil consideration.

The calculation of the earnings/(loss) per Share on a pro forma adjusted basis for each of the Relevant Periods is based on the pro forma combined profit/(loss) for each respective period and on 880,000,000 Shares in issue during the Relevant Periods on the assumptions that the Capitalisation Issue, the Share Offer and the exercise of the options granted under the Pre-IPO Share Option Scheme had been effective on 20th January, 1999. For the purpose of this calculation, the pro forma combined profit/(loss) for each of the Relevant Periods has been calculated based on the audited combined profit/(loss) after taking into account of the interest income that would have been earned if the net proceeds from the Share Offer and the exercise of the options under the Pre-IPO Share Option Scheme had been received on 20th January, 1999 at a rate of 2.0% per annum.

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Company during the two years immediately preceding the issue of the prospectus including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Company for two financial years immediately preceding the issue of the prospectus.

SUMMARY

Rules 7.03(1) and 11.10 of the GEM Listing Rules require the consolidated results of the Company and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange.

The accountants' report for each of the financial periods from 20th January, 1999 (date of incorporation of GEHK) to 31st March, 2000, the financial year ended 31st March, 2001 and the six months ended 30th September, 2001 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued shortly after 31st March, 2002, the accountants' report has not been prepared for the full year ended 31st March, 2002 as it would be unduly burdensome for the Company to do so.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and to the Securities and Futures Commission for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st March, 2002 in this prospectus. A waiver has been granted by the Stock Exchange and a certificate of exemption has been granted by the Securities and Futures Commission.

Pursuant to Rule 11.11 of the GEM Listing Rules, the Company is required to include the financial results which must not have ended more than six months before the date of this prospectus. As this prospectus includes the financial results of the Group covering only the period from 20th January, 1999 up to 30th September, 2001 which has ended more than six months before the issue date of this prospectus, the Company has applied for and has been granted a waiver from strict compliance with Rule 11.11 of the GEM Listing Rules by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence work on the Group to ensure that, save as disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Group since 30th September, 2001 which would materially affect the information as shown in the accountants' report as set out in Appendix I to this prospectus.

SHARE OFFER STATISTICS

Offer Price	\$0.28 per Share
Market capitalisation (<i>Note 1</i>)	\$224 million
Adjusted net tangible asset value per Share (<i>Note 2</i>)	5.06 cents

SUMMARY

Notes:

1. The market capitalisation of the Shares takes no account of any Shares which may be issued upon the exercise of options that have been granted under the Pre-IPO Share Option Scheme and options that may be granted under the Share Option Scheme or the Over-allotment Option or which may be allotted or issued or purchased by the Company under the general mandate for the issue or repurchase of Shares granted to the Directors as referred to in the paragraph headed “Further information about the Company” in Appendix IV to this prospectus.
2. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the subsection headed “Adjusted net tangible assets” under the section headed “Financial information” of this prospectus and on the basis of 800,000,000 Shares in issue and to be issued as mentioned in this prospectus, but takes no account of any Shares which fall to be allotted and issued pursuant to the Over-allotment Option and the exercise of options that have been granted under the Pre-IPO Share Option Scheme and options that may be granted under the Share Option Scheme which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment or otherwise and issue or repurchase of Shares granted to the Directors as referred to in the paragraph headed “Resolutions in writing of all shareholders of the Company passed on 20th April, 2002” in Appendix IV to this prospectus.

Assuming the options granted under the Pre-IPO Share Option Scheme are fully exercised and no other new Shares are issued after the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised), the number of issued Shares will be increased from 800,000,000 to 880,000,000 and the shareholding of the existing shareholders of the Company will be diluted by approximately 9.09%. The adjusted net tangible assets of the Group will be increased by \$11,200,000 (calculated on the basis of 50% of the Offer Price at \$0.14 per Share (the exercise price) and multiplied by the 80,000,000 Shares to be issued under the Pre-IPO Share Option Scheme) and the adjusted net tangible asset value per Share will be approximately 5.88 cents.

DEFINITIONS

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

“Achieve Century”	Achieve Century Limited, a company incorporated in BVI on 17th August, 2001 with limited liability
“Air & Waste Management Association”	US based association, a non-profit professional organisation which provides training information and networking opportunities to environmental professionals and intends to strengthen the environmental profession, expand scientific and technological responses to environmental concern
“Aircon Fresh”	spray intended to be used for deodorizing air conditioner ducts by utilising the Enzyme-based Materials
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Articles”	articles of association of the Company adopted pursuant to the written resolutions of the shareholders of the Company passed on 20th April, 2002
“BHR Group”	BHR Group Limited and its subsidiaries, which are based in the UK, and, save for its contractual relationship with the Group, are not connected with the Company and its subsidiaries, any of the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates
“BHRA”	British Hydromechanics Research Association, which was based in the UK and was the predecessor of BHR Group and is not connected with the Company and its subsidiaries, any of the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates
“BVI”	the British Virgin Islands
“Board”	the board of Directors

DEFINITIONS

“business day”	a day (excluding Saturday) on which banks in Hong Kong are open for business
“Capitalisation Issue”	an issue of 631,333,333 Shares to be made upon the capitalisation of the amount standing to the credit of the share premium account of the Company as referred to in the paragraph headed “Resolutions in writing of all shareholders of the Company passed on 20th April, 2002” in Appendix IV to this prospectus
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Grandy Applied Environmental Technology Corporation (formerly known as Grandy Environmental Holdings Limited and Lotus Sea Holdings Limited), a company incorporated in the Cayman Islands with limited liability on 28th May, 2001
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Convertible Notes”	the convertible notes issued to the Convertible Note Holders pursuant to the Subscription Agreement and on the terms set out in the Note Instrument and “Convertible Note” refers to any of them
“Convertible Note Holders”	Wayforward Technology Limited, Freshwater Trading Limited, First Canton Investment Limited, Asia Dynamic Assets Management Limited, Host Eagle International Limited, Mr. Tang Siu Wing, Castleford Assets Limited, Quam Nominees Limited, Rabobank Asia Limited, Click Start Associates Limited, Ms. Hui Tak Hing, Doris, Mr. Yeung Kin Kwan, Alvan and Mr. Wong Chi Wan, Henry

DEFINITIONS

“Count Wealth”	Count Wealth Investments Limited, a company incorporated in BVI on 12th April, 2000 with limited liability
“Covenantors”	Eagle Strategy Limited, Mr. Lau Kim Hung, Jack, Outshine Co., Ltd, Mr. Ho Yiu Ming, Mr. Chan Siu Man, Mr. Chu Wai Pang and Mr. Lee Chiu Kang
“Director(s)”	the director(s) of the Company
“Eagle Option”	the option granted to Eagle Strategy Limited pursuant to the Eagle Option Deed
“Eagle Option Deed”	the option deed dated 20th July, 2001 referred to in subparagraph (d) of paragraph 1 headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus, pursuant to which Eagle Strategy Limited was granted an option to subscribe for such number of shares of US\$1.00 each in the issued share capital of the Company existing on 20th July, 2001 and all other (if any) stock or shares from time to time for the time being ranking pari passu therewith and all other (if any) shares or stocks resulting from any sub-division, consolidation or reclassification representing and equivalent to 6.2% of the issued share capital of the Company at the time of exercise of the option (taking into account the shares to be issued pursuant to the option granted under the Eagle Option Deed) at the exercise price of \$372,000
“ <i>EcoKleen</i> ”	natural enzymatic deodorizer for commercial use
“ <i>EcoTonic</i> ”	natural enzymatic bio-solution intended to control the quality of pond water in order to inhibit bloom algae growth
“Enzyme-based Materials”	the materials supplied by Garnett to the Group pursuant to the Sole Agency Agreement in powder form, comprising mainly of a mixture of different plant enzymes, nutrients and non-disease causing microorganisms

DEFINITIONS

“EPD”	the Environmental Protection Department of the Government
“ <i>FlusKleen</i> ”	natural enzymatic bio-solution intended for flushing water quality improvement and odour removal
“First Six-Month Period”	the period commencing on the date of the Underwriting Agreement up to and including the date falling six months after the Listing Date
“Garnett”	Garnett Co., Ltd., a company incorporated in Japan on 7th October, 1994 with limited liability, which, save for its contractual relationship with GEHK under the Sole Agency Agreement, is not connected with the Company and its subsidiaries and any of the Directors, chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates
“GEHK”	Grandy Environmental (H.K.) Limited, a company incorporated in Hong Kong on 20th January, 1999 which is a wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“GEM website”	the Internet website with the domain name www.hkgem.com and operated by the Stock Exchange for GEM
“Government”	The Government of Hong Kong
“Grandy Enviro-Tech”	Grandy Enviro-Tech Company Limited, a company incorporated in Hong Kong on 31st August, 2001 which is a wholly-owned subsidiary of the Company

DEFINITIONS

“ <i>GreaseKi</i> ”	natural enzymatic bio-solution intended for grease tank effluent discharge maintenance
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company’s subsidiaries at that date and “member(s) of the Group” shall be construed accordingly
“Hantec” or “Sponsor”	Hantec Capital Limited, an investment adviser and dealer registered under the Securities Ordinance, the sponsor and one of the lead managers of the Share Offer
“HKSCC”	Hong Kong Securities Clearing Company Limited
“ <i>Home Fresh</i> ”	spray intended to be used for deodourising garbage systems by utilising the Enzyme-based Materials
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Ilum-a-Lite”	Ilum-a-Lite International Ltd., a limited company incorporated in the Republic of Vanuatu, which, save for its contractual relationship with Grandy Enviro-Tech in respect of the supply of the Light Eco, is not connected with the Company and its subsidiaries and any of the Directors, chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates. Ilum-a-Lite is engaged mainly in the design, manufacture, deliver and support of a range of fluorescent lighting energy conservation products and services
“Initial Management Shareholders”	has the meaning ascribed to it in the GEM Listing Rules and, in the case of the Company, means Achieve Century, Tipmax, Star Wave, Count Wealth, Mr. Tsui, Mr. Yeung, Mr. Leung, Mr. Hoang, Mr. To, Mr. Chan, Mr. Mio and Kong Sun and the term “Initial Management Shareholder” means any one of them

DEFINITIONS

“ITF”	Innovation and Technology Fund, a fund managed by the Innovation and Technology Commission that supports projects that contribute to innovation and technology upgrading in Hong Kong
“Kong Sun”	Kong Sun Holdings Limited, a company incorporated in Hong Kong and whose shares are listed on the Main Board of the Stock Exchange
“Latest Practicable Date”	23rd April, 2002, being the latest practicable date for ascertaining certain information for inclusion herein prior to the bulk printing of this prospectus
“Laws”	includes all laws, rules, regulations, guidelines, opinions (whether formally published or not), notices, circulars, orders, judgements, decrees or rulings of any court, government, governmental or regulatory authority whether or not ejusdem generis with any of the foregoing (including, without limitation, the Stock Exchange) and “Law” shall be construed accordingly
“Lead Managers”	Hantec, Phoenix Capital Securities Limited and SBI E2-Capital Securities Limited
“Lifa”	Lifa Air Asia Limited, a limited company incorporated in Hong Kong which, save for its contractual relationship with Grandy Enviro-Tech in respect of IAQ management services, is not connected with the Company and its subsidiaries and any of the directors and chief executive of any member of the Group, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective beneficial owners and associates
“Light Eco”	a soft switching system for fluorescent light systems designed, developed and manufactured by Ilum-a-Lite and its suppliers, for the purpose of reducing energy wastage
“Listing Date”	the date on which the Shares commence trading on the GEM

DEFINITIONS

“Lock-up Period”	a period of 12 months from the Listing Date
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM
“Mr. Chan”	Mr. Chan Hon Chiu, an executive Director
“Mr. Hoang”	Mr. Hoang Tan Van, George, an executive Director and one of the founders of the Group
“Mr. Kong”	Mr. Kong Li Szu, a non-executive Director
“Mr. Leung”	Mr. Leung Chi Kin, an executive Director and one of the founders of the Group
“Mr. Mio”	Mr. Mio Kwok Man, one of the senior management of the Group
“Mr. Tsui”	Mr. Tsui Tai Hoi, Raymond, an executive Director and one of the founders of the Group
“Mr. To”	Mr. To Hang Ming, an executive Director
“Mr. Uyama”	Mr. Shizuo Uyama, a technical adviser of the Group
“Mr. Yeung”	Mr. Yeung Kam Yan, an executive Director and one of the founders of the Group
“Ms. Lam”	Ms. Lam Oi Kwan, Sandy, the spouse of Mr. Tsui
“New Issue”	the issue of the New Shares by the Company for cash at the Offer Price for subscription under the Share Offer
“New Share(s)”	the new Share(s) to be issued and offered for subscription under the Share Offer

DEFINITIONS

“Note Instrument”	the note instrument dated 22nd August, 2001 referred to in sub-paragraph (g) of paragraph 1 of the section headed “Further information about the business of the Group” in Appendix IV to this prospectus pursuant to which each of the 13 investors named therein and their respective transferees have the right to convert the principal amount of the Convertible Note into Shares, as varied and modified by a supplemental deed dated 5th February, 2002 and a second supplemental deed dated 19th April, 2002 respectively referred to in sub-paragraphs (h) and (i) of paragraph 1 headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus
“Offer Price”	\$0.28 per Offer Share
“Offer Shares”	the 160,000,000 New Shares and the 40,000,000 Sale Shares being offered by the Company and the Vendors respectively under the Share Offer
“Outshine Option”	the option granted to Outshine Co., Ltd. pursuant to the Outshine Option Deed
“Outshine Option Deed”	the option deed dated 20th July, 2001 referred to in sub-paragraph (e) of paragraph 1 headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus, pursuant to which Outshine Co., Ltd. was granted an option to subscribe for such number of shares of US\$1.00 each in the issued share capital of the Company existing on 20th July, 2001 and all other (if any) stock or shares from time to time for the time being ranking pari passu therewith and all other (if any) shares or stocks resulting from any sub-division, consolidation or reclassification representing and equivalent to 3.8% of the issued share capital of the Company at the time of exercise of the option (taking into account the shares to be issued pursuant to the option granted under the Outshine Option Deed) at the exercise price of \$228,000

DEFINITIONS

“Over-allotment Option”	the option to be granted by the Company to Phoenix Capital Securities Limited (on behalf of the Placing Underwriters) pursuant to the Underwriting Agreement to require the Company to issue and allot up to an aggregate of 30,000,000 additional Shares, representing 15% of the Shares initially available under the Share Offer, at the Offer Price solely to cover over-allocations in the Placing, if any
“ <i>Pet Luv</i> ”	natural enzymatic bio-solution intended for treatment of odour arising from domestic animals
“Placing”	the conditional placing of the Placing Shares with investors, details of which are described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	the 140,000,000 New Shares and the 40,000,000 Sale Shares being initially offered under the Placing, subject to adjustment and reallocation as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Underwriters”	Hantec, Phoenix Capital Securities Limited, SBI E2-Capital Securities Limited, CEF Capital Limited, GC Securities Limited, Tanrich Securities Company Limited, Sanfull Securities Limited, Core Pacific-Yamaichi International (H.K.) Limited, Christfund Securities Limited, Guotai Junan Securities (Hong Kong) Limited, Hung Sing Securities Limited, Mayfair Securities Limited, Shenyin Wanguo Capital (H.K.) Limited, Taiwan Concord Capital Securities (Hong Kong) Limited, Kaiser Securities Limited, Sinomax Securities Limited and Young Champion Securities Limited
“PRC”	the People’s Republic of China which shall, for the purpose of this prospectus, exclude Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 20th April, 2002, the principal terms of which are summarised in the paragraph headed “Summary of terms of the Pre-IPO Share Option Scheme” in Appendix IV to this prospectus

DEFINITIONS

“Public Offer”	the offer for subscription by members of the public of the Public Offer Shares for cash at the Offer Price on and subject to the terms and conditions stated in this prospectus and the related application forms
“Public Offer Shares”	the 20,000,000 New Shares being initially offered under the Public Offer, subject to adjustment and reallocation as described in the section headed “Structure of the Share Offer” in this prospectus
“Public Offer Underwriters”	Hantec, Phoenix Capital Securities Limited, SBI E2-Capital Securities Limited, CEF Capital Limited, GC Securities Limited, Tanrich Securities Company Limited, Sanfull Securities Limited, Core Pacific-Yamaichi International (H.K.) Limited, Christfund Securities Limited, Guotai Junan Securities (Hong Kong) Limited, Hung Sing Securities Limited, Mayfair Securities Limited, Shenyin Wanguo Capital (H.K.) Limited, Taiwan Concord Capital Securities (Hong Kong) Limited, Kaiser Securities Limited, Sinomax Securities Limited and Young Champion Securities Limited
“Relevant Periods”	the financial period from 20th January, 1999 (date of incorporation of GEHK) to 31st March, 2000, the financial year ended 31st March, 2001 and the six months ended 30th September, 2001
“Relevant Securities”	in relation to each of the Initial Management Shareholders and the Covenantors, has the meaning ascribed thereto in Rule 13.15(4) of the GEM Listing Rules and references in such rule to “initial management shareholder” shall include each of the Initial Management Shareholders and the Covenantors
“Reorganisation”	the reorganisation of the corporate structure of the Group prior to the issue of this prospectus, details of which are set out in the paragraph headed “Group reorganisation” in Appendix IV to this prospectus
“Sale Shares”	the 40,000,000 existing Shares being offered for sale by the Vendors at the Offer Price under the Placing, as to 29,630,000 Shares by Achieve Century and as to 10,370,000 Shares by Count Wealth

DEFINITIONS

“SBI E2-Capital” or “Co-sponsor”	SBI E2-Capital (HK) Limited, an investment adviser registered under the Securities Ordinance, the co-sponsor of the Share Offer
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Share(s)”	share(s) of \$0.01 each in the share capital of the Company
“SETC”	The State Economic and Trade Commission of the PRC
“SEPA”	the State Environmental Protection Administration of the PRC
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 20th April, 2002, the principal terms of which are summarised in the paragraph headed “Summary of terms of the Share Option Scheme” in Appendix IV to this prospectus
“Share Option Schemes”	the Pre-IPO Share Option Scheme and the Share Option Scheme
“ <i>Shoe Fresh</i> ”	spray intended for deodorizing shoes by utilising the Enzyme-based Materials
“Sole Agency Agreement”	the sole agency agreement dated 1st November, 1998 (as supplemented by two supplement agreements dated 23rd March, 2000 and 15th June, 2001 respectively, a deed of confirmation and rectification and supplemental agreement dated 15th November, 2001 and a supplemental memorandum dated 31st January, 2002) between Garnett and GEHK pursuant to which Garnett granted to GEHK the exclusive right to distribute and sell and the right to use the Enzyme-based Materials worldwide except North America, South Korea and Japan, for a period expiring on 31st October, 2028

DEFINITIONS

“Sponsor’s Agreement”	the sponsor’s agreement dated 26th April, 2002 made between Hantec and the Company
“Sponsors”	Hantec and SBI E2-Capital
“Star Wave”	Star Wave Limited, a company incorporated in BVI on 17th May, 2001 with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 24th July, 2001 referred to in sub-paragraph (f) of paragraph 1 headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus in respect of the convertible notes of \$10,000,000 in the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Tipmax”	Tipmax Limited, a company incorporated in BVI on 17th May, 2001 with limited liability
“Thames Water”	Thames Water Plc, a British based company principally engaged in water treatment, recycling and network technology which is not connected with the Company and its subsidiaries, any of the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates
“Trade Marks Ordinance”	Trade Marks Ordinance (Chapter 43 of the Laws of Hong Kong)
“Underwriters”	the Placing Underwriters and the Public Offer Underwriters

DEFINITIONS

“Underwriting Agreement”	the underwriting and placing agreement dated 26th April, 2002 made between the Company, the executive Directors, the Vendors, the Initial Management Shareholders, the Lead Managers, the Sponsors and the Underwriters relating to the Share Offer, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“US”	United States of America
“Vendors”	Achieve Century and Count Wealth
“Worlday”	Worlday Investments Limited, a company incorporated in BVI on 17th May, 2001 with limited liability, which is a wholly-owned subsidiary of the Company
“\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“UK”	the United Kingdom of Great Britain and Northern Ireland
“US\$”	US dollars, the lawful currency of the US
“%”	per cent.

Unless the context requires otherwise, translations from RMB into \$ are made, for illustration purpose only, at the rate of \$1 = RMB1.10 and translations of US\$ into \$ are made, for illustration purpose only, at the rate of US\$ = \$7.80.

No representation is made that any amounts in RMB, \$ or US\$ could have been or could be converted at the above rate or at any other rates or at all.

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. The terminology and their meanings may not correspond to meanings used in other industries or usage of those terms.

“Advanced Oxidation Technology”	a technology based on oxidation of contaminants through the in situ generation of highly potent chemical oxidants
“bio-farm”	system for efficient degradation of pollutants by a community of microorganisms. The principle of treatment is that the pollutants inside the wastewater are consumed and digested by microorganisms kept in a container with many holes
“BOD”	biochemical oxygen demand created through the presence of biological materials in water which is a measure of the pollution potential of effluents by the amount of oxygen consumed when microorganisms oxidise a given amount of the substances in the effluents. A lower biochemical oxygen demand measurement signifies a lower pollution potential
“CO ₂ ”	carbon dioxide
“COD”	chemical oxygen demand, a measure of the oxygen equivalent of the organic and inorganic content of a water sample that is susceptible to oxidation by a strong chemical oxidant
“Compact Heat Exchanger(s)”	compact heat exchanger(s), compact device(s) with a higher ratio of heat transfer to heat exchanger volume than afforded by conventional heat exchanger(s)
“enzyme(s)”	a class of proteins that are produced by living cells, and which catalyse specific reactions without the enzyme proteins themselves becoming permanently altered or destroyed

GLOSSARY

“green buildings”	structures that are designed, built, renovated, operated, or reused in an ecological and resource-efficient manner and which are designed to meet certain objectives such as protecting occupants’ health; improving employee productivity; using energy, water, and other resources more efficiently; and reducing the overall impact to the environment (<i>Source: website of the Integrated Waste Management Board of California, the US</i>)
“Hz”	Hertz
“IAQ”	indoor air quality, the wholesomeness of air inside domestic, office and industrial buildings as measured by a set of key parameters
“kHz”	KiloHertz
“LPG”	liquefied petroleum gas
“O&G”	oil and grease, the quantity of extractable oil and grease in aqueous matrices tested according to the method guided by the EPD
“PCO”	photocatalytic oxidation, an oxidation process that is catalysed under supply of light source (UV light)
“SO ₂ ”	sulphur dioxide
“SS”	suspended solid, the quantity of suspended solid in aqueous matrices tested according to the method guided by the EPD
“TES”	trade effluent surcharge, the additional charge paid to the Drainage Services Department of the Government on top of the normal sewage charge
“TiO ₂ ”	titanium dioxide
“UV”	ultra violet
“VOCs”	volatile organic compounds, a diverse group of organic compounds that evaporate at room temperature

RISK FACTORS

This prospectus contains forward-looking statements that include, among other things, statements of business objectives concerning the Company, expectations as to funding its capital requirements, anticipated customer demand, statements as to the revenue and profitability of the Company and other statements of expectations, belief, future plans and strategies, anticipated forward-looking statements by using the words “may”, “will”, “expect”, “continue”, “believe” or similar expressions. The Directors caution potential investors that there are risks and uncertainties associated with the Company and actual events or results may differ materially from those expressed or implied by the statements.

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

Payment terms

To combat problems of energy wastage, the Group commenced the sales and marketing of a range of energy saving equipment including the Light Eco systems to reduce energy wastage of its customers. Currently, the Group is selling the Light Eco systems to customers with a payment term generally ranging from 30 to 90 days. In order to make the Light Eco systems more appealing to customers, the Group has offered an interest free instalment scheme to its customers since October 2001 whereby the Group will receive over a period of time by way of fixed monthly instalment payments as service fee from the customers. The period over which these monthly instalments are paid ranges from 12 to 18 months. Under this scheme, the customers are required to make the first instalment payment upon the acceptance of the purchase of the Light Eco systems and the second instalment payment one month after the installation of the Light Eco systems. The purchase of the Light Eco systems by the Group was settled by sight letters of credit or open credits up to 30 days. During each of the Relevant Periods, the turnover attributable from the sales of the Light Eco systems amounted to approximately nil, nil and 20.5% respectively of the Group's turnover. As at 28th February, 2002, the trade receivable of the Group amounted to approximately \$9.8 million of which approximately \$7.6 million were receivables from sales of Light Eco systems. The Directors estimated that the possible cumulative receivable from sales of Light Eco systems as at 31st March, 2003 will be about \$12 million, representing approximately 29.6% of the adjusted net tangible assets as stated in the paragraph headed “Adjusted net tangible assets” under the section headed “Financial information” in this prospectus.

RISK FACTORS

Under the instalment scheme, it takes 12 to 18 months for the Group to collect the full amount of the receivables of the sales from the Light Eco systems. However, for the purchase of the Light Eco systems, the Group has to settle the purchase price by sight letter of credit or open credits up to 30 days. Therefore, the time gap in cashflow from the purchase and sales of the Light Eco systems and the collection of the full amount of the receivables under the instalment scheme has to be financed by the Group's general working capital. As such, the instalment scheme may tie up the Group's available financial resources. In addition, the amount of sales of Light Eco systems under the instalment scheme will be limited if the Group does not have an adequate level of general working capital or is unable to raise external funds to finance the time gap in cashflow from the sales of the Light Eco systems under the instalment scheme. The Group's future revenue, operation, working capital and cashflow position may be adversely affected if its customers fail to settle and/or delay in making their monthly instalment payments.

Reliance on the proceeds from the Share Offer

The Company agreed to redeem the Convertible Notes by paying \$12,000,000 to the Convertible Note Holders within three business days after the Listing Date. As at 28th February, 2002, the cash and bank balances of the Group amounted to approximately \$1.1 million. Approximately \$10 million of the net proceeds from the Share Offer will be used to finance the redemption of the Convertible Notes. The Group has to rely on the proceeds from the Share Offer to finance its operation. The Directors believe that the net proceeds from the Share Offer together with the Group's internally generated cashflow will be sufficient to finance its business plans starting from the Latest Practicable Date to 31st March, 2005 as described in the sub-section headed "Statement of business objectives" under the section headed "Business objectives" in this prospectus. In the event that the Group uses up all of its proceeds from the Share Offer and the Group cannot attain its projected level of cashflow, the Group may be required to raise additional funding. A failure to achieve the projected level of cashflow together with a failure to obtain such fundings would have a material adverse effect on the Group.

Reliance on Garnett

GEHK has entered into the Sole Agency Agreement with Garnett for the exclusive right to distribute and sell, and the right to use, the Enzyme-based Materials worldwide except in North America, South Korea and Japan for a term of 30 years expiring on 31st October, 2028. The Group's turnover related to products produced from the Enzyme-based Materials were approximately 93.0%, 91.9% and 22.4% respectively for each of the Relevant Periods. The Group's purchases from Garnett were in the amounts of approximately \$448,000, \$493,000 and \$198,000 respectively for each Relevant Period. Although the Group has a well-established relationship with Garnett, there is no assurance that the business of the Group will not be adversely affected in the event of an early termination of the Sole Agency Agreement or disruption in the supply of the Enzyme-based Materials by Garnett to the Group.

RISK FACTORS

Reliance on key executives and personnel

The Group's performance/success is, to a significant extent, attributable to the continued services and performance of its senior management and key personnel, especially the management team's expertise and experience in the business carried on by the Group and well-established relationships with customers and suppliers. The Group's performance also depends on its ability to retain and motivate its officers and key employees. The continued involvement of the Group's management team is important to the future growth and prospects of the Group. There is, however, no assurance that the Group's present management team and key personnel will continue to serve the Group or be actively involved in the management of the Group in the future. Resignation of any member of the management team and key personnel of the Group could have a material adverse impact on the performance of the Group and on the achievement of the Group's objectives.

Future products and services

The Group's future products and services require significant additional development, investment and examination to demonstrate and validate their performance and cost-effectiveness. The Directors expect that the Group may need to undertake costly and time-consuming technical and commercial field studies to achieve these objectives. However, there is no assurance that the Group can successfully develop markets for any future products and services, or that it will be able to sustain or increase sales revenues and profits. Failure to do so may adversely affect its business operations and financial conditions.

Expansion in market

The Directors intend to explore business opportunities in the PRC as part of the Group's future expansion plan. The Group foresees that it may encounter a number of inherent risks in conducting business in the PRC market including: differences in legal and regulatory requirements and in industry standards; lack of protection of the Group's intellectual property rights; difficulties in servicing and supporting products and services; potential tax liabilities; fluctuations in currency exchange rate; administrative difficulties in staffing and managing foreign operations and changes in political and economic conditions; the establishment of competitive services by other service providers, agencies and universities. Each of the above may affect the Group's future development plans and schedules. In addition, the pursuit of the expansion plan in the PRC may shift the Group's geographical focus and put strain on management and human resources. There is no assurance that the Group will be able to enter and penetrate successfully into the PRC market and the deployment of human and financial resources in pursuit of such an expansion may have a material and adverse impact on the financial position of the Group.

RISK FACTORS

The Group's business objectives may not be materialised

The business plans of the Group as described in the section headed “Business objectives” of this prospectus are based on assumptions of future events which by their nature are subject to risks and uncertainties inherent in various stages of development, including the availability of relevant equipment, technology and financing on reasonable commercial terms, and the availability of qualified management and technical personnel. There is, however, no assurance that the Group's plans will not encounter difficulties such as technological obstacles, delays and cost overruns. The failure of the Group to accomplish its objectives and/or materialise its plans as intended could have a material adverse effect on the Group's business, operating results and profitability.

Intellectual property rights

The Group has registered and applied for registration of certain trade marks in Hong Kong, further details of which are set out in the paragraph headed “Intellectual property rights of the Group” in the section headed “Further information about the business of the Group” in Appendix IV to this prospectus. The Group has not applied for the registration of the names of the Group's individual products including *GreaseKil*, *EcoTonic*, *FlusKleen*, *EcoKleen*, *Aircon Fresh*, *Home Fresh*, *Pet Luv* and *Shoe Fresh* as these names would be considered indistinctive and descriptive by the Trade Marks Registry, and registration and enforcement of the infringement of such trade mark would be difficult. In the event that the names of the individual products of the Group are subject to challenge or dispute, the Group may be forced to adopt alternative names or to rebrand itself entirely and the Group's operation may be adversely affected as a result.

RISKS RELATING TO THE INDUSTRY

The Group may not be able to keep up with changes in technology

The environmental protection industry is subject to rapid and significant changes in technology, tightening of legislation and the introduction of new standards and recommended best practice. Hence, manufacturers have to introduce new products and models more frequently in order to maintain their competitiveness in the market and to keep abreast with legislation. It is difficult to predict the effect of emerging and future technological changes on the viability or competitiveness of the Group's business. Accordingly, although the Group strives to follow technological developments in order to keep its technology up to date, there is no assurance that the technology currently deployed by the Group will not become obsolete or subject to any competition from new technology in the future.

RISK FACTORS

The Group operates in an intensely competitive market

The environmental protection industry is a sector in which participants face intense competition. The Directors expect that broad acceptance of environmental protection and the promotions of the Government may eliminate some of the barriers for entering into the environmental protection industry, thereby attracting additional competitors providing the same kind of services as those provided by the Group. The Directors also consider that competition may increase substantially as the introduction of new types of technology and potential regulatory changes create new opportunities for new entrants to the environmental protection industry. The Directors believe that due to the keen competition in the industry, it has been characterised as one with high growth rates and high risks. Although the Directors believe that the Group has the strength and innovativeness to meet the challenges ahead, there is no guarantee that the Group would be as competitive as expected. Any increase in competition could result in price reduction and a decrease in market share, resulting in an adverse impact on the Group's operations.

RISKS RELATING TO HONG KONG

The Hong Kong economy

The Asian financial crisis started in July 1997 and the economy of Hong Kong has experienced considerable volatility since 1997. The primary economic sectors of Hong Kong, such as real estate, retail and finance have been adversely affected, and recovery has since then been slow. During the two years ended 31st March, 2001 and the six months ended 30th September, 2001, all of the Group's sales were concluded in Hong Kong. Any adverse change in the economy in Hong Kong may affect the business of the Group. These factors include local and international economic and political conditions, general market sentiment, general regulatory environment and fluctuations in global interest rates. Moreover, the Directors consider that the future prospects of Hong Kong are linked to the economic, social and political development of the PRC, and any unfavourable disruptions to such development may have a corresponding effect on Hong Kong.

Stance of the Government on environmental protection

The future growth of the Group is dependent, to a certain extent, upon the continuation of the environmental protection promotion conducted by the Government, which the Directors expect will increase the demand for the products and services offered by the Group. Although the Government has given certain support for environmental protection in Hong Kong, there is no assurance that such support will be sustained or, even if sustained, will result in an improvement in the Group's financial and business conditions. In the event that the Government ceases to promote environmental protection, the Group's future growth of business may be adversely affected.

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

ACCOUNTANTS' REPORT FOR THE TWO FINANCIAL YEARS PRECEDING THE DATE OF THE PROSPECTUS

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Company during the two years immediately preceding the issue of the prospectus including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Company for two financial years immediately preceding the issue of the prospectus.

Rules 7.03(1) and 11.10 of the GEM Listing Rules require the consolidated results of the Company and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange.

The accountants' report for each of the financial periods from 20th January, 1999 (date of incorporation of GEHK) to 31st March, 2000, the financial year ended 31st March, 2001 and the six months ended 30th September, 2001 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued shortly after 31st March, 2002, the accountants' report has not been prepared for the full year ended 31st March, 2002 as it would be unduly burdensome for the Company to do so.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and to the Securities and Futures Commission for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants report for the full year ended 31st March, 2002 in the prospectus. A waiver has been granted by the Stock Exchange and a certificate of exemption has been granted by the Securities and Futures Commission.

The Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus and save as disclosed in this prospectus, there has been no material adverse change in the financial or trading position of the Group since 30th September, 2001 and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

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

THE LATEST FINANCIAL PERIOD REPORTED ON BY THE REPORTING ACCOUNTANTS REQUIRED UNDER RULE 11.11 OF THE GEM LISTING RULES

Pursuant to Rule 11.11 of the GEM Listing Rules, the Company is required to include the financial results which must not have ended more than six months before the date of this prospectus. As this prospectus includes the financial results of the Group covering only the period from 20th January, 1999 up to 30th September, 2001 which has ended more than six months before the issue date of this prospectus, the Company has applied for and has been granted a waiver from strict compliance with Rule 11.11 of the GEM Listing Rules by the Stock Exchange.

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules on the basis of the Directors' confirmation that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus and save as disclosed in this prospectus, there has been no material adverse change in the financial or trading position of the Group since 30th September, 2001 and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

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

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely for the purpose of the Share Offer. The listing of the Shares is sponsored by Hantec and co-sponsored by SBI E2-Capital and the Offer Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreement.

For further information about the Underwriters and the underwriting arrangements, please refer to the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" in this prospectus.

PROSPECTUS TO BE DISTRIBUTED IN HONG KONG ONLY

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

APPLICATION FOR LISTING ON GEM

Application has been made to the GEM Listing Committee for the granting of the approval of the listing of, and permission to deal in, the Shares in issue, the New Shares, the Shares to be issued pursuant to the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Capitalisation Issue and the exercise of options under the Pre-IPO Share Option Scheme and the Share Option Scheme on GEM.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Offer Shares, you should consult an expert.

None of the Company, the Directors, Hantec, SBI E2-Capital, the Underwriters, the Vendors, their respective directors or any other parties involved in the Share Offer will accept responsibility for any tax effects on, or liabilities resulting from the subscription for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Offer Shares.

REGISTERS OF MEMBERS AND STAMP DUTY

All Shares in issue and to be issued as mentioned in this prospectus will be registered on the Company's branch register of members to be maintained by Tengis Limited in Hong Kong. The Company's principal register of members is maintained by Bank of Butterfield International (Cayman) Ltd.

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

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date as determined by HKSCC. Investors should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights and interests. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Tsui Tai Hoi, Raymond	Flat B, 17th Floor Dragon View 5 Dragon Terrace Tin Hau Temple Road Hong Kong	Chinese
Mr. Yeung Kam Yan	Flat D, 11th Floor Tsuen Fung Centre 168 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong	Chinese
Mr. Leung Chi Kin	Flat C, 2nd Floor Oxford Court 26 Braemar Hill Road Hong Kong	Chinese
Mr. Hoang Tan Van, George	Flat B, 10th Floor Kam Wa Building 382-388 Des Voeux Road West Hong Kong	American
Mr. Chan Hon Chiu	Flat B, 3rd Floor, Tower I Pacific Palisades No. 1 Braemar Hill Road North Point Hong Kong	Chinese
Mr. To Hang Ming	Flat G, 6th Floor Hilltop 60 Cloudview Road North Point Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Non-executive Director

Mr. Kong Li Szu	Flat K, 1st Floor Crescent Heights No. 3 Tung Shan Terrace Hong Kong	Singaporean
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Independent non-executive Directors

Mr. Hsu Shiu Foo, William	Flat B3, 7th Floor Beverley Heights 67 Beacon Hill Road Kowloon Tong Kowloon Hong Kong	American
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Dr. Yu Chai Mei	Flat E, 3rd Floor, Block 8, The Paramount 23 Shan Tong Road Tai Po New Territories Hong Kong	American
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DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	Hantec Capital Limited 45th Floor, COSCO Tower 183 Queen's Road Central Hong Kong
Co-Sponsor	SBI E2-Capital (HK) Limited 4th Floor, Henley Building 5 Queen's Road Central Hong Kong
Lead Managers	Hantec Capital Limited 45th Floor, COSCO Tower 183 Queen's Road Central Hong Kong Phoenix Capital Securities Limited Rooms 3203-04, 32nd Floor Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong SBI E2-Capital Securities Limited 20th Floor, Henley Building 5 Queen's Road Central Hong Kong
Co-managers	CEF Capital Limited Suite 2001 20th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong GC Securities Limited Suite 2812, 28th Floor One International Finance Centre One Harbour View Street Central Hong Kong
Underwriters	Hantec Capital Limited 45th Floor, COSCO Tower 183 Queen's Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Phoenix Capital Securities Limited
Rooms 3203-04, 32nd Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

SBI E2-Capital Securities Limited
20th Floor, Henley Building
5 Queen's Road Central
Hong Kong

CEF Capital Limited
Suite 2001
20th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

GC Securities Limited
Suite 2812, 28th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Tanrich Securities Company Limited
16th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Sanfull Securities Limited
20th Floor
Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Core Pacific-Yamaichi International (H.K.) Limited
30th Floor
Two Pacific Place
88 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Christfund Securities Limited
Suite 2808-2811
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Hung Sing Securities Limited
Room 605-608
Wing Shan Tower
173 Des Voeux Road Central
Hong Kong

Mayfair Securities Limited
23rd Floor, Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Hong Kong

Taiwan Concord Capital Securities (Hong Kong) Limited
Room 3005-6, The Center
99 Queen's Road Central
Central
Hong Kong

Kaiser Securities Limited
Unit A3, 32nd Floor
United Centre
95 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Sinomax Securities Limited
Room 1601, 16th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Young Champion Securities Limited
Room 904-905, 9th Floor
West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

Legal advisers to the Company

as to Hong Kong law:

Preston Gates & Ellis
10th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

as to Cayman Islands law:

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

**Legal advisers to the Sponsors
and the Underwriters**

So Keung Yip & Sin
(in association with Perkins Coie LLP)
17th Floor, Standard Chartered Bank Building
4 Des Voeux Road Central
Hong Kong

**Auditors and reporting
accountants**

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Property valuer

RHL Appraisal Ltd.
Room 1010, Star House
Tsim Sha Tsui
Kowloon
Hong Kong

Receiving banker

Standard Chartered Bank
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P. O. Box 2681 GT George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business	Room 407, Energy Plaza 92 Granville Road Tsim Sha Tsui East Kowloon
Company secretary	Mr. Wong Chun Kit <i>FCCA, AHKSA</i>
Compliance officer	Mr. Tsui
Qualified accountant	Mr. Wong Chun Kit <i>FCCA, AHKSA</i>
Audit Committee	Mr. Hsu Shiu Foo, William Dr. Yu Chai Mei
Authorised representatives	Mr. Tsui Mr. Yeung
Cayman Islands principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies

CORPORATE INFORMATION

**Hong Kong branch share
registrar and transfer office**

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

Principal banker

Standard Chartered Bank
23rd Floor
4-4A Des Voeux Road Central
Hong Kong

INDUSTRY OVERVIEW

The information provided in this section is derived from various private and/or publicly available documents. This information has not been prepared or independently verified by the Company, Hantec, SBI E2-Capital, the Underwriters, the Vendors or any of their respective advisers or affiliates.

OVERVIEW OF THE HONG KONG ENVIRONMENTAL PROTECTION INDUSTRY

All major cities suffer from a wide range of environmental, health and social problems. Like other major cities in the world, Hong Kong has had such problems due to a long period of neglecting the environment and the high density of its population. It is expected that pressures on the environment are likely to intensify as its population is forecasted to grow by a further two million to approximately 8.9 million over the next 15 years.

Despite such problems, Hong Kong's environmental protection industry is in a developmental stage. This may partially be attributable to the relatively short history of the EPD, which was only established in 1986. The functions of the EPD include enforcement of environmental protection legislation, environmental monitoring, development of sewage and waste disposal programmes, policy development, planning against pollution and provision of waste treatment and disposal services. However, since 1989, with the publication of the White Paper on pollution, legislative measures have been introduced to address the environmental problems in Hong Kong.

Major policy and legislative milestones

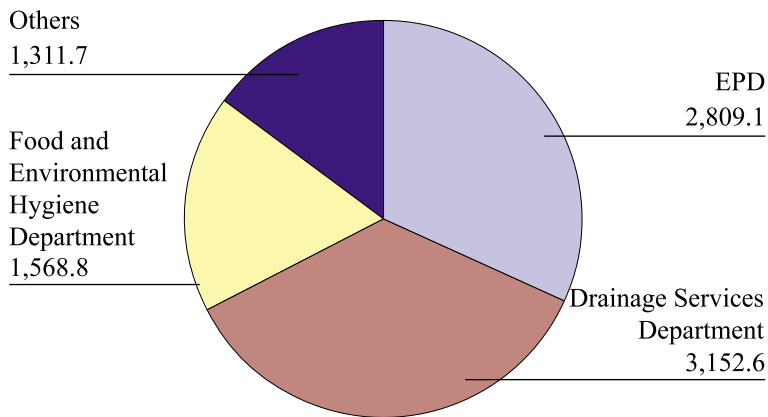
The following are the major legislations that have been introduced to combat environmental problems in Hong Kong:

- Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) (1980)
- Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) (1981)
- Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong) (1983)
- Ozone Layer Protection Ordinance (Chapter 403 of the Laws of Hong Kong) (1989)
- Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) (1989)
- Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354 of the Laws of Hong Kong) (1992)
- Dumping At Sea Ordinance (Chapter 466 of the Laws of Hong Kong) (1995)
- Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong) (1998)

INDUSTRY OVERVIEW

Since the late 1980s, the Government has directed significant resources towards clean-up, protection, monitoring, policy development and planning against further environmental pollution. In 2000, the EPD was allocated a budget of approximately \$2.8 billion out of a total budget of around \$8.8 billion allocated to the seventeen governmental departments that are involved in environmental protection work.

Budget (\$million) allocated to environmental protection, 2000



Source: "Environment Hong Kong 2001", annual report published by the EPD

Recently, initiatives have been taken for cross-boarder co-operation to combat environmental problems. Memoranda of understanding have been signed between the Government and SEPA and the State Oceanic Administration of the PRC, covering hazardous waste shipments and water pollution.

Further development of the environmental protection industry in Hong Kong is likely to be driven by political, economic and social trends towards protecting the environment. Current initiatives include research and development into new technologies and strategies for promoting a sustainable environment through conservation of natural resources and improved efficiency of their utilisation, development of alternative sustainable sources and recycling.

Organisations concerned with the environment

Stewardship of the environment is ultimately the responsibility of the Government. Currently, there are several governmental departments and semi-government bodies that take on and devolve this responsibility. There are also a number of non-profit making organisations that are involved in promoting awareness of environmental protection. The EPD and a number of quasi-government bodies, such as the Hong Kong Productivity Council's Environmental Management Division, provide services and consultation to businesses in relation to the protection of the environment, some of which compete directly with private and publicly listed companies that provide similar services and products. Services provided by them include: air, water and noise pollution prevention and abatement; waste management and recycling; energy

INDUSTRY OVERVIEW

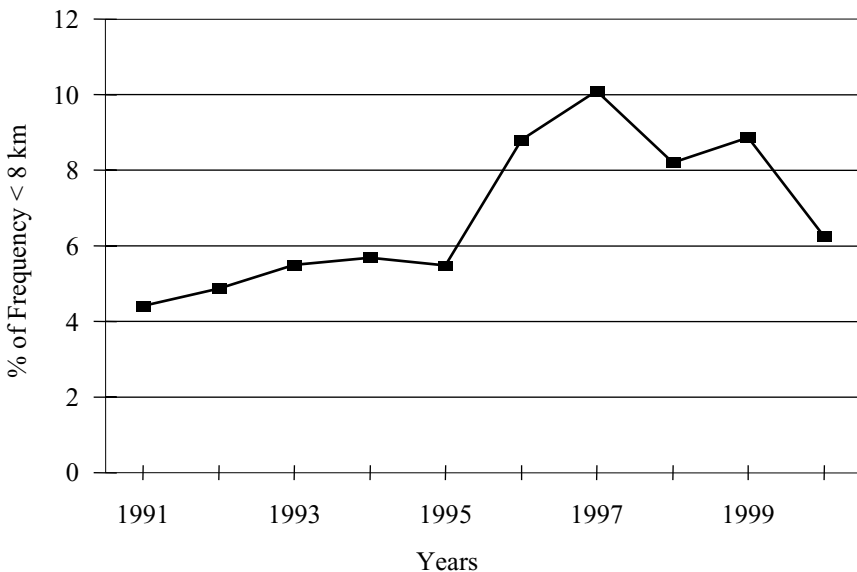
management; cleaner production technology development; environmental impact assessment studies; environmental auditing and monitoring; environmental management system development and environmental reporting.

ENVIRONMENTAL POLLUTION AND THE CHALLENGES IN HONG KONG

Air

With visibility worsening significantly over the past few years (the percentage frequency of occurrence of visibility less than 8 kilometres has increased progressively from a value of approximately 4.4% in 1991 to approximately 6.3% in 2000), air pollution has come to epitomise Hong Kong's numerous environmental problems. Air pollution results mainly from vehicle emissions, power plants, burning of fuels and unloading deliveries of petroleum.

Trend of visibility impairment



Source: "Environment Hong Kong 2001"-annual report published by EPD

Common air pollutants

- Total suspended particulates (TSP) and respirable suspended particulates (RSP)
- Sulphur dioxide (SO₂)
- Nitrogen dioxide (NO₂)
- Carbon monoxide (CO)
- Ozone (O₃) and photochemical oxidants
- Lead (Pb)

INDUSTRY OVERVIEW

Currently the air quality-monitoring network of the EPD comprises 11 general and three roadside monitoring stations.

Recent measures to improve air quality include stringent licensing control of power plants and incinerators. Regulations now prescribe EPD's approval for new or modified fuel burning equipment, and regulations are in place on the sulphur content of fuels with the aim of reducing SO₂ emissions. Regulations on open burning and the release of dust from construction sites also help to reduce particulates emissions. There is also a regulation which requires petrol stations to recover petrol vapours during petrol unloading. The Government has also introduced strict vehicle emission standards, initiated research into cleaner alternatives to diesel and has improved standards on motor vehicle inspection and maintenance. In 2000, LPG taxis were introduced on a wide scale, and the scheme was stepped up where smoky vehicles reported by accredited spotters are required to undergo testing at designated centres. Work has also begun on retrofitting taxis with particulate traps. The combination of these different measures has been partially successful, resulting in noticeable improvements over the last one or two years in both air quality and visibility.

Another high profile subject of current interest is IAQ. Indoor air may be two to five times more polluted than outdoor air at its peak pollution levels. Pollutants of indoor air are a mixture of noxious, toxic and carcinogenic materials including CO₂ and biological contaminants (such as bacteria, fungi, microscopic allergens) from humans, pets and plants; radon from building materials, VOCs (such as benzene, toluene and xylene) from consumer products such as cosmetics, pesticides and cleaning agents; formaldehyde from pressed wood products such as furniture and tobacco smoke from cigarettes. There are currently different levels of voluntary standards according to the use of the buildings. The Government is reviewing progress of the IAQ programme.

Currently, three main types of technology are well established for control of IAQ: mechanical filters, electronic precipitators and ionisers. Many devices are hybrids, involving two or more forms of the above types of technology. Technology is currently being commercialised that goes a stage further by degrading organic and biological contaminants. Such devices include photo-catalytic air cleaners (based on nano sized particles of TiO₂ irradiated with UV light), a form of Advanced Oxidation Technology, that can oxidise organic contaminants to less harmful substances. Another novel technology involves the use of enzymes for biological degradation of organic contaminants.

For the improvement of IAQ, the Government started a publicity programme and launched a pilot IAQ certification scheme in 2000 for selected government office buildings and owners of private buildings who wish to participate. A review will be carried out in 2003 with the aim of considering whether the certification programme should be made compulsory.

INDUSTRY OVERVIEW

Water

The Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) provides for declaration of ten water control zones to cover the whole Hong Kong. Since April 1996, all discharges into these zones are subject to licensing control. Water quality monitoring includes 82 routinely sampled stations for inland waters and 160 for marine waters and bottom sediments. The water quality at 41 gazetted beaches is monitored weekly during the bathing season. Nevertheless, due to growth in population, sewage and waste loads have increased by 100% between 1980 and 1990. Therefore, there is an urgent need to accelerate improvements in the sewerage network.

Another source of pollution is the discharge from manufacturing processes to the sewerage system. Currently, surcharges are payable to the Government by companies which release effluent with a COD above a prescribed level. Methods for reducing these levels based on addition of coagulants and flocculants followed by physical separations are well established and commercialised. Research and development is currently in progress for cost-effective treatment of aqueous effluents from cloth-dyeing factories whereby the wastewater is purified to a degree where the water can be recycled for use in the washing and dyeing stages, and spent dye with a commercial re-sale value can be recovered.

To comply with the limits prescribed in the Water Pollution Control Ordinance on the permitted content of O&G that can be discharged into sewer, wastewater discharge from restaurants would normally first pass through a grease trap and then to the public drainage system. Such wastewater contains a lot of food waste and has a very high O&G content. Therefore, maintenance of the grease traps on a frequent basis is essential to ensure that the wastewater quality meets the standards prescribed by the EPD.

OVERVIEW OF THE PRC ENVIRONMENTAL PROTECTION INDUSTRY

SETC is a macro-economic regulatory department of the State Council of the PRC and regulates the near-term operation of the national economy. In the context of cleaner production/pollution prevention, an important aspect of SETC's mandate and responsibilities is to guide the nation's effort for the conservation and integrated utilization of resources, and to organise and coordinate industrial environmental protection and the development of the environmental protection industry.

SEPA, which was upgraded to a full ministry in March 1998, is responsible for environmental protection in the PRC.

INDUSTRY OVERVIEW

The PRC government recognises the following two serious pollution problems:

- Urban areas in the PRC have a growing number of vehicles, many of them with inadequate exhaust controls. These urban areas are often lacking in proper effluent management. In addition to the domestic burning of fuel and pollution arising from cars, there are often factories in the same neighbourhood that also contribute to air pollution.
- Rivers and lakes in the PRC are polluted by improperly treated industrial, agricultural and urban waste.

The PRC has developed a strategy for giving priority to the most serious problems, including the identification of 10 cities, five rivers, three lakes and five industrial sectors for special priority, and the implementation of a demonstration site programme (as stated in the paragraph headed “The PRC’s programmes of cleaner production and responsible care” below).

Water

Low rainfall in some areas, combined with water wastage and high levels of pollution have markedly increased the need for clean water over the past few decades up to the point of an impending crisis level. As stated in *Chemistry & Industry* (a journal published by the Society of Chemical Industry) in April 1999, owing to a projected population growth to approximately 1.6 billion by 2050 and a projected increase in the number of cities from 600 to around 1000, the demand for clean water is predicted to rise to approximately 800,000 million tons per annum, which is just over 28% of the PRC’s total water resources. A major problem is that water sources in the PRC are being polluted, as approximately 60% of industrial wastewater was estimated to be discharged into rivers and lakes untreated in 1994. Pollutants come from many industries including paper, textiles, petrochemicals, agrochemicals and power generation.

In 1999, the total discharge amount in the PRC was approximately 40.1 billion tons with an increase of approximately 600 million tons from 1998. Industrial wastewater amounted to approximately 19.7 billion tons with a decrease of approximately 400 million tons from 1998, whereas domestic sewage amounted to approximately 20.4 billion tons with an increase of approximately 1 billion tons from 1998. The total discharge amount of COD in the wastewater was approximately 13.9 million tons, amongst which COD in the industrial wastewater was approximately 6.9 million tons.

The sequence of the most seriously polluted to the least polluted seven river systems in the PRC is: Liao River, Hai River, Huai River, Yellow River, Songhua River, Pearl River and Yangtze River. Amongst the nine large-sized reservoirs in the PRC, the sequence of the comparative pollution extent from the most seriously polluted one to the least polluted one is: Dongpu, Yuqiao, Laoshan, Shimen, Menlou, Dahuofang, Miyun, Xinanjiang and Danjiangkou.

INDUSTRY OVERVIEW

The PRC is considered to have numerous business opportunities for treatment of industrial effluent and clean up of polluted water resources. This situation will translate into opportunities for the environmental protection industry as the PRC government focuses increasingly on the care of the environment and management of its water resources. Introducing state-of-the-art technology has always been a long-term policy of the PRC government, and since the open door policy in 1978, many foreign companies have entered the PRC market. For example, Thames Water has collaborated with Bovis in setting up a 400 million litres/day water treatment works in Shanghai. The market potential is vast for companies that offer solutions for reducing water wastage, treating effluent (industrial waste and sewage) and cleaning up of existing water sources as water supply issues affect nearly all the towns and villages in the PRC. The PRC therefore views combating water pollution as one of its highest economic infrastructure priorities.

The PRC's programmes of cleaner production and responsible care

Cleaner production eliminates pollution throughout the entire production process. It is a way of decreasing pollution discharge by increasing the efficiency of resource use, resulting in a reduction in pollution damage to both the environment and the human population.

Starting with the second state industrial pollution prevention forum organised in 1993, all regions and governmental departments of the PRC have initiated awareness promotion, policy research and demonstration projects, often seeking international cooperation. On the whole, awareness of cleaner production has been raised slowly. The following are the major measures that have been taken:

1. conducting comprehensive policy making on environment and development and promoting the fundamental shift in the mode of economic growth;
2. improving the environmental legal system and establishing a new order of environmental protection under the socialist market economy;
3. integrating the environmental protection plan with the plan for national economic and social development and gradually increasing input in environmental protection;
4. exercising total amount control of pollutant discharge and keeping the discharge amount of major pollutants within the planned target of the state;
5. implementing China Trans-century Green Project Plan and pooling efforts to build a number of major projects of pollution treatment;
6. strengthening the government's functions of environmental protection and intensifying environmental management;

INDUSTRY OVERVIEW

7. promoting scientific and technological progress and developing the environmental protection industry;
8. deepening environmental publicity and education and encouraging public participation in environmental protection; and
9. actively carrying out international cooperation and absorbing foreign technology and funds for environmental protection.

Both SETC and SEPA have developed policies and guidelines relating to the promotion and implementation of cleaner production.

SETC has issued guidelines for implementing a demonstration site programme for the promotion of cleaner production. The aims of the demonstration site programme are to raise public and industrial awareness of cleaner production, encourage factories to increase their economic benefit and competences and establish demonstration projects and gain experience through their implementation. These guidelines identify ten cities namely Beijing, Shanghai, Tianjin, Chongqing, Shenyang, Taiyuan, Jinan, Kunming, Lanzhou and Fuyang as demonstration sites for the promotion and introduction of cleaner production. The guidelines also identify five priority sectors as designated demonstration industries, consisting of the petrochemical industry, metallurgical industry, chemical industry (nitrogen fertilizer, phosphate fertilizer, chloro-alkali and sulphuric acid), light industry (pulp and paper, fermentation and beer-making) and ship building.

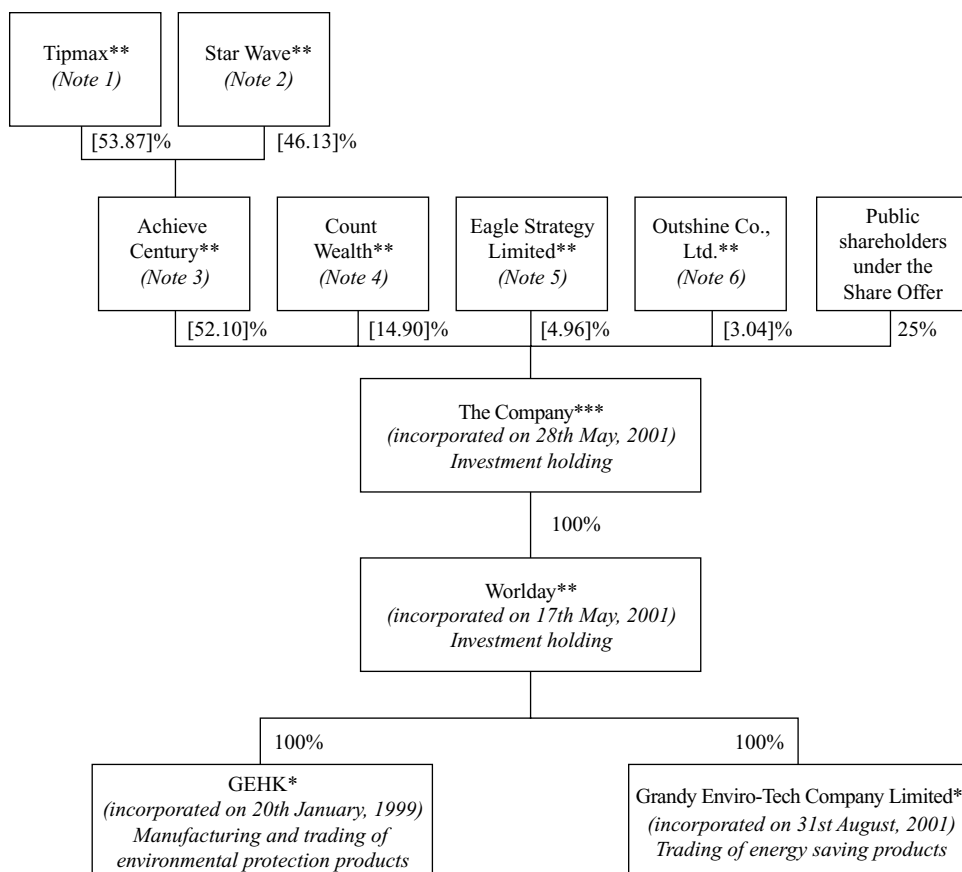
Waste

In the PRC, there are many chemical processes that are operating with reactors of inappropriate design. Inadequate mixing and heat transfer operations give rise to formation of by-products, which require energy-intensive down-line separation and then disposal of waste. In 1994, approximately 60% of wastewater (as noted in the section on water) was estimated to be discharged as aqueous effluent into rivers and lakes. In 1999, the attainment rate of industrial wastewater discharged which met the required standard was approximately 66.7%. By adopting best practice design of chemical reactors, a significant proportion of the waste generated from the chemical and other process industries can be eliminated, thus reducing the amount of waste that needs to be treated. Accordingly, the Directors believe that in the coming decade there is likely to be a demand for improving the efficiency of chemical companies in converting raw materials into the desired products and that the benefits of process improvement will increase profits for such companies and reduce the environmental impact of their processes.

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GROUP STRUCTURE

On 17th July, 2001, the Group completed the Reorganisation in preparation for the listing of the Shares on GEM. Pursuant to the Reorganisation, the Company became the ultimate holding company of the Group. The corporate structure and the main business activities of the principal members of the Group immediately after the completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme and options that may be granted under the Share Option Scheme are not exercised) are set out below:



*** incorporated in the Cayman Islands

** incorporated in BVI

* incorporated in Hong Kong

Notes:

1. Tipmax is a limited liability company incorporated in BVI and the entire issued share capital of Tipmax is beneficially owned by Mr. Tsui.

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2. Star Wave is a limited liability company incorporated in BVI and the issued share capital of Star Wave is beneficially owned as follows:

Name of shareholder	Number of shares held in Star Wave	Approximate percentage of shareholding in Star Wave
Mr. Hoang	4,055	40.55%
Mr. Yeung	1,351	13.51%
Mr. Leung	1,351	13.51%
Mr. To	1,081	10.81%
Mr. Mio	1,081	10.81%
Mr. Chan	1,081	10.81%
Total	<u>10,000</u>	<u>100.00%</u>

3. Achieve Century is a limited liability company incorporated in BVI and the issued share capital of Achieve Century is beneficially owned as follows:

Name of shareholder	Number of shares held in Achieve Century	Approximate percentage of shareholding in Achieve Century
Tipmax (<i>Note 1</i>)	4,175	53.87%
Star Wave (<i>Note 2</i>)	<u>3,575</u>	<u>46.13%</u>
Total	<u>7,750</u>	<u>100.00%</u>

4. Count Wealth is a limited liability company incorporated in BVI and the entire issued share capital of Count Wealth is beneficially owned by Kong Sun. Mr. Kong is the representative of Count Wealth on the Board.
5. Eagle Strategy Limited is a limited liability company incorporated in BVI and its sole shareholder is independent of the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates and has not been involved in the management of the Company.
6. Outshine Co., Ltd. is a limited liability company incorporated in BVI and its existing shareholders are independent of the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates and have not been involved in the management of the Company.

HISTORY AND DEVELOPMENT

The Group was established with the aim to exploit business opportunities in the environmental protection industry, initially in Hong Kong. GEHK was incorporated by Mr. Tsui, Mr. Yeung, Mr. Leung and Mr. Hoang on 20th January, 1999.

Mr. Hoang has been a friend of Mr. Tuan Vo, one of the beneficial owners of Garnett, since the early 1990s. In 1998, Mr. Tuan Vo introduced the Enzyme-based Materials to Mr. Tsui, Mr. Yeung and Mr. Leung through Mr. Hoang. After various testings of the Enzyme-based

Materials by Mr. Tsui, Mr. Yeung, Mr. Leung and Mr. Hoang, they believed that there was business opportunity in selling the Enzyme-based Materials. Mr. Tsui, Mr. Yeung, Mr. Leung and Mr. Hoang then commenced negotiations with Mr. Tuan Vo for the continuous supply of the Enzyme-based Materials. After various negotiations, GEHK entered into a sole agency agreement with Garnett on 1st November, 1998 for the exclusive right to distribute and sell the Enzyme-based Materials in Hong Kong for a term of five years expiring on 31st October, 2003 and thereafter to be renewed automatically for one or more periods of five years subject to the conditions in the sole agency agreement. The exclusive right as mentioned above was subject to a requirement of 30% shareholding of Mr. Hoang in GEHK and any changes of Mr. Hoang's shareholding during the term of the sole agency agreement without the consent from Garnett would lead to the immediate termination of the sole agency agreement without further notice. Pursuant to the sole agency agreement, GEHK was required to pay 40% of GEHK's net profit after tax to Garnett for every 6-month period and certain losses could be carried forward to set off the profit. In addition, the Group had to pay for the Enzyme-based Materials purchased from Garnett. The sole agency agreement was signed in November 1998 before the incorporation of GEHK. This is because when the founders of the Group were negotiating with Garnett regarding the sole agency agreement, they intended to incorporate a new company to carry on the business and the sole agency agreement was prepared on the basis that GEHK would be a party thereof. However, owing to some delay in the process of the incorporation, the certificate of incorporation of GEHK was issued only after the date of the sole agency agreement. In a deed of confirmation and rectification and supplemental agreement dated 15th November, 2001, GEHK has ratified the sole agency agreement dated 1st November, 1998 to the same extent as if GEHK had already been incorporated on the date of the sole agency agreement and both Garnett and GEHK have declared and confirmed that the sole agency agreement shall be deemed for all intents and purposes to have been validly executed.

In late 1999, Mr. Tuan Vo introduced Mr. Uyama to GEHK, from whom Garnett purchased the Enzyme-based Materials. As Mr. Uyama, a Japanese scientist and the manufacturer of the Enzyme-based Materials, considers that the involvement in the exporting of the Enzyme-based Materials may affect his concentration on his research and development and production of the Enzyme-based Materials in Japan, Mr. Uyama decided to sell the Enzyme-based Materials on a continuous basis to Garnett so as to avoid any communication problem in exporting the Enzyme-based Materials. As (i) the management of GEHK met Mr. Tuan Vo before meeting with Mr. Uyama and the sole agency agreement dated 1st November, 1998 was entered into before Mr. Uyama was introduced to GEHK; (ii) the arrangement under the sole agency agreement dated 1st November, 1998 has been working so far to the satisfaction of the Directors; and (iii) the Directors believe that they have both moral and contractual obligations to maintain the arrangement with Garnett, the Directors decided to maintain the arrangement with Garnett but invited Mr. Uyama to become one of the technical advisers of the Group.

Subsequently, GEHK entered into a supplemental agreement to the sole agency agreement with Garnett on 23rd March, 2000. Pursuant to the supplemental agreement dated 23rd March,

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2000, the following principal amendments were made to the original terms of the sole agency agreement: (i) the territory within which GEHK was granted the right to distribute, sell and use the Enzyme-based Materials was extended to worldwide except North America and Japan; (ii) the term of the sole agency agreement was extended to 30 years expiring on 31st October, 2028 and thereafter to be renewed automatically for one or more periods of twenty years; (iii) Garnett's share of GEHK's net profit after tax was reduced from 40% to 25%; (iv) arbitration shall be governed by the laws of Hong Kong; and (v) the provision regarding Mr. Hoang's shareholding in GEHK was deleted. The effective date of the supplemental agreement was 23rd March, 2000 and it has no retrospective effect.

Pursuant to another supplemental agreement dated 15th June, 2001, the sole agency agreement was further amended to exclude South Korea from the territory in which GEHK can distribute or sell the Enzyme-based Materials, and Garnett's share of GEHK's net profit after tax was further reduced from 25% to 10%. The effective date of the other supplemental agreement was 15th June, 2001 and it has no retrospective effect.

Subsequently, pursuant to a deed of confirmation and rectification and supplemental agreement dated 15th November, 2001, GEHK and Garnett both declared and confirmed that the sole agency agreement entered into prior to the incorporation of GEHK shall be deemed for all intents and purposes to have been validly executed and GEHK shall also have the right to use and deal with the Enzyme-based Materials. The effective date of the deed of confirmation and rectification and supplemental agreement was 15th November, 2001. Save for the provisions for the rectification of the errors in the sole agency agreement and the ratification of the entering into of the sole agency agreement before the incorporation of GEHK in the deed of confirmation and rectification and supplemental agreement are retroactive, the other provisions are not retroactive. Achieve Century has, pursuant to an indemnity dated 26th April, 2002 given indemnity in favour of the Company (for itself and on trust for and on behalf of its subsidiaries) in connection with any liability which the relevant member of the Group may suffer as a result of (i) the sole agency agreement was entered into prior to the incorporation of GEHK; (ii) any breach of the provision regarding Mr. Hoang's shareholdings in GEHK; and/or (iii) any breach before the date of listing of the Shares on GEM by GEHK of the provisions in the Sole Agency Agreement regarding the use of the trade mark "Uyama Enzyme".

Pursuant to the supplemental agreement dated 31st January, 2002, with effect from 31st January, 2002, in calculating GEHK's net profit for the purpose of the sole agency agreement dated 1st November, 1998, GEHK shall be entitled to carry forward all its loss each year (if any) to offset profits in the following years until all such loss has been fully offset. Whilst the supplemental agreement has no retrospective effect. The intention of GEHK is that in calculating its net profit, GEHK shall be entitled to carry forward all its loss from 1st November, 1998 (if any) to offset profits in the future. Up to the Latest Practicable Date, due to the accumulated loss, GEHK has not yet shared any profit with Garnett.

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As advised by the legal advisers of the Company, the Sole Agency Agreement has been duly executed and delivered by or on behalf of GEHK, and constitutes the valid and binding obligations of GEHK in accordance with the terms thereof.

The Directors have confirmed that the Group has fully complied with the provisions as stated in the Sole Agency Agreement save for the provision regarding Mr. Hoang's shareholding in GEHK. However, as advised by the legal advisers of the Company, the provision regarding Mr. Hoang's shareholding in GEHK was cancelled and treated as void and could never be used in the future against GEHK according to the supplemental agreements dated 23rd March, 2000 and dated 15th June, 2001 respectively.

By using the Enzyme-based Materials as raw materials and conducting various performance evaluations of the solutions made from the Enzyme-based Materials, the Group commenced the production of *GreaseKil*, *EcoTonic* and *EcoKleen* in January 1999 and *FlusKleen* in December 1999. The Group possesses the ownership of such products.

In March 1999, the Group commenced its IAQ management service by purchasing a robotic cleaning system in which the robot inspects the condition of an air duct before conducting the cleaning.

By utilising the functions of the Enzyme-based Materials, the Group commenced the production of a series of retail products namely *Aircon Fresh*, *Home Fresh*, *Shoe Fresh* and *Pet Luv* in Hong Kong. *Pet Luv* was launched in December 1999 while *Aircon Fresh*, *Home Fresh* and *Shoe Fresh* were launched in September 2000. The Group distributed its retail products by appointing various agents.

In November 2000, in response to energy wastage problem, the Group commenced the sales and marketing of energy efficient electronic ballasts to reduce energy wastage. Electronic ballast is an electrical energy saver for fluorescent tubes.

On 27th June, 2001, the Group successfully invited Kong Sun, a company of which the shares are listed on the Main Board of the Stock Exchange, to invest in the Group as a strategic investor. Kong Sun is principally engaged in property development and investment, finance and information technology development as well as investment activities. Pursuant to the agreement for acquisition of shares made with Kong Sun on 27th June, 2001, Kong Sun, through Count Wealth, subscribed for 338 shares of US\$1.00 each in the capital of the Company (representing 3.38% of the then enlarged issued share capital of the Company) for the consideration of \$3,000,000 and acquired 1,912 shares of US\$1.00 in the capital of the Company (representing 19.12% of the then enlarged issued share capital of the Company) from Tipmax in return for the allotment to Tipmax of 85,000,000 ordinary shares of \$0.20 each in the issued share capital of Kong Sun. Since property management companies comprise one of the major groups of clientele for the Group's products and services, the Directors believe that the alliance with

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Kong Sun will benefit the Group's marketing activities through the networks of Kong Sun in property investment and management in both Malaysia and the PRC where the Group intends to expand its businesses in the future. As at the Latest Practicable Date, the Group and Kong Sun had not entered into any formal agreement for marketing and/or business development of the Group's products and/or services. The management of the Group and Kong Sun are still discussing the most appropriate form of business co-operation, for example, whether the co-operation should be in the form of a joint venture company or through a marketing agency agreement, and no final decision has yet been made.

On 22nd August, 2001, the Company entered into a note instrument and issued the Convertible Notes and raised \$10 million pursuant to the terms of the Subscription Agreement. Proceeds from the issue of the Convertible Notes were used as general working capital to finance the purchase of the Light Eco systems. Pursuant to the Note Instrument, the Company agreed to pay \$12,000,000 to the Convertible Note Holders to redeem all the Convertible Notes within three business days after the Listing Date.

In view of the positive response from its customers in respect of electronic ballasts, the Group commenced the sale of another energy saving product namely Light Eco systems in September 2001. On 1st November, 2001, Grandy Enviro-Tech entered into an exclusive distribution agreement with Ilum-a-Lite for the exclusive right to sell and promote in Hong Kong, Macau, the PRC, Malaysia and Singapore energy saving products which include the Light Eco systems manufactured by Ilum-a-Lite and its suppliers for a term of three years commencing on 1st November, 2001.

With a view of acquiring or developing, through research and development projects, its own proprietary technology in the field of environmental protection, the Group established its product development team upon the employment of Dr. Christopher Harold Phillips in November 2001 as its senior project manager. The Directors believe that Dr. Phillips possesses the relevant experience in the field of environmental protection and chemical engineering fields and is well capable of leading the Group's product development team.

GEHK entered into a sales consultancy agreement with BHR Group Limited on 21st December, 2001. Pursuant to the sales consultancy agreement, the Group will have access to solutions generated through the use of proven consultancy tools including but not limited to: design guidelines and scale-up rules for chemical reactor and other plant equipment; advanced modelling and design services; component testing and life-time prediction services for parts such as seals, gaskets, hoses; well-established know-how in the area of design and optimisation of drinking water and wastewater treatment processes.

The Directors believe that within approximately three years of development, the Group has successfully established a diversified customer base since the incorporation of GEHK in January 1999.

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Since the incorporation of GEHK on 20th January, 1999, the Group has substantially been under the same management and ownership.

At the time of the incorporation of GEHK, Mr. Leung, Mr. Hoang, Mr. Yeung and Rich Shine International Limited, of which Mr. Tsui was the majority shareholder, were the only directors and shareholders of GEHK, holding 10%, 30%, 10% and 50% respectively of the then issued share capital of GEHK.

On 9th August, 2000, Mr. Hoang transferred 1,500 shares in GEHK, representing 15% of the then issued share capital of GEHK, to Rich Shine International Limited; Mr. Leung transferred 400 and 100 shares in GEHK, representing 4% and 1% of the then issued capital of GEHK, to Mr. Chan and Mr. Mio respectively; Mr. Yeung transferred 300 and 200 shares in GEHK, representing 3% and 2% of the then issued capital of GEHK, to Mr. Mio and a Mr. Ip Kwok Choi respectively; and Rich Shine International Limited transferred 200 shares in GEHK, representing 2% of the then issued capital of GEHK, to Ms. Ho Shuk Man Gale, the spouse of Mr. To.

Mr. Ip Kwok Choi is an independent third party not connected with the Directors, the chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or any other shareholders of the Company or any of their respective associates.

On 31st March, 2001, the share capital of GEHK was increased from \$10,000 to \$3,010,000 which was satisfied by the capitalisation of a shareholder's loan due to Mr. Tsui. An additional 3,000,000 shares of \$1.00 each in GEHK were allotted, as to 150,000 shares (representing approximately 4.98% of the then enlarged issued share capital of GEHK) to Mr. Leung, as to 450,000 shares (representing approximately 14.95% of the then enlarged issued share capital of GEHK) to Mr. Hoang, as to 150,000 shares (representing approximately 4.98% of the then enlarged issued share capital of GEHK) to Mr. Yeung, as to 120,000 shares (representing approximately 3.99% of the then enlarged issued share capital of GEHK) to Mr. Chan, as to 120,000 shares (representing approximately 3.99% of the then enlarged issued share capital of GEHK) to Mr. Mio, as to 120,000 shares (representing approximately 3.99% of the then enlarged issued share capital of GEHK) to Mr. To, and as to the remaining 1,890,000 shares (representing approximately 62.79% of the then enlarged issued share capital of GEHK) to Mr. Tsui.

After such allotment, the then issued share capital of GEHK was held as to approximately 0.21% by Rich Shine International Limited, as to 5% by Mr. Leung, as to 15% by Mr. Hoang, as to 5% by Mr. Yeung, as to 4% by Mr. Chan, as to 4% by Mr. Mio, as to approximately 3.99% by Mr. To, as to approximately 0.01% by Ms. Ho Shuk Man Gale, as to approximately 62.79% by Mr. Tsui and as to approximately 0.01% by Mr. Ip Kwok Choi.

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On 20th April, 2001, Rich Shine International Limited transferred all its shares in GEHK, representing approximately 0.21% of the then issued share capital of GEHK to Mr. Tsui, and Mr. Ip Kwok Choi transferred all his 200 shares of \$1.00 each in GEHK, representing approximately 0.01% of the then issued share capital of GEHK, to Mr. To and on 9th June, 2001, Ms. Ho Shuk Man Gale also transferred all her 200 shares of \$1.00 each in GEHK, representing approximately 0.01% of the then issued share capital of GEHK, to Mr. To.

After such transfers, the then issued share capital of GEHK were held as to 5% by Mr. Leung, as to 15% by Mr. Hoang, as to 5% by Mr. Yeung, as to 4% by Mr. Chan, as to 4% by Mr. Mio, as to 4% by Mr. To and as to 63% by Mr. Tsui.

Mr. Tsui transferred all his shares in GEHK to Tipmax on 15th June, 2001 when he became the sole beneficial owner of the share capital of Tipmax.

On 18th June, 2001, Tipmax acquired the only issued share of the Company from Offshore Incorporations (Cayman) Limited and became the sole shareholder of the Company.

On 26th June, 2001, one share in the capital of Worlday was allotted to the Company and shares in the capital of Star Wave were allotted to Mr. Hoang, Mr. Yeung, Mr. Leung, Mr. Chan, Mr. To and Mr. Mio. As from that date, Worlday became a wholly-owned subsidiary of the Company. Mr. Hoang, Mr. Yeung, Mr. Leung, Mr. Chan, Mr. To and Mr. Mio have since that date been the only beneficial owners of the shares of Star Wave. Mr. Hoang, Mr. Yeung, Mr. Leung, Mr. Chan, Mr. To and Mr. Mio transferred all their shares in GEHK to Star Wave on 27th June, 2001.

The Company entered into an agreement for the acquisition of shares with, inter alia, Kong Sun and Count Wealth on 27th June, 2001, whereby Count Wealth would, subject to the completion of the Reorganisation, become a shareholder of the Company.

On 17th July, 2001, pursuant to the agreement for acquisition of shares entered into between the Company, Kong Sun and Count Wealth and in preparation for the listing of the Shares on GEM, the Reorganisation, which involved the acquisition by Worlday of the entire issued share capital of GEHK from Tipmax and Star Wave in exchange for the allotment and issue of new shares of US\$1.00 each in the Company to Tipmax and Star Wave, credited as fully paid, was completed whereby the Company became the ultimate holding company of the Group. Particulars of the agreement for acquisition are disclosed in paragraph (a) under the subsection headed "Summary of material contracts" in the section headed "Further information about the business of the Group" in Appendix IV to this prospectus.

After completion of the Reorganisation, Count Wealth became a shareholder of 22.5% of the then issued share capital of the Company on 18th July, 2001.

BUSINESS

In order to facilitate the listing of the Company, on 16th October, 2001, the authorised share capital of the Company was converted from US\$50,000 to \$390,000 and the 50,000 shares of \$7.80 each in the capital of the Company after such conversion were then sub-divided into 39,000,000 Shares.

On 10th November, 2001, Tipmax and Star Wave, holding 41.75% and 35.75% of the then issued share capital of the Company respectively, transferred all their Shares to Achieve Century in return for the issue and allotment to each of them shares of US\$1.00 each in the capital of Achieve Century. Since that date, Achieve Century has been held as to 53.87% by Tipmax and 46.13% by Star Wave.

On 27th November, 2001, pursuant to the Eagle Option Deed and the Outshine Option Deed, additional shares were issued and allotted to Eagle Strategy Limited and Outshine Co., Ltd. which respectively acquired 6.2% and 3.8% of the then enlarged issued share capital of the Company.

The authorised share capital of the Company was increased from \$390,000 to \$15,000,000 on 20th April, 2002 by the creation of an additional 1,461,000,000 Shares.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Since the Group's inception of business in 1999, the Group has been focusing on providing environmental protection services. The following is a summary of the Group's active business pursuits since the incorporation of GEHK on 20th January, 1999 and up to the Latest Practicable Date.

For the period from 20th January, 1999 to 31st March, 2000

- | | |
|---------------------------------|--|
| Sales and marketing strategy | <ul style="list-style-type: none">Built up the reputation of and clientele for the environmental technology products of the Group by presenting product demonstrations to potential customers |
| Product and service development | <p><i>Water quality improvement</i></p> <ul style="list-style-type: none">Introduction of <i>GreaseKil</i> and <i>EcoTonic</i> in January 1999Introduction of <i>FlusKleen</i> in December 1999 <p><i>Air quality improvement</i></p> <ul style="list-style-type: none">Introduction of <i>EcoKleen</i> in January 1999Introduction of <i>Pet Luv</i> in December 1999 |

BUSINESS

- Evaluation of the effectiveness of *EcoKleen* in the removal of hydrogen sulphide, total hydrocarbons and fungi at refuse collection point in October and November 1999
 - Introduction of robotic air duct cleaning system for IAQ management in March 1999
- Business development
- Recruited six technicians for operation and service maintenance
 - Developed the market of air and water quality improvement by utilising the Enzyme-based Materials
 - Conducted an IAQ seminar for a reputable catering service provider in Hong Kong
- Turnover
- Total turnover during the period was in the total of approximately \$2.2 million with more than 150 customers

Deployment of human resources

As at 31st March, 2000,

• Management and administration	1
• Finance and accounting	1
• Product development	2
• Sales and marketing	3
• Production and warehousing	1
• Technical support	8
	<hr/>
	16
	<hr/> <hr/>

For the period from 1st April, 2000 to 31st March, 2001

- Sales and marketing strategy
- Built up the reputation of and clientele for the environmental technology products of the Group by presenting product demonstrations to potential customers
 - Provided a one-stop-shop service for customers for problem identification, evaluation of possible solutions and implementation of solutions in water and air quality improvement
- Product and service development
- Water quality improvement*
- Performed research in chemical wastewater treatment processes to test the efficiency of Enzyme-based Materials

BUSINESS

Air quality improvement

- Launched a series of retail products for air quality improvement including *Aircon Fresh*, *Home Fresh* and *Shoe Fresh* in September 2000
- Performed product evaluation in IAQ improvement to test the efficiency of *EcoKleen* in removing indoor air pollutants in April 2000
- Further product evaluation in the application of *EcoKleen*, such as treatment of nicotine and methane gases in November 2000

Energy saving

- Commenced the sale of electronic ballasts in November 2000

Business development

- Set-up the Group's workshop in Hunghom for the production of the Group's products made from Enzyme-based Materials
- Launched the Group's homepage: www.grandy.com.hk
- Arranged an IAQ management seminar for a hotel association in Hong Kong

Turnover

- Achieved approximately \$7.1 million which represents an increase of approximately 223% in comparison with the preceding financial period, with over 150 customers

Deployment of human resources

As at 31st March, 2001,

• Management and administration	3
• Finance and accounting	2
• Product development	2
• Sales and marketing	5
• Production and warehousing	1
• Technical support	8
	<hr/>
	21
	<hr/> <hr/>

BUSINESS

For the period from 1st April, 2001 to the Latest Practicable Date

- Sales and marketing strategy
- Extended the service range to combat energy wastage problems and sought for strategic investors
 - Enhanced the knowledge support of the Group by the employment of additional product development and evaluation staff

Product and service development

Water quality improvement

- Commenced the sourcing of bio-farms for wastewater treatment and grease trap maintenance
- Commenced the sourcing of PCO reactors for wastewater treatment
- Collaborated with the Hong Kong University of Science and Technology for the recycling of wastewater

Air quality improvement

- Entered into a co-operative agreement with Lifa pursuant to which Grandy Enviro-Tech shall act as the sole agent for the marketing of the IAQ management service provided by Lifa to Grandy Enviro-Tech customers in Hong Kong and Macau for an initial period of six months
- Commenced the sourcing of PCO reactors for IAQ improvement

Energy saving

- Commenced the importation of the Light Eco systems to combat energy wastage problems
- Entered into an exclusive distribution agreement with Ilum-a-Lite for Light Eco systems
- Recruited a chartered engineer with a doctor's degree in November 2001 for service development on heat transfer devices and chemical processing improvement technology

BUSINESS

- Entered into a sales consultancy agreement with BHR Group for chemical process improvement services
- Business development
- Secured Kong Sun as a strategic investor
 - Recruited qualified technical staff for product and technology development
- Turnover
- Unaudited turnover for the 11 months ended 28th February, 2002 amounted to approximately \$22.4 million, with over 100 customers
- Fund raising
- \$3 million investment from Kong Sun in July 2001

Deployment of human resources	As at the Latest Practicable Date,
<ul style="list-style-type: none"> • Management and administration • Finance and accounting • Product development • Sales and marketing • Production and warehousing • Technical support 	<p style="margin: 0;">4</p> <p style="margin: 0;">4</p> <p style="margin: 0;">3</p> <p style="margin: 0;">9</p> <p style="margin: 0;">2</p> <p style="margin: 0;">12</p> <hr style="width: 100%;"/> <p style="margin: 0; text-align: right;">34</p> <hr style="width: 100%;"/>

DESCRIPTION OF BUSINESS

The Group provides one-stop-shop environmental protection services in the field of combating water and air pollution and energy wastage. By using the Enzyme-based Materials and conducting performance evaluations of the solutions made from the Enzyme-based Materials, the Group produces various products for combating water and air pollution by reducing the concentration of the pollutants through biological decomposition. To combat problems of energy wastage, the Group sells a range of energy saving equipment which are the Light Eco systems and electronic ballasts to reduce energy wastage of its customers.

After the purchase of the Enzyme-based Materials in powder form, the production staff of the Group dissolve the Enzyme-based Materials in water and carry out an aeration process to activate the Enzyme-based Materials. After the activation of the Enzyme-based Materials, the production staff of the Group further dilute the Enzyme-based Materials in different concentrations, and non-disease causing microorganisms are sometimes added to the solution so as to produce various products to combat water and air pollution. The Group's products produced from the Enzyme-based Materials are *GreaseKil*, *EcoTonic*, *FlusKleen*, *EcoKleen*, *Aircon Fresh*, *Home Fresh*, *Pet Luv* and *Shoe Fresh*.

Water quality improvement

By utilising the Enzyme-based Materials, the Group manufactures three products, namely *GreaseKil*, *EcoTonic* and *FlusKleen* for carrying out water quality improvement services. The intended functions and coverage of each product are as follows:

GreaseKil

GreaseKil is a natural enzyme-based product for treatment of wastewater that has a high O&G content. *GreaseKil* reduces O&G, COD, BOD, SS and odour. It also promotes decomposition of sludge, resulting in an improvement of the quality of wastewater for enabling successful appeals to be made to the Drainage Services Department of the Government against TES. The application areas of *GreaseKil* include hydro-vents, grease traps, central sewage tanks, septic tanks, sewage treatment plants and other municipal waste treatment. In order to utilise *GreaseKil* more effectively, it is integrated with an automatic enzyme dripping system that regularly releases *GreaseKil* to maintain its concentration in the wastewater. The target customers of *GreaseKil* include restaurants, fast food chains, hotels and karaoke bars for TES appeal. The Group's technical personnel visit the clients' sites periodically to carry out inspections and to refill the tanks with *GreaseKil* as required.

EcoTonic

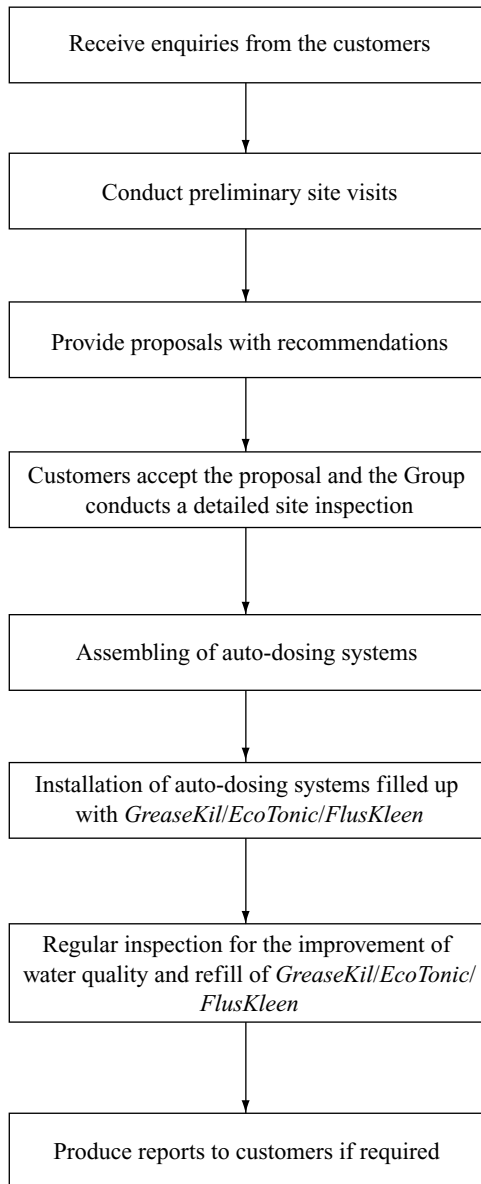
EcoTonic is a natural water-balancing agent that can inhibit the growth of algae, and hence can enhance the growth of plants and fish in ponds. *EcoTonic* is applicable to water quality improvement, including treatment of water tanks and removal of algae and other pollutants for all types of artificial ponds and fountains. The target customers of *EcoTonic* include owners and management companies of real properties with ponds. The Group's technical personnel visit the clients' sites periodically to carry out inspections and to refill the tanks with *EcoTonic* as required.

FlusKleen

FlusKleen is a natural deodouriser and cleaning solution for flushing tanks. The functions of *FlusKleen* include deodourisation and purification of flush water, reduction of water scale, inhibition of the growth of the bacterial colonies and degradation of sludge so as to reduce the chance of clogging pipes. *FlusKleen* is applicable to all types of flushing tanks for flushing water and sewage maintenance. The target customers of *FlusKleen* include the Government, major owners and management companies of real properties. *FlusKleen* is installed with an auto-dosing system (automatic flushing water treatment system) that feeds enzyme solution daily into the header tank according to a pre-set programme. The Group's technical personnel visit the clients' sites periodically to carry out inspections and to refill the tanks with *FlusKleen* as required.

BUSINESS

The following chart sets out the procedural flow of the Group's water quality improvement service.



BUSINESS

Water quality improvement projects

The following is a summary of some prominent water quality improvement services provided by the Group to combat aqueous pollutants since its establishment.

Period/Expected Period	Location	Products applied by the Group
February 1999 – May 1999	a nunnery at Diamond Hill, Kowloon, Hong Kong	<i>EcoTonic</i>
August 1999 – January 2000	Chai Wan Park, Tsui Wan Street, Chai Wan, Hong Kong	<i>EcoTonic</i>
July 2000 – February 2001	15 pizza outlets in Hong Kong	<i>GreaseKil</i>
July 2000 – December 2000	Hong Kong University of Science and Technology, Clear Water Bay, New Territories, Hong Kong	<i>GreaseKil</i>
November 2000 – April 2002	Pacific Place I, 88 Queensway, Hong Kong	<i>FlusKleen</i>
January 2001 – December 2002	Cheung Kong Center, 2 Queen's Road Central, Hong Kong	<i>FlusKleen</i>
February 2001 – January 2002	The Landmark, Central, Hong Kong	<i>GreaseKil</i>
June 2001 – April 2002	Chuang's London Plaza, Jordon, Kowloon, Hong Kong	<i>GreaseKil</i>
May 2001 – April 2002	Tower One Exchange Square, 8 Connaught Place, Central, Hong Kong	<i>FlusKleen</i>
June 2001 – May 2002	Emperor Plaza, 55 Chung On Street, Tsuen Wan, New Territories, Hong Kong	<i>GreaseKil</i>
July 2001 – April 2002	One International Finance Centre, 1 Harbour View Street, Central, Hong Kong	<i>FlusKleen</i>
August 2001 – April 2002	Tower Two and Tower Three Exchange Square 8 Connaught Place, Central, Hong Kong	<i>FlusKleen</i>

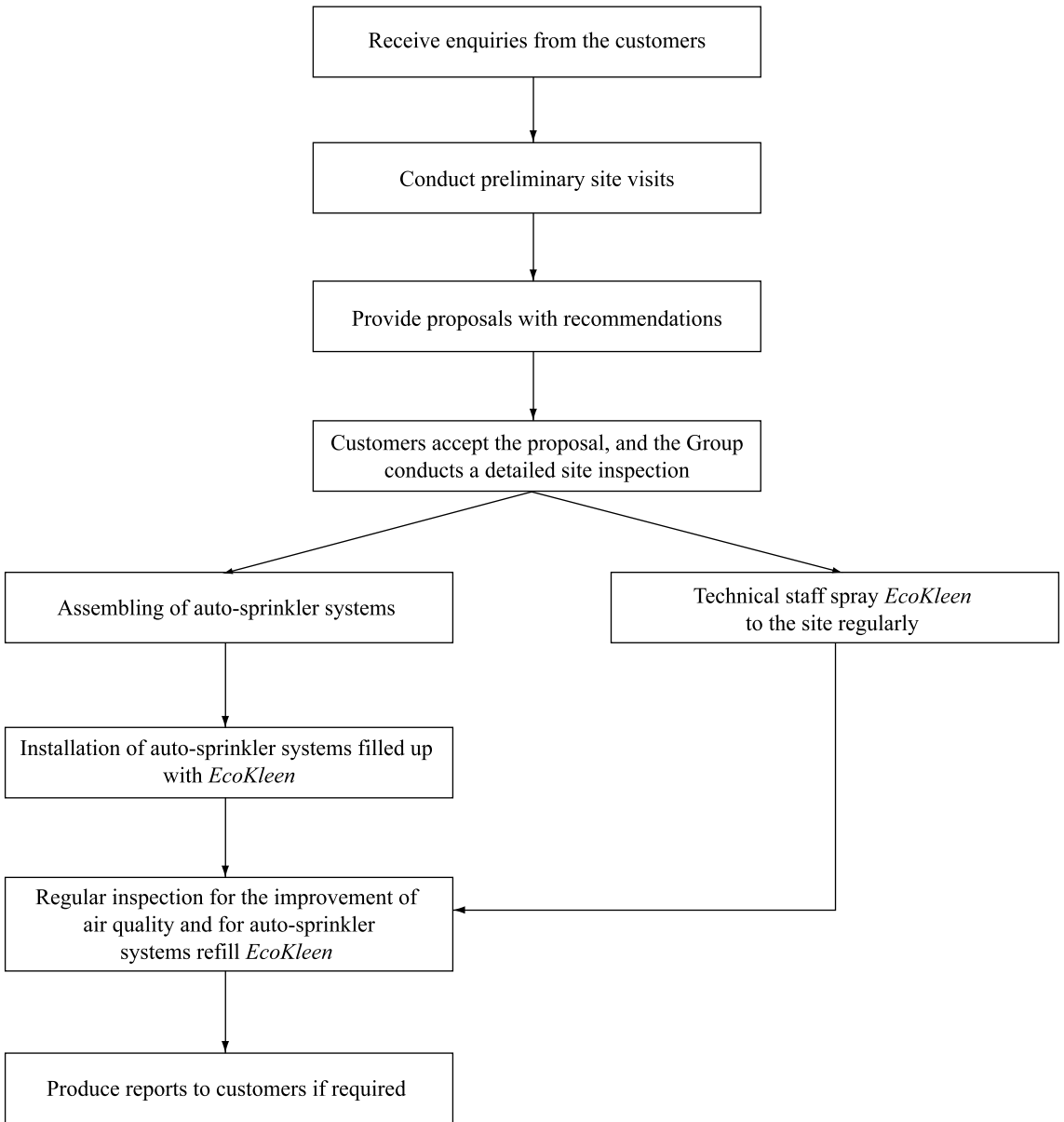
Air quality improvement services*EcoKleen*

The Group manufactures a natural deodourisation product known as *EcoKleen* that utilises an enzyme solution manufactured from the Enzyme-based Materials for degradation of pollutants in the air that cause foul odours. The functions of *EcoKleen* include the removal of foul odours, improvement of air quality, degradation of unpleasant smells and suppression of the growth of fungi and certain bacteria. *EcoKleen* can be applied for the cleaning of refuse rooms, garbage sites, ventilation systems and industrial buildings. The product is targeted at both commercial and household applications where the working or living environments are polluted with, for example, oil vapour, odour from garbage, cigarette smoke and odours from restroom facilities. The product is applicable to almost all facilities such as offices, restaurants, banquet and function rooms, hotel rooms, kitchens, factories, karaoke boxes, recreational clubs, garbage rooms, shoe cupboards, central air-conditioning ducts/outlets, slaughterhouses, farms, wet markets, dumpsites and public lavatories.

To facilitate the dispersal of *EcoKleen* as a fine mist into the air of the polluted environment, *EcoKleen* is supplied by the Group with a manual enzyme sprayer or a mist-producing system. By installing garbage chute auto-sprinkler systems, *EcoKleen* may also be applied in garbage rooms for deodourisation. The target customers of *EcoKleen* include the Government, major owners and management companies of real properties.

BUSINESS

The following chart sets out the procedural flow of the Group's air quality improvement service by *EcoKleen*.



BUSINESS

Retail products

The Group also sells a number of retail products by combining various enzymes with other minerals and microbes. Four major retail products of the Group are described as follows:

Products	Description and intended functions	Applications
<i>Aircon Fresh</i>	a natural deodouriser, which is specially designed for air-conditioners, and intended for removing unpleasant smells, inhibiting bacteria and mould growth.	<ul style="list-style-type: none">• all types of air conditioning systems.
<i>Home Fresh</i>	a natural household deodouriser which is intended for removing foul odours, preventing moulds.	<ul style="list-style-type: none">• all household areas, especially kitchen and bathroom; and• all types of users.
<i>Pet Luv</i>	a deodorising spray for pets and animals. <i>Pet Luv</i> is intended for elimination of body odour of pets, inhibition of bacterial growth on pets and deodourisation of bad smells from pets, furniture materials and pet bedding.	<ul style="list-style-type: none">• all kinds of pets.
<i>Shoe Fresh</i>	a natural shoe deodouriser with decomposition effect. <i>Shoe Fresh</i> is intended for removal of unpleasant odours from shoes, inhibition of bacteria growth and prevention of mould.	<ul style="list-style-type: none">• all types of users.

All retail products of the Group are sold in Hong Kong and none of them are sold on consignment basis. The sales of *Pet Luv* commenced in December 1999 by distribution to various retail pet shops and the sales of *Aircon Fresh*, *Home Fresh* and *Shoe Fresh* commenced in September 2000 through an independent agent.

IAQ management service

Controlling and minimising pollutant levels in buildings is an effective way of ensuring acceptable IAQ. Irritation and odour problems are often associated with VOCs, ozone and other toxic chemicals in the indoor environment, and such air pollutants are trapped and circulated within the building. Sources of these VOCs often include cleaning chemicals, interior furnishing, construction materials and tobacco smoke. Poor IAQ can be caused by ventilation system deficiencies, overcrowding, smoking tobacco, microbiological contamination, outside air pollutants, and off gassing from materials in the office and electrical equipment such as photocopiers.

The Group has a comprehensive IAQ management system to identify and eliminate IAQ problems in commercial buildings in Hong Kong. The scope of the Group's service ranges from IAQ investigations designed to identify IAQ problems to solving IAQ problems. In order to enhance the Group's competitiveness, Grandy Enviro-Tech entered into a project co-operation agreement with Lifa on 13th November, 2001. Lifa is a specialised IAQ technology, equipment, maintenance, cleaning service and consultancy company possessing leading edge technologies and technically advanced IAQ products for IAQ control and consultancy, airduct inspection, cleaning as well as renovation for hygiene services. Pursuant to the project co-operation agreement, Lifa and Grandy Enviro-Tech will either operate their businesses on normal "offer and acceptance" basis or establish case by case joint project organisations and accounts as agreed between Lifa and Grandy Enviro-Tech. Grandy Enviro-Tech principally acts as a consultancy and marketing agent to combat IAQ problem, whereas Lifa is a specialist in performing the construction and improvement work on site. Grandy Enviro-Tech therefore is responsible for the marketing and administration work while Lifa is in charge of technical support and work performance evaluation. A marketing fee/commission at the level of 10% to 30% of the payments from the projects will be received by Grandy Enviro-Tech. The level of marketing fee/commission will be determined by Grandy Enviro-Tech and Lifa on a project-by-project basis depending on the project scale, terms and conditions of the relevant project. Once payments are received from the clients, either Lifa or Grandy Enviro-Tech shall remit to the other its respective share of the payment and no service fee is required to be paid by Grandy Enviro-Tech to Lifa. Lifa is not connected with the Company and its subsidiaries, the directors and the chief executive of any member of the Group, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective beneficial owners and associates.

Basic steps in the Group's existing IAQ management services include pre-cleaning inspection and evaluation, air sampling, air quality analysis and thorough cleaning of air ducts consisting of the removal of associated dust and solid wastes by using an air duct cleaning machine and prevention of dust and debris generated during clean-up from entering occupied or clean areas. With a view to assessing the performance of the IAQ management system conducted by the Group, a post-cleaning inspection will be performed and recommendations

BUSINESS

will be made after each implementation of the Group's IAQ management system. The Group would use the robotic cleaning system to conduct the air duct inspection. A robot with real time camera will be placed in the air duct to inspect its condition. The Directors consider that it is important to check everything in the air duct system to ensure that the cleaning work can be performed accurately and efficiently. The robotic system would also be used in the final auditing of the improvement in the air duct condition.

The target customers under IAQ management services include the Government, major owners and management companies of real properties.

Air quality improvement projects

The following is a summary of some prominent air quality improvement services provided by the Group to combat air-borne pollutants since its establishment:

Period/Expected Period	Locations	Product/equipment used by the Group
April 2001	An international fast food chain in Lam Tin	Robotic cleaning system
June 2000 – July 2000	An international fast food chain in Shamshuipo	Robotic cleaning system
February 2001 – January 2002	The Landmark, Central, Hong Kong	<i>EcoKleen</i>
December 2001 – December 2002	12 California Red karaoke shops	<i>EcoKleen</i>

Energy saving products

In July 2000, two local electricity supply companies introduced an incentive scheme namely Non-residential Energy Efficient Lighting Rebate Programme to promote energy saving by offering rebates to non-residential customers for the installation of electronic ballasts as replacements of conventional light system to reduce energy consumption. The maximum rebate levels for each fluorescent tube are \$70 and \$40 for retrofit and new installation respectively. With a view to alleviating energy wastage problems and exploiting the incentive scheme, the Group has embarked on the sale and installation of energy saving systems namely the Light Eco systems and electronic ballasts in August 2001 and November 2000 respectively. The target customers of the Light Eco systems and electronic ballasts include the Government, major owners and management companies of real properties, restaurants, offices and factories. Currently, the Group is selling the Light Eco systems and electronic ballasts to customers with a payment term generally ranging from 30 to 90 days.

Light Eco system

The Light Eco system is a soft switching system that utilises an autotransformer and solid state soft switching and timing circuits under microprocessor-control which can save up to 30% of the power used by conventional fluorescent lights. Light Eco is compact and can be fixed to the distribution board or installed directly in the switched light line, before or after, the light switches. It can be mounted horizontally, vertically or hang from ceiling hangers. It can be installed without any wiring alternations or circuit modifications or significant interruption to lighting. The function of Light Eco is not limited by the number of fluorescent tubes installed in a light circuit.

Light Eco senses the level of power draw from a given room's lighting circuit and, when the lights are turned on, it provides the normal supply voltage that is required for the lights to strike. Once the power draw has become stable, Light Eco then switches to economy mode in which the voltage of the power supply is lowered, but still enabling the fluorescent tubes to operate in a stable manner.

In order to make the Light Eco systems more appealing to customers, the Group has offered an interest free instalment scheme to its customers since October 2001 whereby the Group will receive over a period of time by way of fixed monthly instalment payments as service fee from the customers. The period over which these monthly instalments are paid ranges from 12 to 18 months. The amount of fixed monthly instalment is determined with reference to the electricity fees estimated to be saved by the customers. Once the fixed monthly instalment is determined and the customer accepts the purchase of the Light Eco systems by monthly instalment, the customer has to pay that agreed amount of fixed monthly instalments regardless of the actual amount of electricity fees saved. Under this scheme, the customers are required to make the first monthly instalment payment upon the acceptance of the purchase of the Light Eco systems and the second instalment payment one month after the installation of the Light Eco systems. The purchase of the Light Eco systems by the Group was settled by sight letters of credit or open credits up to 30 days.

Electronic ballast

Electronic ballast is a solid state electricity energy saver for fluorescent tubes which is designed to replace all functions of the conventional control gear by increasing the lamp operating frequency from 50Hz to over 20kHz so that a lower power is required to start up the fluorescent tubes. The overall lighting system efficiency by using an electronic ballast can be increased by 20% to 30% in comparison with conventional control gear due to two main factors: improved light output at high frequency operation; reduced power losses in conventional electromagnetic ballast.

STRENGTHS

The Directors believe that the Group has already established its reputation in the Hong Kong environmental protection industry. The Group will continue to pursue its existing business strategies to support its continuous growth. The Group has already derived its competitive strengths, which are as follows.

Ability to source efficient and effective environmental products

The Group is well positioned to penetrate the environmental protection market as its products are predominantly derived from the Enzyme-based Materials, which are widely applicable and natural. The broad functions of enzymes provide the Group with flexibility and capability to expand the scope of the Group's product portfolio by offering different types of enzyme products in response to changes in market demand and conditions, thus enabling the Group to achieve diversification of its business and economies of scale.

Established good relationships with suppliers

The Group has established good relationships and worked closely with its suppliers. These good working relationships enable the Group to gain sufficient technical support for its products and services, thereby enhancing the Group's profitability and competitiveness. With a view to establishing and maintaining a long-term strategic relationship with Garnett, being the supplier of the Enzyme-based Materials to the Group, the Group and Garnett entered into the Sole Agency Agreement. Details of the Sole Agency Agreement are set out in the subsection headed "Supplies" in the section headed "Business" in this prospectus. Given the occurrence of similar environmental problems in other Asian countries and the Group's exclusive right for the sale and distribution of, and the right to use, the Enzyme-based Materials in certain territories, the Directors believe that the Group is well positioned to capitalise on the growing environmental protection market in Hong Kong and has the potential, where appropriate, to make strategic investments in other Asian countries, such as the PRC, subject to compliance with the law and regulations of the relevant jurisdiction.

Established good relationships with customers

The Group has established good and active long term relationships with its customers by providing value-added products and/or services as well as a series of customer services which consist of professional pre-sales consultation, product testing and installation, and after-sales technical support, repair and maintenance, allowing the Group to attain direct market feedback regarding its products and service quality.

Management and technical personnel expertise

The Group has capitalised on the knowledge and expertise of the Group's management in environmental protection products and/or business management and the technical personnel in the environmental protection industry. In addition, the Group has a product development team led by a senior project manager with a doctor of philosophy degree in chemistry who is a chartered engineer as well as being a chartered chemist with experience and a track record in the environmental and related fields, that has the capability to develop a broad range of new products and to improve existing products. The Directors believe that the management's experience and success to date in operating the Group's business makes the Group ready for the challenges of operating in an increasingly competitive industry.

Leveraging on the Group's professional knowledge and experiences in the environmental protection market in Hong Kong and its well established relationships with its suppliers and customers, the Directors also consider that the Group is well positioned to capture the anticipated growth in demand for environmental protection products and services in the coming years.

Marketing strategy and extensive market coverage

Given the functions of the Group's products and services, the Group has established a diversified customer base covering sectors, such as public, commercial, industrial and household sectors. The Directors expect that the Group's range of products and services, together with its extensive customer base, will allow the Group to capture a substantial market share in the environmental protection market in Hong Kong and, possibly, in other Asian countries. The Directors believe that the Group's existing customer base in Hong Kong will pave the way for the extension of the Group's distribution network and the expansion of its business operation to the PRC market.

SALES AND MARKETING

In developing and exploring the environmental protection market in Hong Kong, the Group relies on its clientele built up by the Directors and other sales and marketing staff. The Directors believe that the established relationship with the Group's customers has been an integral part of the success of the Group. The Group has established a diversified base of customers from various sectors including public, commercial, industrial and household sectors. Some of the prominent clients of the Group include Hongkong Land (Property Management) Limited, Guardian Property Management Limited, Nixon Cleaning Company Limited, Swan Hygiene Services Limited, FPDSavills Property Management Limited, Hong Kong Aircraft Engineering Company Limited (HAECO), California Red Limited, Optimum Engineering

BUSINESS

Limited and ISS Servisystem (HK) Limited. The Group will continue its present marketing strategies and expand its market share with regard to the following groups of customers:

1. the Government, major owners and management companies of real properties to provide total solutions to property management in an environmentally-friendly way for all kinds of products of the Group;
2. restaurants, fast food chains, hotels and karaoke bars for *GreaseKil* and *EcoKleen*; and
3. retailers to promote environmentally-friendly deodourisers/sanitiser including *Aircon Fresh*, *Home Fresh*, *Pet Luv* and *Shoe Fresh* to the household market. The Group distributes such retail products by appointing various agents.

To cope with the demand for cost saving, the Group focuses on energy saving equipment which are the Light Eco systems and electronic ballasts to alleviate energy wastage of its customers. Currently, the Group is selling the Light Eco systems and electronic ballasts to customers with a payment term generally ranging from 30 to 90 days. In order to make the Light Eco systems more appealing to customers, the Group has offered an interest free instalment scheme to its customers since October 2001 whereby the Group will receive over a period of time by way of fixed monthly instalment payments as service fee from the customers. The period over which these monthly instalments are paid ranges from 12 to 18 months. The amount of fixed monthly instalment is determined with reference to the electricity fees estimated to be saved by the customers. Once the fixed monthly instalment is determined and the customer accepts the purchase of the Light Eco systems by monthly instalment, the customer has to pay for that agreed amount of fixed monthly instalments regardless of the actual amount of electricity fees saved. Under this scheme, the customers are required to make the first monthly instalment payment upon the acceptance of the purchase of the Light Eco systems and the second instalment payment one month after the installation of the Light Eco systems. The purchase of the Light Eco systems by the Group was settled by sight letters of credit or open credits up to 30 days. As at 28th February, 2002, the trade receivable of the Group amounted to approximately \$9.8 million of which approximately \$7.6 million were the sales of Light Eco systems. The Directors estimated that the possible cumulative receivable of the sales of Light Eco systems as at 31st March, 2003 will be about \$12 million which represents approximately 29.6% of the adjusted net tangible assets as stated in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" in this prospectus.

The Group has also been working to extend its distribution network and will look for suitable agents to distribute its products in other areas including the PRC and Malaysia.

BUSINESS

The Directors believe that it is normal for the Group to allow a longer credit period for sales of new products during the initial marketing period as a marketing technique.

Sales to the largest five customers accounted for approximately 45.9%, 44.0% and 63.3% respectively of the Group's turnover for each of the Relevant Periods. Sales to the largest customer accounted for approximately 18.0%, 23.8% and 21.5% respectively of the Group's turnover for each of the Relevant Periods. As at the Latest Practicable Date, none of the Directors, nor any shareholder of the Company who will be interested in more than 5% of the issued share capital of the Company immediately following the Share Offer nor any of their respective associates have any interest in any of the Group's five largest customers during the Relevant Periods. All the sales of the Group are denominated in \$.

The Group's management reviews the list of trade receivables which shows the details of each customers' breakdown by invoices at the end of each month to ensure that all material long overdue debts are followed up properly. Currently, the management of the Group considers to make provision for bad debt for a trade receivable either (i) where the debt is more than 180 days old and without any settlement; or (ii) where the settlement is considered to be very unlikely, such as the close down of business of the customer. Since the incorporation of the Group, the only bad debt provision made amounted to \$2,640 and is for the six months ended 30th September, 2001.

SUPPLIES

GEHK entered into the Sole Agency Agreement with Garnett for the exclusive right to distribute and sell, and the right to use, the Enzyme-based Materials worldwide except North America, South Korea and Japan for a term of 30 years expiring on 31st October, 2028. The Group's purchase from Garnett were approximately \$448,000, \$493,000 and \$198,000 respectively for each of the Relevant Periods. The lighting energy saving systems purchased by the Group for each of the Relevant Periods were approximately nil, \$11,000 and \$5,050,000 respectively.

The level of inventory is closely monitored by the management of the Group with a view to keep the inventory at a minimum level so as to reduce risks associated with high level of inventory. To determine whether provision for obsolescence is required, the Group's management regularly examines any inventory with an age exceeding three months. No inventory write downs have been recorded during the Relevant Periods. As at 30th September, 2001, inventory over three months' of age amounted to approximately \$98,344. No provision is considered necessary by the Directors as:

1. the amount of \$25,169 represents spare stocks of electronic ballasts which are durable and can be returned to the suppliers if they are not required by the Group in the future; and

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2. the amount of \$73,175 consists of mainly plastic bottles and containers which are durable and can be retained and used in the future.

For each of the Relevant Periods, the Group's purchases from the largest supplier represented approximately 38.2%, 23.4% and 48.3% respectively of the Group's total purchases. Purchases from the largest five suppliers accounted for approximately 73.9%, 73.2% and 85.7% of the Group's purchases for each of the Relevant Periods. All the purchases of the Group were denominated in US\$ and \$.

As at the Latest Practicable Date, none of the Directors, nor any shareholder of the Company who will be interested in more than 5% of the issued share capital of the Company immediately following the Share Offer nor any of their respective associates had any interest in any of the Group's five largest suppliers during the two years ended 31st March, 2001 and the six months ended 30th September, 2001.

PRODUCT DEVELOPMENT AND EVALUATION

The Group from time to time works with its advisers, Mr. Uyama, Dr. Yeung Lam Lung, an assistant project manager of the department of chemistry of the Hong Kong University of Science and Technology and Dr. Lee Shuncheng, an associate professor of the department of civil and structural engineering of the Hong Kong Polytechnic University, on the improvement of the Group's products produced from the Enzyme-based Materials. It is the Group's strategy to appoint its internal staff and/or technicians to carry out on-site performance evaluation of the products produced from the Enzyme-based Materials after the completion of each project. For each on-site performance evaluation assignment, the Group records the water and/or air conditions before and after the application of the Group's products so as to evaluate the ability of the Group's products in improving the water and/or air quality. The Directors believe that it is more cost effective for the Group to outsource to other laboratories and/or universities for the provision of the essential facilities and technical support to carry out the entire procedure of the collaborative projects. The Group would also appoint its product development team members to participate in and oversee the whole process of each project.

In relation to the outsource by the Group to other laboratories and universities, fees (sometimes in the form of donations) were paid to the laboratories and universities by the Group for the research projects conducted by the laboratories and universities. The fee is payable on a project-by-project basis depending on the project nature and scope. The scope of each project is fixed before the commencement of the project and the results will be provided to the Group by means of a presentation or written report after completion of the project, depending on the nature of the project.

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Since November 2001, the Group has commenced to place emphasis on application analysis and employed Dr. Christopher Harold Phillips as the Group's senior project manager. Given that Dr. Christopher Harold Phillips possesses relevant experience in the field of environmental protection and chemical engineering, the Directors believe that he will be able to improve the Group's business. As at the Latest Practicable Date, the Group's product development team comprised three members, two of whom are university graduates with one holding a doctorate degree and possessing technical know-how in the relevant areas.

Specifically, the Group has collaborated with the Hong Kong University of Science and Technology in several collaborative programmes to conduct analysis on the features and applications of the products produced from the Enzyme-based Materials, such as a recent collaborative project in relation to the chemistry of treatment of wastewater discharged from a cloth dyeing factory. With such collaborations, the Group benefits from the facilities and technical support of the Hong Kong University of Science and Technology.

For each of the Relevant Periods, the Group's product development and evaluation costs amounted to approximately \$50,000, \$60,000 and nil respectively, representing approximately 2.3%, 0.8% and nil of the Group's turnover for the respective periods. The Group's deferred development costs incurred during each of the Relevant Periods were approximately nil, \$740,507 and \$170,852 respectively, representing approximately nil, 10.4% and 1.4% of the Group's turnover for the respective periods.

ALLIANCES

It is part of the Group's business development strategy to establish and maintain strategic partnerships with reputable companies with advanced environmental technology, superior distribution networks or strong capital resources. As a step in implementing such a strategy, the Group has formed strategic relationships with the following groups.

Garnett

GEHK entered into the Sole Agency Agreement with Garnett for the exclusive right to distribute and sell, and the right to use, the Enzyme-based Materials worldwide except North America, South Korea and Japan for a term of 30 years expiring on 31st October, 2028.

Garnett was incorporated in Japan with registered capital of 3 million Japanese yen in 1994 and is principally engaged in trading business. Garnett is beneficially owned as to 50% by Mr. Tuan Vo and 50% by Mr. Massaki Dan. Mr. Tuan Vo and Mr. Massaki Dan are not connected with the Directors, chief executive of the Company, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective associates. As Mr. Uyama, a Japanese scientist and the manufacturer of the Enzyme-based Materials, considers that the involvement in the exporting of the Enzyme-based

Materials may affect his concentration on his research and development and production of the Enzyme-based Materials in Japan, Mr. Uyama decided to sell the Enzyme-based Materials on a continuous basis to Garnett so as to avoid any communication problem in exporting the Enzyme-based Materials. Garnett, as owner of the Enzyme-based Materials it purchased from Mr. Uyama, granted the right to GEHK to distribute, sell and use the Enzyme-based Materials in any part of the world except North America, South Korea and Japan. The Enzyme-based Materials are not patented.

Illum-a-Lite

Illum-a-Lite, a subsidiary of an Australian private company, designs, manufactures, delivers and supports a range of fluorescent lighting energy conservation products and services. Grandy Enviro-Tech entered into an exclusive distributor agreement with Illum-a-Lite for the distribution and sale in Hong Kong, Macau, the PRC, Singapore and Malaysia of the energy saving products designed and manufactured by Illum-a-Lite and its suppliers on 1st November, 2001. The Directors consider that the established relationship with Illum-a-Lite will enhance the service range of the Group.

Kong Sun

Kong Sun, a substantial shareholder of the Company and one of the major property developers in Malaysia, the shares of which are listed on the Stock Exchange and is engaged in property development and investment, finance and information technology development as well as investment activities. The directors of Kong Sun believe that there is a potential for growth in the businesses of the Group and they consider that its investment in the Shares represents a good opportunity for Kong Sun to diversify its business and to broaden its income base in the long-run.

The Directors believe that the establishment and maintenance of a strategic relationship with Kong Sun will broaden the shareholders base of the Company and facilitate the Group in geographical development in other parts of Asia.

Lifa

In order to enhance the Group's competitiveness, Grandy Enviro-Tech entered into a project co-operation agreement with Lifa on 13th November, 2001. Lifa is a specialised IAQ technology, equipment, maintenance, cleaning service, consultancy and IAQ certification company possessing leading edge technologies and technically advanced IAQ products, especially for IAQ control and consultancy, airduct inspection, cleaning as well as renovation for hygiene services. Pursuant to the project co-operation agreement, Lifa and Grandy Enviro-Tech will either operate their businesses on normal "offer and acceptance" basis or case by case joint project organisations and accounts as agreed between Lifa and Grandy Enviro-Tech. Once

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payments are received from the clients, either Lifa or Grandy Enviro-Tech shall remit to the other its respective share of the payment and no service fee is required to be paid by Grandy Enviro-Tech to Lifa. Lifa is not connected with the Company and its subsidiaries, the directors or the chief executive of any member of the Group, the Initial Management Shareholders, the substantial shareholders or other shareholders of the Company or any of their respective beneficial owners and associates.

BHR Group

BHR Group was formed in 1989 after a management buyout of the commercial business of BHRA, originally founded in 1947.

The BHR Group has developed an international reputation as a centre of excellence in process technology and fluid engineering. The BHR Group's fluid mixing processes consortium, originally founded in 1983 under BHRA, is recognised as the world centre of expertise in fluid mixing.

The BHR Group is an independent research and technology organisation owned by its management and staff. The core business of the BHR Group includes consultancy, research and product and process development. Its services are offered internationally, with overseas clients accounting for approximately 50% of its turnover.

GEHK entered into a sales consultancy agreement with BHR Group Limited on 21st December, 2001. Pursuant to the sales consultancy agreement, the Group will have access to solutions generated through the use of proven consultancy tools including but not limited to: design guidelines and scale-up rules for chemical reactor and other plant equipment; advanced modelling and design services; component testing and life-time prediction services for parts such as seals, gaskets, hoses; well-established know-how in the area of design and optimisation of drinking water and wastewater treatment processes.

The sales consultancy agreement with BHR Group Limited will provide GEHK with access for its clients (or itself) on a contract-by-contract basis to technical solutions in the area of fluid mixing and fluid engineering. BHR Group Limited provides its clients with solutions to their problems: such solutions are being generated through the use of its in-house consultancy tools. In providing such solutions to any of its clients, BHR Group Limited does not supply or sell its consultancy tools to the clients. The consultancy tools are retained by BHR Group Limited. The clients are charged for the solutions provided by BHR Group Limited on the basis of: (i) the estimated number of hours that are required to undertake a given project; (ii) the complexity of the problem and the seniority of the project engineer who is assigned to undertake the project tasks; and (iii) external cost (if any) of sub-contractors, materials, software license fees, travel, accommodation and subsistence.

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GEHK will receive a commission for the provision of services to BHR Group and, where appropriate, GEHK will also provide BHR Group with technical or commercial consultancy at the written request of BHR Group Limited which will be charged on a day by day rate basis. Up to the Latest Practicable Date, there have been no projects undertaken with BHR Group.

COMPETITION

The Directors believe that the Group is not currently facing keen competition in the market for environmental products and services, although such competition could develop in the future. The Directors believe that the Group is becoming one of the leading environmental protection service providers in the market, which is mainly due to the wide range of products and technologies sourced by the Group.

The Directors believe that barriers to new entrants to the Group's market are significant. The Directors consider that the major barrier for new entrants is the ability to source effective and efficient environmental protection products to satisfy the customers' needs. The Directors are of the view that the Group maintains a good relationship with its suppliers. Pursuant to the Sole Agency Agreement, the Group is able to secure a sufficient supply of the Enzyme-based Materials to meet with the potential growth in Hong Kong and the PRC. Based on the above consideration, the Directors believe that the Group is well positioned to compete with its competitors and take advantage of the enormous growth potential in the future.

INTELLECTUAL PROPERTY RIGHTS

The Group has registered and applied for registration of certain trade marks in Hong Kong, further details of which are set out in the paragraph headed "Intellectual property rights of the Group" in the section headed "Further information about the business of the Group" in Appendix IV to this prospectus. The Group has not applied for the registration of the names of the individual products as these names would be considered as indistinctive and descriptive by the Trade Marks Registry, and registration and enforcement of such trademark rights would be difficult. The Directors confirm that they are not aware of any infringement by the Group of registered trade marks of any third party. The trade marks registered by the Group are currently applied on the Group's products produced from the Enzyme-based Materials as the brand name.

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OVERALL BUSINESS OBJECTIVES

The Group's overall business objective is to become one of the market leaders in the provision of environmental protection products and services without creating harmful effects to humans, plants and animals or the environment in Hong Kong and the PRC.

MARKET POTENTIAL

The Directors believe that the future development of the Hong Kong environmental protection industry will be further strengthened by the increasing awareness of the importance of health care and environmental protection among the general public and the Government.

The PRC is considered to offer numerous business opportunities for combating water pollution. The Directors are therefore of the view that there is a vast market potential for development of the Group's services in the PRC. Given the PRC government's support together with the associated economic and environmental benefits, the Directors believe that the Group's services will become widely adopted by various industries in the PRC, and are confident that the PRC's environmental protection market represents a promising geographical expansion opportunity for the Group's business.

Leveraging on the experience in the environmental protection industry, the Directors are confident that the Group is well positioned to capitalise on its extensive experience and expertise in the field of environmental protection technology to broaden its service range and to explore new business opportunities in the growing PRC environmental protection market.

COMPETITIVE ADVANTAGES

The Directors are of the view that the Group is well positioned to capture the growing demand for the Group's products and services in Hong Kong and to expand into the PRC. The principal competitive advantages of the Group are as follows:

- the established good and active long term relationships with its customers allowing the Group to attain direct market feedback regarding its products and service quality;
- the ability of the Group's management team to source and secure environmental materials/products including the Enzyme-based Materials and Light Eco systems;

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- the diversified functions of the Enzyme-based Materials which enable the Group to develop its business in Hong Kong rapidly;
- the ability of the Group to offer a range of different products and ancillary services to its customers for combating problems in water and air pollution and energy wastage;
- the attractive pricing strategy adopted by the Group of charging an agreed percentage of the estimated saving of the electricity expenses from each of its selected customers in a number of instalments instead of charging a single significant fixed amount;
- the established close working relationship of the Group with its suppliers and advisers, which enhances the product quality in a cost-effective and timely manner;
- the Group's commitment to customer services, backed by the Group's staff and technical advisers who are well experienced and have extensive knowledge about the Group's products and services; and
- the product development team of the Group led by a senior project manager who has in-depth knowledge on the environmental protection industry.

BUSINESS STRATEGIES

Having considered the Group's existing market penetration and strengths, the Directors intend to implement the following business strategies in each of the following business areas to achieve the Group's business objectives.

Geographical expansion

To cope with the growing demand for environmental technologies in the PRC, the Directors propose to seek appropriate investment opportunities to expand the Group's water and air quality improvement and energy saving businesses in the PRC. The Group also intends to extend its distribution network to the PRC by appointing appropriate agents to carry out the sales and marketing of its products and services for combating aqueous and air-borne pollutants and energy wastage problems in the PRC. The Directors intend to set up a representative office in the PRC in 2003 to promote sales and organise seminars and workshops for potential clients.

The Group plans to undergo an expansion in Asia to broaden its customer base and minimise the economic risk on its business operations due to the concentration of its operation in a particular country. The Group plans to penetrate into all major markets in the Asian region,

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including Malaysia and Singapore in the year ending 31st March, 2003, Vietnam in the year ending 31st March, 2004 and Thailand in the year ending 31st March, 2005. The Group plans to ally itself with agents in the relevant countries who have the ability and capability to complement the Group's businesses.

Improvement of existing products and sourcing of new products

The Directors believe that there will be a growing demand for environmental related products given the increasing awareness of the importance of health care and environmental protection among the general public in Hong Kong and the Government. As such, the Directors intend to enhance the Group's existing products produced from the Enzyme-based Materials and to source additional products and to improve its services for environmental protection.

Water quality improvement

The Group has continuously placed great emphasis on improving the quality and the effectiveness of its existing products produced from the Enzyme-based Materials. The Directors intend to improve the performance of *GreaseKil*, *EcoTonic* and *FlusKleen* by conducting additional product evaluation for the year ending 31st March, 2003. In addition, the Group will commence further development of its auto-dosing system so as to improve its efficiency.

The Group intends to import bio-farms and apply them in wastewater treatment systems through which pollutants are digested by bacteria and their released enzymes. Bio-farms have advantages of a long life span as well as steady performance, and can therefore reduce the frequency of replacement and the cost of treatment. The bio-farm purchased by the Group is now under testing and trial. Upon the completion of a full report and testing on the performance of the bio-farm, the Group will only put the bio-farm into use in the event the test results are satisfactory. The Group also intends to upgrade its wastewater treatment approach by integrating an Advanced Oxidation Technology into its existing wastewater treatment systems. The Group has already commenced a study in June 2000 with a view to developing a system of wastewater treatment by using a PCO reactor, a form of Advanced Oxidation Technology, for removal of organic contaminants from wastewater. Since Advanced Oxidation Technology is a widely applicable technology, the Group will devote significant effort to commercialise this technology in practical ways.

The Directors are of the view that reductions in water wastage and technology for recycling of wastewater for industrial uses are becoming high priority topics. This is especially so in the PRC where there is an impending crisis of water shortage. Research and development for cost-effective treatments of industrial wastewater whereby treated water may be recycled for use in one or more of the upstream processes, and where the recovered waste materials may have some positive commercial value, will be carried out.

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Air quality improvement

The Directors believe that there will be growing demand for air quality improvement products as air pollution has become an area of public concern. The Group intends to place emphasis on the product evaluation of *EcoKleen* in the future so as to cope with the demand for air quality improvement services.

The Group plans to enhance its existing IAQ management services by using Advanced Oxidation Technology with the importing and installation of PCO reactors in air conditioning systems. The PCO reactor is coated with TiO_2 material which forms the basis of the innovative Advanced Oxidation Technology for reducing the concentration of the pollutants. To determine the performance and effectiveness of the IAQ management system, an IAQ management audit will be performed after each implementation of the Group's IAQ management system.

With the promotion of Hong Kong as an "environmentally friendly city" by the Government, the Directors believe that Advanced Oxidation Technology will be widely used in Hong Kong in the future.

Energy saving

Compact Heat Exchangers

The Group also intends to broaden its energy saving services to include Compact Heat Exchangers for process industries. A heat exchanger is a device that is used for transferring heat energy from one process fluid to another during either a cooling or a heating operation. For a given amount of heat to be transferred, Compact Heat Exchangers are far more compact in size in comparison with a conventional heat exchanger that would be required for the same heat transfer duty. Such devices are significantly more effective for heat transfer for either cooling or heating operations than the conventional shell and tube heat exchanger. As measures that encourage improvements in energy efficiency are progressively introduced, the Directors believe that the Group will be able to offer consultancy services on the best practice in energy efficiency. By entering into non-exclusive technical service and agency agreements with a number of manufacturers of Compact Heat Exchangers in the future, the Group expects to be able to make independent recommendations on the best choice of equipment for a given application and facilitate the supply of such equipment.

Chemical processing improvement

Due to sub-optimal design of many chemical reactors, waste materials are formed through by-product formation and degradation of raw materials, intermediates or products or all three of these. The Group plans to develop process efficiency audits for the chemical and related process industries in the year ending 31st March, 2003. Following the audits, recommendations

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will be made, where appropriate, for cost-effective retrofit changes to the design and configuration of chemical reactors and other process equipment in the year ending 31st March, 2004. Given that many chemical plants in the PRC operate reactors are of sub-optimal design, the Directors believe that there is high business potential for replication of its process improvement business.

The Directors plan to further strengthen the environmental protection business of the Group, particularly through forming alliances or partnerships with professional process engineering organisations with the relevant experience and expertise. The Directors believe that leveraging on the sales consultancy agreement dated 21st December, 2001 made with BHR Group Limited, the Group will have access to solutions generated through the use of proven consultancy tools (including but not limited to): design guidelines and scale-up rules for chemical reactor and other plant equipment; advanced modelling and design services; component testing and life-time prediction services for parts such as seals, gaskets and hoses; well-established know-how in the area of design and optimisation of drinking water and wastewater treatment processes. Please refer to the paragraph headed “Alliances” under the section headed “Business” in this prospectus for details of BHR Group.

Establishment of application analysis and product development capabilities

The Directors believe that the Group has been dedicating considerable resources on product evaluation and cooperating with other research and academic institutions to facilitate application analysis and product development.

The Directors consider that it is essential for the Group to establish its application analysis and product development capabilities to keep abreast of the launching of new environmental products to combat water and air pollution and energy wastage. The Group plans to establish its application analysis and product development laboratory and purchase new equipment to carry out further analysis on new environmental products. The Directors intend to use approximately \$8 million of the net proceeds from the issue of the New Shares under the Share Offer to develop the application analysis and product development capabilities of the Group.

The Group intends to negotiate with a number of research and academic institutions in Hong Kong and the PRC to conduct application analysis and product development collaborative programmes in Hong Kong and/or the PRC in the future. The Directors consider that collaboration with institutions in the PRC will enhance the marketability of the Group in the PRC market.

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Marketing and brand building

The Directors are of the opinion that building up the corporate brand name of the Group's products will enhance the reputation and sales of the Group. The Directors intend to use part of the net proceeds from the issue of the New Shares under the Share Offer to finance the advertising and promotion of the Group's products.

The Group will organise and attend various seminars to promote the environmental protection services offered by the Group. The Group will also sponsor a number of environmental related functions organised by the Government or other environmental protection associations in order to promote the brand name of the Group. The Group will produce a number of educational programmes to promote the importance of the Group's products and services to the environment.

The Directors believe that through these marketing and brand building activities, the Group will be placed in a favourable position to enhance its reputation as an environmental protection service provider.

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STATEMENT OF BUSINESS OBJECTIVES

The following is a summary of the specific objectives formulated by the Group for the following periods.

Geographical expansion

<i>Latest Practicable Date to 30th September, 2002</i>	<i>1st October, 2002 to 31st March, 2003</i>	<i>1st April, 2003 to 30th September, 2003</i>	<i>1st October, 2003 to 31st March, 2004</i>	<i>1st April, 2004 to 30th September, 2004</i>	<i>1st October, 2004 to 31st March, 2005</i>
<ul style="list-style-type: none"> - appoint agent(s) to test the function and performance of the Group's enzyme products in the PRC 	<ul style="list-style-type: none"> - conclude the marketing strategies to develop the PRC market 	<ul style="list-style-type: none"> - organise seminars and workshops for potential customers in the PRC 	<ul style="list-style-type: none"> - organise seminars and workshops for potential customers in the PRC and Malaysia 	<ul style="list-style-type: none"> - organise seminars and workshops for potential customers in the PRC and other parts of South East Asia 	<ul style="list-style-type: none"> - organise seminars and workshops for potential customers in the PRC and other parts of South East Asia
<ul style="list-style-type: none"> - identify suitable agent(s) to develop the market for Light Eco systems in the PRC 	<ul style="list-style-type: none"> - appoint agent(s) to develop the Group's water and air quality improvement business in the Guangdong Province of the PRC 	<ul style="list-style-type: none"> - appoint additional agents for the Group's expansion in the Guangxi Province, Hunan Province, Hainan Province, Tianjin City and Shandong Province of the PRC 	<ul style="list-style-type: none"> - appoint additional agents in the PRC for the Group's expansion in the Guizhou Province, Fujian Province and Jiangxi Province of the PRC 	<ul style="list-style-type: none"> - appoint additional agents in the PRC for the Group's expansion in the Hubei Province, Anhui Province, Jiangsu Province, Zhejiang Province and Henan Province of the PRC 	<ul style="list-style-type: none"> - continue to search for appropriate agent(s) in other parts of the PRC
<ul style="list-style-type: none"> - explore appropriate marketing strategies to develop the PRC market 	<ul style="list-style-type: none"> - appoint agent(s) to develop the market for Light Eco systems in the PRC 	<ul style="list-style-type: none"> - establish a representative office in the Guangdong Province of the PRC to promote sales 	<ul style="list-style-type: none"> - appoint agent(s) to develop the Group's business in Vietnam 	<ul style="list-style-type: none"> - appoint agent(s) to develop the Group's business in Thailand 	<ul style="list-style-type: none"> - continue to search for appropriate agent(s) in other parts of South East Asia
<ul style="list-style-type: none"> - appoint agent(s) to develop the Group's business in Malaysia and Singapore 	<ul style="list-style-type: none"> - appoint agent(s) to develop the Group's business in Malaysia and Singapore 				<ul style="list-style-type: none"> - continue to evaluate the success of marketing strategies in developing of the PRC and South East Asia markets

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Improvement of existing products and sourcing of new products

Water quality improvement	Latest Practicable Date to 30th September, 2002	1st October, 2002 to 31st March, 2003	1st April, 2003 to 30th September, 2003	1st October, 2003 to 31st March, 2004	1st April, 2004 to 30th September, 2004	1st October, 2004 to 31st March, 2005
<i>GreaseKil, EcoTonic and FlusKleen</i>	improve the performance of <i>GreaseKil, EcoTonic</i> and <i>FlusKleen</i> through collaboration with local institution(s)	continue to improve the performance of <i>GreaseKil, EcoTonic</i> and <i>FlusKleen</i> through collaboration with local institution(s)	launch advanced <i>GreaseKil, EcoTonic</i> and <i>FlusKleen</i> to the market	commence further development of the auto-dosing system	conduct trials on the new system and perform evaluation	implement the advanced dosing system at customers' sites
bio-farm technology	perform trial runs for the applications of bio-farm technology in wastewater treatment and grease trap maintenance	launch the bio-farm technology in wastewater treatment plant and grease trap maintenance	conduct feasibility studies for the applications of bio-farm technology in different water systems	conduct practical evaluation of the performance of bio-farm technology in different water systems	launch advanced bio-farm technology to the market for different water systems	evaluate the effectiveness of the advanced bio-farm technologies
PCO technology	identify appropriate protocol of PCO reactors for the Group's waste treatment process	conduct performance evaluations of the upgraded water quality improvement system by applying bio-farm technology	select treatment model and design pilot plant for the PCO reactors	launch PCO technology products to the market of waste treatment	commence development of new type of PCO reactor for waste treatment	evaluate the performance of new type of PCO reactor
	commence development and performance analysis of PCO reactors for the Group's waste treatment project	conduct site demonstrations to potential customers	conduct site demonstrations to potential customers			conduct site demonstrations

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	<i>Latest Practicable Date to 30th September, 2002</i>	<i>1st October, 2002 to 31st March, 2003</i>	<i>1st April, 2003 to 30th September, 2003</i>	<i>1st October, 2003 to 31st March, 2004</i>	<i>1st April, 2004 to 30th September, 2004</i>	<i>1st October, 2004 to 31st March, 2005</i>
Wastewater treatment and recycling process	– study and evaluate wastewater recycling treatment models	– conduct trial runs for the application of the wastewater recycling treatment models in different industrial processes including dyeing, paper-making and electroplating	– launch wastewater recycling services to the customers	– conduct feasibility studies for the further applications of wastewater recycling treatment models	– commence development of new type of wastewater recycling treatment models	– select treatment models for new type of wastewater recycling treatment
Air quality improvement						
<i>EcoKleen</i>	– improve the performance of <i>EcoKleen</i> through the collaboration with local institution(s)	– continue to improve the performance of <i>EcoKleen</i> through the collaboration with local institution(s)	– launch advanced <i>EcoKleen</i> to the market	– commence research in widening the application	– evaluate the newly developed application from research	– commence new applications of the advanced <i>EcoKleen</i>
IAQ	– commence development and performance analysis of PCO reactors for the Group's IAQ projects	– select treatment model and design pilot plant for PCO reactors	– launch PCO technology products to the market of IAQ	– commence development of new types of PCO reactor	– evaluate the performance of new types of PCO reactor	– implement new types of PCO reactor in the market
	– conduct site demonstrations to potential customers				– conduct real site demonstration	

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	<i>Latest Practicable Date to 30th September, 2002</i>	<i>1st October, 2002 to 31st March, 2003</i>	<i>1st April, 2003 to 30th September, 2003</i>	<i>1st October, 2003 to 31st March, 2004</i>	<i>1st April, 2004 to 30th September, 2004</i>	<i>1st October, 2004 to 31st March, 2005</i>
Energy saving						
heat energy saving system (Compact Heat Exchanger)	– commence market survey for requirements of Compact Heat Exchangers	– continue market survey for requirements of Compact Heat Exchangers	– conduct performance evaluation including case studies	– commence sourcing of appropriate Compact Heat Exchanger devices for customers to enhance energy efficiency	– continue sourcing of appropriate Compact Heat Exchanger devices for customers to enhance energy efficiency	– continue sourcing of appropriate Compact Heat Exchanger devices for customers to enhance energy efficiency
Chemical processing improvement technology	– commence the preparation of project and client presentation in relation to chemical processing improvement	– conduct chemical process improvement audits and implement recommendation	– evaluate saving gained by clients and formulate case studies	– set up pilot scale facilities for processing improvement	– set up a collaborative research centre in the PRC	– continue to implement chemical process improvement projects

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Establishment of product development and evaluation capabilities

<i>Latest Practicable Date to 30th September, 2002</i>	<i>1st October, 2002 to 31st March, 2003</i>	<i>1st April, 2003 to 30th September, 2003</i>	<i>1st October, 2003 to 31st March, 2004</i>	<i>1st April, 2004 to 30th September, 2004</i>	<i>1st October, 2004 to 31st March, 2005</i>
– study and evaluate establishment plan of the Group's product development department	– establish product development laboratory	– form strategic alliance with institution/university in Hong Kong for the Group's application analysis and product development activities	– continue collaboration programmes	– continue collaboration programmes	– continue collaboration programmes
– select appropriate institution/university in the PRC to collaborate for the Group's product development and evaluation activities	– recruit new staff to conduct advance product development and evaluation	– conduct collaboration programme with PRC university/institution	– search for appropriate location for the setting up of a collaborative research centre in the PRC for chemical processing improvement technology	– set up a collaborative research centre in the PRC for chemical processing improvement technology	– commence collaborative chemical process improvement projects
– purchase new equipment to carry out product development and evaluation for new environmental products	– form strategic alliance with institution/university in the PRC for the Group's application analysis and product development activities	– conduct collaboration programme with local university/institution	– conduct collaboration programme with local university/institution	– conduct collaboration programme with local university/institution	– form strategic alliance with institution/university in the PRC for the Group's application analysis and product development activities

BUSINESS OBJECTIVES

<i>Latest Practicable Date to 30th September, 2002</i>	<i>1st October, 2002 to 31st March, 2003</i>	<i>1st April, 2003 to 30th September, 2003</i>	<i>1st October, 2003 to 31st March, 2004</i>	<i>1st April, 2004 to 30th September, 2004</i>	<i>1st October, 2004 to 31st March, 2005</i>
<ul style="list-style-type: none"> - select appropriate institution/university in Hong Kong to collaborate for the Group's application analysis and product development activities - develop project and formulate proposal for ITF programme application 	<ul style="list-style-type: none"> - commence ITF programme 	<ul style="list-style-type: none"> - continue ITF programme 	<ul style="list-style-type: none"> - continue ITF programme 	<ul style="list-style-type: none"> - continue ITF programme 	<ul style="list-style-type: none"> - continue ITF programme

BUSINESS OBJECTIVES

Marketing and brand building

<i>Latest Practicable Date to 30th September, 2002</i>	<i>1st October, 2002 to 31st March, 2003</i>	<i>1st April, 2003 to 30th September, 2003</i>	<i>1st October, 2003 to 31st March, 2004</i>	<i>1st April, 2004 to 30th September, 2004</i>	<i>1st October, 2004 to 31st March, 2005</i>
– formulate marketing and promotion plan of the Group's products	– sponsor environmental related functions such as seminars and related workshops	– sponsor and organise environmental related education programmes	– same as preceding period	– same as preceding period	– same as preceding period
– advertise the Group's products and services in journals and magazines	– same as preceding period	– same as preceding period	– same as preceding period	– same as preceding period	– same as preceding period
– organise and attend seminars relating to environmental protection industry	– organise and participate in tree plantation function	– participate in different environmental related exhibitions	– same as preceding period	– same as preceding period	– same as preceding period
– expand existing sales and marketing team	– same as preceding period	– same as preceding period	– same as preceding period	– same as preceding period	– same as preceding period
– upgrade the Group's website	– maintain the Group's website	– maintain the Group's website	– maintain the Group's website	– maintain the Group's website	– maintain the Group's website

BUSINESS OBJECTIVES

BASES AND ASSUMPTIONS

The Group's specific business objectives set out above have been formulated on the following bases and assumptions:

Share Offer

- the Share Offer will be completed in accordance with and as described in the section headed "Structure of the Share Offer" in this prospectus;

Operating environment

- the Group will be able to continue its operations in substantially the same way as it has been operating, and the Group will also be able to carry out its development plans without disruptions in substantially the same way as it has been;
- the Group will use its best endeavours to conduct research and development of services as it has planned;
- the Group will be able to obtain all necessary approvals from the relevant government authorities for all of its development plans;

General

- the Group will not encounter any problem or disruption adversely affecting its operations or development plans in any way, including but not limited to:
 - serious industrial accidents or natural disasters disrupting the operations of the Group;
 - material change in the existing political, legal, fiscal, foreign trade or economic conditions in the countries in which the Group operates or intends to operate;
 - material change in the bases or rates of taxation in those countries in which the Group operates or intends to operate or its subsidiaries are incorporated;
 - material change in interest rates or foreign currency exchange rates from those currently prevailing;
 - introduction of new laws or regulations or government policies or practices in Hong Kong and/or the PRC adversely affecting the operations of the Group in any way; and
 - any other force majeure event.

BUSINESS OBJECTIVES

USE OF PROCEEDS

The aggregate net proceeds for the Group from the Share Offer are expected to be approximately \$36.8 million (after deduction of underwriting and placing commissions and related estimated offering expenses). The following use of such proceeds are formulated on the bases and assumptions set out in the paragraph headed “Bases and assumptions” in the section headed “Business objectives” in this prospectus:

Schedule of use of net proceeds

	<i>From the Latest Practicable Date to</i>						<i>Total</i>
	<i>six months ending 30th September, 2002</i>	<i>Six months ending 31st March, 2003</i>	<i>Six months ending 30th September, 2003</i>	<i>Six months ending 31st March, 2004</i>	<i>Six months ending 30th September, 2004</i>	<i>Six months ending 31st March, 2005</i>	
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Geographical expansion	–	–	0.90	2.30	1.40	–	4.60
Improvement of existing products and sourcing of new products	2.36	–	0.50	1.00	0.50	–	4.36
Establishment of application analysis and product development capabilities	1.60	1.00	1.60	1.30	1.30	1.20	8.00
Marketing and brand building	0.30	0.30	0.30	0.30	0.30	0.30	1.80
Redemption of the Convertible Notes	10.00	–	–	–	–	–	10.00
General working capital ^(Note)	8.04	–	–	–	–	–	8.04
	<u>22.30</u>	<u>1.30</u>	<u>3.30</u>	<u>4.90</u>	<u>3.50</u>	<u>1.50</u>	<u>36.80</u>

Note: The Directors intend to apply the amount allocated for general working capital to finance the Light Eco instalment scheme.

The Company plans to use the net proceeds from the Share Offer to boost its sales and seize a greater market share. After completion of the Share Offer, the Directors believe that the Company will liaise with banks for a higher amount of banking facilities. With the availability of additional working capital, the Company will be in an advantageous position to establish its dominance rapidly in the respective market sectors.

Should the Over-allotment Option be exercised in full, additional net proceeds of approximately \$8.1 million will be available and the Directors intend to use the additional net proceeds to finance the Light Eco instalment scheme.

BUSINESS OBJECTIVES

The Directors believe that the net proceeds from the Share Offer together with the Group's internally generated cashflow will be sufficient to finance its business plans starting from the Latest Practicable Date to 31st March, 2005 as described in the sub-section headed "Statement of business objectives" under this section in this prospectus.

The Directors intend that the net proceeds from the Share Offer not immediately applied in the above manner will be placed with authorised financial institutions in Hong Kong.

In the event that there are any material changes or modifications to the use of net proceeds from the Share Offer as described above, appropriate announcement will be made by the Company.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. Tsui Tai Hoi, Raymond, aged 45, the Managing Director of the Company and one of the founders of the Group, is responsible for the business development, strategic planning, marketing and overall management of the Group. Prior to setting up the Group, Mr. Tsui has over 15 years of experience in the financial sector including foreign exchange and private equity investments. During the period from 1979 to 1991, Mr. Tsui worked for a foreign exchange company namely Yamane Prebon (Hong Kong) Limited as a broker. During the period from 1991 to 1993, Mr. Tsui was the managing director of Top Rank Investment Ltd. and Top Rank Securities Ltd. which were engaged in brokerage of foreign exchange and securities. During the period from 1993 to 1999, Mr. Tsui worked as managing director of Evershine International Investment Ltd. focusing on private equity investments in technology related companies and other small to medium size businesses in Hong Kong. Mr. Tsui holds a Bachelor of Business Administration degree from the City University of New York, the US.

Mr. Yeung Kam Yan, aged 49, the Project Director and one of the founders of the Group, is in charge of the marketing and business development of the Group. Mr. Yeung is a member of the Air & Waste Management Association – Hong Kong section. He has over eight years of experience in accounting, sales and marketing in different international companies including Olivetti (HongKong) Ltd. from 1979 to 1982, O.P.D Limited from 1982 to 1985 and Henry Boot Far East Limited from 1986 to 1990. Mr. Yeung also operated his own trading and investment business in the PRC before the establishment of the Group from 1990 to 1998.

Mr. Leung Chi Kin, aged 46, the Engineering Director and one of the founders of the Group, is responsible for the design of environmental systems, site servicing and other operational tasks of the Group. Prior to joining the Group, Mr. Leung was appointed as a director of United Tech Engineering Ltd. engaged in the business of general trading and mechanical engineering from 1995 to 1999.

Mr. Hoang Tan Van, George, aged 47, the Production Director and one of the founders of the Group, is responsible for the production and quality control of the Group. Mr. Hoang was a technology development officer for 廣西南寧金星科技開發有限公司 from 1992 to 1998. Mr. Hoang was mainly responsible for research on applications of enzymes in air and water quality improvements.

Mr. To Hang Ming, aged 43, the Business Development Director, is responsible for the marketing and business development of the Group. Mr. To holds a degree in business – economics from the University of California, Los Angeles in the US. During the period from 1990 to 1994, Mr. To worked as a chief dealer of the foreign exchange department in Dresdner Bank and was responsible for foreign exchange dealings. During the period from 1995 to 2000, Mr. To worked as a foreign exchange manager of the foreign exchange department of Republic

DIRECTORS, SENIOR MANAGEMENT AND STAFF

National Bank of New York and was responsible for foreign exchange dealings. Apart from gaining social and marketing skills, such working experience enabled him to build up his clientele and connections. He joined the Group in June 2000.

Mr. Chan Hon Chiu, aged 42, the Marketing Director, is responsible for the sales and marketing function of the Group. He joined the Group in April 2000. Prior to joining the Group, Mr. Chan worked as an operation manager for a building cleaning services provider namely Reliance Services (HK) Limited from 1991 to 1993 and was appointed as a director of two cleaning and waste disposal services providers namely Sanki Rampart Environmental Services Limited and Jamek International Limited and was a partner of Rampart Environmental Service engaged in cleaning and waste disposal services from 1993 to 2001.

NON-EXECUTIVE DIRECTOR

Mr. Kong Li Szu, aged 31, is a director of Kong Sun. He holds a Bachelor of Science degree and a Master of Science degree in civil engineering from Washington University, the US and Stanford University, the US respectively. He is well experienced in civil engineering works and PRC investment and trades. He was appointed by the Company as a non-executive Director in July 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hsu Shiu Foo, William, aged 51, was appointed as a Director in November 2001. He is a Visiting Fellow at the Faculty of Business of the City University of Hong Kong. He has over 10 years of global business experience in tourism and related fields in various international corporations. He holds a Bachelor of Arts degree from Brigham Young University, Hawaii and a master's degree in professional studies (hotel administration) from Cornell University, New York. He was appointed as visiting professor in the faculty of tourism of the Hangzhou University in the PRC in October 1995. He was an independent non-executive director of Honko International Holdings Limited, the shares of which were listed on the Main Board of the Stock Exchange, from 1996 to 2001, and he was responsible for the review and supervision of the financial reporting process and the review of transactions of such company.

Dr. Yu Chai Mei, aged 46, was appointed as a Director in November 2001. He is the Associate Professor of the Department of Chemistry and the director of Studies in Environmental Science Programme of the Chinese University of Hong Kong. He possesses extensive knowledge on photocatalytic degradation of pollutants, development and application of methods for trace analysis and design of innovative experiments for analytical and environmental chemistry. He obtained his doctoral degree in Chemistry at the University of Idaho, the US. He has made contribution to the Group by advising the Group on development potentials of PCO technology and has helped the Group to carry out research on the functions of PCO reactors in the early stage of the Group's business development.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

AUDIT COMMITTEE

The Company has established an audit committee on 2nd November, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are, among other matters, (i) to review the annual reports and accounts, half-year reports and quarterly reports and provide advice and comments thereon to the board of Directors; and (ii) to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has two members comprising the two independent non-executive Directors of the Company.

TECHNICAL ADVISERS

The technical advisers of the Group were appointed with the objective to supplement the Group's in-house expertise and relationship in various areas, especially in providing guidance to business planning and product enrichment. None of the technical advisers are employees of the Group.

Mr. Shizuo Uyama, aged 68, provides advice on the use and application of the Enzyme-based Materials to the Group. Mr. Uyama is a Japanese scientist with over 30 years of experience in environmental product and service development and agriculture improvement technology. In 1994, Mr. Uyama set up Cosmo Bio-service Laboratory which is a private research laboratory to conduct his research on and development of the Enzyme-based Materials. He owns a joint patent for chloride compound decomposer and the decomposition method of the chloride compounds. Mr. Uyama is the manufacturer of the Enzyme-based Materials and does not have any interest in Garnett. Mr. Uyama sells the Enzyme-based Materials on a continuous basis to Garnett which, as owner of the Enzyme-based Materials it purchased from Mr. Uyama, granted the right to GEHK to distribute, sell and use the Enzyme-based Materials in any part of the world except North America, South Korea and Japan. He was introduced by Mr. Tuan Vo, one of the beneficial owners of Garnett, to GEHK in late 1999.

Dr. Yeung Lam Lung, aged 37, is the Assistant Project Manager of the Department of Chemistry of Hong Kong University of Science and Technology. He completed his master's and bachelor's degrees in chemistry at the Chinese University of Hong Kong. He obtained his doctor's degree from Imperial College of Science, Technology and Medicine, University of London, United Kingdom and carried out his research at Cambridge University. He has extensive experience in combating pollution and in analytical chemistry.

Dr. Lee Shuncheng, aged 37, is the Associate Professor of the Department of Civil and Structural Engineering of the Hong Kong Polytechnic University. He obtained his bachelor's degree in engineering and master's degree in environmental engineering from the National

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Taiwan University. He holds a doctor's degree in environmental health sciences from the University of California at Berkeley, the US. He is a member of Air & Waste Management Association and International Society of Indoor Air Quality and Climate.

As each of the technical advisers is specialised in different areas, no regular meeting are held with the technical advisers and consultation with the technical advisers are made on an ad-hoc basis. The Group will pay US\$1,000 monthly to Mr. Uyama in consideration of his role as a technical adviser of the Group commencing from the month following the month of the listing of the Shares. Dr. Yeung Lam Lung was conditionally granted 2,400,000 share options under the Pre-IPO Share Option Scheme. Up to the Latest Practicable Date, the Group has not paid any remuneration to Dr. Lee Shuncheng.

DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

Each of the executive Directors has entered into a service contract with the Company on 20th April, 2002 for an initial fixed term of two years commencing from the Listing Date and thereafter to be continuous until terminated by the other party thereto by giving not less than six months' prior notice in writing, or otherwise in accordance with its terms.

The aggregate emoluments paid by the Group to the executive Directors during each of the Relevant Periods, amounted to \$897,000, \$851,144 and \$552,800 respectively. Details of the executive Directors' remuneration are set out in note (d) of section 3 of the accountants' report set out in Appendix I to this prospectus. No emoluments have been paid by the Group to the non-executive Director and the independent non-executive Directors during the Relevant Periods.

The aggregate emoluments paid by the Group to the executive Directors for the year ended 31st March, 2002 was \$1,341,800 and no emoluments were paid by the Group to the non-executive Director and the independent non-executive Directors for the year ended 31st March, 2002.

Under the arrangements currently in force, the aggregate emoluments payable by the Group to the executive Directors for the year ending 31st March, 2003 are estimated to be approximately \$2,435,593. No emolument is payable by the Group to the non-executive Director and the aggregate emoluments payable by the Group to the independent non-executive Directors are estimated to be approximately \$112,452 for the year ending 31st March, 2003.

The Company's policies concerning future remuneration of executive Directors are as follows:

- (i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to the Group by the relevant director;

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- (ii) non-cash benefits may be provided to the executive Directors under their remuneration package; and
- (iii) the executive Directors may be granted, at the discretion of the Board, share options of the Company, as part of the remuneration package.

SENIOR MANAGEMENT

Dr. Christopher Harold Phillips, aged 39, is the Senior Project Manager of the Group. He is responsible for the improvement of the Group's production expertise and technological knowhow, and also supports the Group in the development and evaluation of advanced-technique products. He graduated from the University of Leeds in the UK with a bachelor of science degree in chemistry and a master's degree with distinction in physical chemistry. He was awarded a doctor's degree in chemistry as a result of his research carried out in UMIST (University of Manchester Institute of Science and Technology in the UK). He has extensive experience in chemical engineering research and development and project management. He is a Chartered Engineer and a Chartered Chemist as well as a Corporate Member of the Institution of Chemical Engineers (UK) and a Fellow of the Royal Society of Chemistry (UK). During the period from 1990 to 1993, He worked as project specialist for Nippon Paint Co., Ltd in Osaka, Japan which is engaged in the production of paints and related products for both industrial and household users. During the period from 1993 to 1994, he worked as a consultant for a UK based company namely Express Separations Limited engaging in the provision of environmentally-friendly process consultancy and research and development services to various process industries. During the period from 1994 to 2000, he worked as a manager within the BHR Group. During the period from 2000 to 2001, he worked as a consultant to Legal Futures, a division of Wall Street Associates, which is an executive search and selection company. He joined the Group in November 2001.

Mr. Mio Kwok Man, aged 40, is the Senior Manager of the retail section of the Group. Mr. Mio is responsible for the business development and distribution of the Group. Mr. Mio has over two years of experience in quality control and planning and operation for hygiene and cleaning services. He joined the Group in August 2000. During the period from 1988 to 1994, Mr. Mio worked for Ployking Services Ltd. as operations manager. During the period from 1994 to 1997, Mr. Mio worked for a hygiene services company namely Swan Hygiene Services Ltd. as quality control and planning manager. During the period from 1997 to 2000, Mr. Mio worked for Baguio Cleaning Services Ltd., a company engaging in building cleaning services, as marketing and operations manager.

Mr. Wong Chun Kit, aged 39, is the financial controller and the company secretary of the Group. He is responsible for the Group's financial control, treasury and company secretarial functions. He holds a bachelor of arts degree from the University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an associate member of

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Hong Kong Society of Accountants. During the period from 1986 to 1988, Mr. Wong worked as an audit staff of Chu & Chu. During the period from 1989 to 1995, Mr. Wong worked in the audit department of Ernst & Young. During the period from 1996 to 1997, Mr. Wong worked as internal control manager for Continental Enterprises Limited engaging in the agricultural commodity trading businesses. During the period from 1997 to 2001, Mr. Wong worked as an assistant financial controller of a project investment and management company, namely Sadance Enterprises Ltd., focusing on private equity investments in various projects in the PRC. He joined the Group in August 2001.

STAFF

As at the Latest Practicable Date, the Group had 34 employees located in Hong Kong. The breakdown of the workforce in terms of functions is as follows:

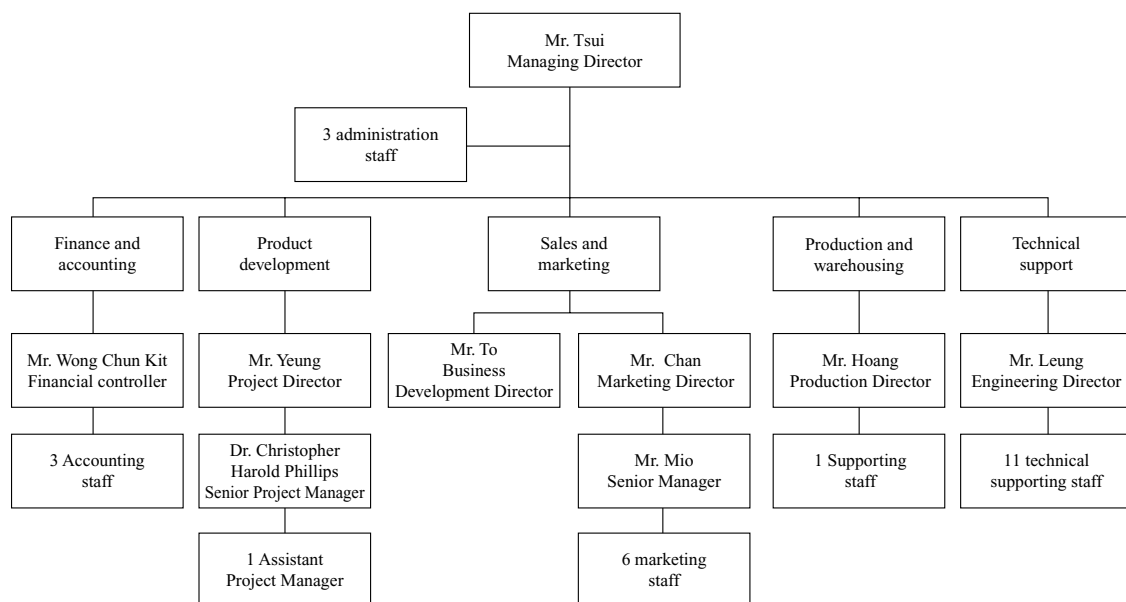
	Total
Management and administration	4
Finance and accounting	4
Product development	3
Sales and marketing	9
Production and warehousing	2
Technical support	12
	<hr/>
	34
	<hr/> <hr/>

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

DIRECTORS, SENIOR MANAGEMENT AND STAFF

ORGANISATION STRUCTURE

The following chart sets out the organisation structure of the Group:



BENEFIT SCHEMES

The Group has implemented a provident fund scheme for its employees in Hong Kong in compliance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (as amended from time to time) which took effect from 1st December, 2000.

SHARE OPTION SCHEMES

The Group has conditionally adopted the Pre-IPO Share Option Scheme pursuant to which options to subscribe for an aggregate of 80,000,000 Shares, representing 10% of the issued share capital of the Company as at the Listing Date, at a subscription price per Share equal to 50% of the Offer Price, have been conditionally granted by the Company to the 6 executive Directors, one independent non-executive Director, one technical adviser and 6 full-time employees of the Group. The Group has also conditionally adopted the Share Option Scheme under which certain employees of the Group including executive Directors may be granted options which will entitle them to subscribe for Shares when aggregated with the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme or any other share option scheme of the Company, up to, subject to the approval of the shareholders of the Company in general meeting, a maximum of 30% of the Shares in issue from time to time. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised in the section headed “Share Option Schemes” in Appendix IV to this prospectus. The Directors believe that the Share

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Option Schemes will assist the Group in the recruitment and retention of high calibre executives and employees. The number of options granted to the grantees under the Pre-IPO Share Option Scheme was based on the past contribution of the grantees to the growth and development of the Group and/or to the listing of the Shares.

Dr. Yu Chai Mei, an independent non-executive Director, was conditionally granted an option to subscribe for 2,400,000 Shares under the Pre-IPO Share Option Scheme. The reason for granting the share option under the Pre-IPO Share Option Scheme to him at a subscription price equal to 50% of the Offer Price per Share was to recognise his contribution made in respect of the development potentials of PCO reactors. Given his contribution made to the Group in the area of PCO reactors, the Directors believe that the conditional grant of the share options under the Pre-IPO Share Option Scheme to him at a subscription price equal to 50% of the Offer Price per Share was fair and reasonable to the Company. The Group and Dr. Yu Chai Mei have not entered into any financial and/or commercial contract and/or arrangement in the past and have no intention to enter into such contract and/or arrangement in the future other than that the Directors have agreed to pay a monthly fee of \$5,000 to him as his remuneration (in his capacity as an independent non-executive Director) after the listing of the Company and also to grant the share options to him under the Pre-IPO Share Option Scheme.

Dr. Yeung Lam Lung, a technical adviser of the Group, was conditionally granted an option to subscribe for 2,400,000 Shares under the Pre-IPO Share Option Scheme. The reason for granting the share option under the Pre-IPO Share Option Scheme to him at a subscription price equal to 50% of the Offer Price per Share was to recognise his contribution made in respect of the application of the Enzyme-based Materials and PCO reactors in textile wastewater treatment. Given his contribution made to the Group, the Directors believe that the conditional grant of the share options under the Pre-IPO Share Option Scheme to him at a subscription price equal to 50% of the Offer Price per Share was fair and reasonable to the Company.

Ms. Wong Miu Fan, Ophelia, the executive secretary of the Group, was conditionally granted an option to subscribe for 8,000,000 Shares under the Pre-IPO Share Option Scheme. The reason for conditionally granting the share option to her was to recognise her dedications and commitments to the Group as she has proved herself to be a reliable and responsible employee in providing personal secretarial services to the Directors, general administration and assisting in company secretarial matters. The Directors believe that the conditional grant of the share options under the Pre-IPO Share Option Scheme to her will convey a clear message to other employees of the Group that dedications and commitments in working are recognised and will be rewarded. The Directors are also of the view that the conditional grant of the share options under the Pre-IPO Share Option Scheme to her is fair and reasonable to the Company.

Please refer to the subparagraph headed “Outstanding options under the Pre-IPO Share Option Scheme” in Appendix IV to this prospectus for the details of the other grantees under the Pre-IPO Share Option Scheme.

SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

Immediately after the completion of the Share Offer and the Capitalisation Issue, so far as the Directors are aware and without taking into account any Shares which may be taken up under the Share Offer and assuming that the Over-allotment Option and the options that have been granted under the Pre-IPO Share Option Scheme and the options that may be granted under the Share Option Scheme are not exercised, the following persons will be directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company:

Name	Number of Shares	Percentage of holding of Shares
Achieve Century (<i>Note 1</i>)	416,769,983	52.10
Count Wealth (<i>Note 2</i>)	119,229,995	14.90
Tipmax (<i>Note 3</i>)	416,769,983	52.10
Star Wave (<i>Note 4</i>)	416,769,983	52.10
Kong Sun (<i>Note 5</i>)	119,229,995	14.90
Mr. Tsui (<i>Note 3</i>)	416,769,983	52.10
Mr. Hoang (<i>Note 4</i>)	416,769,983	52.10
Kong Fa Holding Limited (<i>Note 6</i>)	119,229,995	14.90
Mr. Kong Look Sen (<i>Note 6</i>)	119,229,995	14.90

Notes:

- Achieve Century is a limited liability company incorporated in BVI and the entire issued share capital of Achieve Century is beneficially owned as follows:

Name of shareholder	Number of shares held in Achieve Century	Approximate percentage of shareholding in Achieve Century
Tipmax (<i>Note 3</i>)	4,175	53.87%
Star Wave (<i>Note 4</i>)	3,575	46.13%
Total	<u>7,750</u>	<u>100.00%</u>

- Count Wealth is a limited liability company incorporated in BVI and the entire issued share capital of Count Wealth is beneficially owned by Kong Sun. Mr. Kong Li Szu, a non-executive Director, is the representative of Count Wealth on the Board.
- Tipmax is a limited liability company incorporated in BVI and the entire issued share capital of Tipmax is beneficially owned by Mr. Tsui, the Managing Director of the Company.

SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

4. Star Wave is a limited liability company incorporated in BVI and the entire issued share capital of Star Wave is beneficially owned as follows:

Name of shareholder	Number of shares held in Star Wave	Approximate percentage of shareholding in Star Wave
Mr. Hoang	4,055	40.55%
Mr. Yeung	1,351	13.51%
Mr. Leung	1,351	13.51%
Mr. To	1,081	10.81%
Mr. Mio	1,081	10.81%
Mr. Chan	1,081	10.81%
Total	<u>10,000</u>	<u>100.00%</u>

5. Kong Sun is a limited liability company incorporated in Hong Kong whose shares are listed on the Main Board of the Stock Exchange. The issued share capital of Kong Sun is beneficially owned by the public as to 44.51%, by Kong Fa Holding Limited as to 36.35% and by Kong Sun Enterprise Sdn. Bhd. as to 19.14%.
6. Kong Fa Holding Limited is a limited liability company incorporated in BVI and its issued share capital is beneficially owned by Kong Look Sen, Soo Lee Eng, Kong Li Jer, Mr. Kong and Kong Soo Wei.
7. Kong Sun Enterprise Sdn. Bhd. is a limited liability company incorporated in Malaysia and its issued share capital is beneficially owned by Kong Look Sen, Soo Lee Eng, Kong Li Jer, Dato Abdul Ajib Bin Admad and Lo Ah Tuan.

Save as disclosed herein, the Directors are not aware of any other persons who will immediately following the Share Offer and the Capitalisation Issue be directly or indirectly interested in Shares representing 10% or more of the share capital of the Company.

INITIAL MANAGEMENT SHAREHOLDERS

Immediately after the completion of the Share Offer and the Capitalisation Issue, so far as the Directors are aware and without taking into account any Shares which may be taken up under the Share Offer and assuming that the Over-allotment Option and the options that have been granted under the Pre-IPO Share Option Scheme and the options that may be granted under the Share Option Scheme are not exercised:

1. Achieve Century and Count Wealth will be interested in 416,769,983 Shares and 119,229,995 Shares respectively, and will be entitled to exercise or control the exercise of 52.10% and 14.90% respectively of the voting power at general meetings of the Company;

SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

2. the shareholders of Achieve Century, being Tipmax and Star Wave, will both be deemed to be interested in 416,769,983 Shares representing 52.10% of the voting power at general meetings of the Company and the sole shareholder of Count Wealth, being Kong Sun, will be deemed to be interested in 119,229,995 Shares representing 14.90% of the voting power at general meetings of the Company; and
3. the sole shareholder and sole director of Tipmax, Mr. Tsui, will be deemed to be interested in 416,769,983 Shares representing 52.10% of the voting power at general meetings of the Company; and the shareholders of Star Wave, being Mr. Yeung, Mr. Leung, Mr. Hoang, Mr. To, Mr. Chan (all of whom are executive Directors) and Mr. Mio (a member of the senior management of the Company), will be deemed to be interested in 56,305,624 Shares, 56,305,624 Shares, 416,769,983 Shares, 45,052,835 Shares, 45,052,835 Shares and 45,052,835 Shares representing 7.04%, 7.04%, 52.10%, 5.63%, 5.63% and 5.63% respectively of the voting power at general meetings of the Company.

Achieve Century, Count Wealth, Tipmax, Star Wave, Kong Sun, Mr. Tsui, Mr. Yeung, Mr. Leung, Mr. Hoang, Mr. To, Mr. Chan and Mr. Mio are all considered by the Stock Exchange to be the Initial Management Shareholders.

Name	Number of Shares	Approximate percentage of voting power
Achieve Century (<i>Note 1</i>)	416,769,983	52.10
Tipmax (<i>Note 2</i>)	416,769,983	52.10
Star Wave (<i>Note 3</i>)	416,769,983	52.10
Count Wealth (<i>Note 4</i>)	119,229,995	14.90
Kong Sun (<i>Note 4</i>)	119,229,995	14.90
Mr. Tsui (<i>Note 2</i>)	416,769,983	52.10
Mr. Yeung (<i>Note 5</i>)	56,305,624	7.04
Mr. Leung (<i>Note 5</i>)	56,305,624	7.04
Mr. Hoang (<i>Note 3</i>)	416,769,983	52.10
Mr. To (<i>Note 5</i>)	45,052,835	5.63
Mr. Chan (<i>Note 5</i>)	45,052,835	5.63
Mr. Mio (<i>Note 6</i>)	45,052,835	5.63

Notes:

1. Please refer to note (1) under the paragraph headed “Substantial shareholders” in this section.
2. Please refer to notes (1) and (3) under the paragraph headed “Substantial shareholders” in this section.
3. Please refer to notes (1) and (4) under the paragraph headed “Substantial shareholders” in this section.

SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

4. Please refer to note (2) under the paragraph headed “Substantial shareholders” in this section.
5. Each of Mr. Yeung, Mr. Leung, Mr. To and Mr. Chan is an executive Director. Please also see notes (1) and (4) under the paragraph headed “Substantial shareholders” in this section.
6. Mr. Mio is a member of the senior management of the Group. Please also see notes (1) and (4) under the paragraph headed “Substantial shareholders” in this section.

UNDERTAKINGS

Each of the Initial Management Shareholders has jointly and severally undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Sponsors, the Lead Managers and the Underwriters that:

- (a) each of them shall not, and shall procure that none of its associates, nominees or trustees holding in trust for it or him shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it or him which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein;
- (b) in the event of a disposal of any Relevant Securities or any interests therein after the Lock-up Period, it or he shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market in the Shares or other securities of the Company;
- (c) each of them shall, not later than the Listing Date, enter into an escrow agreement in an agreed form with an escrow agent acceptable to the Stock Exchange and the Sponsors and place in escrow with such escrow agent during the Lock-up Period all its or his Relevant Securities;
- (d) during the Lock-up Period:
 - (i) if it or he pledges or charges any direct or indirect interests in the Relevant Securities or in any shares in any company controlled by it or him which is directly or indirectly the beneficial owner of any of the Relevant Securities, it or

SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

he shall give prior written notice of not less than three business days to the Company of such pledges or charges together with the number and class of securities so pledged or charged and the purpose for which the pledge or charge is made; and

- (ii) when it or he is aware of or receives indications, either verbal or written, from the pledgee or chargee that any of such pledged or charged securities or interests therein will be disposed of, it or he will immediately inform the Company of such indications and details of such disposal, and

the Company has undertaken to and agreed and covenanted with the Sponsors and the Underwriters to forthwith inform the Stock Exchange the pledges and charges referred to above and publish a press announcement thereof immediately upon receipt of the notification from any of the Initial Management Shareholders; and

- (e) in respect of any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the Lock-up Period, it or he shall inform the Company and the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) in writing immediately thereafter, disclosing the details as required under Rules 17.43(1) to (4) of the GEM Listing Rules.

SHARE CAPITAL

Authorised: \$

<u>1,500,000,000</u> Shares	<u>15,000,000.00</u>
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Issued and to be issued, fully paid or credited as fully paid:

8,666,667 Shares in issue	86,666.67
631,333,333 Shares to be issued under the Capitalisation Issue	6,313,333.33
<u>160,000,000</u> Shares to be issued pursuant to the Share Offer	<u>1,600,000.00</u>
<u>800,000,000</u> Shares	<u>8,000,000.00</u>

Notes:

Assumptions

The above table assumes that the Share Offer and the Capitalisation Issue become unconditional but takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which have been granted under the Pre-IPO Share Option Scheme and options that may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as described below.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue save for the entitlement under the Capitalisation Issue. In particular, the Offer Shares will rank in full for all dividends and other distributions hereafter declared, paid or made on Shares.

Share Option Schemes

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, the principal terms of which are summarised in the paragraph headed “Share Option Schemes” in Appendix IV to this prospectus.

General mandate to issue new Shares

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

- 20% of the total nominal amount of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- the total nominal amount of the Shares repurchased by the Company (if any) pursuant to a separate mandate to repurchase Shares as described more fully below.

This general mandate is in addition to the powers of the Directors to allot, issue or deal with Shares under an issue by way of rights, or issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company or pursuant to any options that have been granted under the Pre-IPO Share Option Scheme and any options that may be granted under the Share Option Scheme, or an issue of Shares in respect of any scrip dividend or similar arrangement for the allotment and issue of Shares in lieu of the whole or part of the dividend on Shares.

SHARE CAPITAL

This general mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- at the end of the period within which the Company is required by the Companies Law or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting;

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Resolutions in writing of all the shareholders of the Company passed on 20th April, 2002" in the section headed "Further information about the Company" in Appendix IV to this prospectus.

General mandate to repurchase Shares

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with an aggregate nominal amount of not more than 10% of the total nominal amount of the Shares issued and to be issued following the completion of the Share Offer and the Capitalisation Issue (including any Shares which may be issued pursuant to the Over-allotment Option).

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

This general mandate will expire;

- at the conclusion of the Company's next annual general meeting; or
- at the end of the period within which the Company is required by the Companies Law or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever occurs first.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

At the close of business on 28th February, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had total outstanding borrowings of \$12,666,088. The borrowings comprised amount due to a director of \$65,331, Convertible Notes of \$11,441,509, obligations under finance lease contracts of \$67,248 and trust receipt loans of \$1,092,000.

The Group's trade finance facilities are secured by:

- (a) a charge over the Group's time deposits of \$1 million plus any interest accrued thereon; and
- (b) a personal guarantee for an unlimited amount executed by Mr. Tsui, a Director.

The relevant bank has confirmed that the personal guarantee given by Mr. Tsui will be released upon the listing of the Shares.

All executive Directors, Ms. Lam and Mr. Mio have executed the Note Instrument which contains personal guarantees in respect of the Convertible Notes in the principal amount of \$10,000,000. The Directors have confirmed that the Convertible Note Holders have agreed that the personal guarantees given by all executive Directors, Ms. Lam and Mr. Mio in relation to the Convertible Notes will be released immediately after the time at which the right to terminate the Underwriting Agreement has lapsed.

The Convertible Notes of \$10,000,000 together with a premium of \$2,000,000 will be fully redeemed within 3 business days after the listing of the Shares. The premium accrued up to the close of business on 28th February, 2002 amounted to \$1,441,509.

Contingent liabilities

As at 28th February, 2002, the Group had no material contingent liabilities or liabilities under guarantees.

Disclaimer

Save as aforesaid and as otherwise disclosed herein, and apart from intra-Group liabilities, the Group did not have any bank loans, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 28th February, 2002.

FINANCIAL INFORMATION

No material change

The Directors have confirmed that there has not been any material changes in the indebtedness of the Group since 28th February, 2002.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 28th February, 2002, being the latest practicable date for the purpose of this net current assets statement, the Group has net current assets of approximately \$3,217,648. Current assets of the Group comprised cash and bank balances of approximately \$1,092,102, inventories of approximately \$2,431,654, accounts receivable of approximately \$9,831,595, prepayments, deposits and other receivables of approximately \$2,180,594, amount due from a director of approximately \$2,113,922 and amount due from shareholders of the holding company of \$71,527. The current liabilities of the Group comprised trade payables of approximately \$1,420,796, trust receipt loans of \$1,092,000, other payables and accruals of approximately \$450,486, amount due to a director of \$65,331, Convertible Notes of \$11,441,509 and finance lease payables of \$33,624.

Financial resources

Historically, the Group has been financed by cash from operations, equity subscriptions from shareholders, loans from directors and banking facilities provided by its banker. As at 28th February, 2002, the Group had available aggregate banking facilities of \$2,000,000 provided by its banker in Hong Kong. On the same date, the Group utilised \$1,092,000 of such banking facilities.

The trade finance facilities are secured by a charge over the Group's time deposits of \$1,000,000 plus any interest accrued thereon and a personal guarantee for an unlimited amount executed by Mr. Tsui.

The relevant bank has confirmed that the personal guarantee given by Mr. Tsui will be released upon the listing of the Shares.

Capital commitments

As at 28th February, 2002, the Group had no material capital commitment.

FINANCIAL INFORMATION

Foreign currency risk

The income and expenditure of the Group are mainly in \$ and the assets and liabilities of the Group were denominated in \$. Hence, the Directors do not consider the Group is significantly exposed to any foreign currency exchange risk.

Directors' opinion on sufficiency of working capital

The Directors are of the opinion that, taking into account its currently available banking facilities and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements.

Disclaimer under GEM Listing Rules 17.15 to 17.21

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

FINANCIAL INFORMATION

TRADING RECORD

The table below summarises the combined audited results of the Group for the period from 20th January, 1999 (date of incorporation of GEHK) to 31st March, 2000, the year ended 31st March, 2001 and the six months ended 30th September, 2001, as if the current Group structure had been in existence throughout such periods.

	Period from 20th January 1999 (date of incorporation of GEHK) to 31st March, 2000 \$	Year ended 31st March, 2001 \$	Six months ended 30th September, 2001 \$
Water quality improvement	1,754,494	5,017,380	2,210,211
Air quality improvement	449,409	2,088,667	707,087
Energy saving	–	11,606	9,312,483
Turnover (<i>Note 1</i>)	2,203,903	7,117,653	12,229,781
Cost of sales	(1,019,257)	(2,908,761)	(7,176,576)
Gross profit	1,184,646	4,208,892	5,053,205
Other revenue	1,731	2,589	25,117
Convertible Notes issue expenses	–	–	(727,043)
Selling and distribution expenses	(748,631)	(1,783,476)	(894,310)
Administrative expenses	(2,727,585)	(3,526,214)	(2,085,515)
Profit/(loss) from operating activities	(2,289,839)	(1,098,209)	1,371,454
Finance costs	(14,357)	(76,003)	(454,247)
Profit/(loss) before tax	(2,304,196)	(1,174,212)	917,207
Tax	–	–	–
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(2,304,196)</u>	<u>(1,174,212)</u>	<u>917,207</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
Earnings/(loss) per Share (<i>Note 2</i>)			
Basic (cent)	<u>(0.36)</u>	<u>(0.18)</u>	<u>0.14</u>
Diluted (cent)	<u>N/A</u>	<u>N/A</u>	<u>0.13</u>
Pro forma adjusted (cent)	<u>(0.13)</u>	<u>(0.02)</u>	<u>0.16</u>

FINANCIAL INFORMATION

Notes:

1. Turnover represents the invoiced value of goods sold after allowances for returns and trade discounts during each of the Relevant Periods.
2. The calculation of basic earnings/(loss) per Share for each of the Relevant Periods is based on the net profit/(loss) from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 640,000,000 Shares had been in issue throughout the Relevant Periods, comprising 8,666,667 Shares in issue as at the date of this prospectus and 631,333,333 Shares issued pursuant to the Capitalisation Issue.

The calculation of diluted earnings per Share for the six months ended 30th September, 2001 is based on the net profit from ordinary activities attributable to shareholders for the six months ended 30th September, 2001. The weighted average number of ordinary shares used in the calculation of diluted earnings per Share for the six months ended 30th September, 2001 is 680,000,000 Shares, which includes 640,000,000 Shares deemed to have been in issue during the six months ended 30th September, 2001, as used in the basic earnings/(loss) per Share calculation; the weighted average number of 40,000,000 Shares for the six months ended 30th September, 2001 assumed to have been issued at nil consideration on the deemed exercise of the options granted pursuant to the Pre-IPO Share Option Scheme as set out in the paragraph headed "Pre-IPO Share Option Scheme" in the section headed "Share Option Schemes" of the Appendix IV to the Prospectus. Diluted loss per Share for the period from 20th January, 1999 (date of incorporation) to 31st March, 2000 and the year ended 31st March, 2001 had not been calculated as no diluting events existed.

For the purpose of calculating diluted earnings per Share for the six months ended 30th September, 2001, the fair value of the Shares assumed to have been issued upon the deemed exercise of the options granted pursuant to the Pre-IPO Share Option Scheme was determined at 50% of \$0.28 per Share in respect of the Company's initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of Shares for nil consideration.

The calculation of the earnings/(loss) per Share on a pro forma adjusted basis for each of the Relevant Periods is based on the pro forma combined profit/(loss) for each respective period and on 880,000,000 Shares in issue during the Relevant Periods on the assumptions that the Capitalisation Issue, the Share Offer and the exercise of the options granted under the Pre-IPO Share Option Scheme had been effective on 20th January, 1999. For the purpose of this calculation, the pro forma combined profit/(loss) for each of the Relevant Periods has been calculated based on the audited combined profit/(loss) after taking into account of the interest income that would have been earned if the net proceeds from the Share Offer and the exercise of the options under the Pre-IPO Share Option Scheme had been received on 20th January, 1999 at a rate of 2.0% per annum.

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Company during the two years immediately preceding the issue of the prospectus including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Company for two financial years immediately preceding the issue of the prospectus.

FINANCIAL INFORMATION

Rules 7.03(1) and 11.10 of the GEM Listing Rules require the consolidated results of the Company and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange.

The accountants' report for each of the financial periods from 20th January, 1999 (date of incorporation of GEHK) to 31st March, 2000, the financial year ended 31st March, 2001 and the six months ended 30th September, 2001 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued shortly after 31st March, 2002, the accountants' report has not been prepared for the full year ended 31st March, 2002 as it would be underly burdensome for the Company to do so.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and to the Securities and Futures Commission for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st March, 2002 in this prospectus. A waiver has been granted by the Stock Exchange and a certificate of exemption has been granted by the Securities and Futures Commission.

Pursuant to Rule 11.11 of the GEM Listing Rules, the Company is required to include the financial results which must not have ended more than six months before the date of this prospectus. As this prospectus includes the financial results of the Group covering only the period from 20th January, 1999 up to 30th September, 2001 which has ended more than six months before the issue date of this prospectus, the Company has applied for and has been granted a waiver from strict compliance with Rule 11.11 of the GEM Listing Rules by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence work on the Group to ensure that, save as disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Group since 30th September, 2001 which would materially affect the information as shown in the accountants' report as set out in Appendix I to this prospectus.

OVERVIEW

Period from 20th January, 1999 to 31st March, 2000

The Group's turnover for the period from 20th January, 1999 to 31st March, 2000 was approximately \$2.2 million comprising approximately 20.4% of the Group's turnover attributable to the business of air quality improvement and the remainder to the business of water quality improvement.

FINANCIAL INFORMATION

The Group's gross profit and gross profit margin for the period from 20th January, 1999 to 31st March, 2000 were approximately \$1.2 million and approximately 53.8%.

The Group's loss from ordinary activities attributable to shareholders for the period from 20th January, 1999 to 31st March, 2000 was approximately \$2.3 million. Such loss was primarily attributable to relatively low income and contribution for the period as compared to certain initial set up costs and fixed overhead costs, such as salaries and office rental, of running the Group's operation.

The debtors' turnover, the creditors' turnover and the inventories' turnover of the Group were approximately 43 days, 58 days and 75 days respectively for the period from 20th January, 1999 to 31st March, 2000.

Financial year ended 31st March, 2001

The Group's turnover for the financial year ended 31st March, 2001 was approximately \$7.1 million comprising approximately 29.3%, 70.5% and 0.2% attributable to the business of air quality improvement, water quality improvement and energy saving respectively. The Group's turnover for the year ended 31st March, 2001 represented a significant increase of approximately 223.0% when compared to the turnover for the period from 20th January, 1999 to 31st March, 2000. This substantial increase was mainly attributable to an increase in market recognition of the Group's products and projects.

The gross profit of the Group for the financial year ended 31st March, 2001 was approximately \$4.2 million, representing a substantial increase of approximately 255.3% when compared to the period from 20th January, 1999 to 31st March, 2000. The gross profit margin of the Group for the year ended 31st March, 2001 was approximately 59.1%, representing an increase of approximately 5.3% when compared to the gross profit margin for the period from 20th January, 1999 to 31st March, 2000. The increase in gross profit margin was mainly attributable to the scale of economies that the fixed cost (salaries of employees for the site works) was included in the costs of sales.

The Group had an increase in selling and distribution costs and administrative expenses of approximately 138.2% and of approximately 29.3% respectively when compared to the period from 20th January, 1999 to 31st March, 2000. The increase in selling and distribution costs was attributable to the increase in number of sales and marketing staff from three to five and with a maximum of seven during the year and the increase in selling commission in line with the increase in turnover attributable from the water and air quality improvement business. The increase in administrative expenses was attributable to the increase in rental and occupancy cost after the establishment of the new office in April 2000 and the increase in entertainment expenses to cope with the rapid expansion of the business of the Group.

FINANCIAL INFORMATION

The Group's loss from ordinary activities attributable to shareholders for the financial year ended 31st March, 2001 was approximately \$1.2 million which represents a decrease in loss of approximately \$1.1 million when compared to the period from 20th January, 1999 to 31st March, 2000. The decrease was mainly attributable to an increase in the Group's turnover for the year ended 31st March, 2001 which resulted in a decrease in fixed overheads per \$ of turnover.

Comparing with the relevant figure in preceding financial period, the debtors' turnover of the Group for the year ended 31st March, 2001 remained stable at approximately 46 days. The creditors' turnover of the Group increased from approximately 58 days for the period from 20th January, 1999 to 31st March, 2000 to approximately 96 days for the year ended 31st March, 2001. Such increase was mainly attributable to the increase in the Group's turnover and hence part of the additional financing required was shifted to the trade creditors. The inventories' turnover of the Group decreased from approximately 75 days for the period from 20th January, 1999 to 31st March, 2000 to approximately 40 days for the year ended 31st March, 2001. This was mainly attributable to the Group's tightening of its control on stocks.

Six months ended 30th September, 2001

The Group's turnover for the six months ended 30th September, 2001 was approximately \$12.2 million comprising approximately 5.8%, 18.1% and 76.1% attributable to the business of air quality improvement, water quality improvement and energy saving respectively. The Group's turnover for the six months ended 30th September, 2001 represented an increase of approximately 253.0% when compared to the six months ended 30th September, 2000. This remarkable increase was mainly attributable to the increase in turnover of the energy saving business. The significant increase in turnover of the energy saving business was primarily due to the incentive scheme introduced by two local electricity supply companies namely Non-residential Energy Efficient Lighting Rebate Programme in July 2000 to promote energy saving by offering rebates to non-residential customers for the installation of electronic ballasts as replacements of conventional light system to reduce energy consumption and the increasing resources allocated by the Group to the sales of electronic ballasts. As most of the Group's marketing resources were allocated to energy saving business, the turnover contribution from water quality improvement decreased from approximately 70.5% for the year ended 31st March, 2001 to approximately 18.1% for the six months ended 30th September, 2001 and the turnover contribution from air quality improvement decreased from approximately 29.3% for the year ended 31st March, 2001 to approximately 5.8% for the six months ended 30th September, 2001.

Total gross profit of the Group for the six months ended 30th September, 2001 was approximately \$5.1 million, representing an increase of approximately 177.6% when compared to the six months ended 30th September, 2000. This increase was mainly attributable to the increase in the turnover of the energy saving business. The gross profit margin of the Group for

FINANCIAL INFORMATION

the six months ended 30th September, 2001 was approximately 41.3%. The decrease of approximately 11.2% in the Group's gross profit margin when compared to the six months ended 30th September, 2000 was mainly attributable to the lower gross profit margin of energy saving projects of approximately 32.2% in comparison with that of the business of water quality improvement of approximately 66.1% and air quality improvement of approximately 83.4%.

The Group's selling and distribution expenses for the six months ended 30th September, 2001 was approximately \$0.9 million, representing an increase of approximately 18.8% when compared to the six months ended 30th September, 2000. This increase was mainly due to the increase in the Group's commission on sales which was in line with the increase in its sales volume for the respective period. The Group's administrative expenses for the six months ended 30th September, 2001 was approximately \$2.1 million. The increase of approximately 37.4% in the Group's administrative expenses when compared to the six months ended 30th September, 2000 was primarily attributable to the increase in the number of the Group's administrative staff from six as at 30th September, 2000 to 13 as at 30th September, 2001 as well as the legal and professional fees incurred by the the Group in respect of investment made by Kong Sun and the Convertible Notes for the six months ended 30th September, 2001.

The Group's profit from ordinary activities attributable to shareholders for the six months ended 30th September, 2001 was approximately \$0.9 million.

The debtors' turnover of the Group increased significantly from approximately 46 days for the year ended 31st March, 2001 to approximately 103 days for the six months ended 30th September, 2001. The significant increase was mainly attributable to the significant increase in sales and the giving of longer credit period (from 30 days to 60 days in general) to induce sales and the fact that the sales for August and September 2001 were approximately \$3.5 million and \$4 million respectively and also that trade receivables as at 30th September, 2001 were less than sales for the preceding 60 days. Although the turnover for the six months ended 30th September, 2001 increased substantially, the creditors' turnover of the Group decreased from approximately 96 days for the year ended 31st March, 2001 to approximately 79 days for the six months ended 30th September, 2001. The decrease was mainly attributable to the additional funding from Kong Sun and proceeds from the issuance of the Convertible Notes which were received in July and August 2001 respectively. The inventories' turnover of the Group decreased further from approximately 40 days for the year ended 31st March, 2001 to approximately 26 days for the six months ended 30th September, 2001. This was mainly attributable to the Group's tightening of its control on stocks to keep inventories at a minimum level. Orders were only made for anticipated or contracted sales.

FINANCIAL INFORMATION

TAX

The Group is principally subject to Hong Kong profits tax. No provision for Hong Kong profits tax had been made for the period from 20th January, 1999 (the date of incorporation of GEHK) to 31st March, 2001 as the Group had no assessable profits arising in Hong Kong. For the six months ended 30th September, 2001, no provision for Hong Kong profits tax had been made as the Group had available tax losses brought forward to offset against the assessable profit arising in Hong Kong for the period. No provision for deferred tax had been made as the effect of all timing differences is immaterial.

PROPERTY INTERESTS

The Group leases two units in Energy Plaza, No. 92 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong as its offices from independent third parties. The Group also leases Unit 9H-1 on 9th Floor, Kaiser Estate 2nd Phase, Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street, Hunghom, Kowloon, Hong Kong as its workshop from an independent third party. The property interest of the Group has been valued by RHL Appraisal Ltd., an independent property valuer, at no commercial value as at 31st January, 2002. The text of its letter, summary of valuation and valuation certificate are set out in Appendix II to this prospectus.

DIVIDENDS AND WORKING CAPITAL

Dividends

The Directors presently intend that future interim and final dividends will be paid in or around November and July respectively of each year and that interim dividends will represent approximately one-third of the expected total dividends for each year.

Working capital

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

The Company was incorporated on 28th May, 2001 and had distributable reserves of \$2,240,021 as at 30th September, 2001.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 30th September, 2001 as shown in the accountants' report in Appendix I to this prospectus and adjusted as follows:

	<i>\$'000</i>
Audited combined net assets of the Group as at 30th September, 2001 as set out in Appendix I to this prospectus	3,749
Less: Intangible assets as at 30th September, 2001	(911)
Add: Proceeds from the exercise of the Eagle Option and the Outshine Option	600
Unaudited combined profit of the Group for the five months ended 28th February, 2002 (<i>Note 1</i>)	278
Estimated net proceeds under the Share Offer	<u>36,800</u>
Adjusted net tangible assets	<u><u>40,516</u></u>
Adjusted net tangible asset value per Share (<i>Note 2</i>)	<u><u>5.06 cents</u></u>

Notes:

1. The unaudited combined profit of the Group for the five months ended 28th February, 2002 is arrived at after the deduction of premium payable for the Convertible Notes amounting to \$1,139,623.
2. The adjusted net tangible asset value per Share is arrived at based on the 800,000,000 Shares expected to be in issue immediately following the completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may fall to be issued upon the exercise of options that have been granted under the Pre-IPO Share Option Scheme and options that may be granted under the Share Option Scheme or the exercise of the Over-allotment Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue and repurchase of Shares granted to the Directors as referred to in the paragraph headed "Resolutions in writing of all the shareholders of the Company passed on 20th April, 2002" in the section headed "Further information about the Company" in Appendix IV to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30th September, 2001 (being the date to which the latest audited financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

UNDERWRITING

UNDERWRITERS

Placing Underwriters

Hantec Capital Limited
Phoenix Capital Securities Limited
SBI E2-Capital Securities Limited
CEF Capital Limited
GC Securities Limited
Tanrich Securities Company Limited
Sanfull Securities Limited
Core Pacific-Yamaichi International (H.K.) Limited
Christfund Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Hung Sing Securities Limited
Mayfair Securities Limited
Shenyin Wanguo Capital (H.K.) Limited
Taiwan Concord Capital Securities (Hong Kong) Limited
Kaiser Securities Limited
Sinomax Securities Limited
Young Champion Securities Limited

Public Offer Underwriters

Hantec Capital Limited
Phoenix Capital Securities Limited
SBI E2-Capital Securities Limited
CEF Capital Limited
GC Securities Limited
Tanrich Securities Company Limited
Sanfull Securities Limited
Core Pacific-Yamaichi International (H.K.) Limited
Christfund Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Hung Sing Securities Limited
Mayfair Securities Limited
Shenyin Wanguo Capital (H.K.) Limited
Taiwan Concord Capital Securities (Hong Kong) Limited
Kaiser Securities Limited
Sinomax Securities Limited
Young Champion Securities Limited

UNDERWRITING

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement:

- (a) the Company has agreed to offer the Offer Shares other than the Sale Shares at the Offer Price for subscription by members of the public in Hong Kong under the Public Offer and for subscription by professional, institutional and other investors under the Placing and the Vendors have agreed to offer the Sale Shares at the Offer Price for sale to professional, institutional and other investors under the Placing on and subject to the terms and conditions set out in this prospectus and the Underwriting Agreement;
- (b) subject to, among other conditions, approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus being granted by the GEM Listing Committee on or before 29th May, 2002 (or such later date as the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) may in their absolute discretion determine:
 - (i) the Public Offer Underwriters have severally agreed to subscribe or procure subscribers to subscribe for, on and subject to the terms and conditions of this prospectus and the related application forms and the Underwriting Agreement, the Public Offer Shares; and
 - (ii) the Placing Underwriters have severally agreed to subscribe for or purchase or procure subscribers to subscribe for or purchasers to purchase, on and subject to the terms and conditions of this prospectus and the Underwriting Agreement, the Placing Shares.

Grounds for termination

The Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) are entitled to terminate the obligations of the Underwriters to subscribe or procure subscribers to subscribe for the Offer Shares (other than the Sale Shares) and to purchase or procure purchasers to purchase the Sale Shares by giving written notice to the Company if the

UNDERWRITING

following events, shall occur prior to 8:00 a.m. on the date of despatch of share certificates relating to the Share Offer:

- (a) there comes to the notice of any of the Sponsors, the Lead Managers and the Underwriters that:
 - (i) any statement contained in any of this prospectus or the related application forms or the documents for the Placing was when such document was issued, or has become, untrue, incorrect or misleading in any material respect in the sole and absolute opinion of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters); or
 - (ii) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus or the related application forms or the documents for the Placing, constitute a material omission therefrom in the sole and absolute opinion of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters); or
 - (iii) any of the representations, warranties and undertakings contained in the Underwriting Agreement is untrue or inaccurate in any respect which the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) in their sole and absolute opinion consider to be material in the context of the Share Offer; or
 - (iv) any event, act or omission which gives or is likely to give rise to a liability of any of the Company, the executive Directors, the Vendors and the Initial Management Shareholders pursuant to the indemnities given under the Underwriting Agreement; or
 - (v) any of the obligations or undertakings expressed to be assumed by or imposed on any of the Company, the executive Directors, the Vendors and the Initial Management Shareholders under the Underwriting Agreement has not been complied with or observed by any of them in any respect which the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) in their sole and absolute opinion consider to be material; or
 - (vi) any information, matter or event which in the sole and absolute opinion of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) may lead to a material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of the Group; or

UNDERWRITING

- (b) there shall develop, occur, exist or come into effect:
- (i) any new Law or any change in existing Laws of any nature whatsoever or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or
 - (ii) any change (whether or not forming part of a series of changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs) in local, national or international financial, political, military, industrial, fiscal or economic conditions or prospects; or
 - (iii) any change in the conditions of local, national or international securities or commodities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or
 - (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (v) a change or development involving a prospective change in taxation or exchange control (or the implementation of exchange control) in Hong Kong, the Cayman Islands, BVI or other relevant jurisdiction; or
 - (vi) any event, or series of events, beyond the reasonable control of the Underwriters, including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism accident or interruption or delay in transportation, economic sanctions, public disorder, riot and epidemic; or
 - (vii) any litigation or claim brought by any third party against any member of the Group which will or is reasonable likely to result in the Group incurring liability that is material to the Group as a whole; or
 - (viii) any other change whether or not ejusdem generis with any of the foregoing,

and which, in each case, in the sole and absolute opinion of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters):

- (1) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Group or to any present or prospective shareholders of the Company in his capacity as such; or

UNDERWRITING

- (2) has or will have or is likely to have a material adverse effect on the success of the Placing or the Public Offer or the level of the Placing Shares or Public Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
- (3) makes it inadvisable or inexpedient to proceed with the Placing or the Public Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus or the related application forms or the documents for the Placing.

Undertakings

Under the Underwriting Agreement:

- (a) the Company has undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters that it will and each of the Initial Management Shareholders and executive Directors has jointly and severally undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters to, and/or procure that the Company will, inter alia:
 - (i) comply in all respects with the terms and conditions of the Share Offer;
 - (ii) pay any tax, duty, levy, fee or other charge or expense which may be payable by the Company in Hong Kong or elsewhere whether pursuant to the requirement of any Law or otherwise, in connection with the creation, allotment and issue of Shares under the Share Offer and the execution and delivery of, or the performance of any of the provisions under, the Underwriting Agreement;
 - (iii) not, without the prior written consent of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) at any time after the date of the Underwriting Agreement up to and including the date on which all of the conditions set out in the Underwriting Agreement are fulfilled (or waived) in accordance with the Underwriting Agreement, amend or agree to amend the memorandum and articles of association of the Company;
 - (iv) comply in a timely manner with its obligations under the requirements of the Stock Exchange in connection with the Share Offer (including, without limitation, the GEM Listing Rules or any replacement thereof or amendment thereto);
 - (v) procure that the Company will maintain a listing for the Shares on GEM after the conditions set out in the Underwriting Agreement have been fulfilled except following a withdrawal of such listing which has been approved by the relevant

UNDERWRITING

shareholders of the Company in accordance with the GEM Listing Rules or following an offer (within the meaning of the Takeovers Code) for the Company becoming unconditional;

- (vi) procure that the branch registrar and the receiving banker of the Company shall comply in all respects with the terms of their respective appointments and that neither of such appointments shall be amended without the prior written consent of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters);
- (vii) procure that there shall be delivered to the Stock Exchange as soon as practicable the declaration in the form set out in appendix 5, form E of the GEM Listing Rules;
- (viii) procure compliance with the obligations imposed upon it by the Companies Ordinance, the Companies Law and the GEM Listing Rules and the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong and any like legislation or regulations in respect of or by reason of the matters contemplated by the Underwriting Agreement, including but without limitation:
 - (aa) the making of all necessary registration with the Registrar of Companies in Hong Kong; and
 - (bb) the making available for inspection at the offices of the Company's legal advisers of the documents referred to in Appendix V to this prospectus during the period referred to therein;
- (ix) procure that the audited consolidated accounts of the Company for its financial year ending 31 March 2002, 31 March 2003 and 31 March 2004 respectively will be prepared on a basis consistent in all material respects with the accounting policies adopted for the purposes of the financial statements contained in Appendix I to this prospectus;
- (x) not without the prior written consent of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) issue, publish, distribute or otherwise make available any document, material or information in connection with the Share Offer (except the prospectus or the related application forms or the documents for the Placing or otherwise provided under the Underwriting Agreement);
- (xi) discuss with the Sponsors and the Lead Managers (for themselves and on behalf of the Underwriters) any announcement proposed to be made to the public within 12 months following the date of this prospectus which would conflict in any respect with any statement in this prospectus;

UNDERWRITING

- (xii) not (and the Company shall procure that none of the subsidiaries (as listed out in the accountants' report in Appendix I to this prospectus) will) at any time during the period from the date of the Underwriting Agreement up to and including the Listing Date make any announcement or otherwise make public any information which will or is likely to affect the market price of the Offer Shares without the prior written consent of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) or otherwise than during the course of any programme of publicity agreed with the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters); and
 - (xiii) do all other acts and things as may be reasonably required to be done by the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) or to carry into effect the Share Offer in accordance with the terms thereof;
- (b) the Company has undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters that it will not, and each of the executive Directors and the Initial Management Shareholders has jointly and severally undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters to procure that without the prior written consent of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters), which they may withhold in their absolute discretion regardless of whether or not it is in compliance with the GEM Listing Rules, the Company will not, except pursuant to the Share Offer, the Capitalisation Issue, the exercise of the Over-allotment Option, the grant of any option under the Share Option Scheme or the issue of Shares upon exercise of any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme:
 - (i) at any time during the First Six-Month Period, allot, issue, agree to allot or issue any Shares or other securities of the Company or grant or agree to grant any option, warrant or other rights carrying the right to subscribe for, or otherwise convert into, or exchange for, securities of the Company; and
 - (ii) at any time during a further six-month period immediately following the expiry of the First Six-Month Period, allot, issue, agree to issue any Shares or other securities of the Company or grant or agree to grant any option, warrant or other rights carrying the right to subscribe for, or otherwise convert into, or exchange for securities of the Company so as to result in any of the controlling shareholders (as defined in the GEM Listing Rules) of the Company taken together with the others and their respective associates, would directly or indirectly cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company;

UNDERWRITING

- (c) each of the Vendors has jointly and severally undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters that it will:
- (i) comply in all respects with the terms and conditions of the Share Offer and, in particular, subject to the Share Offer becoming unconditional sell such number of the Sale Shares comprised in the Placing Shares to applicants under the Placing;
 - (ii) pay any tax, duty, levy, fee or other charge or expense which may be payable by the Vendors in Hong Kong or elsewhere whether pursuant to the requirement of any Law or otherwise, in connection with the transfer of Shares under the Placing, the Share Offer and execution and delivery of, or the performance of any of the provisions under, the Underwriting Agreement;
 - (iii) comply in a timely manner with its obligations under the requirements of the Stock Exchange in connection with the Share Offer (including, without limitation, the GEM Listing Rules or any replacement thereof or amendment thereto); and
 - (iv) use its reasonable endeavours to procure that the receiving banker of the Company shall comply in all respects with the terms of its appointment and that such appointment shall not be amended without the prior written consent of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters);
- (d) each of the executive Directors and the Initial Management Shareholders has jointly and severally undertaken to and agreed and covenanted with the Sponsors and the Underwriters:
- (i) to procure that the Company complies with its obligations and undertakings contained in the Underwriting Agreement and to do all such acts and things within his or its powers as may be required by the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) to give effect to the same; and
 - (ii) that he or it shall not subscribe or purchase or enter into or effect any arrangements, and shall procure that none of his or its associates shall subscribe or purchase or enter into or effect any arrangements, for the subscription or purchase of any Offer Shares pursuant to the Share Offer whereby he or it or any of his or its associates shall become legally or beneficially (whether directly or indirectly) interested in any Offer Shares;

UNDERWRITING

- (e) each of the Company, executive Directors and the Initial Management Shareholders has jointly and severally undertaken to and agreed and covenanted with the Sponsors and the Underwriters that:
- (i) it or he will not make or permit any of its or his associates to make, bids or purchase for the purpose of creating actual or apparent active trading in, or of raising the price of the Offer Shares which is designed to or which has constituted or which might be expected to cause or result in stabilisation or manipulation of the price of any securities of the Company;
 - (ii) it or he shall at its or his own expense do all such acts and things as may be required by the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) to be done including, without limitation, to supply all such information, pay all such fees, and deliver all such documents as are required by the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) to be done including, without limitation, to supply all such information, pay all such fees, and deliver all such documents as are required by the Stock Exchange, to implement the Share Offer and, that it or he will comply with all requirements so as to enable the approval for the granting of the listing of, and permission to deal in, the Shares to be obtained and each of the Company, the executive Directors, the Initial Management Shareholders and the Vendors will use its best endeavours to ensure that each of the Directors will execute or cause to be duly executed on his behalf all documents requiring to be executed by him as a Director for the purpose of or in connection with any necessary registrations and/or filings with the respective Stock Exchange and the Registrar of Companies in Hong Kong or the obtaining of the approval for the granting of the listing of, and permission to deal in, the Shares; and
 - (iii) it or he shall comply with the rules and regulations issued from time to time by the Stock Exchange and any other regulatory authorities in connection with the Share Offer;
- (f) each of the Initial Management Shareholders has jointly and severally undertaken to and agreed and covenanted with the Company, the Sponsors and the Underwriters that:
- (i) each of them shall not, and shall procure that none of its or his associates, nominees or trustees holding in trust for it or him shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any

UNDERWRITING

agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of its or his Relevant Securities, or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by it or him which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein;

- (ii) in the event of a disposal of any Relevant Securities or any interests therein after the Lock-up Period, it or he shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market in the Shares or other securities of the Company;
- (iii) each of them shall, not later than the Listing Date, enter into an escrow agreement in an agreed form with an escrow agent acceptable to the Stock Exchange and the Sponsors and place in escrow with such escrow agent during the Lock-up Period, all its or his Relevant Securities; and
- (iv) during the Lock-up Period:
 - (aa) if it or he pledges or charges any direct or indirect interests in the Relevant Securities or in any shares in any company controlled by it or him which is directly or indirectly the beneficial owner of any of the Relevant Securities, it or he shall give prior written notice of not less than three business days to the Company of such pledges or charges together with the number and class of securities so pledged or charged and the purpose for which the pledge or charge is made; and
 - (bb) when it or he is aware of or receives indications, either verbal or written, from the pledgee or chargee that any of such pledged or charged securities or interests therein will be disposed of, it or he will immediately inform the Company and the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) of such indications and details of such disposal,

and the Company has undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters to forthwith inform the Stock Exchange the pledges and charges referred to above and publish a press announcement thereof immediately upon receipt of the notification from any of the Initial Management Shareholders; and

UNDERWRITING

- (cc) in respect of any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the Lock-up Period, it or he shall inform the Company and the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) in writing immediately thereafter, disclosing the details as required under Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (g) the Company has undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters that it will not, and each of the Initial Management Shareholders (jointly and severally amongst themselves) and each of the executive Directors (jointly and severally amongst themselves) has undertaken to and agreed and covenanted with the Sponsors, the Lead Managers and the Underwriters to procure that the Company will not, effect any purchase of Shares or other securities of the Company, or agree to do so, within the First Six-Month Period without first having obtained the prior written consent of the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) which they may withhold in their absolute discretions.

Commission and expenses

The Underwriters will receive a commission of 4% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commission. In addition, Hantec and SBI E2-Capital will receive documentation fees for providing the documentation services and for acting as the sponsor and the co-sponsor respectively to the Share Offer. Such underwriting commission, documentation fees, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the Securities and Futures Commission transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer which are currently estimated to be approximately \$10 million in aggregate, will be payable by the Company and the Vendors in the proportion of 80% and 20% respectively.

Underwriters' interests in the Company

Mr. Ho Yiu Ming, Mr. Chan Siu Man, Mr. Chu Wai Pang and Mr. Lee Chiu Kang are the ultimate beneficial owners of Phoenix Capital Investment Holdings Limited holding 98% shareholdings in Phoenix Capital Holdings Limited which in turn holds 100% shareholding of Phoenix Capital Securities Limited, which is one of the Underwriters and has agreed to underwrite not more than 5,500,000 Public Offer Shares and not more than 49,500,000 Placing Shares pursuant to the Underwriting Agreement. Should Phoenix Capital Securities Limited be obliged under the terms of the Underwriting Agreement to take up Shares to the full extent of its underwriting commitment, such Shares would constitute about 6.88% of the issued share capital of the Company immediately following completion of the Capitalisation Issue and the Share Offer assuming that the Over-allotment Option is not exercised. Phoenix Capital

UNDERWRITING

Securities Limited and Outshine Co., Ltd. would then have a combined attributable holding of about 9.91% of the issued share capital of the Company immediately following completion of the Capitalisation Issue and the Share Offer assuming that the Over-allotment Option is not exercised.

Save for the underwriting commitment, Phoenix Capital Securities Limited is subject to the same terms, including the same rate of commission, under the Underwriting Agreement as other Underwriters.

Save for (i) the interests, rights and obligations of the Underwriters under the Underwriting Agreement and the securities borrowing deed in relation to 30,000,000 Shares referred to in the section headed "Structure of the Share Offer", (ii) the interests, rights and obligations of the Underwriters as described above and (iii) the interests, rights and obligations of the Underwriters and/or the Sponsors as described under "Sponsors' interest in the Company" in this section and under paragraphs headed "The Share Offer" and "Over-allotment Option" and in the section headed "Structure of the Share Offer" in this prospectus, none of the Underwriters has any shareholding interest in any class of securities of any member of the Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or nominate persons to subscribe for or purchase securities in any member of the Group nor any interest in the Share Offer.

Sponsor's Agreement

Under the Sponsor's Agreement, the Company appoints Hantec and Hantec agrees to act as the sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the Listing Date until 31st March, 2005 or until the Sponsor's Agreement is terminated pursuant to its terms and conditions.

Sponsors' interest in the Company

Save for the documentation fees to be paid to Hantec and SBI E2-Capital as the sponsor and the co-sponsor to the Share Offer, their respective obligations under the Underwriting Agreement and in the case of Hantec, the Sponsor's Agreement, and interests in securities that may be subscribed for or purchased pursuant to the Share Offer, neither Hantec nor SBI E2-Capital nor its associates has or may, as a result of the Share Offer, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of each of the Sponsors who is involved in providing advice to the Company has or may, as a result of the Share Offer, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities

UNDERWRITING

that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer).

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

STRUCTURE OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price is \$0.28 per Share plus 1% brokerage, a 0.007% Securities and Futures Commission transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of \$2,828.34 per board lot of 10,000 Shares is payable on application.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon:

- the GEM Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein; and
- the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Underwriters) and not having been terminated in accordance with the terms of that agreement or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 29th May, 2002, being the date which is 30 days after the date of this prospectus.

If these conditions are not fulfilled (or, where applicable, waived by the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters)) on or before 29th May, 2002 the application monies will be returned to applicants of the Offer Shares, without interest. The terms on which the money will be returned to the applicants are set out in the section headed “Refund of your money” on the application forms.

In the meantime, the application monies for the Public Offer will be held in a separate bank account(s) with the receiving banker or any other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. The Offer Shares comprising in aggregate 160,000,000 New Shares and 40,000,000 Sale Shares, will represent approximately 20% and 5% respectively of the Company’s enlarged issued share capital immediately following the completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised).

STRUCTURE OF THE SHARE OFFER

The Public Offer Shares are fully underwritten by the Public Offer Underwriters and the Placing Shares are fully underwritten by the Placing Underwriters in each case on a several basis, each being subject to the conditions set forth under “Underwriting Agreement” in the section headed “Underwriting” in this prospectus.

References in this prospectus to applications, application forms, application money or to the procedure for application relate solely to the Public Offer.

The Placing

The Company is initially offering 140,000,000 New Shares for subscription and the Vendors are offering 40,000,000 Sale Shares for sale under the Placing, representing 70% and 20% respectively of the Offer Shares. The Placing is fully underwritten by the Placing Underwriters subject to the terms and conditions of the Underwriting Agreement.

The Placing Shares will be conditionally placed on behalf of the Company by the Placing Underwriters or through selling agents appointed by them at the Offer Price. The Placing Shares will be placed with professional, institutional and other investors in Hong Kong.

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

The Public Offer

The Company is initially offering 20,000,000 New Shares under the Public Offer, representing 10% of the Offer Shares, for subscription by members of the public in Hong Kong at the Offer Price. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Underwriting Agreement.

Applicants under the Public Offer are required to pay on application the Offer Price, together with a 1% brokerage, a 0.007% Securities and Futures Commission transaction levy and a 0.005% Stock Exchange trading fee.

The Public Offer Shares will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares. When there is a full or over subscription of Public Offer Shares, allocation of Public Offer Shares will be solely based on the level of valid applications received. The basis of allocation may vary, depending on the number of Public Offer Shares

STRUCTURE OF THE SHARE OFFER

validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would mean that some applicants may be allocated more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the balloting may not receive any Public Offer Shares.

OFFER MECHANISM – REALLOCATION OF THE OFFER SHARES BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to adjustment. If the Public Offer is not fully subscribed, the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) may, in their absolute discretion, reallocate all or any unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such proportion and in such manner as the Lead Managers consider appropriate. If the Placing is not fully subscribed, the Lead Managers (for themselves and on behalf of the Sponsors and the Underwriters) may, in their absolute discretion, reallocate all or any unplaced Placing Shares originally included in the Placing to the Public Offer in such proportion and in such manner as the Lead Managers may consider appropriate.

If the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then 40,000,000 Placing Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 60,000,000 Public Offer Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer (assuming that the Over-allotment Option is not exercised).

If the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then 60,000,000 Placing Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 80,000,000 Public Offer Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer (assuming that the Over-allotment Option is not exercised).

If the number of Shares validly applied for under the Public Offer represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then 80,000,000 Placing Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 100,000,000 Public Offer Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer (assuming that the Over-allotment Option is not exercised).

The number of Shares available under the Placing in each case will be correspondingly reduced as a result of such reallocation, subject to the exercise of the Over-allotment Option.

STRUCTURE OF THE SHARE OFFER

OVER-ALLOTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted Phoenix Capital Securities Limited (on behalf of the Placing Underwriters) the right to exercise the Over-allotment Option at any time from the date of this prospectus up to 30 calendar days from that date. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Offer Price up to an aggregate of 30,000,000 additional new Shares, representing 15% of the number of the Offer Shares initially available under the Share Offer, to cover over-allocations in the Placing and/or to satisfy the obligation of Phoenix Capital Securities Limited to return Shares borrowed pursuant to the securities borrowing deed entered into between Phoenix Capital Securities Limited and Achieve Century. Pursuant to this deed, Achieve Century has agreed that, if so requested by Phoenix Capital Securities Limited, it will lend to Phoenix Capital Securities Limited up to 30,000,000 Shares on the following terms:

- (i) the borrowed Shares will only be used to settle over-allocations in the Placing; and
- (ii) the same number of Shares must be returned to Achieve Century and deposited with the escrow agent, within three business days after:
 - (a) the last day on which the Over-allotment Option may be exercised or, if earlier;
 - (b) the date on which the Over-allotment Option is exercised in full.

Phoenix Capital Securities Limited may also cover such over-allocations by, amongst other means, purchasing Shares in the secondary market or by a combination of purchases in the secondary market and exercise of the Over-allotment Option either in full or in part. Any such secondary market purchases will be made in compliance with all applicable Laws and the price of any such secondary market purchases shall not exceed the Offer Price. The Offer Shares will constitute 25% of the Company's issued share capital immediately before exercise of the Over-allotment Option and about 27.7% of the enlarged issued share capital of the Company immediately following the exercise of the Over-allotment Option in full. Pursuant to Rule 11.23(1) of the GEM Listing Rules, the Company will maintain at least 25% of its share capital in issue from time to time in the hands of the public at all times after listing. In the event that the Over-allotment Option is exercised, an announcement will be made on the GEM website.

STABILISATION

In connection with the Placing, Phoenix Capital Securities Limited (for itself and on behalf of the Placing Underwriters), and not as agent for the Company, to the extent permitted by applicable laws and regulatory requirements of Hong Kong or elsewhere, may over-allocate up to an aggregate of 30,000,000 additional new Shares (such over-allocations may be covered

STRUCTURE OF THE SHARE OFFER

by exercising the Over-allotment Option in full or in part, at any time from the date of this prospectus up to 30 calendar days from that date) and/or by purchasing Shares in the secondary market and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Offer Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial issue price of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

In Hong Kong, such stabilisation activities are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the absolute discretion of Phoenix Capital Securities Limited. The stabilisation price to cover the over-allocations will not normally be higher than the Offer Price. Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter the Company must maintain the “minimum prescribed percentage” of its issued share capital in the hands of the public which, in the case of the Company, is not less than 25%.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHICH APPLICATION FORM TO USE

Use a **WHITE** application form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** application form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant.

Note: The Public Offer Shares are not available to existing beneficial owners of Shares, the chief executive of the Company, the Directors, the directors of the subsidiaries of the Company or the associates (as defined in the GEM Listing Rules) of any of them.

WHERE TO COLLECT THE APPLICATION FORMS FOR THE PUBLIC OFFER SHARES

Copies of this prospectus, together with the **WHITE** application forms, may be obtained from:

Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

SBI E2-Capital (HK) Limited
4th Floor, Henley Building
5 Queen's Road Central
Hong Kong

Phoenix Capital Securities Limited
Rooms 3203-04, 32nd Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

SBI E2-Capital Securities Limited
20th Floor, Henley Building
5 Queen's Road Central
Hong Kong

CEF Capital Limited
Suite 2001
20th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

GC Securities Limited
Suite 2812, 28th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Tanrich Securities Company Limited
16th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Sanfull Securities Limited
20th Floor
Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Core Pacific-Yamaichi International
(H.K.) Limited
30th Floor
Two Pacific Place
88 Queensway
Hong Kong

Christfund Securities Limited
Suite 2808-2811,
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Hung Sing Securities Limited
Room 605-608
Wing Shan Tower
173 Des Voeux Road Central
Hong Kong

Mayfair Securities Limited
23rd Floor, Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Hong Kong

Taiwan Concord Capital Securities (Hong Kong) Limited
Room 3005-6, The Center
99 Queen's Road Central
Central
Hong Kong

Kaiser Securities Limited
Unit A3, 32nd Floor
United Centre
95 Queensway
Hong Kong

Sinomax Securities Limited
Room 1601, 16th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Young Champion Securities Limited
Room 904-905, 9th Floor
West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

or any one of the following branches of **Standard Chartered Bank**:

Hong Kong Island:	The Landmark Branch	The Landmark, 15 Queen's Road Central
	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A Des Voeux Road, Central
	Leighton Centre Branch	Shop 12-16, UG/F., Leighton Centre, 77 Leighton Road, Causeway Bay
	CIG Building Branch	Shop B, G/F., CIG Building, 141 Des Voeux Road Central
	North Point Centre Branch Taikoo Place Branch	284 King's Road, North Point G/F., 969 King's Road, Quarry Bay
Kowloon:	Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
	Mongkok Bank Centre Branch	Bank Centre, 630-636 Nathan Road, Mongkok
	Tsimshatsui Branch	10 Granville Road, Tsimshatsui
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
New Territories:	Tsuen Wan Branch	Basement 1/F., Emperor Plaza, 263 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** application form and a prospectus from:

- (1) the depository counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) the Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each application form. You should read those instructions carefully. If you do not follow the instructions your application may be rejected. Each **WHITE** or **YELLOW** application form must be accompanied by either one separate cheque drawn on the applicant's Hong Kong dollar bank account in Hong Kong and bearing the account name (either pre-printed by the bank or certified by an authorised signatory of such bank on the reverse of the cheque) which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant application form, or one separate banker's cashier order on the reverse of which the bank has certified by an authorised signatory the name of the applicant, which must correspond with the name of the

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant application form. All such cheques or banker's cashier orders must be made payable as set out in the application form and crossed "Account Payee Only".

If your application is made through a duly authorised attorney, the Lead Managers, in consultation with the Company, or their agents may accept your application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

HOW MANY APPLICATIONS YOU MAY MAKE

There is only one situation where you may make more than one application for Public Offer Shares:

- If you are a nominee, you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on your application form marked "For nominees", you must include for each beneficial owner:–
 - an account number; or
 - some other identification code.

If you do not include this information, the application will be treated as being for your own benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an application form, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form;
- (if you are an agent for another person) warrant that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form, and that you are duly authorised to sign this form as that other person's agent.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Multiple applications or suspected multiple applications will be **rejected**. Save as referred to above, **all** of your applications will be rejected as multiple applications if you, or you and your joint applicants together: –

- make more than one application (either individually or jointly with others) on a **WHITE** or **YELLOW** application form; or
- apply on one **WHITE** or **YELLOW** application form (either individually or jointly with others) for more than 100% of the Public Offer Shares initially being offered to the public for subscription.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**.

If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be deemed to be made for your benefit.

An unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- *control the composition of the board of directors of that company; or*
- *control more than half of the voting power of that company; or*
- *hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

HOW MUCH ARE THE PUBLIC OFFER SHARES

The proposed board lot for trading in the Shares is 10,000 Shares. You must pay the Offer Price of \$0.28 per Public Offer Share, together with 1% brokerage, a 0.007% Securities and Futures Commission transaction levy and a 0.005% Stock Exchange trading fee. This means that for every 10,000 Public Offer Shares, you will pay \$2,828.34. The application forms have tables showing the exact amount payable for multiples of Shares applied for.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the related application forms. Your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Friday, 3rd May, 2002.

If your application is successful, brokerage is paid to participants of the Stock Exchange, the Securities and Futures Commission transaction levy is paid to the Securities and Futures Commission and the Stock Exchange trading fee is paid to the Stock Exchange.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** application forms, with payment attached, must be lodged by 12:00 noon on Friday, 3rd May, 2002, or, if the application lists are not open on that day, then by 12:00 noon on the day the application lists are open.

Your completed application form, with payment attached, should be deposited in any of the special collection boxes provided at any of the branches of Standard Chartered Bank listed above at the following times:–

Monday, 29th April, 2002 – 9:00 a.m. to 4:00 p.m.

Tuesday, 30th April, 2002 – 9:00 a.m. to 4:00 p.m.

Thursday, 2nd May, 2002 – 9:00 a.m. to 4:00 p.m.

Friday, 3rd May, 2002 – 9:00 a.m. to 12:00 noon

The latest time for lodging your application is 12:00 noon on Friday, 3rd May, 2002. The application lists will be open **from 11:45 a.m. to 12:00 noon on Friday, 3rd May, 2002** subject only to the weather conditions.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not be open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 3rd May, 2002. Instead the application lists will be open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

*For the purpose of this section, **business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.*

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Details of the circumstances which you will not be allotted the Public Offer Shares are set out in the notes contained in the application forms, and you should read them carefully. You should note in particular the following situations in which the Public Offer Shares will not be allotted to you:

– **If your application is revoked**

By completing your application form you agree that you cannot revoke your application before the end of Friday, 10th May, 2002, being the fifth day after the time of the opening of the application lists (for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), except that you may revoke your application earlier than that date if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your application form.

If your application has been accepted, it cannot be revoked.

– **If the allotment of Public Offer Shares will be void**

Your allotment of Public Offer Shares will be void if the GEM Listing Committee does not grant permission to list the Shares either:–

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the GEM Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

– **If, at the discretion of the Company or its agent, your application is rejected**

The Lead Managers (for themselves and on behalf of the Sponsors and the Public Offer Underwriters) as agents for the Company, or their respective agents and nominees, have full discretion to reject or accept any application in whole, or to accept only part of any application.

The Lead Managers as agents for the Company do not have to give any reason for any rejection or acceptance.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If your application is rejected:

Your application will be rejected if:

- it is a multiple application;
- your application form is not completed correctly;
- you or the person for whose benefit you are applying have been allotted Placing Shares;
- your payment is not in correct form; or
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation.

If your application is not accepted:

Your application will not be accepted if:

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its terms.

PUBLICATION OF RESULTS

The results of applications in respect of the Public Offer, the basis of allotment of the Public Offer Shares (with successful applicants' identification number), the number of Shares (if any) reallocated between the Placing and the Public Offer and the procedures for collecting Share certificates and refund cheques (if any) are expected to be announced on the GEM website and in the Hong Kong iMail (in English) and in the Hong Kong Economic Times (in Chinese) on Wednesday, 8th May, 2002.

COLLECTION/POSTING OF SHARE CERTIFICATES/REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CCASS

The Company will not issue temporary documents of title. No receipt will be issued for application monies paid.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHITE application form:

No receipt will be issued for application monies paid. If you have applied for 5,000,000 Public Offer Shares or above and have indicated on your application form that you will collect your share certificate(s) and/or refund cheque(s) (if any) personally, you may collect it/them in person from:

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

between 9:00 a.m. and 1:00 p.m. on Wednesday, 8th May, 2002.

Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporations' chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tengis Limited.

If you have opted for personal collection but do not collect your share certificate(s) and/or refund cheque(s) (if any) within the time specified for collection, they will be sent to the address on your application form shortly after the date of despatch, by ordinary post and at your own risk.

If you have not indicated on your application form that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person, then your share certificate(s) and/or refund cheque(s) (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

The Company will not issue temporary documents of title.

YELLOW application form:

No receipt will be issued for application monies paid. If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on Wednesday, 8th May, 2002, or under any contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you are applying through a designated CCASS participant (other than a CCASS investor participant):

- for the Public Offer Shares credited to the stock account of your designated CCASS participant (other than a CCASS investor participant), you can check the number of Public Offer Shares allocated to you with that CCASS participant.

If you are applying as a CCASS investor participant:

- the Company will publish the results of investor participants' applications together with the results of the Public Offer on the GEM website on Wednesday, 8th May, 2002. You should check against the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 8th May, 2002 or any other date as shall be determined by HKSCC or HKSCC Nominees Limited. On Thursday, 9th May, 2002 (the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also mail to you an activity statement showing the number of Public Offer Shares credited to your stock account.

The Company will not issue temporary documents of title.

If you have opted for personal collection of refund cheque (if any), please follow the procedures as stipulated in the paragraph "**WHITE** application form" above.

If you have not indicated on your application form that you intend to collect your refund cheque (if any) in person, then your refund cheque (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on Friday, 10th May, 2002. Shares will be traded in board lots of 10,000 Shares each.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of the approval of the listing of, and permission to deal in, the Shares on GEM as well as compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date HKSCC chooses. Investors should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

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

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

ERNST & YOUNG

安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

29th April, 2002

The Directors
Grandy Applied Environmental Technology Corporation
Hantec Capital Limited
SBI E2-Capital (HK) Limited

Dear Sirs,

We set out below our report on the financial information regarding Grandy Applied Environmental Technology Corporation (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 29th April, 2002 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 28th May, 2001 for the purpose of acting as the holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation, save for the acquisition of the entire issued share capital of Worlday Investments Limited, a company incorporated in the British Virgin Islands, on 26th June, 2001. Pursuant to a group reorganisation as described more fully in the Section headed “Group reorganisation” in Appendix IV to the Prospectus, the Company became the holding company of the Group on 17th July, 2001.

As at the date of this report, no audited financial statements have been prepared for the Company, Worlday Investments Limited and Grandy Enviro-Tech Company Limited since their respective dates of incorporation. We have, however, performed an independent review of all the relevant transactions of these companies since their respective dates of incorporation.

We have examined the audited financial statements or, where appropriate, management accounts of all companies now comprising the Group for each of the periods referred to in this report (the “Relevant Periods”) or from their respective dates of incorporation to 30th September, 2001, where this is a shorter period, in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountants” issued by the Hong Kong Society of Accountants.

We have acted as auditors of all the companies now comprising the Group for the Relevant Periods, except for Grandy Environmental (H.K.) Limited, for which Cheung Lee Ng & Co. were the auditors for the period from 20th January, 1999 (date of incorporation) to 31st March, 2000.

The auditors’ report on the financial statements of Grandy Environmental (H.K.) Limited for the period from 20th January, 1999 (date of its incorporation) to 31st March, 2000 were qualified in respect of a scope limitation relating to the existence of inventories of \$310,756 as at 31st March, 2000 as a result of non-attendance of the physical inventory count by the auditors. For the purpose of this report, we have carried out such procedures as we considered necessary with respect to the existence of inventories of the Group as at 31st March, 2000 and satisfied that the amount reflected in the combined balance sheet of the Group as at 31st March, 2000 was fairly stated at that date. Therefore, the circumstances giving rise to the qualification no longer exist at the date of this report.

The summaries of the combined results, combined statements of movements in equity and combined cash flows of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31st March, 2000 and 2001 and 30th September, 2001 together with the balance sheet of the Company as at 30th September, 2001 (the “Summaries”) set out in this report have been prepared by the directors of the Company based on the audited financial statements of Grandy Environmental (H.K.) Limited, and the management accounts of the Company, Worlday Investments Limited and Grandy Enviro-Tech Company Limited, after making such adjustments as are appropriate, and on the basis set out in Section 1 below.

The directors of the Company are responsible for the preparation of the Summaries which give a true and fair view. The directors of the respective companies of the Group are also responsible for the preparation of the respective financial statements or, where financial statements are not prepared, management accounts, which give a true and fair view. In preparing the Summaries, financial statements and management accounts 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 on the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results and combined cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 31st March, 2000 and 2001 and 30th September, 2001 and the balance sheet of the Company as at 30th September, 2001.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements of Grandy Environmental (H.K.) Limited, and the management accounts of the Company, Worlday Investments Limited and Grandy Enviro-Tech Company Limited, after making such adjustments as are appropriate, include the combined results, statements of movements in equity, cash flows and balance sheets of the companies now comprising the Group since their respective dates of incorporation or acquisition of the companies and as if the current Group structure had been in existence throughout the Relevant Periods. All material intra-Group transactions and balances have been eliminated on combination.

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

Company name	Place and date of incorporation and operations	Issued and paid-up ordinary share capital	Equity interest attributable to the Group	Principal activities
Worlday Investments Limited*	British Virgin Islands 17th May, 2001	US\$1	100%	Investment holding
Grandy Environmental (H.K.) Limited	Hong Kong 20th January, 1999	\$3,010,000	100%	Manufacturing and trading of environmental protection products
Grandy Enviro-Tech Company Limited	Hong Kong 31st August, 2001	\$10,000	100%	Trading of energy saving products

* Directly held by the Company

2. PRINCIPAL ACCOUNTING POLICIES

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

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

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

Depreciation is calculated on the straight-line basis at an annual rate of 20% to write off the cost of each asset over its estimated useful life.

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation unless, in the opinion of the directors, there has been an impairment in value, when they are written down to a value determined by the directors. Amortisation is calculated on the straight-line basis over three years, commencing from the date when the products are put into commercial production.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, and are depreciated over their estimated useful lives.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective on 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the 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 Scheme.

Convertible notes

Convertible notes are stated at cost, and are adjusted for the accretion of premiums on redemption on a straight-line basis over the terms of the notes.

Deferred tax

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

Foreign currencies

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

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

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.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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 basis:

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

3. COMBINED RESULTS

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

		Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	<i>Notes</i>	\$	\$	\$
TURNOVER	(a)	2,203,903	7,117,653	12,229,781
Cost of sales		<u>(1,019,257)</u>	<u>(2,908,761)</u>	<u>(7,176,576)</u>
Gross profit		1,184,646	4,208,892	5,053,205
Other revenue		1,731	2,589	25,117
Convertible notes issue expenses		–	–	(727,043)
Selling and distribution expenses		(748,631)	(1,783,476)	(894,310)
Administrative expenses		<u>(2,727,585)</u>	<u>(3,526,214)</u>	<u>(2,085,515)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(b)	(2,289,839)	(1,098,209)	1,371,454
Finance costs	(c)	<u>(14,357)</u>	<u>(76,003)</u>	<u>(454,247)</u>
PROFIT/(LOSS) BEFORE TAX		(2,304,196)	(1,174,212)	917,207
Tax	(e)	<u>–</u>	<u>–</u>	<u>–</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(2,304,196)</u>	<u>(1,174,212)</u>	<u>917,207</u>
Dividends	(f)	<u>–</u>	<u>–</u>	<u>–</u>
Earnings/(loss) per share – Basic (cent)	(g)	<u>(0.36)</u>	<u>(0.18)</u>	<u>0.14</u>
Diluted (cent)		<u>N/A</u>	<u>N/A</u>	<u>0.13</u>

(a) Turnover and revenue

Turnover represents the invoiced value of goods sold after allowances for returns and trade discounts during each of the Relevant Periods. Revenue arising from interest income is disclosed in Section 3(b) below.

(b) Profit/(loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	\$	\$	\$
Depreciation:			
Leased fixed assets	31,315	31,315	15,658
Owned fixed assets	76,094	94,543	52,559
	<u>107,409</u>	<u>125,858</u>	<u>68,217</u>
Research and development costs	50,000	60,000	–
Operating lease rentals on land and buildings	41,700	437,460	236,982
Auditors' remuneration	11,000	80,000	40,000
Loss on disposal of fixed assets	–	–	13,537
Staff costs (excluding directors' remuneration):			
Salaries and allowances	645,234	1,949,650	1,050,959
Retirement benefits scheme contributions	–	39,559	43,183
	<u>645,234</u>	<u>1,989,209</u>	<u>1,094,142</u>
Less: Capitalised in deferred development costs	–	(216,070)	(99,803)
	<u>645,234</u>	<u>1,773,139</u>	<u>994,339</u>
Exchange losses, net	534	581	409
Interest income	<u>(1,731)</u>	<u>(2,589)</u>	<u>(25,117)</u>

(c) Finance costs

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000 \$	Year ended 31st March, 2001 \$	Six months ended 30th September, 2001 \$
Interest expenses on:			
Bank loans and overdrafts wholly repayable within five years	4,338	66,751	42,309
Finance leases	10,019	9,252	4,626
Convertible notes	–	–	105,425
Premium on convertible notes	–	–	301,887
	<u>14,357</u>	<u>76,003</u>	<u>454,247</u>

(d) Directors' and senior executives' remuneration

(i) Details of directors' remuneration are as follows:

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000 \$	Year ended 31st March, 2001 \$	Six months ended 30th September, 2001 \$
Fees	–	–	–
Other emoluments of executive directors:			
Salaries, bonuses, allowances and benefits in kind	897,000	842,000	528,000
Retirement benefits scheme contributions	–	9,144	24,800
	<u>897,000</u>	<u>851,144</u>	<u>552,800</u>
Less: Capitalised in deferred development costs	–	(103,090)	(13,860)
	<u>897,000</u>	<u>748,054</u>	<u>538,940</u>

The remuneration of the directors fell within the following band:

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000 <i>Number of directors</i>	Year ended 31st March, 2001 <i>Number of directors</i>	Six months ended 30th September, 2001 <i>Number of directors</i>
Nil to \$1,000,000	<u>9</u>	<u>9</u>	<u>9</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during each of the Relevant Periods.

For the period from 20th January, 1999 (date of incorporation) to 31st March, 2000, two executive directors received nil fees and emoluments and each of the other four executive directors received emoluments of \$234,000, \$234,000, \$234,000 and \$195,000, respectively.

Each of the six executive directors received emoluments of \$156,000, \$157,971, \$157,971, \$63,260, \$157,971 and \$157,971, respectively, for the year ended 31st March, 2001 and \$90,800, \$92,400, \$92,400, \$92,400, \$92,400 and \$92,400, respectively, for the six months ended 30th September, 2001.

The non-executive director and the two independent non-executive directors received nil fees and emoluments for the Relevant Periods.

- (ii) The five highest paid individuals in the Group during each of the Relevant Periods included 3 directors for the period from 20th January, 1999 (date of incorporation) to 31st March, 2000, 4 directors for the year ended 31st March, 2001 and 3 directors for the six months ended 30th September, 2001, details of whose remuneration have been disclosed above. The emoluments paid to the remaining non-director, highest paid individuals for each of the Relevant Periods are as follows:

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	\$	\$	\$
Salaries, bonuses, allowances and benefits in kind	301,480	186,000	204,857
Retirement benefits scheme contributions	—	3,650	9,506
	<u>301,480</u>	<u>189,650</u>	<u>214,363</u>

The remuneration of the non-director, highest paid individuals fell within the following band:

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	<i>Number of employees</i>	<i>Number of employees</i>	<i>Number of employees</i>
Nil to \$1,000,000	<u>2</u>	<u>1</u>	<u>2</u>

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

(e) Tax

No provision for Hong Kong profits tax had been made for the period from 20th January, 1999 (date of incorporation) to 31st March, 2001 as the Group had no assessable profits arising in Hong Kong.

For the six months ended 30th September, 2001, no provision for Hong Kong profits tax had been made as the Group had available tax losses brought forward to offset against the assessable profit arising in Hong Kong for the period.

No provision for deferred tax had been made as the effect of all timing differences is immaterial.

(f) Dividends

No dividends have been paid or declared by the Company or the companies now comprising the Group during the Relevant Periods.

(g) Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for each of the Relevant Periods is based on the net profit/(loss) from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 640,000,000 shares had been in issue throughout the Relevant Periods, comprising 8,666,667 shares in issue as at the date of the Prospectus and 631,333,333 shares issued pursuant to the capitalisation issue.

The calculation of diluted earnings per share for the six months ended 30th September, 2001 is based on the net profit of \$917,207 from ordinary activities attributable to shareholders for the six months ended 30th September, 2001. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the six months ended 30th September, 2001 is 680,000,000 shares, which includes 640,000,000 shares deemed to have been in issue during the six months ended 30th September, 2001, as used in the basic earnings/(loss) per share calculation; the weighted average number of 40,000,000 shares for the six months ended 30th September, 2001 assumed to have been issued at nil consideration on the deemed exercise of share options granted pursuant to the Pre-IPO share option scheme, as described more fully in the paragraph headed "Share Option Schemes" in Appendix IV to the Prospectus.

For the purpose of calculating diluted earnings per share for the six months ended 30th September, 2001, the fair value of the shares assumed to have been issued upon the deemed exercise of the options granted pursuant to the Pre-IPO share option scheme was determined at 50% of \$0.28 per share in respect of the Company's initial public offering of its shares. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for nil consideration.

The calculation of diluted earnings per share for the six months ended 30th September, 2001 has not taken into account of the diluting effect of the convertible notes as set out in section 4(l) below, as to the full redemption of such convertible notes within 3 business days after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

Diluted loss per share for the period from 20th January, 1999 (date of incorporation) to 31st March, 2000 and the year ended 31st March, 2001 had not been calculated as no diluting events existed.

(h) Related party transactions

Save as the transactions disclosed in Section 4(f), (g), (j), (l) and (n) below, the Group had the following material related party transactions during the Relevant Periods:

		Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	<i>Notes</i>	\$	\$	\$
DISCONTINUING TRANSACTIONS:				
Interest income received from Mr. Tsui Tai Hoi, Raymond	(i)	–	–	22,345
Service fees paid to Apollo Shine International Limited ("Apollo Shine")	(ii)	665,000	600,000	72,000
Rental expenses paid to Apollo Shine	(iii)	<u>240,000</u>	<u>156,000</u>	<u>39,000</u>

Mr. Tsui Tai Hoi, Raymond, a director of the Company, was a major shareholder holding 70% of Apollo Shine's entire issued share capital before the disposal by him of all his shareholding in Apollo Shine on 6th August, 2001.

Notes:

- (i) Interest income from Mr. Tsui Tai Hoi, Raymond, a director of the Company, arose from the loan of \$2,000,000 advanced to him during the six months ended 30th September, 2001, which bore interest at 8% per annum. The loan was settled on 22nd April, 2002.
- (ii) The service fees were paid to Apollo Shine to cover administrative expenses incurred by Apollo Shine, including staff salaries and office running expenses, as the Group shared the office facilities and staff of Apollo Shine. The service fees were determined at rates mutually agreed between the Group and Apollo Shine.
- (iii) The transactions were determined at rates mutually agreed between the Group and Apollo Shine.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

4. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods and the balance sheet of the Company as at 30th September, 2001, prepared on the basis set out in Section 1 above:

		31st March, 2000	Group 31st March, 2001	30th September, 2001	Company 30th September, 2001
	<i>Notes</i>	\$	\$	\$	\$
NON-CURRENT ASSETS					
Fixed assets	(a)	429,635	396,024	475,935	–
Interests in subsidiaries	(b)	–	–	–	12,119,908
Deferred development costs	(c)	–	740,507	911,359	–
		<u>429,635</u>	<u>1,136,531</u>	<u>1,387,294</u>	<u>12,119,908</u>
CURRENT ASSETS					
Inventories	(d)	310,756	156,723	797,060	–
Trade receivables	(e)	523,164	1,284,826	5,596,993	–
Prepayments, deposits and other receivables		93,308	80,231	845,192	500,000
Due from a director	(f)	22,811	–	2,046,777	–
Due from shareholders of the holding company	(g)	–	–	20,014	–
Pledged time deposit	(h)	–	–	1,000,000	–
Cash and bank balances		16,641	30,554	5,330,710	–
		<u>966,680</u>	<u>1,552,334</u>	<u>15,636,746</u>	<u>500,000</u>
CURRENT LIABILITIES					
Trade and bills payables	(i)	372,550	735,081	2,377,622	–
Other payables and accruals		71,228	478,790	439,967	–
Due to directors	(f)	2,918,255	696,589	73,727	–
Interest-bearing bank loans and overdrafts	(j)	196,784	1,148,743	–	–
Finance lease payables	(k)	33,624	33,624	33,624	–
Convertible notes	(l)	–	–	10,301,887	10,301,887
		<u>3,592,441</u>	<u>3,092,827</u>	<u>13,226,827</u>	<u>10,301,887</u>
NET CURRENT ASSETS/ (LIABILITIES)		<u>(2,625,761)</u>	<u>(1,540,493)</u>	<u>2,409,919</u>	<u>(9,801,887)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(2,196,126)	(403,962)	3,797,213	2,318,021
NON-CURRENT LIABILITIES					
Finance lease payables	(k)	(98,070)	(64,446)	(47,634)	–
		<u>(2,294,196)</u>	<u>(468,408)</u>	<u>3,749,579</u>	<u>2,318,021</u>
Combined shareholders' equity	(m)	<u>(2,294,196)</u>	<u>(468,408)</u>	<u>3,749,579</u>	<u>2,318,021</u>

(a) Fixed assets

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
Cost:			
Office equipment	284,490	335,579	467,194
Furniture and fixtures	64,663	64,663	68,513
Motor vehicles	156,574	156,574	156,574
Leasehold improvements	31,317	72,475	72,475
	<u>537,044</u>	<u>629,291</u>	<u>764,756</u>
Accumulated depreciation:			
Office equipment	56,898	124,014	150,004
Furniture and fixtures	12,933	25,865	32,524
Motor vehicles	31,315	62,630	78,287
Leasehold improvements	6,263	20,758	28,006
	<u>107,409</u>	<u>233,267</u>	<u>288,821</u>
Net book value:			
Office equipment	227,592	211,565	317,190
Furniture and fixtures	51,730	38,798	35,989
Motor vehicles	125,259	93,944	78,287
Leasehold improvements	25,054	51,717	44,469
	<u>429,635</u>	<u>396,024</u>	<u>475,935</u>

The net book value of the Group's fixed assets held under finance lease included in the total amount of motor vehicles at 30th September, 2001 amounted to \$78,287.

(b) Interests in subsidiaries

	Company 30th September, 2001
	\$
Unlisted share, at cost	8
Due from subsidiaries	12,347,541
Due to a subsidiary	<u>(227,641)</u>
	<u>12,119,908</u>

The balances due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(c) Deferred development costs

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
Cost	–	740,507	911,359
Accumulated amortisation	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
Net book value	<u>–</u>	<u>740,507</u>	<u>911,359</u>

(d) Inventories

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
At cost:			
Raw materials	258,765	135,910	417,085
Work in progress	17,974	4,519	378,228
Finished goods	34,017	16,294	1,747
	<u>310,756</u>	<u>156,723</u>	<u>797,060</u>

(e) Trade receivables

The general credit terms of the Group range from 30 days to 90 days. The aged analysis of trade receivables, based on invoice date, is as follows:

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
0 to 90 days	517,724	1,059,261	5,424,586
91 to 180 days	5,440	210,302	98,437
181 to 365 days	–	13,288	73,570
Over 1 year	–	1,975	400
	<u>523,164</u>	<u>1,284,826</u>	<u>5,596,993</u>

As Mr. Tsui Tai Hoi, Raymond, a director of the Company has executed a deed of indemnity in respect of the trade receivables unsettled as at 23rd April, 2002, no provision for doubtful debt was made as at 30th September, 2001.

(f) Due from/to directors

- (i) Particulars of balances due from the directors disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
Mr. Yeung Kam Yan	22,811	–	–
Mr. Tsui Tai Hoi, Raymond	–	–	2,046,777
	<u>22,811</u>	<u>–</u>	<u>2,046,777</u>

Maximum amount outstanding during each of the Relevant Periods:

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
Mr. Yeung Kam Yan	40,000	22,811	–
Mr. Tsui Tai Hoi, Raymond	–	–	2,046,777
	<u>40,000</u>	<u>22,811</u>	<u>2,046,777</u>

The balances due from the directors were unsecured, had no fixed terms of repayment and bore interest at 8% per annum, except for an amount of \$37,765 due from Mr. Tsui Tai Hoi, Raymond as at 30th September, 2001 which was interest-free. The balance was fully repaid to the Group on 22nd April, 2002.

- (ii) Particulars of balance due to the directors are as follows:

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
Mr. Tsui Tai Hoi, Raymond	2,918,255	397,763	–
Mr. Chan Hon Chiu	–	298,826	73,727
	<u>2,918,255</u>	<u>696,589</u>	<u>73,727</u>

The balances due to the directors were unsecured, interest-free and had no fixed terms of repayment. The balance as at 30th September, 2001 was fully repaid to Mr. Chan Hon Chiu on 23rd April, 2002.

(g) Due from shareholders of the holding company

The balances due from the shareholders of the holding company were unsecured, interest-free and had no fixed terms of repayment. The balances were fully repaid to the Group on 22nd April, 2002.

(h) Pledged time deposit

The time deposit as at 30th September, 2001 was pledged to a bank to secure general banking facilities granted to the Group.

(i) Trade and bills payables

The aged analysis of trade and bills payables, based on invoice date, is as follows:

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
0 to 90 days	371,458	432,168	2,376,530
91 to 180 days	1,092	301,821	–
Over 1 year	–	1,092	1,092
	<u>372,550</u>	<u>735,081</u>	<u>2,377,622</u>

(j) Interest-bearing bank loans and overdrafts

	31st March, 2000	Group 31st March, 2001	30th September, 2001
	\$	\$	\$
Bank overdrafts, unsecured	196,784	245,293	–
Bank loans, secured	–	903,450	–
	<u>196,784</u>	<u>1,148,743</u>	<u>–</u>

The Group's trade finance facilities as at 30th September, 2001 were secured by:

- (a) a charge over the Group's time deposit of \$1 million plus any interest accrued thereon; and
- (b) a personal guarantee for an unlimited amount executed by Mr. Tsui Tai Hoi, Raymond, a director of the Company.

The personal guarantee given by Mr. Tsui Tai Hoi, Raymond will be released following the listing of the shares of the Company.

The above bank loans as at 31st March, 2001 were secured by a corporate guarantee executed by Rich Shine International Limited ("Rich Shine") and a personal guarantee executed by Mr. Tsui Tai Hoi, Raymond. Rich Shine was a shareholder of Grandy Environmental (HK) Limited, holding 0.21% of the entire issued share capital before disposal of all its shareholding in Grandy Environmental (HK) Limited. Mr. Tsui Tai Hoi, Raymond, a director of the Company, was a major shareholder holding 70% of Rich Shine's entire issued share capital.

Subsequent to 31st March, 2001, the aforesaid guarantees were released following full repayment of the bank loans.

(k) Finance lease payables

The future minimum lease payments for each of the Relevant Periods and the present value of the obligations under finance leases as at 30th September, 2001 are as follows:

Group

	Minimum lease payments			Present value of minimum lease payments
	31st March, 2000	31st March, 2001	30th September, 2001	30th September, 2001
	\$	\$	\$	\$
Amounts repayable:				
Within one year	42,876	42,876	42,876	40,087
In the second year	42,876	42,876	42,876	35,363
In the third to fifth years inclusive	<u>82,179</u>	<u>39,303</u>	<u>17,865</u>	<u>5,808</u>
Total minimum finance lease payments	167,931	125,055	103,617	<u>81,258</u>
Less: Future finance charges	<u>(36,237)</u>	<u>(26,985)</u>	<u>(22,359)</u>	
Total net finance lease payables	131,694	98,070	81,258	
Portion classified as current liabilities	<u>(33,624)</u>	<u>(33,624)</u>	<u>(33,624)</u>	
Long term portion	<u>98,070</u>	<u>64,446</u>	<u>47,634</u>	

The difference between the total minimum lease payments and the present value of minimum lease payments represents the discount implicit in the lease.

(l) Convertible notes

	Group and Company		
	31st March, 2000	31st March, 2001	30th September, 2001
	\$	\$	\$
Cost	–	–	10,000,000
Premium on redemption	<u>–</u>	<u>–</u>	<u>301,887</u>
	<u>–</u>	<u>–</u>	<u>10,301,887</u>

On 22nd August, 2001, the Company issued a total of \$10,000,000 of 8% convertible notes (the “Convertible Notes”) due on 21st February, 2003, subject to the extension of the maturity of the Convertible Notes and the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (“Listing”), to the Convertible Notes holders.

Pursuant to a supplemental deed dated 19th April, 2002, if the Listing occurs on or before 31st May, 2002, the Company shall redeem all the Convertible Notes at a redemption amount equal to 120% of the principal amount outstanding within 3 business days after the Listing. Accordingly, the full amount of the Convertible Notes is classified as a current liability. The Convertible Notes holders shall not exercise their rights to redeem any part or all of the Convertible Notes on or before 31st May, 2002. If the Listing does not occur on or before 31st May, 2002, this supplemental deed shall become void.

According to the note instrument dated 22nd August, 2001 ("Note Instrument"), if Listing does not occur on or before 21st February, 2003, each Convertible Notes holder shall have the right, but not obliged, to extend the maturity of the Convertible Notes holders for up to two consecutive periods of 6 months each from the maturity date of 21st February, 2003 by giving notice in writing to the Company through the agent of the Convertible Notes holder provided that if any Convertible Notes holder does not notify the Company in writing at least 45 days before the maturity date, it shall be deemed to have exercised its right to extend the maturity of the Convertible Notes for at least a period of 6 months.

If the Listing occurs on or before 21st February, 2003, the maturity date is the date falling 9 months from the date of Listing.

Each Convertible Notes holder has the right to convert the whole or any part of the outstanding principal amount of its Convertible Notes together with any unpaid interest into such number of shares as will be determined by dividing the amount of the Convertible Notes to be converted by the conversion price in effect on the conversion date.

Save for any change of control of the Company, acquisition of any Company's shares by new investor prior to the Listing, no conversion rights might be exercised prior to the Listing.

If Listing does not occur on or before 21st August, 2002 and the audited profit after tax of the Group is less than \$4,032,000 for the financial year ended 31st March, 2002, each Convertible Notes holder shall have option at any time to require the Company to redeem part or all of the Convertible Notes by delivering through the agent of the Convertible Notes holders to the Company a duly signed redemption notice and the certificate for the Convertible Notes so specified in the redemption notice on a date not earlier than five business days nor later than fifteen business days after the date of the redemption notice, at a redemption amount equal to 100% of the principal amount of the Convertible Notes being redeemed.

Save as disclosed above, all Convertible Notes which have not been redeemed or converted by the maturity date will be automatically redeemed by the Company on the maturity date at a redemption amount equal to 100% of the principal amount outstanding plus accrued interest.

All executive directors of the Company, the spouse of Mr. Tsui Tai Hoi, Raymond and a senior manager of the Group have executed the Note Instrument which contains personal guarantees in respect of the Convertible Notes of \$10 million. The directors have confirmed that the Convertible Notes holders have agreed that the personal guarantees in relation to the Convertible Notes will be released upon successful Listing of the Company.

(m) Combined shareholders' equity

Group

		Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	<i>Notes</i>	\$	\$	\$
Capital				
Combined capital	(i)	10,000	3,010,000	3,013,416
Transfer to contributed surplus account upon completion of the Group reorganisation on 17th July, 2001				(2,935,416)
Share capital of the Company				78,000
Share premium				
At beginning of year/period		–	–	–
Issue of new shares		–	–	2,997,364
At end of year/period		–	–	2,997,364
Contributed surplus				
At beginning of year/period	(ii)	–	–	–
Transfer from combined capital		–	–	2,935,416
At end of year/period		–	–	2,935,416
Capital reserve				
At beginning of year/period	(iii)	–	–	–
Arising from professional services received		–	–	300,000
At end of year/period		–	–	300,000
Accumulated losses				
At beginning of year/period		–	(2,304,196)	(3,478,408)
Profit/(loss) for the year/period		(2,304,196)	(1,174,212)	917,207
At end of year/period		(2,304,196)	(3,478,408)	(2,561,201)
Combined shareholders' equity		<u>(2,294,196)</u>	<u>(468,408)</u>	<u>3,749,579</u>

Notes:

- (i) The combined capital represents the aggregate amount of share capital of the Company and Grandy Environmental (H.K.) Limited as at 30th September, 2001, after eliminating the share capital of a subsidiary.
- (ii) The contributed surplus of the Group represents the difference between the nominal value of the shares of a subsidiary acquired pursuant to the Group reorganisation on 17th July, 2001, over the nominal value of the Company's shares issued in exchange therefor.

- (iii) The capital reserve represents certain professional service fees payable by the Group settled in the form of share options of the Company granted to two professional service providers in lieu of cash consideration.

Company

	Six months ended 30th September, 2001
	\$
Share capital	78,000
Share premium	
Issue of new shares and at end of period	2,997,364
Capital reserve	
Arising from professional services received and at end of period	300,000
Accumulated losses	
Loss for the period and at end of period	(1,057,343)
Shareholders' equity	<u>2,318,021</u>

(n) Share options

- (i) Pursuant to an option deed dated 20th July, 2001 entered into between, inter alia, the Company and Eagle Strategy Limited ("Eagle Strategy") ("Eagle Option Deed"), Eagle Strategy agreed to provide advice on the Company's business model and strategies for the Company's business development, identify and introduce to the Company potential investors and assist the Company in its negotiations with such potential investors at the request of the Company. As a consideration for such professional services, the Group granted Eagle Strategy an option to purchase 6.2% of the total number of issued shares of the Company existing at the time of the exercise. The option was subsequently exercised on 20th November, 2001. The details of the option are set out in the paragraph headed "Summary of material contracts" in Appendix IV to the Prospectus.
- (ii) Pursuant to an option deed dated 20th July, 2001 entered into between, inter alia, the Company and Outshine Company Limited ("Outshine") ("Outshine Option Deed"), Outshine agreed to procure Phoenix Capital Asia Limited to arrange financing in the form of convertible notes for the Company and to procure and introduce potential investors to subscribe for the convertible notes at the request of the Company. As a consideration for such professional services, the Group granted Outshine an option to purchase 3.8% of the total number of issued shares of the Company existing at the time of the exercise. The option was subsequently exercised on 20th November, 2001. The details of the option are set out in the paragraph headed "Summary of material contracts" in Appendix IV to the Prospectus.
- (iii) Mr. Tsui Tai Hoi, Raymond, a director of the Company and his spouse have executed the Eagle Option Deed and the Outshine Option Deed which contain personal guarantees and Tipmax Limited, a shareholder of the then holding company has executed the Eagle Option Deed and the Outshine Option Deed which contain a corporate guarantee for the performance by the Company of its obligations in respect of the options granted by the Company to Eagle Strategy to purchase 6.2% of the total number of issued shares of the Company existing at the time of the exercises at a consideration of \$372,000 and Outshine to purchase 3.8% of the total number of issued shares of the Company existing at the time of the exercise at a consideration of \$228,000, respectively. All such guarantees were subsequently released upon the exercise of the options on 20th November, 2001.

(o) Commitments*(i) Capital commitments*

At 30th September, 2001, the Group did not have any material capital commitments.

(ii) Operating lease commitments

At 30th September, 2001, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due within one year of \$421,704.

(iii) Pursuant to the sole agency agreement entered into between Grandy Environmental (H.K.) Limited and Garnett Company Limited ("Garnett") on 1st November, 1998 and the supplemental agreement on 15th June, 2001, Grandy Environmental (H.K.) Limited would be required to pay a 10% of its net profit after tax to Garnett for 30 years expiring on 31st October, 2028 for the exclusive right to distribute and sell, and the right to use, the enzyme-based materials in certain part of the world. Certain part of the losses incurred in each year could be carried forward to the next financial year for the purpose of calculating the net profit in arriving at the payable amount. During the Relevant Periods, the Group was not required to pay any net profit to Garnett because the accumulated losses of Grandy Environmental (H.K.) Limited brought forward was sufficient to offset against the net profit for the six months ended 30th September, 2001.

(iv) At 30th September, 2001, the Company did not have any material commitments.

(p) Contingent liabilities

At 30th September, 2001, the Group and the Company did not have any significant contingent liabilities.

(q) Net assets of the Company

The net assets of the Company as at 30th September, 2001 amounted to \$2,318,021.

(r) Distributable reserves

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium and capital reserve accounts are distributable to the shareholders of the Company subject to the Company's articles of association and provided that immediately following the distribution of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Accordingly, as at 30th September, 2001, the Company's reserve available for distribution to shareholders amounted to \$2,240,021.

5. COMBINED STATEMENTS OF MOVEMENTS IN EQUITY

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

	31st March, 2000	31st March, 30th September, 2001	2001
	\$	\$	\$
At beginning of year/period	–	(2,294,196)	(468,408)
Issue of share capital	10,000	3,000,000	3,000,780
Capital reserve arising from professional services received	–	–	300,000
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(2,304,196)</u>	<u>(1,174,212)</u>	<u>917,207</u>
At end of year/period	<u><u>(2,294,196)</u></u>	<u><u>(468,408)</u></u>	<u><u>3,749,579</u></u>

6. COMBINED CASH FLOWS STATEMENTS

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

		Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 30th September, 2001	Six months ended 30th September, 2001
	Notes	\$	\$	\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(a)	(2,690,422)	(776,588)	(4,452,447)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		1,731	2,589	25,117
Interest paid		(4,338)	(66,751)	(147,734)
Interest element on finance lease payments		(10,019)	(9,252)	(4,626)
Net cash outflow from returns on investments and servicing of finance		(12,626)	(73,414)	(127,243)
INVESTING ACTIVITIES				
Purchases of fixed assets		(368,920)	(92,247)	(161,665)
Increase in deferred development costs		–	(740,507)	(170,852)
Increase in pledged time deposit		–	–	(1,000,000)
Net cash outflow from investing activities		(368,920)	(832,754)	(1,332,517)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(3,071,968)	(1,682,756)	(5,912,207)
FINANCING ACTIVITIES	(b)			
Proceeds from issue of share capital		10,000	–	3,000,780
Proceeds from issue of convertible notes		–	–	10,000,000
New bank loan		–	2,200,000	1,000,000
Repayment of bank loan		–	(1,296,550)	(1,903,450)
Advance from directors		2,918,255	3,049,826	–
Repayment of advance from directors		–	(2,271,492)	(622,862)
Capital element of finance lease payments		(36,430)	(33,624)	(16,812)
Net cash inflow from financing activities		2,891,825	1,648,160	11,457,656
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(180,143)	(34,596)	5,545,449
Cash and cash equivalents at beginning of year/period		–	(180,143)	(214,739)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	(c)	(180,143)	(214,739)	5,330,710

(a) Reconciliation of profit/(loss) from operating activities to net cash outflow from operating activities

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	\$	\$	\$
Profit/(loss) from operating activities	(2,289,839)	(1,098,209)	1,371,454
Depreciation	107,409	125,858	68,217
Loss on disposal of fixed assets	–	–	13,537
Interest income	(1,731)	(2,589)	(25,117)
Decrease/(increase) in inventories	(310,756)	154,033	(640,337)
Increase in trade receivables	(523,164)	(761,662)	(4,312,167)
Decrease/(increase) in prepayments, deposits and other receivables	(93,308)	13,077	(464,961)
Decrease/(increase) in due from a director and shareholders of the holding company	(22,811)	22,811	(2,066,791)
Increase in trade and bills payables	372,550	362,531	1,642,541
Increase/(decrease) in other payables and accruals	71,228	407,562	(38,823)
Net cash outflow from operating activities	<u>(2,690,422)</u>	<u>(776,588)</u>	<u>(4,452,447)</u>

(b) Analysis of changes in financing

	Issued capital (including share premium)	Interest- bearing bank loans	Due to directors	Convertible notes	Finance lease payables
	\$	\$	\$	\$	\$
At 20th January, 1999	–	–	–	–	–
Inception of finance lease	–	–	–	–	168,124
Cash inflow/(outflow) from financing, net	10,000	–	2,918,255	–	(36,430)
Balance at 31st March, 2000 and at 1st April, 2000	10,000	–	2,918,255	–	131,694
Issue of shares through capitalisation of an amount due to a director	3,000,000	–	(3,000,000)	–	–
Cash inflow/(outflow) from financing, net	–	903,450	778,334	–	(33,624)
Balance at 31st March, 2001 and at 1st April, 2001	3,010,000	903,450	696,589	–	98,070
Cash inflow/(outflow) from financing, net	3,000,780	(903,450)	(622,862)	10,000,000	(16,812)
Balance at 30th September, 2001	<u>6,010,780</u>	<u>–</u>	<u>73,727</u>	<u>10,000,000</u>	<u>81,258</u>

(c) Analysis of balances of cash and cash equivalents

	31st March, 2000 \$	31st March, 2001 \$	30th September, 2001 \$
Cash and bank balances	16,641	30,554	5,330,710
Bank overdrafts	(196,784)	(245,293)	–
	<u>(180,143)</u>	<u>(214,739)</u>	<u>5,330,710</u>

(d) Major non-cash transactions

- (i) During the period ended 31st March, 2000, the Group entered into a finance lease contract arrangement in respect of fixed assets with a total capital value at the inception of the lease of \$168,124.
- (ii) During the year ended 31st March, 2001, 3,000,000 ordinary shares of \$1 each of Grandy Environmental (H.K.) Limited were issued at par through capitalisation of an amount due to Mr. Tsui Tai Hoi, Raymond, a director of the Company.
- (iii) During the period ended 30th September, 2001, the Group settled the costs of professional services of \$300,000 to two professional service providers in the form of share options of the Company granted to them in lieu of cash consideration.

7. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of any of the Relevant Periods referred to in this report by the Company or any of its subsidiaries now comprising the Group to the directors of the Company. Under the arrangements currently in force, the estimated aggregate amount of directors' fees and other emoluments payable for the year ended 31st March, 2002 will be approximately \$1,341,800, excluding discretionary bonuses payable under directors' service contracts, the terms of which are set out in the section headed "Further information about directors, management and staff" in Appendix IV to the Prospectus.

8. SEGMENTAL INFORMATION

During the Relevant Periods, the Group was principally engaged in manufacturing and selling of environmental protection products and all of the Company's products were sold in Hong Kong, the directors consider that the Group operates within a single business and geographical segment. Accordingly, no segmental information is presented.

9. ADDITION INFORMATION

As set out in the section 4(f) above, the amount due to the directors was interest-free for the Relevant Periods.

Should the amount due to the directors be interest-bearing at Hong Kong dollar prime rate plus 2.5% for the Relevant Periods be recorded, the effect on the net profit/(loss) from ordinary activities attributable to shareholders for the Relevant Periods would be as follows:

	Period from 20th January, 1999 (date of incorporation) to 31st March, 2000	Year ended 31st March, 2001	Six months ended 30th September, 2001
	\$	\$	\$
Net profit/(loss) from ordinary activities attributable to shareholders	(2,304,196)	(1,174,212)	917,207
Add: Notional interest	<u>(125,650)</u>	<u>(337,323)</u>	<u>(28,388)</u>
Pro forma adjusted net profit/(loss)	<u><u>(2,429,846)</u></u>	<u><u>(1,511,535)</u></u>	<u><u>888,819</u></u>

10. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding of the Company is Tipmax Limited, which was incorporated in the British Virgin Islands.

11. SUBSEQUENT EVENTS

The following material events took place subsequent to 30th September, 2001:

- (a) Pursuant to the Eagle Option Deed dated 20th July, 2001, 537,334 ordinary shares of the Company were issued and allotted to Eagle Strategy at a consideration of \$372,000 on 27th November, 2001.
- (b) Pursuant to the Outshine Option Deed dated 20th July, 2001, 329,333 ordinary shares of the Company were issued and allotted to Outshine at a consideration of \$228,000 on 27th November, 2001.
- (c) On 16th October, 2001, the authorised share capital of the Company was converted from US\$50,000 to \$390,000 and the 50,000 ordinary shares of \$7.8 each in the capital of the Company after such conversion were then sub-divided into 39,000,000 ordinary shares of \$0.01 each.
- (d) Written resolutions were passed by all the shareholders of the Company on 20th April, 2002 to effect the transactions set out in the paragraph headed "Resolutions in writing of all the shareholders of the Company passed on 20th April, 2002" in Appendix IV to the Prospectus.

- (e) Pursuant to the written resolution of the shareholders of the Company on 20th April, 2002, the share option schemes were conditionally adopted on 20th April, 2002. Further details of which are set out in the paragraph headed "Share Option Schemes" in Appendix IV to the Prospectus.

Save as aforesaid, no other material events took place subsequent to 30th September, 2001.

12. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any companies comprising the Group in respect of any period subsequent to 30th September, 2001.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong



Member of RHL International Property Consultants
永利行國際物業顧問集團成員

RHL Appraisal Ltd.
永利行評值顧問有限公司

Surveyors, Valuers, Land & Property Consultants

The Directors
Grandy Applied Environmental Technology Corporation
Room 407 on 4th Floor
Energy Plaza
92 Granville Road
Tsim Sha Tsui East
Kowloon, Hong Kong

29th April, 2002

Dear Sirs,

Re : Valuation of Various Properties in Hong Kong

1. INSTRUCTION

In accordance with your instructions for us to value the property interests of Grandy Applied Environmental Technology Corporation (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) situated in Hong Kong, we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 31st January, 2002 (referred to as the “valuation date”).

This letter, which forms part of our valuation report, explains the basis and methodology of valuation and sets out the assumptions made and other qualifications.

2. BASIS OF VALUATION

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

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

The property interests which are all rented by the Group via various leases have no commercial value due either to the prohibition against assignment or subletting or to the lack of substantial profit rents.

3. ASSUMPTION

Our valuation has been made on the assumption that the owner sells the property interests on the open market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the property interests.

4. TITLE INVESTIGATION

We have been provided with copies of all the tenancy agreements relating to the properties which have been signed by the relevant landlords and the relevant members of the Group. In addition, we have been confirmed by the legal advisor to the Group that all written tenancies relating to the properties are all valid and enforceable against the respective landlords. All documents stated herein have been used for reference only.

5. LIMITING CONDITIONS

We have inspected the exterior of all the properties valued and, where possible, we have also inspected the interior of the properties but no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. All dimensions, measurements and areas are approximations.

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupation, tenancy details, floor areas and in the identification of those properties rented by the Group.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We have relied on the Group's confirmation that no material facts have been omitted from the information supplied.

We enclose herewith the summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S.W. Lau
AHKIS AAPI RPS (GP)
Managing Director

Tse Wai Leung
BSc MRICS AHKIS RPS(GP)
Director

Serena S. W. Lau, who is an Associate of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice, and Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyor and a Registered Professional Surveyor in General Practice, have over six years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property	Capital value in existing states as at 31st January, 2002
1. Unit 1A (being a portion of Units 1-4) on 4th Floor Energy Plaza No.92 Granville Road Tsim Sha Tsui East Kowloon Hong Kong	No commercial value
2. Unit 7 (being a portion of Units 1-4) on 4th Floor Energy Plaza No.92 Granville Road Tsim Sha Tsui East Kowloon Hong Kong	No commercial value
3. Unit 9H-1 (being a portion of Unit H) on 9th Floor Kaiser Estate 2nd Phase Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street Hung Hom Kowloon Hong Kong	No commercial value
Grand Total:	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2002
1. Unit 1A (being a portion of Units 1-4) on 4th Floor Energy Plaza No.92 Granville Road Tsim Sha Tsui East Kowloon Hong Kong	<p>The property comprises an office unit on 4th floor of a 13-storey (plus 2 basement levels) commercial building completed in 1983.</p> <p>The saleable floor area of the property is approximately 480 square feet.</p> <p>The property is rented by the Group from an independent third party for a term of two years two months and four days commencing on 10th April 2000 and expiring on 14th June 2002 at a monthly rent of \$9,555 exclusive of rates and management charges.</p>	<p>The property is occupied by the Group as an office for commercial use.</p>	<p>No commercial value</p>

Note: As revealed by the Tenancy Agreement dated 5th May 2000, the tenant of the property is Grandy Environmental (HK) Limited. Grandy Environmental (HK) Limited is a wholly-owned subsidiary of the Company.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2002
2. Unit 7 (being a portion of Units 1-4) on 4th Floor Energy Plaza No.92 Granville Road Tsim Sha Tsui East Kowloon Hong Kong	<p>The property comprises an office unit on 4th floor of a 13-storey (plus 2 basement levels) commercial building completed in 1983.</p> <p>The saleable floor area of the property is approximately 970 square feet.</p> <p>The property is rented by the Group from an independent third party for a term of 11 months and 14 days commencing on 1st July 2001 and expiring on 14th June 2002 at a monthly rent of \$22,269 exclusive of rates and management charges.</p>	The property is occupied by the Group as an office for commercial use.	No commercial value

Note: As revealed by the Tenancy Agreement dated 30th August 2001, the tenant of the property is Grandy Environmental (HK) Limited. Grandy Environmental (HK) Limited is a wholly-owned subsidiary of the Company.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2002
3. Unit 9H-1 (being a portion of unit H) on 9th Floor Kaiser Estate 2nd Phase Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street Hunghom Kowloon Hong Kong	<p>The property comprises a workshop unit on 9th floor of a 14-storey (plus a basement level) industrial building completed in 1978.</p> <p>The saleable floor area of the property is approximately 1,780 square feet.</p> <p>The property is rented by the Group from an independent third party for a term of six months commencing on 7th January 2002 and expiring on 6th July, 2002 at a monthly rent of \$14,900 inclusive of rates, government rent and management charges.</p>	<p>The property is occupied by the Group as a workshop for industrial use.</p>	<p>No commercial value</p>

Note: As revealed by the Tenancy Agreement dated 8th November 2000, the tenant of the property is Grandy Environmental (HK) Limited. Grandy Environmental (HK) Limited is a wholly-owned subsidiary of the Company.

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

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28th May, 2001 under the Companies Law. The memorandum of association (the “Memorandum”) and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

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

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 20th April, 2002. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

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

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

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

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

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

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

(iii) Compensation or payments for loss of office

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

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

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

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

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any

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

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

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

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

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

(vi) *Remuneration*

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

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

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

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

(vii) Retirement, appointment and removal

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

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

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

The office or director shall be vacated:

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

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

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

(vii) Borrowing powers

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

(viii) Proceedings of the Board

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

(ix) Register of Directors and Officers

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

(b) Alterations to constitutional documents

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

(c) Alteration of capital

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

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

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

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

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

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

(e) Special resolution – majority required

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

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

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

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

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

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total

voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

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

(g) Requirements for annual general meetings

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

(h) Accounts and audit

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

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

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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

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

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

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

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

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

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

- (i) the declaration and sanctioning of dividends;
- (ii) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (iii) the election of directors in place of those retiring;
- (iv) the appointment of auditors and other officers;

- (v) the fixing of the remuneration of the directors and of the auditors; and
- (vi) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital.

(j) Transfer of shares

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

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

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

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

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

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

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

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

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

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

(m) Dividends and other methods of distribution

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

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

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

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

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

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

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

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

(n) Proxies

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

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board may agree to accept from the day appointed for the payment thereof to the

time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

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

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

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

(p) Inspection of register of members

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

(q) Quorum for meetings and separate class meetings

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

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

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

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

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(e) of this Appendix.

(s) Procedures on liquidation

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

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

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

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any

indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

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

3. CAYMAN ISLANDS COMPANY LAW

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

(a) Operations

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

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the

company subject to the provisions, if any, of its memorandum and articles of association in (i) paying distributions or dividends to members; (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (iii) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (iv) writing-off the preliminary expenses of the company; (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

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

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

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

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

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

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

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

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

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (i) an act which is ultra vires the company or illegal, (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (iii) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

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

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 11 December, 2001.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

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

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by public notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to

transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

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

FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 28th May, 2001. The Company has established a place of business in Hong Kong at Room 407, Energy Plaza, 92 Granville Road, Tsimshatsui East, Kowloon, Hong Kong and was registered on 5th December, 2001 as an overseas company under Part XI of the Companies Ordinance. Mr. Tsui and Mr. Yeung have been appointed as the authorised representatives of the Company for the acceptance of service of process and notice on behalf of the Company in Hong Kong.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and the Articles. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in share capital of the Company

As at the date of incorporation of the Company, its authorised share capital was US\$50,000 divided into 50,000 shares of US\$1.00 each.

The following alterations in the share capital of the Company have taken place within the two years preceding the date of this prospectus:

- (a) on 28th May, 2001, one share of US\$1.00 in the capital of the Company was allotted and issued to Offshore Incorporations (Cayman) Limited for cash at par;
- (b) on 18th June, 2001, one share of US\$1.00 in the capital of the Company was transferred by Offshore Incorporations (Cayman) Limited to Tipmax for cash at par;
- (c) on 16th July, 2001, 62 shares and 37 shares of US\$1.00 each in the capital of the Company were allotted and issued to Tipmax and Star Wave respectively for cash at par;
- (d) on 16th July, 2001, in consideration of the transfer of their respective shareholding in GEHK to Worlday, 6,024 shares and 3,538 shares of US\$1.00 each in the capital of the Company were allotted and issued to Tipmax and Star Wave and credited as fully paid;

- (e) on 18th July, 2001,
 - (i) Timpax transferred 1,912 shares of US\$1.00 each in the capital of the Company to Count Wealth in consideration for 85,000,000 ordinary shares in the capital of Kong Sun, credited as fully paid at \$0.20 per share; and
 - (ii) 338 shares of US\$1.00 each in the capital of the Company were allotted and issued to Count Wealth in consideration for the amount of \$3,000,000 in cash;
- (f) on 16th October, 2001, the authorised share capital of the Company was converted from US\$50,000 to \$390,000 and the 50,000 shares of \$7.80 each in the capital of the Company after such conversion were sub-divided into 39,000,000 Shares;
- (g) on 10th November, 2001, Tipmax transferred its 3,256,500 Shares to Achieve Century in consideration of Achieve Century allotting to Tipmax 4,174 shares of US\$1.00 each in the capital of Achieve Century;
- (h) on 10th November, 2001, Star Wave transferred its 2,788,500 Shares to Achieve Century in consideration of Achieve Century allotting to Star Wave 3,574 shares of US\$1.00 each in the capital of Achieve Century;
- (i) on 27th November, 2001, 329,333 Shares were issued and allotted to Outshine Co., Ltd. pursuant to the Outshine Option Deed;
- (j) on 27th November, 2001, 537,334 Shares were issued and allotted to Eagle Strategy Limited pursuant to the Eagle Option Deed; and
- (k) on 20th April, 2002, the Company increased its authorised share capital from \$390,000 to \$15,000,000 by the creation of an additional 1,461,000,000 Shares.

Immediately following completion of the Share Offer and the Capitalisation Issue but not taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, the authorised share capital of the Company will be \$15,000,000 divided into 1,500,000,000 Shares of which 800,000,000 Shares will be allotted and issued fully paid or credited as fully paid, and 700,000,000 Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 830,000,000 Shares will be allotted and issued as fully paid or credited as fully paid, and 670,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in writing of all the shareholders of the Company passed on 20th April, 2002

On 20th April, 2002 pursuant to resolutions in writing passed by all the shareholders of the Company:

- (a) the authorised share capital was increased from \$390,000 to \$15,000,000 by the creation of an additional 1,461,000,000 Shares;
- (b) conditional on the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the day following 30 days after the date of this prospectus:
 - (i) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to allot and issue 160,000,000 New Shares pursuant to the Share Offer and up to 30,000,000 Shares which may be required to be issued if the Over-allotment Option is exercised and to approve the transfer of 40,000,000 Sale Shares by the Vendors to the places pursuant to the Placing;
 - (ii) further conditional on the GEM Listing Committee granting approval of the Pre-IPO Share Option Scheme, the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out in the paragraph headed “Summary of terms of the Pre-IPO Share Option Scheme” of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme;
 - (iii) further conditional on the GEM Listing Committee granting approval of the Share Option Scheme, the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Summary of terms of the Share Option Scheme” of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;

- (iv) conditional on the share premium account being credited as a result of the New Issue, the Directors were authorised to capitalise \$6,313,333.33 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 631,333,333 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company as at the close of business on 22nd April, 2002 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in the Company;

- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the Articles, or pursuant to the grant of options under the Pre-IPO Share Option Scheme, the Share Option Scheme or the exercise of any options which may be granted under the Share Option Scheme or under the Pre-IPO Share Option Scheme, the Share Offer or the Capitalisation Issue, Shares with an aggregate nominal amount of not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Capitalisation Issue, the Share Offer and the allotment of Shares which may be issued pursuant to the Over-allotment Option, such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;

- (vi) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares on the GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Capitalisation Issue, the Share Offer and the allotment of Shares which may be issued pursuant to the Over-allotment Option, such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;

(vii) the general unconditional mandate mentioned in sub-paragraph (v) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (vi) above provided that such extended amount shall not exceed 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following completion of the Capitalisation Issue, the Share Offer and the allotment of Shares which may be issued pursuant to the Over-allotment Option; and

(d) the Company adopted a new memorandum of association and the Articles in substitution for and to the exclusion of the then existing memorandum and articles of association of the Company.

4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM which involved the acquisition by Worldday of the entire issued share capital of GEHK from Tipmax and Star Wave on 17th July, 2001, as to 1,896,300 shares and 1,113,700 shares of \$1.00 each, in consideration for the allotment and issue of 6,024 shares and 3,538 shares of US\$1.00 each in the capital of the Company on 16th July, 2001, credited as fully paid.

5. Changes in share capital of subsidiaries of the Company

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this prospectus. The following alterations in the share capital of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

- (a) on 9th August, 2000, 1,500 shares of \$1.00 each in the capital of GEHK were transferred from Mr. Hoang to Rich Shine International Limited for cash at par;
- (b) on 9th August, 2000, 500 shares of \$1.00 each in the capital of GEHK were transferred from Mr. Leung to Mr. Chan as to 400 shares and to Mr. Mio as to 100 shares;
- (c) on 9th August, 2000, 500 shares of \$1.00 each in the capital of GEHK were transferred from Mr. Yeung to Mr. Mio as to 300 shares and to Mr. Ip Kwok Choi as to 200 shares for cash at par;

- (d) on 9th August, 2000, 200 shares of \$1.00 each in the capital of GEHK were transferred from Rich Shine International Limited to Ms. Ho Shuk Man Gale for cash at par;
- (e) on 31st March, 2001, an aggregate of 3,000,000 shares of \$1.00 each in the capital of GEHK were allotted and issued, as to 150,000 shares of \$1.00 each to Mr. Leung, as to 450,000 shares to Mr. Hoang, as to 150,000 shares to Mr. Yeung, as to 120,000 shares to Mr. Chan, as to 120,000 shares to Mr. Mio, as to 120,000 shares to Mr. To and as to 1,890,000 shares to Mr. Tsui for cash at par;
- (f) on 20th April, 2001, 6,300 shares of \$1.00 each in the capital of GEHK were transferred from Rich Shine International Limited to Mr. Tsui for cash at par;
- (g) on 20th April, 2001, 200 shares of \$1.00 each in the capital of GEHK were transferred from Mr. Ip Kwok Choi to Mr. To for cash at par;
- (h) on 9th June, 2001, 200 shares of \$1.00 each in the capital of GEHK were transferred from Ms. Ho Shuk Man Gale to Mr. To for cash at a nominal consideration of \$1.00;
- (i) on 15th June, 2001, 1,896,300 shares of \$1.00 each in the capital of GEHK were transferred from Mr. Tsui to Tipmax for cash at a nominal consideration of \$1.00;
- (j) on 26th June, 2001, one share of US\$1.00 in the capital of Worlday was allotted and issued to the Company for cash at par;
- (k) on 27th June, 2001, 1,113,700 shares of \$1.00 each in the capital of GEHK were transferred to Star Wave, as to 150,500 shares from Mr. Leung, 451,500 shares from Mr. Hoang, 150,500 shares from Mr. Yeung, 120,400 shares from Mr. Chan, 120,400 shares from Mr. Mio and 120,400 shares from Mr. To, each for cash at a nominal consideration of \$1.00;
- (l) on 17th July, 2001, 1,896,300 shares of \$1.00 each in the capital of GEHK were transferred from Tipmax to Worlday, in consideration of the allotment of 6,024 new shares of US\$1.00 each in the capital of the Company to Tipmax on 16th July, 2001; and
- (m) on 17th July, 2001, 1,113,699 shares of \$1.00 each in the capital of GEHK were transferred from Star Wave to Worlday and one share of \$1.00 in the capital of GEHK was transferred from Star Wave to the Company for it to hold on trust for Worlday, in consideration of the allotment of 3,538 new shares of US\$1.00 each in the capital of the Company to Star Wave on 16th July, 2001.

Save as disclosed herein and in paragraph 4 of the section headed “Further Information about the Company” of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph 6 includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Stock Exchange Rules

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:

Shareholders’ approval

All repurchases of securities on the GEM by a company with its listing on the GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval in relation to a particular transaction.

Note: Pursuant to the resolutions passed by all the shareholders of the Company dated 20th April, 2002, conditional upon listing, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorising the Directors to exercise all powers of the Company to repurchase Shares on the GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Capitalisation Issue, the Share Offer and the allotment of Shares which may be issued pursuant to the Over-allotment Option, such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first.

Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Company’s memorandum and articles of association and the Companies Law. A listed company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under Cayman Islands law, repurchases by the Company may only be made out of profits of the Company or out of the proceeds

of a fresh issue of Shares made for the purpose, or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

(b) Reasons for repurchases

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

(c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and the Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after the listing of the Shares on GEM and assuming that the Over-allotment Option is not exercised, would result in up to 80,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) General

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

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

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

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

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. Summary of material contracts

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



- (a) the agreement for the acquisition of shares in the Company (then known as Lotus Sea Holdings Limited) dated 27th June, 2001 and made amongst (i) Count Wealth; (ii) Tipmax; (iii) Star Wave; (iv) Kong Sun; (v) Mr. Tsui; (vi) Ms. Lam; (vii) Mr. Hoang; (viii) Mr. Leung; (ix) Mr. Yeung; (x) Mr. Chan; (xi) Mr. Mio; (xii) Mr. To; and (xiii) the Company in respect of, inter alia, the acquisition and subscription by Count Wealth of 2,250 shares of nominal value of US\$1.00 each in the capital of the Company;
- (b) the reorganisation agreement dated 16th July, 2001 and made amongst (i) the Company; (ii) Worlday; (iii) Tipmax; (iv) Star Wave; and (v) Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio, Mr. To, and Ms. Lam in respect of the reorganisation of the Group and the supplemental agreement dated 15th March, 2002 and made amongst the same parties for ratifying certain errors in the reorganisation agreement dated 16th July, 2001;

- (c) the shareholders' agreement dated 18th July, 2001 and made amongst (i) Count Wealth; (ii) Tipmax; (iii) Star Wave; and (iv) the Company in respect of the conduct and management of the Company and the termination agreement dated 15th March, 2002 and made amongst the same parties for terminating the shareholder's agreement dated 18th July, 2001;
- (d) the Eagle Option Deed dated 20th July, 2001 and made amongst (i) the Company; (ii) Eagle Strategy Limited as grantee; and (iii) Tipmax, Mr. Tsui and Ms. Lam as guarantors whereby an option was granted by the Company to the grantee for subscription of such number of Shares representing and equivalent to 6.2% of the total number of issued shares of US\$1.00 each in the issued share capital of the Company existing on 20th July, 2001 and all other (if any) stock or shares from time to time for the time being ranking pari passu therewith and all other (if any) shares or stocks resulting from any sub-division, consolidation or reclassification existing at the time of the exercise and taking effect of the written notice exercising the option thereunder;
- (e) the Outshine Option Deed dated 20th July, 2001 and made amongst (i) the Company; (ii) Outshine Co., Ltd. as grantee; and (iii) Tipmax, Mr. Tsui and Ms. Lam as guarantors whereby an option was granted by the Company to the grantee for subscription of such number of Shares representing and equivalent to 3.8% of the total number of issued shares of US\$1.00 each in the issued share capital of the Company existing on 20th July, 2001 and all other (if any) stock or shares from time to time for the time being ranking pari passu therewith and all other (if any) shares or stocks resulting from any sub-division, consolidation or reclassification existing at the time of the exercise and taking effect of the written noticed exercising the option thereunder;
- (f) the Subscription Agreement dated 24th July, 2001 and made amongst (i) the Company; (ii) Tipmax and Star Wave as shareholders; (iii) 13 investors named in Schedule 4 to the agreement; (iv) Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio, Mr. To, and Ms. Lam as guarantors; and (v) Fin-Ichi Asia Limited as investor agent in respect of convertible notes of \$10,000,000 in the Company;
- (g) the note instrument dated 22nd August, 2001 and made amongst (i) the Company; (ii) Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio, Mr. To, and Ms. Lam as guarantors; (iii) Tipmax and Star Wave as covenantors; (iv) Fin-Ichi Asia Limited as noteholder agent; and (v) the 13 investors named in Schedule 5 thereto as noteholders in respect of convertible notes of \$10,000,000 in the Company;



- (h) the supplemental deed dated 5th February, 2002 and made amongst (i) the Company; (ii) Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio, Mr. To and Ms. Lam as guarantors; (iii) Tipmax and Star Wave as covenantors; (iv) Fin-Ichi Asia Limited as noteholder agent; and (v) the Convertible Note Holders pursuant to which each of Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio, Mr. To and Ms. Lam will be released from the guarantee given by them in the Note Instrument immediately after the time at which the right of the Sponsor (for itself and on behalf of the Co-sponsor and the Underwriters) to terminate the Underwriting Agreement has lapsed;
- (i) the second supplemental deed dated 19th April, 2002 and made amongst (i) the Company; (ii) Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio, Mr. To and Ms. Lam as guarantors; (iii) Tipmax and Star Wave as convenators; (iv) Fin-Ichi Asia Limited as noteholder agent; and (v) the Convertible Note Holders pursuant to which the provision for automatic conversion of 50% of the principal amount of the Convertible Notes was cancelled and the Company agreed to pay \$12,000,000 to the Convertible Note Holders to redeem all the Convertible Notes within three business days after the Listing Date;
- (j) the deed of indemnity dated 22nd April, 2002 and executed by Achieve Century, Tipmax, Star Wave, Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio and Mr. To in favour of the Company (for itself and as trustee for each of the other companies in the Group) containing indemnities, in respect of, among other matters estate duty and taxation;
- (k) the Sponsor's Agreement;
- (l) the letter of indemnity dated 26th April, 2002 and executed by Mr. Tsui in favour of the Company (for itself and on trust for and on behalf of its subsidiaries) containing an indemnity in respect of the outstanding amount of receivables due to members of the Group as at the Latest Practicable Date;
- (m) the letter of indemnity dated 26th April, 2002 and executed by Achieve Century in favour of the Company (for itself and on trust for and on behalf of its subsidiaries) containing indemnities in respect of the Sole Agency Agreement; and
- (n) the Underwriting Agreement.

2. Intellectual Property Rights of the Group

As at the Latest Practicable Date, the Group was the registered owner of the following trade marks:

Trademark	Place of registration	Class	Registration Number	Registration Date	Expiration Date
	Hong Kong	1 ^{Note 1}	02898/2000	14 June 1999	14 June 2006
	Hong Kong	5 ^{Note 2}	02899/2000	14 June 1999	14 June 2006

As at the Latest Practicable Date, the Group had applied for registration of the following trade marks and service marks:

Trade/Service mark	Place of registration	Class	Application number	Filing Date
	Hong Kong	1 ^{Note 1}	2001 17324	24 October 2001
	Hong Kong	5 ^{Note 2}	2001 17325	24 October 2001
Grandy	Hong Kong	1 ^{Note 2}	2001 17326	24 October 2001
Grandy	Hong Kong	5 ^{Note 2}	2001 17327	24 October 2001

Notes:

1. Goods covered by Class 1 as prescribed by the Trade Marks Ordinance include chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resin, unprocessed plastics; manures; fire extinguishing composition; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; and adhesives used in industry.
2. Goods covered by Class 5 as prescribed by the Trade Marks Ordinance include pharmaceutical, veterinary and sanitary preparations; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, and herbicides.

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Directors

Disclosure of interests of directors

Each of Mr. Tsui, Mr. Yeung, Mr. Leung, Mr. Hoang, Mr. Chan, Mr. To and Mr. Kong is interested in the corporate reorganisation referred to in paragraph 4 and changes in share capital of subsidiaries of the Company referred to in paragraph 5, both of the section headed “Further Information about the Company” in this Appendix.

Particulars of service contracts

Each of Mr. Tsui, Mr. Yeung, Mr. Leung, Mr. Hoang, Mr. Chan and Mr. To, being all the executive Directors, has entered into a service contract with the Company for an initial term of two years commencing from the Listing Date, and will continue thereafter until terminated by not less than six months’ notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment at the discretion of the Directors of not more than 15% of the annual salary of the respective Director immediately prior to such increase). In addition, the executive Directors are also entitled to a discretionary year-end bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 30% of the audited consolidated net profits of the Group (after taxation and minority interests but before extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him. The current basic annual salaries (inclusive of a fixed sum of annual bonus equivalent to one month salary) of the executive Directors are as follows:

Name	Amount payable during first year of term of service	Amount payable during second year of term of service
Mr. Tsui	\$780,000	\$1,040,000
Mr. Yeung	\$390,000	\$520,000
Mr. Leung	\$390,000	\$520,000
Mr. Hoang	\$390,000	\$520,000
Mr. Chan	\$390,000	\$520,000
Mr. To	\$390,000	\$520,000

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Directors' remuneration

- (a) The Company's policies concerning remuneration of executive Directors are as follows:
- (i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to the Group by the relevant director;
 - (ii) non-cash benefits may be provided to the executive Directors under their remuneration package; and
 - (iii) the executive Directors may be granted, at the discretion of the Board, share options of the Company, as part of the remuneration package.
- (b) During the year ended 31st March, 2002, the aggregate emoluments paid by the Group to the Directors was approximately 1,341,800. No emoluments have been paid by the Group to the non-executive Director and the independent non-executive Directors during the year ended 31st March, 2002.
- (c) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the executive Directors for the year ending 31st March, 2003 are estimated to be approximately \$2,435,593. No emolument is payable by the Group to the non-executive Director and the aggregate emoluments payable by the Group to the independent non-executive Directors are estimated to be approximately \$112,452 for the year ending 31st March, 2003.
- (d) 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. None of the Directors have waived any emoluments.
- (e) Save for directors' fees, (if any), none of the non-executive Director and the independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or independent non-executive Director.

Interests of Directors in the share capital of the Company and its associated corporations

Immediately following the Share Offer and the Capitalisation Issue, the interests of the Directors in the share capitals of the Company and its associated corporations (within the meaning of the SDI Ordinance which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the Shares are listed or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, once the Shares are listed, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

(a) Shares

Director	Number of Shares					Total interests
	Corporate interests	Personal interests	Family interests	Other interests		
Mr. Tsui	416,769,983	–	–	–	–	416,769,983
Mr. Yeung	56,305,624	–	–	–	–	56,305,624
Mr. Leung	56,305,624	–	–	–	–	56,305,624
Mr. Hoang	416,769,983	–	–	–	–	416,769,983
Mr. Chan	45,052,835	–	–	–	–	45,052,835
Mr. To	45,052,835	–	–	–	–	45,052,835
Mr. Kong	11,922,999	–	–	–	–	11,922,999

(b) Options under the Pre-IPO Share Option Scheme

Each of Mr. Tsui, Mr. Yeung, Mr. Leung, Mr. Hoang, Mr. Chan and Mr. To, all being executive Directors, and Dr. Yu Chai Mei, an independent non-executive Director, has been conditionally granted options in respect of Shares pursuant to the Pre-IPO Share Option Scheme.

2. Substantial shareholders

So far as the Directors are aware, immediately following the Capitalisation Issue and the Share Offer and taking no account of Shares which may be taken up under the Share Offer (assuming the Over-allotment Option is not exercised), the following persons will be interested in more than 10% of the Shares then in issue:

Name	Number of Shares directly or indirectly held immediately after the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised)	Approximate percentage holding of Shares immediately after the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised)
Achieve Century (<i>Note 1</i>)	416,769,983	52.10
Count Wealth (<i>Note 2</i>)	119,229,995	14.90
Tipmax (<i>Note 3</i>)	416,769,983	52.10
Star Wave (<i>Note 4</i>)	416,769,983	52.10
Kong Sun (<i>Note 5</i>)	119,229,995	14.90
Mr. Tsui (<i>Note 3</i>)	416,769,983	52.10
Mr. Hoang (<i>Note 4</i>)	416,769,983	52.10
Kong Fa Holding Limited (<i>Note 6</i>)	119,229,995	14.90
Kong Look Sen (<i>Note 6</i>)	119,229,995	14.90

Notes:

- Achieve Century is a limited liability company incorporated in BVI and the entire issued share capital of Achieve Century is beneficially owned as follows:

Name of shareholder	Number of shares held in Achieve Century	Approximate percentage of shareholding in Achieve Century
Tipmax (<i>Note 3</i>)	4,175	53.87%
Star Wave (<i>Note 4</i>)	3,575	46.13%
Total	<u>7,750</u>	<u>100.00%</u>

- Count Wealth is a limited liability company incorporated in BVI and the entire issued share capital of Count Wealth is beneficially owned by Kong Sun. Mr. Kong, the non-executive Director, is the representative of Count Wealth on the Board.

3. Tipmax is a limited liability company incorporated in BVI and the entire issued share capital of Tipmax is beneficially owned by Mr. Tsui, the Managing Director of the Company.
4. Star Wave is a limited liability company incorporated in BVI and the entire issued share capital of Star Wave is beneficially owned as follows:

Name of shareholder	Number of shares held in Star Wave	Approximate percentage of shareholding in Star Wave
Mr. Hoang	4,055	40.55%
Mr. Yeung	1,351	13.51%
Mr. Leung	1,351	13.51%
Mr. To	1,081	10.81%
Mr. Mio	1,081	10.81%
Mr. Chan	1,081	10.81%
Total	<u>10,000</u>	<u>100.00%</u>

5. Kong Sun is a limited liability company incorporated in Hong Kong whose shares are listed on the Main Board of the Stock Exchange. The issued share capital of Kong Sun is beneficially owned by the public as to 44.51%, by Kong Fa Holding Limited as to 36.35% and by Kong Sun Enterprise Sdn. Bhd. as to 19.14%.
6. Kong Fa Holding Limited is a limited liability company incorporated in BVI and its issued share capital is beneficially owned by Kong Look Sen, Soo Lee Eng, Kong Li Jer, Mr. Kong and Kong Soo Wei.
7. Kong Sun Enterprise Sdn. Bhd. is a limited liability company incorporated in Malaysia and its issued share capital is beneficially owned by Kong Look Sen, Soo Lee Eng, Kong Li Jer, Dato Abdul Ajib Bin Admad and Lo Ah Tuan.

Save as disclosed herein, the Directors are not aware of any other persons who will immediately following the Share Offer and the Capitalisation Issue be directly or indirectly interested in Shares representing 10% or more of the share capital of the Company (assuming the Over-allotment Option is not exercised).

3. Personal guarantees

Mr. Tsui had provided 2 personal guarantees in respect of certain credit facilities and certain banking facilities granted to GEHK, one of which have already been released and the other will cease to take effect upon listing of the Shares.

Under the Eagle Option Deed and the Outshine Option Deed, Mr. Tsui, together with Ms. Lam and Tipmax, has provided personal guarantee for the performance by the Company of its obligations under the Eagle Option Deed and the Outshine Option Deed. The options granted under the Eagle Option Deed and the Outshine Option Deed were exercised and the Company has discharged its obligations thereunder on 27 November 2001 by issuing and allotting 537,334 Shares to Eagle Strategy Limited and 329,333 Shares to Outshine Co., Ltd. on 27 November 2001.

Under the Note Instrument, all the executive Directors of the Company, namely, Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan and Mr. To, together with Mr. Mio and Ms. Lam, have provided personal guarantee in respect of the \$10,000,000 loan advanced to the Company. Such guarantee will be released as from 8:00 a.m. on the date of despatch of the share certificates relating to the Share Offer.

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, none of the Directors has provided any personal guarantee as security for any debts and liabilities incurred by any member of the Group.

4. Agency fees or commissions received

The Placing Underwriters will receive a commission of 4.0% of the aggregate Offer Price in respect of all the Placing Shares, out of which they will pay any sub-underwriting commissions and selling concessions. The Public Offer Underwriters will receive a commission of 4.0% of the aggregate Offer Price in respect of all the Public Offer Shares, out of which they will pay any sub-underwriting commissions. Hantec and SBI E2-Capital will also receive a documentation fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Share Offer, which are estimated to amount in aggregate to approximately \$10 million, will be payable by the Company and the Vendors.

5. Related party transactions

During the two years preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their associates as described in:

- (a) note (h) to section 3 of the accountants' report set out in Appendix 1 to this prospectus;
- (b) paragraphs 4 and 5 of the section headed "Further information about the Company" of this Appendix.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Share Offer or the options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, the Directors are not aware of any person who immediately following the Share Offer and the Capitalisation Issue will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the share capital of the Company in issue and to be issued as mentioned in this prospectus (assuming the Over-allotment Option is not exercised);

- (b) none of the Directors has for the purpose of section 28 of the SDI Ordinance or the GEM Listing Rules, nor is any of them taken to or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules once the Shares are listed on GEM;
- (c) none of the Directors or the experts named in paragraph 7 of the section headed “Other Information” of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (d) none of the Directors or the experts named in paragraph 7 of the section headed “Other Information” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (e) none of the experts named in paragraph 7 of the section headed “Other Information” of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

OTHER INFORMATION

1. Share Option Schemes

(a) Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all the shareholders of the Company on 20th April, 2002:

(i) Purpose of the scheme

The purpose of the Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity (as defined in paragraph 1(a)(ii)(aa) below).

(ii) Who may join

The Board may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for the Shares:

- (aa) any employee (whether full time or part time employee, including any executive directors but not any non-executive director) of the Company, its subsidiaries and any entity in which the Group holds any equity interest (“Invested Entity”)(“eligible employee”);
- (bb) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; and
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants or any discretionary object of a participant which is a discretionary trust.

In this connection, the Board has on 25th April, 2002 resolved that any grant of share option under the Share Option Scheme to any grantee which is a company or is a discretionary object of a participant which is a discretionary trust shall be subject to the execution by the grantee or trustee and/or the beneficial owners in favour of the Company of an undertaking not to effect or permit any change in the ultimate beneficial ownership of the grantee so long as the option so granted to the grantee or any part thereof remains exercisable.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 80,000,000 Shares, being 10% of the Shares that will be in issue as at the Listing Date (the “General Scheme Limit”).
- (cc) Subject to (aa) above, the Company may seek approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Company) will not be counted.
- (dd) Subject to (aa) above, the Company may issue a circular to its shareholders and seek separate shareholders’ approval in general meeting to grant options beyond the General Scheme Limit, or, if applicable, the limit referred to in (cc) above to participants specifically identified by the Company before such approval is sought.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the “Individual Limit”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders’ approval in general meeting of the Company with such participant and his associates abstaining from voting.

(v) Grant of options to connected persons

(aa) Any grant of options under the Share Option Scheme to a director, chief executive (other than a proposed director or a proposed chief executive of the Company) or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a grantee of the options).

(bb) In the event of any change in the terms of the options granted to a substantial shareholder of the Company or an independent non-executive Director, or any of their respective associates, or where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of \$5 million;

such further grant of options must be approved by the shareholders of the Company. The Company must send a circular to the shareholders of the Company. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(vi) Time of acceptance and exercise of an option

An offer of grant of an option may be accepted by a participant within 28 days from the date of the offer of grant of the option. A consideration of \$1.00 is payable on acceptance of the offer of grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Board to each grantee, which period may commence on the date on which the offer for the grant of the option is made but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer of the grant of options to a participant, a participant is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription Price for Shares

The subscription price for Shares under the Share Option Scheme will be a price to be determined by the Directors, but may not be lower than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the grant, which must be a trading day; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of a Share. Without prejudice to the generality of the foregoing, the Directors may grant options in respect of which the subscription price is fixed at different prices for each different period during the option period provided that the subscription price for the Shares for each of the different period shall not be less than the subscription price determined in the aforesaid manner.

(ix) Ranking of Shares

- (aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the fully paid Shares in issue as from the day when the name of the grantee is registered on the register of members of the Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date when the name of the grantee is registered on the register of members of the Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date when the name of the grantee is registered on the register of members of the Company, provided always that when the date of exercise of the option falls on a day upon which the register of members of the Company is closed then the exercise of the option shall become effective on the first business day in Hong Kong on which the register of members of the Company is re-opened. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(x) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on 20th April, 2002.

(xi) Restriction on time of grant of option

No offer of options shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such is first notified to the Exchange in accordance with the GEM Listing Rules) for approval of the results of the Company for any year, half-year or quarter-year period; and (ii) the deadline for publishing the half-year or quarterly interim results or annual results of the Company under the GEM Listing Rules, and ending on the date of the announcement of the results, no option may be granted.

The Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to the minimum standard of good practice with respect to securities transactions by Directors of Listed Companies prescribed by Rules 5.41 to 5.59 of the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(xii) Rights on dismissal, bankruptcy or insolvency

If a grantee of an option is an eligible employee and ceases to be an eligible employee of the Group on the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the grantee’s service contract with the Company or the relevant subsidiary of the Company or the relevant Invested Entity before exercising his or her option in full, the option (to the extent not already exercised) will lapse on the date the grantee ceases to be an eligible employee and will not be exercisable.

(xiii) Rights on death

If a grantee of an option is an eligible employee and ceases to be an eligible employee of the Group by reason of his death before exercising the option in full, his or her legal personal representative(s) may exercise the option (to the extent which has become exercisable but not already exercised prior to such date of death of the grantee) in whole or in part within a period of 12 months following the date of death or such longer period as the Board may determine.

(xiv) Rights on ceasing employment

If the grantee of an option is an eligible employee and ceases to be an eligible employee for any reason other than death or for serious misconduct or other grounds referred to in sub-paragraph (xii) above before exercising his or her option in full, the grantee may exercise the option up to his or her entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised), which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that the grantee of any option (other than an eligible employee) or his or her associate has committed any breach of any contract entered into between the grantee or his or her associate on the one part and the Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally, the Directors shall determine that the outstanding option granted to the grantee (whether exercisable or not) shall lapse. In such event, his or her or its option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(xvi) Rights on a general offer

If a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders

of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his or her or its option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his or her or its option at any time before the close of such offer (or any revised offer).

(xvii) Rights on winding-up

In the event a notice is given by the Company to its members to convene a general meeting to consider and approve a resolution for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time no later than two business days prior to the proposed date of the general meeting, exercise his or her options (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his or her option, to participate in the distribution of the assets of the Company available in liquidation *pan passu* with the Shares in issue on the day prior to the date of the passing of the resolution to wind-up the Company.

(xviii) Rights on compromise or arrangement between the Company and its creditors

In the event of a compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement, and thereupon any grantee (or his or her legal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the Court be entitled to exercise his or her or its option (to the extent such which has become exercisable and not already exercised), but the exercise of the option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. The Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its option so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(xix) Adjustments to the subscription price

In the event of any alteration in the capital structure (including a capitalisation of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, sub-division or reduction or similar reorganization of the share capital of the Company other than an issue of Shares as consideration in respect of a transaction to which the Company is a party) of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number of Shares the subject matter of the Share Option Scheme and the option so far as unexercised and/or the subscription price for Shares and/or the method of exercise of the option and/or the maximum number of Shares concerned, provided that (i) any alteration shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration and that the aggregate subscription price payable by a grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iii) no such adjustment will be required in circumstances whether there is an issue of Shares or other securities of the Group as consideration in a transaction. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the GEM Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be approved by shareholders of the Company in general meeting, with the relevant grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(xxi) Termination of the Share Option Scheme

The Company may, by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further option will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle the Company to cancel any outstanding option or part thereof granted to such grantee.

(xxiii) Lapse of option

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to paragraph (x);
- (bb) the expiry of the periods or dates referred to in paragraphs (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which a breach of the provision restriction on transfer and assignment of an option referred to in paragraph (xxii) is committed.

(xxiv) Others

- (aa) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders of the Company in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (bb) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.
- (dd) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall

be approved by the shareholders of the Company in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

- (ee) The Share Option Scheme shall be subject to the administration of the Board (including the independent non-executive Directors).

(b) Present status of the Share Option Scheme

- (i) Approval of GEM Listing Committee required

The Share Option Scheme is conditional on the GEM Listing Committee granting approval of such scheme, the subsequent grant of options by the Company pursuant thereto and listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

- (ii) Application for approval

Application has been made to the GEM Listing Committee for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

- (iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(c) Summary of terms of the Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognize the contribution of certain directors, employees, consultants and advisers of the Group to the growth of the Group and/or to the listing of the Shares on GEM. The principal terms of the Pre-IPO Share Option Scheme, conditionally approved by a written resolution of the shareholders of the Company dated 20th April, 2002 (which is still subject to the same conditions as stated in the sub-section headed “Conditions of the Share Offer” under the section headed “Structure of the Share Offer” in this prospectus) are substantially the same as the terms of the Shares Option Scheme except that:

- (i) the subscription price for each Share is 50% of the Offer Price;

- (ii) the aggregate number of Shares subject to the Pre-IPO Share Option Scheme is 80,000,000 equivalent to 10% of the enlarged issued share capital of the Company (without taking into account of any Shares which may fall to be issued pursuant to the Over-allotment Option) as at the date on which dealings of the Shares on GEM first commence;
 - (iii) the grantees eligible for the options are only restricted to full-time or part-time employees of the Company and/or its subsidiaries including executive, non-executive and independent non-executive directors of the Company and/or its subsidiaries and any consultants and advisers to the Company and/or of its subsidiaries;
 - (iv) an offer of grant of an option may be accepted by an eligible employee until 5:00 p.m. on the next Business Day following the day on which the Board passes a resolution approving the making of an offer to that employee or before the termination of the Pre-IPO Share Option Scheme, whichever the earlier;
 - (v) there are no similar restrictions on the granting of options as summarized in subparagraph (xi) of the paragraph headed “Summary of the terms of Share Option Scheme” in the sub-section headed “Share Option Schemes” in the section headed “Other information” in this Appendix;
 - (vi) the Company by ordinary resolution in general meeting may at any time terminate the operation of the Pre-IPO Share Option Scheme before the Expiry Date (as defined below) and no further Option should be offered but the provisions of the Pre-IPO Share Option shall remain in all other respects in full force and effect in respect of any options granted prior thereto but not yet exercised at the time of termination. Options which are granted and which remain unexpired immediately prior to the termination of the Pre-IPO Share Option Scheme shall continue to be exercisable in accordance with their terms of issue;
 - (vii) the restrictions imposed on the exercise of the options granted under the Pre-IPO Share Option Scheme are set out in paragraph (d) below;
 - (viii) save for the options which have been conditionally granted under the Pre-IPO Share Option Scheme (see below), no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so ended upon the day prior to the Listing Date (the “Expiry Date”).
- (d) *Outstanding Options under the Pre-IPO Share Option Scheme*

As at the date of this prospectus, options to subscribe for an aggregate of 80,000,000 Shares representing 10% of the issued share capital of the Company as at the date on which dealings in the Shares on GEM first commence (without taking into account of any Shares which may fall to be issued pursuant to the Over-allotment Option), at a

subscription price per Share equal to 50% of the Offer Price have been conditionally granted by the Company under the Pre-IPO Share Option Scheme to (i) the six executive Directors and one independent non-executive Director for an aggregate of 50,400,000 Shares; (ii) one technical adviser to the Group for 2,400,000 Shares and (iii) six full-time employees (including three senior management staff) of the Group for an aggregate of 27,200,000 Shares. All of these options have a duration of ten years from and including the date on which dealings in the Shares on GEM first commence, but each shall lapse in accordance with the terms of the Pre-IPO Share Option Scheme if the relevant grantee ceases to be a director or an employee of the Group or on any other grounds set out in the Pre-IPO Share Option Scheme. A discount to the exercise price of the options under the Pre-IPO Share Option Scheme is granted as a recognition of the past contribution of certain directors, employees and a technical adviser of the Group to its growth. Upon acceptance of the options granted under the Pre-IPO Share Option Scheme, each grantee has paid \$1.00 to the Company as consideration for the grant. Particulars of the options conditionally granted under the Pre-IPO Share Option Scheme to the six executive Directors, one independent non-executive Director, one technical adviser and six senior management staff and employees of the Group to subscribe for Shares are set out below:

Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
<i>Directors</i>					
Mr. Tsui (<i>Note</i>)	Managing Director	Flat B, 17th Floor Dragon View 5 Dragon Terrace Tin Hau Temple Road Hong Kong	8,000,000	1%	12 months
Mr. Chan (<i>Note</i>)	Marketing Director	Flat B, 3rd Floor, Tower I Pacific Palisades No. 1 Braemar Hill Road North Point Hong Kong	8,000,000	1%	12 months

Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
Mr. Hoang <i>(Note)</i>	Production Director	Flat B, 10th Floor Kam Wa Building 382-388 Des Voeux Road West Hong Kong	8,000,000	1%	12 months
Mr. Leung <i>(Note)</i>	Engineering Director	Flat C, 2nd Floor Oxford Court 26 Braemar Hill Road Hong Kong	8,000,000	1%	12 months
Mr. To <i>(Note)</i>	Business Development Director	Flat G, 6th Floor Hilltop 60 Cloudview Road North Point Hong Kong	8,000,000	1%	12 months
Mr. Yeung <i>(Note)</i>	Project Director	Flat D, 11th Floor Tsuen Fung Centre 168 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong	8,000,000	1%	12 months
Dr. Yu Chai Mei	Independent Non-executive Director	Flat E, 3rd Floor, Block 8, The Paramount 23 Shan Tong Road Tai Po New Territories Hong Kong	2,400,000	0.3%	N/A

Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
<i>Technical adviser</i>					
Dr. Yeung Lam Lung	Technical Adviser	Flat G, 12th Floor, Block 1, Metro City, Phase 2, Tseung Kwan O, Kowloon Hong Kong	2,400,000	0.3%	N/A
<i>Senior management</i>					
Mr. Mio (<i>Note</i>)	Senior Manager – Retail Section	Flat A, 15th Floor, Block 2, Harvest Garden, No. 1 Wing Fat Lane, Tuen Mun, New Territories Hong Kong	8,000,000	1%	12 months
Mr. Wong Chun Kit	Financial Controller	Flat B, 27th Floor, Tsui Lan Mansion, Westlands Court, 5 Westlands Road, Quarry Bay, Hong Kong	4,000,000	0.5%	N/A
Dr. Christopher Harold Phillips	Senior Project Manager	Flat C, 10th Floor, Block 2, Sun Shing Centre, 141 Kowloon City Road, Kowloon Hong Kong	2,400,000	0.3%	N/A

Name of grantees	Position of grantees	Address	Number of underlying Shares	Percentage of issued share capital of the Company as at the Listing Date (assuming the Over-allotment Option is not exercised)	Applicable Lock-up Period from the Listing Date
<i>Staff</i>					
Ms. Wong Miu Fan, Ophelia	Executive Secretary	Room 909, Wah Yiu House, Lai Yiu Estate, Kwai Chung, New Territories Hong Kong	8,000,000	1%	N/A
Mr. Au Wai Leung	Asistant Project Manager	Room 509, Tung Ma House, Fu Tung Estate, Lantau, Hong Kong	2,400,000	0.3%	N/A
Mr. Ho Yu Hin	Marketing Manager	Flat 2F, 4th Floor, 6 Fessenden Road, Kowloon Tong Kowloon Hong Kong	2,400,000	0.3%	N/A
		Total	<u>80,000,000</u>	<u>10%</u>	

Total number of grantees: 14

Note: Each of Mr. Tsui, Mr. Chan, Mr. Hoang, Mr. Leung, Mr. Mio, Mr. To and Mr. Yeung has undertaken to and agreed and covenanted with the Stock Exchange, the Company, the Lead Managers, the Sponsors and the Underwriters that he shall not, and shall procure that none of his associates, nominees or trustees holding in trust for him shall, during the Lock-up Period, sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of) nor permit the registered holder thereof to sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any of his Relevant Securities or sell, transfer or otherwise dispose of or create any rights in respect of (or enter into any agreement to sell, transfer or otherwise dispose of or create any rights in respect of), save pursuant to the exceptional circumstances permitted under Rule 13.18 of the GEM Listing Rules, any securities in any company controlled by him which is directly or indirectly the beneficial owner of any of the Relevant Securities or any interest therein, (including any Shares which may be issued and allotted to him upon his exercise of the share options under the Pre-IPO Share Option Scheme during the Lock-up Period).

Under the terms of the share options granted under the Pre-IPO Share Option Scheme, these share options can only be exercised by the grantees in the following manner:

Commencement date when the share option become exercisable	Proportion of the share options granted under the Pre-IPO Share Option Scheme that can be exercised
the date falling six months from the date on which dealings in the Shares on GEM first commence <i>(Note 1)</i>	one-third
the first anniversary of the date on which dealings in the Shares on GEM first commence <i>(Note 2)</i>	one-third
the second anniversary of the date on which dealings in the Shares on GEM first commence	one-third

Notes:

1. If the relevant grantee ceases to be a director or an employee of the Group before the first anniversary of the date on which dealings in the Shares on GEM first commence and has exercised any share options which have been granted to him/her under the Pre-IPO Share Option Scheme, the said grantee shall be required, if so determined by the Board at its absolute discretion, to pay to the Company an amount equivalent to the aggregate of the market prices (see Note 3 below) of the Shares as allotted upon exercise of such share option less the total exercise prices for those Shares.
2. If the relevant grantee ceases to be a director or an employee of the Group after the end of the first anniversary but before the second anniversary of the date on which dealings in the Shares on GEM first commence and has exercised share options which only becomes exercisable after the first anniversary of the date on which dealings in the Shares on GEM commence under the Pre-IPO Share Option Scheme (the "Second Tranche Options"), the said grantee shall be required, if so determined by the Board at its absolute discretion, to pay to the Company an amount equivalent to the aggregate of the market prices (see Note 3 below) of the Shares allotted upon exercise of the Second Tranche Option less the total exercise prices for those Shares.
3. For the purpose of Notes 1 and 2 above, "the market price" of any relevant Share allotted upon exercise of a share option under the Pre-IPO Share Option Scheme means the closing price for each Share on GEM at the date on which such share option is exercised.

Where applicable, Shares to be issued and allotted pursuant to the exercise of the share options granted under the Pre-IPO Share Option Scheme will be treated as Relevant Securities and be subject to the provisions for lock-up under Rule 13.15 of the GEM Listing Rules.

Save as disclosed above, no other options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme or the Share Option Scheme.

2. Estate duty, tax and other indemnities

Each of Achieve Century, Tipmax, Star Wave, Mr. Tsui, Mr. Hoang, Mr. Leung, Mr. Yeung, Mr. Chan, Mr. Mio and Mr. To (each an “Indemnifier”) has, pursuant to a deed of indemnity, jointly and severally given indemnities in favour of the Company (for itself and its subsidiaries and associated company) in connection with, inter alia, (1) any liability for Hong Kong estate duty which might be payable by any member of the Group by the operation of the provisions of sections 34 to 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) as a result of the death of any individual who has before death made a transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Share Offer becomes unconditional. The Directors have been advised that none of the transactions outlined in this prospectus would expose the Group or any of its shareholders to estate or other duty in the Cayman Islands and that no estate or other charge of a similar nature is payable by any member of the Group with respect to any shares of the subsidiaries of the Company or as a result of the reorganisation referred to in Appendix IV to this prospectus.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Share Offer becomes unconditional. The Indemnifiers, however, will not be liable under the deed of indemnity for taxation:

- (i) to the extent that provision or reserve has been made for such taxation in the combined audited accounts of the Group for the two years ended 31st March, 2001 and six months ended 30th September, 2001;
- (ii) if the liability for taxation has arisen in and related to any liability for which the Company or any of the members of the Group is or may become primarily liable as a result of transactions in the ordinary course of their businesses after the date on which the Share Offer becomes unconditional; and
- (iii) to the extent that such liability for taxation arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice coming into force after the date on which the Share Offer becomes

unconditional or to the extent that such liability for taxation arises or is increased by an increase in rates of taxation after the date on which the Share Offer becomes unconditional with retrospective effect.

Mr. Tsui has, pursuant to an indemnity dated 26th April, 2002 given an indemnity in favour of the Company (for itself and on trust for and on behalf of its subsidiaries) in connection with the amount of outstanding amount of receivables due to members of the Group as at the Latest Practicable Date which remains outstanding and unpaid as at the date falling 6 months from the Listing Date.

Achieve Century has, pursuant to an indemnity dated 26th April, 2002 given an indemnity in favour of the Company (for itself and on trust for and on behalf of its subsidiaries) in connection with any liability which (i) the sole agency agreement was entered into prior to the incorporation of GEHK; (ii) any breach of the provision regarding Mr. Hoang's shareholdings in GEHK; and/or (iii) any breach before the date of listing of the Shares on GEM by GEHK of the provisions in the Sole Agency Agreement regarding the use of the trade mark "Uyama Enzyme".

3. Litigation

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

4. Sponsors

The Sponsors have made an application for and on behalf of the Company to the GEM Listing Committee for the granting of the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

5. Preliminary expenses

The estimated preliminary expenses of the Company are approximately \$21,000 and are payable by the Company.

6. Promoter

- (a) The Company has no promotor for the purposes of the GEM Listing Rules.
- (b) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in paragraph 6(a) above in connection with the Share Offer or the related transactions described in this prospectus.

7. Qualification of experts

The qualification of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
Ernst & Young	Certified public accountants
RHL Appraisal Ltd.	Professional surveyors

8. Consents of experts

Each of Conyers Dill & Pearman, Cayman, Ernst & Young, and RHL Appraisal Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

9. Binding Effect

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

10. Taxation of holders of Shares

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty the current rate of which is \$2.00 for every \$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

11. Particulars of Vendors

The particulars of the Vendors are as follows:

Name	Description	Address	No. of Sale Shares
Achieve Century (<i>Note 1</i>)	Corporation	Offshore Incorporations Limited P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola BVI	29,630,000
Count Wealth (<i>Note 2</i>)	Corporation	Offshore Incorporations Limited P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola BVI	10,370,000

Notes:

- Achieve Century is a limited liability company incorporated in BVI and the entire issued share capital of Achieve Century is beneficially owned as follows:

Name of shareholder	Number of shares held in Achieve Century	Approximate percentage of shareholding in Achieve Century
Tipmax (<i>Note 3</i>)	4,175	53.87%
Star Wave (<i>Note 4</i>)	3,575	46.13%
Total	<u>7,750</u>	<u>100.00%</u>

- Count Wealth is a limited liability company incorporated in BVI and the entire issued share capital of Count Wealth is beneficially owned by Kong Sun. Mr. Kong, the non-executive Director, is the representative of Count Wealth on the Board.

Kong Sun is a limited liability company incorporated in Hong Kong whose shares are listed on the Main Board of the Stock Exchange. The issued share capital of Kong Sun is beneficially owned by the public as to 44.51%, by Kong Fa Holding Limited as to 36.35% and by Kong Sun Enterprise Sdn. Bhd. as to 19.14%.

Kong Fa Holding Limited is a limited liability company incorporated in BVI and its issued share capital is beneficially owned by Kong Look Sen, Soo Lee Eng, Kong Li Jer, Mr. Kong and Kong Soo Wei.

Kong Sun Enterprise Sdn. Bhd. is a limited liability company incorporated in Malaysia and its issued share capital is beneficially owned by Kong Look Sen, Soo Lee Eng, Kong Li Jer, Dato Abdul Ajib Bin Admad and Lo Ah Tuan.

3. Tipmax is a limited liability company incorporated in BVI and the entire issued share capital of Tipmax is beneficially owned by Mr. Tsui, the Managing Director of the Company.
4. Star Wave is a limited liability company incorporated in BVI and the entire issued share capital of Star Wave is beneficially owned as follows:

Name of shareholder	Number of shares held in Star Wave	Approximate percentage of shareholding in Star Wave
Mr. Hoang	4,055	40.55%
Mr. Yeung	1,351	13.51%
Mr. Leung	1,351	13.51%
Mr. To	1,081	10.81%
Mr. Mio	1,081	10.81%
Mr. Chan	1,081	10.81%
Total	<u>10,000</u>	<u>100.00%</u>

12. Miscellaneous

- (a) Save as disclosed herein:
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) there has been no material adverse change in the financial position or prospects of the Group since 30th September, 2001 (being the date to which the latest audited combined financial statements of the Group were made up).
- (b) The Company has no founder shares, management shares or deferred shares.
- (c) The register of members of the Company will be maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Ltd. and a branch register of members of the Company will be maintained in Hong Kong by Tengis Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of **WHITE** and **YELLOW** application forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV to this prospectus, a statement of adjustments prepared by Ernst & Young for the purposes of the accountants’ report, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus and a statement of the names, descriptions and addresses of the Vendors of the Sale Shares.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Preston Gates & Ellis at 10th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours up to and including 13th May, 2002:

- (a) the memorandum of association of the Company and the Articles;
- (b) the audited financial statements of GEHK for the period from 20th January, 1999 (date of incorporation) to 31st March, 2000, the year ended 31st March, 2001 and the six months ended 30th September, 2001;
- (c) the accountants’ report, the text of which is set out in Appendix I to this prospectus, together with the related statement of adjustments;
- (d) the letter, summary of values and valuation certificate prepared by RHL Appraisal Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the rules of the Share Option Scheme and the rules of the Pre-IPO Share Option Scheme;
- (f) a list of all grantees who have been granted share options under the Pre-IPO Share Option Scheme;
- (g) the letter of advice prepared by Conyers Dill & Pearman, Cayman referred to at the end of Appendix III to this prospectus;
- (h) the Companies Law;
- (i) the material contracts referred to in the paragraph headed “Summary of material contracts” of Appendix IV to this prospectus;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- (j) the written consents referred to in the paragraph headed “Consents of experts” of Appendix IV to this prospectus; and
- (k) the service contracts referred to in the paragraph headed “Particulars of Directors’ service contracts” of Appendix IV to this prospectus.