



First Quarterly Report

For the three months ended 31 January 2002



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a healthy environment

co-Tek
環康科技

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

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

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

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

UNAUDITED RESULTS

The board of directors (the “Board”) of Eco-Tek Holdings Limited (the “Company”) is pleased to announce the unaudited combined profit and loss account of the Company and its subsidiaries (collectively referred to as the “Group”) as follows:

		For the three months ended 31 January	
		2002	2001
	Notes	HK\$'000	HK\$'000
TURNOVER	2	4,912	8,007
Cost of sales		(1,162)	(1,880)
Gross profit		3,750	6,127
Other revenue		105	74
Selling expenses		(31)	(146)
Administrative expenses		(1,785)	(1,105)
PROFIT BEFORE TAX		2,039	4,950
Tax	3	(357)	(837)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		1,682	4,113
Dividends	4	—	—
RETAINED PROFIT	5	1,682	4,113
EARNINGS PER SHARE	6		
Basic		HK0.33 cent	HK0.99 cent
Diluted		HK0.28 cent	HK0.81 cent

Notes:

1. Group reorganisation and basis of presentation

Group reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 6 December 2000. Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on the GEM of the Stock Exchange on 5 December 2001, the Company became the holding company of the companies now comprising the Group on 21 November 2001. Further details of the Group Reorganisation are set out in the Company's prospectus (the "Prospectus") dated 27 November 2001.

Basis of presentation

The Group Reorganisation has been accounted for by the Company using the merger accounting method in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". The unaudited combined results of the Group included the results of all companies now comprising the Group as if the current Group structure had been in existence throughout the periods covered by this report or since their respective dates of incorporation, where this is a shorter period.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

2. Turnover

Turnover represents the sales of environmental protection related products and services.

3. Tax

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period under review.

4. Dividends

The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31 January 2002 (2001: Nil).

5. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 November 2000	–	95	92	187
Profit for the three months ended 31 January 2001	–	–	4,113	4,113
At 31 January 2001	<u>–</u>	<u>95</u>	<u>4,205</u>	<u>4,300</u>
At 1 November 2001	–	95	8,313	8,408
Premium on issuance of shares	31,510	–	–	31,510
Capitalisation issue	(4,140)	–	–	(4,140)
Share issuance expenses	(7,784)	–	–	(7,784)
Profit for the three months ended 31 January 2002	–	–	1,682	1,682
At 31 January 2002	<u>19,586</u>	<u>95</u>	<u>9,995</u>	<u>29,676</u>

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

6. Earnings per share

The basic earnings per share for the three months ended 31 January 2002 is calculated based on the unaudited combined net profit attributable to shareholders of the Company for the said period of HK\$1,682,000 (2001: HK\$4,113,000) and on a weighted average number of approximately 504,730,435 shares issued during the said period (2001: 414,600,000 shares, which were deemed to have been issued on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 414,000,000 shares of the Company had been effective during the three months ended 31 January 2001).

The calculation of the diluted earnings per share for the three months ended 31 January 2002 and 31 January 2001 are based on the unaudited combined net profit attributable to shareholders of the Company for the three months ended 31 January 2002 and 31 January 2001 and on approximately 598,787,729 shares (2001: 508,657,294 shares), being the 504,730,435 shares (2001: 414,600,000 shares) as used in the calculation of basic earnings per share, and the weighted average of approximately 94,057,294 shares assumed to have been issued at no consideration on the deemed exercise of the pre-IPO share options and the options granted to Advance New Technology Limited.

For the purpose of calculating diluted earnings per share, the fair value of the shares assumed to have been issued upon the deemed exercise of these options was determined as the issue price of HK\$0.238 per share in respect of the Company's placement of its shares. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration.

BUSINESS REVIEW AND OUTLOOK

Business Review

During the period under review, the Group was principally engaged in the marketing, sales, servicing, research, and development of environmental protection-related products and services.

The Group reported an unaudited turnover of approximately HK\$4,912,000 for the three months ended 31 January 2002. During this three months period, turnover decreased by around 39% as compared to an unaudited turnover of HK\$8,007,000 over the corresponding period in the previous year. In September 2000, the Hong Kong SAR Government (the "Government") launched the Voluntary Installation and Subsidy Programme (the "Programme") to encourage qualified vehicle owners to adopt products that reduce vehicle emissions. Many eligible vehicle owners acted on the Programme and installed our *Eco-Trap* product. The three months ended 31 January 2001 was the busiest period to date with respect to *Eco-Trap* installation, accounting for almost 40% of total turnover and 50% of net profits for the last fiscal year ended 31 October 2001. Although the Programme was recently extended until 17 May 2002, it has already been in effect for over a year and most of the eligible vehicle owners have already participated in it.

The Group reported an unaudited gross profit of approximately HK\$3,750,000 with a gross profit margin of 76% for the three months ended 31 January 2002 compared with an unaudited gross profit of around HK\$6,127,000 at a gross profit margin of 77% for the corresponding period in the previous year. The Group's gross profit margin remained steady at over 75% due to a tight cost control on the production of the *Eco-Trap* product.

The administrative expenses for the quarter under review increased to about HK\$1,785,000 from HK\$1,105,000 for the same quarter in the previous year. After the shares of the Company were listed on the GEM of the Stock Exchange on 5 December 2001, additional routine but mandatory expenses like the listing fees, printing costs, sponsorship fees, etc., were required. These expenses accounted for approximately HK\$300,000, or around 17% of the total administrative expenses for the period under review. The number of research and development staff was also increased in order to investigate new products and market opportunities, also contributing to the increase in administrative expenses. Notwithstanding the above results, it has been our objective to maintain a thin but effective overhead structure. Due to the net effect of the reported results, the net profit from ordinary activities attributable to shareholders of the Company has decreased for the two periods under comparison from about HK\$4,113,000 to about HK\$1,682,000, while the net profit margins also decreased from about 51% to about 34%.

The Company was listed on the GEM of the Stock Exchange through a placement of 138,200,000 shares. The net proceeds from the placement, after deductions for relevant expenses, was approximately HK\$25,000,000. The Group intends to apply these proceeds in the manner disclosed in the Prospectus dated 27 November 2001. For the period under review, the Group financed its operations with its own working capital and did not have any bank loans. As of 31 January 2002, the Group had total assets of approximately HK\$39,000,000, including cash and bank balances of approximately HK\$36,000,000. Taking into consideration the existing financial resources available to the Group, it is anticipated that we should have adequate financial resources to meet our ongoing operating and development requirements.

Outlook

Although Hong Kong experienced an economic downturn in 2001, environmental protection is still vital to the further economic and cultural development of the region. During the period under review and in the months to come, we shall continue to extend our best efforts to introduce ecological products to market. The most recent detailed progress in our business development is as follows:

a) *Eco-Trap*

We will continue to provide cleaning services for contaminated *Eco-Trap* filter cartridges in Hong Kong. Marketing efforts will be made to target diesel car owners in Hong Kong that are not eligible for the Government's Programme. Moreover, we will further explore growing markets such as Mainland China for the product.

b) Diesel oxidation catalysts

Testing of the Group's diesel oxidation catalyst and discussions with potential supplier(s) are under way in order to align our products with the initial specifications provided by relevant Government authorities.

c) Hydraulic filters

The design, research, and development of a pressure line filter is still in progress. We are also carrying out research on marketing distribution of other hydraulic filters and related hydraulic products in Hong Kong and overseas markets.

d) Soundproof barriers

Acceptance criteria for soundproof barriers have been agreed with potential customers and, after thorough testing between our Group and the customers, we anticipate initial installation in the near future. We have also identified other sales opportunities for soundproof barriers in Hong Kong and in overseas markets. The market response thus far can be characterized as satisfactory.

e) Waste plastic recycling process

Feasibility studies are still ongoing. We also have been in discussions with various parties regarding the further development of this process in Hong Kong.

We remain confident that through our dedication and efforts, we can become the leading provider of environmental protection-related products and services in Asia and beyond.

SUBSTANTIAL SHAREHOLDERS

As at 31 January 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Name	Number of shares held	Percentage of holding
Team Drive Limited	299,341,200 (Note)	54.15%
Advance New Technology Limited	89,000,800	16.10%

Note: The shareholding is duplicated in the directors' and chief executive's interests disclosed below.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out below, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance as at 31 January 2002.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 January 2002, the interests of the directors and the chief executive of the Company in the share capital of the Company or its associated corporations as recorded in the register of the Company required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of listed issuer as referred to in rule 5.40 of the GEM Listing Rules are set out below:

Name of director/ Number of shares in the Company	Personal interests	Family interests	Corporate interests	Other interests	Total
Dr. CHIANG Lily	-	-	299,341,200 (Note)	-	299,341,200
Dr. PAU Kwok Ping	16,584,000	-	-	-	16,584,000
Mr. SHAH Tahir Hussain	552,800	-	-	-	552,800

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

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

Pursuant to a pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 21 November 2001, the Company had granted pre-IPO share options on the Company's ordinary shares in favour of three executive directors, details of which are as follows:

Name of director	Number of shares options granted on 21 November 2001	Exercise period of share options	Exercise price per share HK\$
Dr. CHIANG Lily	55,280,000	5 December 2002 to 4 December 2005	0.01
Dr. PAU Kwok Ping	27,640,000	5 December 2002 to 4 December 2005	0.01
Mr. SHAH Tahir Hussain	13,820,000	5 December 2002 to 4 December 2005	0.01

No further options will be granted under the Pre-Scheme after listing of the Company's shares on the GEM. Upon exercise of all outstanding pre-IPO share options in full, a total of 96,740,000 shares, representing in aggregate approximately 17.5% of the issued share capital of the Company immediately following the completion of the placing and the capitalisation, will be issued. All these options were granted on 21 November 2001 and may be exercised within three years from the expiry of 12 months from 5 December 2001. No pre-IPO share options have, therefore, been exercised up to the date of this report.

At the same date of adoption of the aforesaid Pre-Scheme, a post-IPO share option scheme (the "Post-Scheme") was also approved by the Company. Under the terms of the Post-Scheme, the board of directors may, at their discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time. No share options have been granted by the Company or been exercised under the Post-Scheme up to the date of this report.

Save as disclosed above, as at 31 January 2002, there was no arrangement in which the Company, its holding companies or any of its subsidiaries was a party to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

COMPETING INTERESTS

As at 31 January 2002, none of the directors or the management shareholders (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

SPONSORS' INTEREST

Shares of the Company were listed on the GEM of the Stock Exchange on 5 December 2001 by way of a placement of 138,200,000 shares at an issue price of HK\$0.238 (the "Listing"). The sponsor and co-sponsor of the Listing was respectively Celestial Capital Limited (the "Sponsor") and SBI E2-Capital (HK) Limited (the "Co-Sponsor").

The Sponsor and the Co-Sponsor have confirmed that, immediately prior to the Listing on 10:00 a.m. on 5 December 2001, none of the Sponsor, the Co-Sponsor or their respective associates, directors or employees has or may have, as a result of the listing of the shares of the Company, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) save for:

- a) the obligations and interests of the Sponsor, the Co-Sponsor and SBI E2-Capital Securities Limited under an underwriting agreement with regard to the Listing;
- b) the grant by the Company of an over-allotment option, which was not exercised until its expiry on 24 December 2001, to SBI E2-Capital Securities Limited;
- c) the obligations and interests of SBI E2-Capital Securities Limited under a stock borrowing agreement with regard to the over-allotment option mentioned in (b);
- d) the advisory and documentation fees payable to the Sponsor and the Co-Sponsor, in cash, as the Sponsor and the Co-sponsor of the Listing; and
- e) a sponsor's agreement (the "Sponsor Agreement") dated 26 November 2001 and made between the Sponsor and the Company, pursuant to which the Company has appointed the Sponsor and the Sponsor has agreed to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the date of Listing to 31 October 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

The Sponsor has further confirmed that as at 31 January 2002, the Sponsor, its directors, employees or associates did not have any interest in the securities of the Company, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on the GEM on 5 December 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

AUDIT COMMITTEE

An audit committee of the Company had been established with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises two members, Mr. CHENG Ming Fun Paul and Dr. WOON Yi Teng Eden, who are independent non-executive directors of the Company. The Group's unaudited results for the three months ended 31 January 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

By Order of the Board
Pau Kwok Ping
Managing Director

Hong Kong, 8 March 2002