



Third Quarterly Report
For the nine months ended 31 July 2002



co-Tek
環康科技

fostering

a healthy environment

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “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 combined profit and loss account of the Company and its subsidiaries (collectively referred to as the “Group”) as follows:–

	Notes	For the three months ended 31 July		For the nine months ended 31 July	
		2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2001 (audited) HK\$'000
TURNOVER	2	11,586	4,884	22,087	16,906
Cost of sales		(8,067)	(1,202)	(12,300)	(4,254)
Gross profit		3,519	3,682	9,787	12,652
Other revenue		88	195	313	387
Selling expenses		(292)	(136)	(574)	(416)
Administrative expenses		(1,970)	(1,492)	(5,270)	(4,077)
PROFIT BEFORE TAX		1,345	2,249	4,256	8,546
Tax	3	(289)	(316)	(685)	(1,366)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		1,056	1,933	3,571	7,180
Dividends	4	–	–	–	–
RETAINED PROFIT	5	1,056	1,933	3,571	7,180
EARNINGS PER SHARE	6				
Basic (Hong Kong Cent)		0.19	0.47	0.67	1.737
Diluted (Hong Kong Cent)		0.16	N/A	0.56	N/A

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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” issued by the Hong Kong Society of Accountants.

The comparative figures for the three months and nine months ended 31 July 2001 included the results of all companies involved in the Group Reorganisation, which were assumed to have been in existence throughout the said periods or since their respective dates of incorporation, if it was a shorter period. The figures for the nine months ended 31 July 2002 have been prepared as if the Group Reorganisation had been completed on 1 November 2001.

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 nine months ended 31 July 2002 (2001: Nil).

5. Reserves

	Share premium	Capital reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 November 2000	–	95	92	187
Profit for the nine months ended 31 July 2001	–	–	7,180	7,180
	<u>–</u>	<u>–</u>	<u>7,180</u>	<u>7,180</u>
At 31 July 2001	<u>–</u>	<u>95</u>	<u>7,272</u>	<u>7,367</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 nine months ended 31 July 2002	–	–	3,571	3,571
	<u>–</u>	<u>–</u>	<u>3,571</u>	<u>3,571</u>
At 31 July 2002	<u>19,586</u>	<u>95</u>	<u>11,884</u>	<u>31,565</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 calculation of basic earnings per share for the three months ended 31 July 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$1,056,000 (2001: approximately HK\$1,933,000) and the number of 552,800,000 shares (2001: 414,600,000 shares) in issue during the period.

The calculation of basic earnings per share for the nine months ended 31 July 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$3,571,000 (2001: approximately HK\$7,180,000) and the weighted average number of approximately 536,600,733 shares (2001: 414,600,000 shares) in issue during the period.

In determining the weighted average number of shares, 414,600,000 shares were deemed to have been issued on the assumption that the Group Reorganisation and the subsequent capitalization issue of 414,000,000 shares of the Company had been effective during the three months and nine months ended 31 July 2001.

The calculation of the diluted earnings per share for the three months ended 31 July 2002 was based on the unaudited net profit attributable to shareholders for the three months ended 31 July 2002 and on a weighted average number of approximately 654,225,945 shares, being the 552,800,000 shares as used in the calculation of basic earnings per share, and the weighted average of approximately 101,425,945 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.

The calculation of the diluted earnings per share for the nine months ended 31 July 2002 was based on the unaudited net profit attributable to shareholders for the nine months ended 31 July 2002 and on a weighted average number of approximately 639,622,069 shares, being the 536,600,733 shares as used in the calculation of basic earnings per share, and the weighted average of approximately 103,021,336 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.

The diluted earnings per share for the three months and nine months ended 31 July 2001 have not been calculated as no diluting events existed during both periods.

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 general environmental protection-related products and services as well as industrial environmental products like hydraulic filters and other related accessories.

The Group reported a turnover of approximately HK\$22,087,000 for the nine months ended 31 July 2002, representing a increase of 31% as compared with that of about HK\$16,906,000 over the corresponding period in the previous year. While the sales of Eco-Trap was at its peak during the six months ended 30 April 2001 following the launch of the Voluntary Installation and Subsidy Program (the "Program") by the Government in September 2000 to encourage qualified vehicle owners to adopt products that reduce vehicle emissions, the Program had, in fact, been in place for over a year. Most of the eligible vehicle owners had already participated in it and installed the Eco-Trap. The Group had anticipated such situation and prepared other new products like hydraulic filters, diesel oxidation catalysts, soundproof barrier and waste plastic recycling process in its pipeline. For the nine months ended 31 July 2002, turnover relating to industrial environmental products like hydraulic filters and other related accessories accounted for almost 71% of the total and this business segment will continue to constitute a stable income stream.

The Group reported a gross profit of approximately HK\$9,787,000 at a margin of 44% for the nine months ended 31 July 2002 compared with a gross profit of around HK\$12,652,000 at a margin of 75% for the corresponding period in the previous year. Decrease in gross profit can be accounted for by a change in product mix towards a lower gross profit margin.

Administrative expenses for the nine months under review increased to about HK\$5,270,000 from about HK\$4,077,000 for the same period in the previous year. Such increase was mainly due to the additional routine but mandatory expenses after the shares of the Company were listed on the GEM of the Stock Exchange in December 2001 and an increase in staff costs including contributions to Mandatory Provident Funds.

Due to the effects of the above, the net profit from ordinary activities attributable to shareholders for the nine months under review decreased from about HK\$7,180,000 to about HK\$3,571,000 for the same period in the previous year, while the net profit margins also adjusted downwards from 43% to 16%.

Outlook

Major business strategies and implementation plans for the development of new innovative products and services like diesel oxidation catalysts, hydraulic filters, soundproof barrier, waste plastic recycling process, etc., have been formulated and put into actions. Developments of these products are going on in the quarter to come.

The Group has successfully completed the development and testing of water filtration systems. We believe with the introduction of this new product to our product base, we could further strengthen our revenue base.

Concrete steps have been taken and will continue to do so to explore new markets and to establish new distribution network. In this regard, the Group has set up a representative office in Beijing and a Wholly Foreign Owned Enterprise in Ningbo, the PRC.

Given environmental protection is vital to the further economic and cultural development of the region, with the possible pick up of the global economy in 2003, the Group would have more opportunities for future growth. We remain confident in the performance of the coming quarters through the Group's continued dedication and efforts.

SUBSTANTIAL SHAREHOLDERS

As at 31 July 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 <i>(Note)</i>	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 July 2002.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SHARES

As at 31 July 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 <i>(Note)</i>	-	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 July 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 July 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 July 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 5 December 2001.

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 three members, Dr. WOON Yi Teng Eden, Ms. Chan Siu Ping Rosa and Mr. Takeuchi Yutaka, who are independent non-executive directors of the Company. The Group's unaudited results for the three months and nine months ended 31 July 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
Eco-Tek Holdings Limited

Pau Kwok Ping
Managing Director

Hong Kong, 12 September 2002