



**ECO-TEK HOLDINGS LIMITED**  
**( 環 康 集 團 有 限 公 司 ) \***

*(Incorporated in the Cayman Islands with limited liability)*

**PRELIMINARY RESULTS ANNOUNCEMENT**

**For the year ended 31 October 2002**

**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.**

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*This announcement, for which the directors of Eco-Tek Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to Eco-Tek Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website on the “Latest Company Announcements” page for 7 days from the date of its posting.*

*\* For the purpose of identification only*

## **HIGHLIGHTS**

- Turnover increased from approximately HK\$20.1 million to approximately HK\$31.4 million.
- Net profit from ordinary activities attributable to shareholders decreased from approximately HK\$8.2 million to approximately HK\$4.0 million.
- The Board of Directors of Eco-Tek Holdings Limited recommends a final dividend payment of HK0.35 cent per ordinary share for the year ended 31 October 2002 subject to approval by Company's shareholders at the forthcoming annual general meeting.

## FINAL RESULTS

The board of directors (the “Board”) of Eco-Tek Holdings Limited (the “Company”) is pleased to announce the audited consolidated profit and loss account of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 October 2002, together with the comparative figures for the previous year as follows;

		<b>Audited Consolidated Profit and Loss accounts Year ended 31 October</b>	
		<b>2002</b>	<b>2001</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	3	<b>31,380</b>	20,144
Cost of sales		<u>(19,533)</u>	<u>(4,792)</u>
Gross profit		<b>11,847</b>	15,352
Other revenue		<b>1,238</b>	470
Selling expenses		<b>(981)</b>	(468)
Administrative expenses		<u>(7,283)</u>	<u>(5,585)</u>
PROFIT BEFORE TAX	4	<b>4,821</b>	9,769
Tax	5	<u>(816)</u>	<u>(1,548)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><b>4,005</b></u>	<u>8,221</u>
Dividends	6	<u><b>1,935</b></u>	<u>–</u>
EARNINGS PER SHARE	7		
Basic		<u><b>HK0.74 cent</b></u>	<u>HK1.98 cents</u>
Diluted		<u><b>HK0.62 cent</b></u>	<u>N/A</u>

*Notes:*

## **1. GROUP REORGANISATION AND BASIS OF PRESENTATION**

### **Group reorganisation**

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 Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 December 2001, the Company became the holding company of the companies now comprising the Group on 21 November 2001. This was accomplished by acquiring the entire issued share capital of Eco-Tek (BVI) Investment Holdings Limited (“Eco-Tek (BVI)”), which is the intermediate holding company of other subsidiaries, in consideration of and in exchange for the allotment and issue of a total of 300,000 shares of HK\$0.01 each in the share capital of the Company, credited as fully paid, to the former shareholders of Eco-Tek (BVI). Further details of the Group Reorganisation are set out in the Company’s prospectus dated 27 November 2001 (the “Prospectus”).

### **Basis of presentation and consolidation**

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 2.127 “Accounting for Group Reconstructions”. On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the period from 27 October 1999 (date of establishment of the companies comprising the acquired Eco-Tek BVI Group) to 31 October 2002, rather than from the date of their acquisitions on 21 November 2001. Accordingly, the consolidated results and cash flows of the Group for the period from 27 October 1999 (pro forma formation date of the Group) to 31 October 2002 include the results and cash flows of the Company and its subsidiaries with effect from 27 October 1999 or since their respective dates of incorporation or acquisition by the Group, where this is a shorter period. The comparative consolidated balance sheet as at 31 October 2001 has been prepared on the basis that the existing Group had been in place at that date. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole, as the principal activities of the Group were carried out by those subsidiaries prior to and after the Group Reorganisation.

All significant transactions and balances within the Group are eliminated on consolidation.

## 2. SEGMENT INFORMATION

### (a) Business segments

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

#### Group

	General environmental protection related products and services		Industrial environmental products		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	5,955	20,144	25,425	–	31,380	20,144
Other revenue	813	201	48	–	861	201
Total	<u>6,768</u>	<u>20,345</u>	<u>25,473</u>	<u>–</u>	<u>32,241</u>	<u>20,345</u>
Segment results	<u>203</u>	<u>9,500</u>	<u>5,233</u>	<u>–</u>	<u>5,436</u>	<u>9,500</u>
Interest income					377	269
Unallocated expenses					(992)	–
Profit before tax					4,821	9,769
Tax					(816)	(1,548)
Net profit from ordinary activities attributable to shareholders					<u>4,005</u>	<u>8,221</u>
Other segment information:						
Depreciation and amortisation	154	120	–	–	154	120
Unallocated amounts					6	–
					<u>160</u>	<u>120</u>
Capital expenditure	84	608	–	–	84	608
Unallocated amount					49	–
					<u>133</u>	<u>608</u>
Loss on disposal of fixed assets	21	–	–	–	21	–
Increase/(decrease) in provision for warranty	<u>(178)</u>	<u>500</u>	<u>–</u>	<u>–</u>	<u>(178)</u>	<u>500</u>

(b) **Geographical segments**

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

**Group**

	Hong Kong		Elsewhere in PRC		Others		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Sales to external customers	<u>10,763</u>	<u>20,144</u>	<u>20,601</u>	<u>–</u>	<u>16</u>	<u>–</u>	<u>31,380</u>	<u>20,144</u>
Segment results	<u>1,788</u>	<u>9,500</u>	<u>3,645</u>	<u>–</u>	<u>3</u>	<u>–</u>	<u>5,436</u>	<u>9,500</u>
Capital expenditure	<u>84</u>	<u>608</u>	<u>49</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>133</u>	<u>608</u>

**3. TURNOVER**

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

**4. PROFIT BEFORE TAX**

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

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	19,533	4,792
Depreciation of fixed assets	160	120
Minimum lease payments under operating leases on land and buildings	414	417
Research and development costs	1,096	1,320
Auditors' remuneration:		
Current year provision	300	300
Overprovision for the prior year	(50)	–
	<u>250</u>	<u>300</u>
Staff costs, excluding directors' emoluments		
Wages and salaries	2,642	2,037
Pension scheme contributions	104	111
Provision for warranty:		
Additional provisions	142	500
Reversal of unutilised provisions	(320)	–
	<u>(178)</u>	<u>500</u>
Management fee paid to a related company	–	100
Interest income	<u>(377)</u>	<u>(269)</u>

The costs of inventories sold for the year ended 31 October 2002 include HK\$152,000 (2001:HK\$152,000), relating to direct staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the respective years.

The research and development costs for the year ended 31 October 2002 include an amount of HK\$900,000 (2001:HK\$1,320,000), relating to directors' remuneration.

## 5. TAX

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current year provision		
Hong Kong	<b>811</b>	1,548
Elsewhere	<b>5</b>	–
	<u><b>816</b></u>	<u>1,548</u>

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 year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

At 31 October 2002, the Group has unprovided deferred tax liabilities of HK\$56,000 (2001:HK\$67,000), which represented accelerated depreciation allowances.

## 6. DIVIDENDS

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Proposed final dividend:		
HK0.35 cent (2001:Nil) per ordinary share	<b>1,935</b>	–

The proposed final dividend for the year ended 31 October 2002 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 7. EARNINGS PER SHARE

The earnings per share for the year is calculated based on the consolidated net profit attributable to shareholders of the Company for the year of HK\$4,005,000 (2001:HK\$8,221,000) and 540,683,836 (2001:414,600,000) shares deemed to have been issued and issuable during the year on the assumption that the Group Reorganisation and the capitalisation issue of 414,000,000 shares of the Company had been effective on 27 October 1999 (pro forma formation date of the Group).

The calculation of the diluted earnings per share for the year ended 31 October 2002 is based on the consolidated net profit attributable to shareholders of the Company for the year of HK\$4,005,000 and 642,535,091 shares, being the 540,683,836 shares as used in the calculation of basic earnings per share, and the weighted average of 101,851,255 shares assumed to have been issued at no consideration on the deemed exercise of the pre-IPO share options and the option granted to Advance New Technology Limited ("ANT-Option").

The diluted earnings per share amount for the year ended 31 October 2001 is not presented since there were no potential ordinary shares in existence during the year.

## 8. CAPITAL AND RESERVES

### Group

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i> <i>(Notes a)</i>	Capital reserve <i>HK\$'000</i> <i>(Notes b)</i>	Retained profits <i>HK\$'000</i>	Proposed final dividend reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 November 2000	6	–	95	92	–	193
Profit for the year	–	–	–	8,221	–	8,221
At 31 October and 1 November 2001	6	–	95	8,313	–	8,414
New issue of shares	1,382	31,510	–	–	–	32,892
Capitalisation issue	4,140	(4,140)	–	–	–	–
Share issue expenses	–	(7,784)	–	–	–	(7,784)
Profit for the year	–	–	–	4,005	–	4,005
Proposed final dividend	–	–	–	(1,935)	1,935	–
At 31 October 2002	<u>5,528</u>	<u>19,586</u>	<u>95</u>	<u>10,383</u>	<u>1,935</u>	<u>37,527</u>

#### Notes:

- The share premium account of the Group includes the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 1, over the nominal value of the share capital of the Company issued in exchanges therefor.
- The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of subsidiaries acquired by the Company and the nominal value of share capital of the Company issued as consideration in exchange therefor.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation review

During the period under review, the Group is principally engaged in the marketing, sales, servicing, research and development of general environmental protection-related products and services as well as industrial environmental products such as hydraulic filters and other related accessories.

The Group reported an audited turnover of approximately HK\$31,380,000 for the year ended 31 October 2002, representing an increase of approximately 56% compared with approximately HK\$20,144,000 last year. While the sales of the *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 of the Hong Kong Special Administrative Region (the “Government”) in September 2000 to encourage qualified vehicle owners to adopt products that reduce vehicle emissions, the Program had 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 a situation and had prepared other new environmental products like hydraulic filters, diesel oxidation catalysts, water filtration system and soundproof barrier. For the year under review, the turnover for industrial environmental products like hydraulic filters and other related accessories accounted for almost 81% of the total.

Costs of sales increased from approximately HK\$4,792,000 of previous year to HK\$19,533,000 this year, representing a rise of about 308%. This increase was mainly attributable to the purchase costs of the environmental products and related accessories. The costs for these purchases accounted for approximately 94% of the total costs of sales.

This year, the Group reported an audited gross profit of approximately HK\$11,847,000 with a margin of approximately 38% while the previous year's gross profit was around HK\$15,352,000 with a margin of 76%. The decrease in gross profit was due to change in product mix towards a lower gross profit margin compared with the sales and installation of Eco-Trap in previous years.

Administrative expenses of this year increased to about HK\$7,283,000 from about HK\$5,585,000 of previous year, representing an increase of approximately 30%. This increase was mainly due to the additional routine yet mandatory expenses after shares of the Company were listed on the GEM of the Stock Exchange in December 2001 and an increase in payroll.

Due to the net effect of the above situations, the net profit from ordinary activities attributable to shareholders for this year decreased from about HK\$8,221,000 of the previous year to about HK\$4,005,000 this year, while net profit margins adjusted downwards from about 41% of previous year to 13% this year.

### **Liquidity and financial resources**

The Company was listed on the GEM of the Stock Exchange through a placement of 138,200,000 shares. The net proceeds from this placement, after deduction for relevant expenses, was approximately HK\$25,108,000. The Group has applied these proceeds for the purposes disclosed in the Prospectus dated 27 November 2001. For the period under review, the Group financed its operations with its own available fundings and did not have any bank loans. Taking into consideration the existing financial resources available, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

### **Segment information**

The sales of industrial environmental products during the year escalated, representing a major business segment of the Group. The sales accounted for approximately 81% of the consolidated turnover and 96% of profit before interest income, unallocated expenses and tax of the Group. With the increase in sales of this segment, the Group's revenue was enhanced. Detailed analysis of this segment has been set out under the section "Segment Information" in note 2.

### **Employee information**

As of 31 October 2002, the Group had 22 full-time employees (2001:17). There are 16 employees working in Hong Kong (2001:17) and 6 in the PRC (2001:nil). The total amount for employee remuneration, including that of the directors and provident contributions for the year under review amounted to approximately HK\$5,517,000 (2001:HK\$4,338,000). The Group pays its employees based on their performance, experience and the prevailing industry practice.

Each of the three executive directors has, on 21 November 2001, entered into a director's service agreement with the Company and is entitled to a management bonus. The aggregate amount of the management bonus to all executive directors shall be equal to 10% of the audited consolidated profits of the Group before taxation and extraordinary items for the relevant financial year provided that such consolidated profit shall exceed HK\$5 million, and such aggregate amount shall be divided by the number of executive directors and the entitlement of each executive director shall be equal. This management bonus is payable within three months after the availability of the audited consolidated accounts of the Group for the relevant financial year.

Pursuant to a pre-IPO share option scheme adopted on 21 November 2001, the Company had granted pre-IPO share options on the Company's ordinary shares in favour of three executive directors to subscribe for a total of 96,740,000 shares at an exercise price of HK\$0.01 each, representing, in aggregate, 17.5% of the issued share capital of the Company immediately following its listing on the GEM of the Stock Exchange. All of these pre-IPO share options may be exercised within three years from the expiry of 12 months from the listing date. No further options will be granted under the pre-IPO share option scheme after the listing of the shares.

On 21 November 2001, the Company had also adopted a post-IPO share option scheme under which full time employees, including directors, of the Company and its subsidiaries, might be granted options to subscribe for the Company's ordinary shares. At the date of this report, no share options were granted under the post-IPO share option scheme.

### **Capital structure**

The shares of the Company were listed on the GEM of the Stock Exchange on 5 December 2001. There has been no change in the capital structure of the Company since that date. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debt. Moreover all the fundings for expansions and operations came from internal sources. As of 31 October 2002 the Group had cash and cash equivalents of approximately HK\$25,119,000, composed of 47% in United States dollars and 8% in Japanese Yen and the remaining balance in Hong Kong dollars.

### **Significant investments**

There was no significant investment during the year.

### **Material acquisitions and disposals/future plans for material investments**

The Group had no material acquisitions or disposals during the year. At present, the Company and the Group have no plans for material investments or capital assets other than those set out in the Prospectus dated 27 November 2001.

## **Charge on group assets and contingent liabilities**

A performance bond of HK\$1,000,000 has been granted by a bank in favour of the Group. In the event of a default by the Group in the performance of the services detailed in the tender contract offered by the Government for the supply and installation of devices to reduce particulates from relevant exhaust of diesel light vehicles under the Program, the Government is entitled to call for payment from the banker to satisfy and discharge any damages, losses or expenses sustained by the Government up to an amount of HK\$1,000,000. The banker has the right of recourse to the Group. The Performance Bond was secured by a deposit of HK\$1,000,000 pledged by the Group.

Save as above, the Group did not have any significant contingent liabilities as at 31 October 2002.

## **Gearing ratio**

As at 31 October 2002, the Group had cash and cash equivalents of around HK\$25,119,000 in its current assets and HK\$1,000,000 pledged deposit in its non-current asset while its current liabilities stood at around HK\$15,716,000. The Group did not have any long-term debts as of 31 October 2002 and its shareholders' funds amounted to about HK\$37,527,000. In this regard, the Group had a net cash position and its gearing ratio is zero (net debt to shareholders' funds) as of 31 October 2002.

## **Exposure to fluctuations in exchange rates**

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

For purchases by the Group denominated in currencies other than Hong Kong dollars or United States dollars, foreign currency exposures are immediately hedged at the time when purchases are concluded, for example, when letters of credit are issued to overseas vendors. There was no net foreign currency exposure as of 31 October 2002 other than United States dollars and Japanese Yen and the Group did not have outstanding hedging instruments as at 31 October 2002.

## **Business and Outlook**

The *Eco-Trap* program launched in September 2000 and completed in April 2002 has earned us not only substantial revenues, but also a great deal of experience and goodwill.

Building on the experience of *Eco-Trap*, leveraging our new technology for the new product — a particulate removal device called *Eco-Green* that employs gas exhaust filtration technology to reduce exhaust particulates of pre-euro emission standard diesel vehicles (over four tons), has successfully bid on tenders issued by the Hong Kong Government. The sales and installation of *Eco-Green* devices will soon begin, and we firmly believe that this will have a positive impact on the Group's financial results during the terms of these government contracts.

In the area of water pollution, we have successfully completed the development, testing and commercialization of the *Eco-Tek Water Purification System* during the third quarter of this year. This system has recently been introduced to the market and is expected to generate revenue for the Group. Although originally developed for commercial application, it is possible to introduce the technology into to consumer households. This will help widen our market scope and expand the Group's overall income stream.

We are also developing other new environmental technologies and products that combat hydraulic and noise pollution. We have introduced new hydraulic filter and soundproof barrier technologies. The former has been designed specifically to extend the usable life of hydraulic systems installed in industrial applications. The latter incorporates new Active Sound Edge (ASE) technology to actively eliminate noise rather than isolate it. ASE panels improves distinct advantages over existing solutions that include reducing noise, lowered cost of construction and installation, and enhanced driving safety.

We are active to explore new markets and establish new distribution networks. A representative office in Beijing and a wholly foreign owned enterprise in Ningbo, China were established respectively. In addition, we are expanding our business from south China to north China. During the year, considerable efforts have been devoted to the development of our products and technologies in the PRC market, which now constitutes about 66% (2001: Nil) of our turnover.

With the launch of our diversified product line and the promise of market expansion, the Group's vision of creating a healthier and more pleasant living environment for everyone can be realized. By leveraging our technical expertise and experience at the senior management level and through the work of our research and development team, we are leading the way in providing environmental protection products and services in Asia and beyond.

## **FINAL DIVIDEND**

The directors recommend the payment of a final dividend of HK0.35 cent per share for the year ended 31 October 2002 (2001: Nil). The dividend will be payable on Monday, 24 February 2003 to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 19 February 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed between Wednesday, 19 February 2003 and Friday, 21 February 2003 (both days inclusive) during which period no transfer of shares will be effected. To rank for the aforesaid final dividend, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrars, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 18 February 2003.

## **DIRECTORS' INTERESTS IN SHARES**

Since 5 December 2001, the Company's shares have been listed on the GEM. At 31 October 2002, the interests of the directors and their associates in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), are set out below:

<b>Name of director</b>	<b>Number of shares</b>		<b>Total</b>
	<b>Corporate interest</b>	<b>Personal interest</b>	
Dr. CHIANG Lily *	299,341,200	–	299,341,200
Dr. PAU Kwok Ping	–	16,584,000	16,584,000
Mr. SHAH Tahir Hussain	–	552,800	552,800

\* *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' 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 the 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 option was exercised up to the date of approval of this report.

Save as disclosed above, and other than in connection with the Group Reorganisation in preparation for the Company's placing, at no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement 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.

## SUBSTANTIAL SHAREHOLDERS

At 31 October 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Team Drive Limited	299,341,200 #	54.15
Peace City Development Limited	299,341,200 #	54.15
Dr. CHIANG Lily	299,341,200 #	54.15
Advance New Technology Limited	89,000,800 *	16.10
The Hong Kong Polytechnic University	89,000,800 *	16.10

# *The shareholding is duplicated in the directors' interests in shares disclosed above.*

\* *By virtue of its interest in Advance New Technology Limited, The Hong Kong Polytechnic University is deemed to be interested in 89,000,800 shares.*

Save as disclosed above, no person 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.

## **SPONSOR'S 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 at 10:00 a.m. on 5 December 2001, none of the Sponsor, the Co-Sponsor or their respective associates, directors or employees had or would have, as a result of the listing of the shares of the Company, 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 Rules Governing the Listing of Securities on the GEM (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 October 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 between that date and 31 October 2002.

## **COMPETITION AND CONFLICT OF INTERESTS**

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with the standards concerning the practices and procedures of the board of directors as set out in Rules 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.

## **AUDIT COMMITTEE**

The Company established an audit committee on 5 December 2001 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Dr. WOON Yi Teng Eden, Ms. CHAN Siu Ping Rosa and Mr. TAKEUCHI Yutaka, who are the independent non-executive directors of the Company. The Group's audited results for the year ended 31 October 2002 have been reviewed by the committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

By Order of the Board  
**Pau Kwok Ping**  
*Managing Director*

Hong Kong, 30 December 2002