



Eco-Tek Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Interim Report

For the six months ended 30 April 2005

fostering

a healthy environment

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

SUMMARY

- Turnover for the six months ended 30 April 2005 amounted to approximately HK\$31.43 million (2004: HK\$51.34 million), representing a decrease of approximately 39%. Net profit attributable to shareholders amounted to approximately HK\$5.11 million (2004: HK\$8.68 million) which represented approximately 41% decrease as compared with last corresponding period. The decrease in turnover and net profit was primarily due to the completion of a project with the Environmental Protection Department for the supply and installation of the Group's Eco-Green during the period under review.
- Basic and diluted earnings per share for the six months ended 30 April 2005 amounted to approximately HK0.93 cent (2004: HK1.57 cent) and HK0.79 cent (2004: HK1.34 cent) respectively.

UNAUDITED RESULTS

The board of Directors (the “Board”) of Eco-Tek Holdings Limited (the “Company”) is pleased to announce the following unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 April 2005 together with the comparative figures for the corresponding periods in last financial year.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

| | Notes | Three months ended 30 April | | Six months ended 30 April | |
|--|-------|--------------------------------|------------------|------------------------------|------------------|
| | | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| TURNOVER | 2 | 14,066 | 30,180 | 31,428 | 51,344 |
| Cost of sales | | (10,114) | (20,723) | (21,510) | (34,089) |
| Gross profit | | 3,952 | 9,457 | 9,918 | 17,255 |
| Other revenue | | 95 | 35 | 260 | 84 |
| Selling expenses | | (555) | (541) | (1,151) | (1,039) |
| Administrative expenses | | (2,298) | (2,955) | (4,981) | (5,993) |
| Other operating income/(expenses) | | 1,198 | (587) | 1,461 | (1,767) |
| PROFIT BEFORE TAXATION | 4 | 2,392 | 5,409 | 5,507 | 8,540 |
| Taxation | 5 | (306) | (61) | (402) | 144 |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | | 2,086 | 5,348 | 5,105 | 8,684 |
| Dividends | 6 | - | - | - | - |
| EARNINGS PER SHARE: | 7 | | | | |
| Basic | | HK0.38 cent | HK0.97 cent | HK0.93 cent | HK1.57 cent |
| Diluted | | HK0.32 cent | HK0.82 cent | HK0.79 cent | HK1.34 cent |

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | <i>Notes</i> | As at 30 April 2005 HK\$'000 | As at 31 October 2004 HK\$'000 |
|--|--------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 8 | 1,194 | 953 |
| Deferred tax assets | 5 | 2,346 | 2,685 |
| Accounts receivable | 10 | 6,884 | 6,313 |
| Pledged bank deposits | 11 | 9,020 | 6,200 |
| | | 19,444 | 16,151 |
| CURRENT ASSETS | | | |
| Inventories | 9 | 20,962 | 18,859 |
| Accounts receivable | 10 | 14,184 | 26,861 |
| Deposits, prepayments and other receivables | | 4,558 | 2,933 |
| Tax recoverable | | 2,916 | 2,948 |
| Pledged bank deposits | 11 | 1,053 | 1,053 |
| Cash and cash equivalents | 11 | 21,828 | 30,169 |
| | | 65,501 | 82,823 |
| CURRENT LIABILITIES | | | |
| Accounts and bills payable | 12 | 18,130 | 27,026 |
| Accrued liabilities and other payables | | 2,521 | 3,926 |
| Provision for warranty | 13 | 2,711 | 1,728 |
| Provision for tax | | 1,000 | 1,000 |
| | | 24,362 | 33,680 |
| NET CURRENT ASSETS | | 41,139 | 49,143 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 60,583 | 65,294 |
| NON-CURRENT LIABILITY | | | |
| Provision for warranty | 13 | 3,365 | 4,889 |
| | | 57,218 | 60,405 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 5,528 | 5,528 |
| Share premium | | 19,586 | 19,586 |
| Capital reserve | | 95 | 95 |
| Retained profits | | 32,009 | 26,904 |
| Proposed final dividend | | – | 8,292 |
| | | 57,218 | 60,405 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| | Six months ended 30 April 2005 HK\$'000 | Six months ended 30 April 2004 HK\$'000 |
|--|--|--|
| NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES | 2,988 | (6,123) |
| NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES | (3,037) | 4,223 |
| NET CASH USED IN FINANCING ACTIVITIES | (8,292) | (6,357) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (8,341) | (8,257) |
| CASH AND CASH EQUIVALENTS AT 1 NOVEMBER | 30,169 | 34,919 |
| CASH AND CASH EQUIVALENTS AT 30 APRIL | 21,828 | 26,662 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 8,824 | 14,608 |
| Time deposits | 23,077 | 19,304 |
| | 31,901 | 33,912 |
| Less: time deposits pledged for performance bond facilities | (10,073) | (7,250) |
| | 21,828 | 26,662 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| | Share capital | Share premium | Capital reserve | Retained profits | Proposed final dividend | Total |
|-------------------------------------|------------------|------------------|--------------------|---------------------|-------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 November 2003 | 5,528 | 19,586 | 95 | 17,012 | 6,357 | 48,578 |
| 2003 final dividend declared | - | - | - | - | (6,357) | (6,357) |
| Profit for the period | - | - | - | 8,684 | - | 8,684 |
| At 30 April 2004 | 5,528 | 19,586 | 95 | 25,696 | - | 50,905 |
| At 1 November 2004 | 5,528 | 19,586 | 95 | 26,904 | 8,292 | 60,405 |
| 2004 final dividend declared | - | - | - | - | (8,292) | (8,292) |
| Profit for period | - | - | - | 5,105 | - | 5,105 |
| At 30 April 2005 | 5,528 | 19,586 | 95 | 32,009 | - | 57,218 |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Principal accounting policies and basis of preparation

The Group's unaudited condensed interim financial statements have been prepared in accordance with Statements of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules").

The unaudited condensed interim financial statements have been prepared under the historical cost convention. The accounting policies and basis of preparation adopted for the preparation of these accounts are consistent with those adopted by the Group in its annual financial statements for the year ended 31 October 2004.

2. Turnover

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

3. Segment Information

(a) Business segments

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

| | General environmental protection related products and services | | Industrial environmental products | | Consolidated | |
|--------------------------------------|--|----------|---|----------|----------------|----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | 6,130 | 21,844 | 25,298 | 29,500 | 31,428 | 51,344 |
| Other revenue | - | - | 34 | 7 | 34 | 7 |
| Total | 6,130 | 21,844 | 25,332 | 29,507 | 31,462 | 51,351 |
| Segment results | 1,869 | 6,385 | 4,451 | 2,679 | 6,320 | 9,064 |
| Interest income | | | | | 226 | 77 |
| Unallocated expenses | | | | | (1,039) | (601) |
| Profit before taxation | | | | | 5,507 | 8,540 |
| Taxation | | | | | (402) | 144 |
| Profits attributable to shareholders | | | | | 5,105 | 8,684 |
| Segment assets | 34,421 | 37,391 | 50,117 | 50,872 | 84,538 | 88,263 |
| Unallocated assets | | | | | 407 | 642 |
| Total assets | | | | | 84,945 | 88,905 |
| Segment liabilities | 6,536 | 10,349 | 19,522 | 27,490 | 26,058 | 37,839 |
| Unallocated liabilities | | | | | 1,669 | 161 |
| Total liabilities | | | | | 27,727 | 38,000 |

| | General environmental protection related products and services | | Industrial environmental products | | Consolidated | |
|--|--|----------|-----------------------------------|----------|--------------|----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other segment information: | | | | | | |
| Depreciation | 170 | 169 | 32 | 16 | 202 | 185 |
| Capital expenditure | 7 | 57 | 436 | - | 443 | 57 |
| Write back of doubtful debts | - | - | (1,095) | (276) | (1,095) | (276) |
| Provision for slow-moving inventories | - | 740 | - | - | - | 740 |
| (Write back of)/ Provision for warranty | (366) | 2,043 | - | - | (366) | 2,043 |

(b) *Geographical segments*

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

| | Hong Kong | | Mainland China | | Others | | Consolidated | |
|-----------------------------|-----------|----------|----------------|----------|----------|----------|--------------|----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 10,842 | 24,973 | 19,134 | 23,037 | 1,452 | 3,334 | 31,428 | 51,344 |
| Other revenue | - | - | 34 | 7 | - | - | 34 | 7 |
| Other segment information: | | | | | | | | |
| Segment assets | 49,965 | 56,248 | 32,437 | 29,860 | 2,543 | 2,797 | 84,945 | 88,905 |
| Capital expenditure | 7 | 53 | 436 | - | - | 4 | 443 | 57 |

4. Profit before taxation

| | Three months ended 30 April | | Six months ended 30 April | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |

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

| | | | | |
|--|---------------|--------|----------------|--------|
| Cost of inventories sold | 10,066 | 20,680 | 21,418 | 34,003 |
| Depreciation | 108 | 95 | 202 | 185 |
| Exchange (gains)/losses, net | (499) | 373 | 125 | 707 |
| Operating lease charges in respect of land and buildings | 356 | 252 | 658 | 462 |
| Provision for slow-moving inventories | - | - | - | 740 |
| Staff costs (including Directors' emoluments) | | | | |
| Wages and salaries | 1,459 | 2,052 | 3,041 | 4,172 |
| Pension scheme contributions | 28 | 38 | 69 | 75 |
| (Write back of)/provision for warranty | (515) | 863 | (366) | 2,043 |
| Write back of doubtful debts | (683) | (276) | (1,095) | (276) |
| Interest income | (120) | (35) | (226) | (77) |

5. Taxation and deferred tax assets

| | Three months ended 30 April | | Six months ended 30 April | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |

Current:

| | | | | |
|--|------------|-------|------------|-------|
| Hong Kong | - | 79 | 32 | 148 |
| Elsewhere | 13 | 85 | 31 | 147 |
| | 13 | 164 | 63 | 295 |
| Deferred | 293 | (103) | 339 | (439) |
| Total tax charge/(credit) for the period | 306 | 61 | 402 | (144) |

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 April 2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

At 30 April 2005, there was no significant unrecognised deferred tax liability (31 October 2004: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

The following are deferred tax assets recognized in the balance sheet and the movements during current period:

| | Provision for warranty <i>HK\$'000</i> | Provision for doubtful debts <i>HK\$'000</i> | Provision for slow- moving inventories <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|--|--|---------------------------------|
| At 1 November 2004 | 1,106 | 919 | 660 | 2,685 |
| Charged to the income statement during the period | (42) | (297) | – | (339) |
| At 30 April 2005 | 1,064 | 622 | 660 | 2,346 |

6. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 April 2005 (six months ended 30 April 2004: nil).

7. Earnings per share

The earnings per share amount for the three months ended 30 April 2005 is calculated based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$2,086,000 (three months ended 30 April 2004: HK\$5,348,000) and the weighted average of 552,800,000 (three months ended 30 April 2004: 552,800,000) ordinary shares in issue during the period.

The earnings per share amount for the six months ended 30 April 2005 is calculated based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$5,105,000 (six months ended 30 April 2004: HK\$8,684,000) and the weighted average of 552,800,000 (six months ended 30 April 2004: 552,800,000) ordinary shares in issue during the period.

The calculation of the diluted earnings per share for the three months ended 30 April 2005 is based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$2,086,000 (three months ended 30 April 2004: HK\$5,348,000) and 645,201,883 (three months ended 30 April 2004: 649,044,914) ordinary shares, being the 552,800,000 (three months ended 30 April 2004: 552,800,000) ordinary shares as used in the calculation of basic earnings per share, and the weighted average of 92,401,883 (three months ended 30 April 2004: 96,244,914) ordinary shares assumed to have been issued on the deemed exercise of the share options under the pre-IPO share option scheme, ANT share option scheme and post-IPO share option scheme.

The calculation of the diluted earnings per share for the six months ended 30 April 2005 is based on the unaudited consolidated profit attributable to shareholders of the Company for the period of HK\$5,105,000 (six months ended 30 April 2004: HK\$8,684,000) and 645,569,350 (six months ended 30 April 2004: 648,280,299) ordinary shares, being the 552,800,000 (six months ended 30 April 2004: 552,800,000) ordinary shares as used in the calculation of basic earnings per share, and the weighted average of 92,769,350 (six months ended 30 April 2004: 95,480,299) ordinary shares assumed to have been issued on the deemed exercise of the share options under the pre-IPO share option scheme, ANT share option scheme and post-IPO share option scheme.

8. Property, plant and equipment

| | Motor vehicles | Office equipment | Plant and machinery | Furniture and fixtures | Total |
|---------------------------|---------------------------|-----------------------------|--------------------------------|---------------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost: | | | | | |
| At 1 November 2004 | 456 | 317 | 806 | 240 | 1,819 |
| Additions | – | 189 | 174 | 80 | 443 |
| At 30 April 2005 | 456 | 506 | 980 | 320 | 2,262 |
| Accumulated depreciation: | | | | | |
| At 1 November 2004 | 154 | 122 | 508 | 82 | 866 |
| Charge for the period | 58 | 39 | 77 | 28 | 202 |
| At 30 April 2005 | 212 | 161 | 585 | 110 | 1,068 |
| Net book value: | | | | | |
| At 30 April 2005 | 244 | 345 | 395 | 210 | 1,194 |
| At 31 October 2004 | 302 | 195 | 298 | 158 | 953 |

9. Inventories

| | 30 April 2005 | 31 October 2004 |
|---------------------------------------|--------------------------|--------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Finished goods | 23,739 | 21,636 |
| Provision for slow-moving inventories | (2,777) | (2,777) |
| | 20,962 | 18,859 |

As at 30 April 2005, the carrying amount of inventories that are carried at net realizable value amounted to HK\$4,865,000 (31 October 2004: HK\$3,256,000).

10. Accounts receivable

The Group has a policy of allowing an average credit period of 90 days to its trade customers, except for the Environmental Protection Department of the Hong Kong Government ("EPD"), one of the major customers of the Group. The EPD's repayment term is to pay (i) 80% of the invoice amount to the Group one month upon receiving the claims submitted by the Group; (ii) another 10% of the invoice amount to the Group three months after the invoice date; and (iii) the remaining 10% of the invoice amount to the Group after expiry of warranty period if no complaints are received in respect of the products sold to the qualified diesel vehicle owners. An ageing analysis of accounts receivable as at the balance sheet date, based on invoice date, is as follows:

| | 30 April 2005 HK\$'000 | 31 October 2004 HK\$'000 |
|---|---------------------------------------|--------------------------------|
| Outstanding balances with ages: | | |
| Within 90 days | 11,091 | 23,095 |
| 91 – 180 days | 2,715 | 4,984 |
| 181 – 365 days | 4,330 | 4,029 |
| Over 365 days | 5,022 | 4,251 |
| | 23,158 | 36,359 |
| Provision for doubtful debts | (2,090) | (3,185) |
| | 21,068 | 33,174 |
| Carrying amount analysed for reporting purposes as: | | |
| Non-current* | 6,884 | 6,313 |
| Current | 14,184 | 26,861 |
| | 21,068 | 33,174 |

* *The balance shall be payable by the EPD at the expiry of warranty period of five years from the date of performance of installation services.*

11. Cash and cash equivalents and pledged deposits

| | 30 April 2005 HK\$'000 | 31 October 2004 HK\$'000 |
|--|---------------------------------------|--------------------------------|
| Cash and bank balances | 8,824 | 11,133 |
| Time deposits | 23,077 | 26,289 |
| | 31,901 | 37,422 |
| Less: Pledged for performance bond facilities | (10,073) | (7,253) |
| Cash and cash equivalents | 21,828 | 30,169 |
| Pledged deposits analysed for reporting purposes as: | | |
| Non-current | 9,020 | 6,200 |
| Current | 1,053 | 1,053 |
| | 10,073 | 7,253 |

Certain pledged deposits of approximately HK\$1 million secured for performance bond facilities will be released in July 2005.

12. Accounts and bills payable

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

| | 30 April 2005 HK\$'000 | 31 October 2004 HK\$'000 |
|---------------------------------|---------------------------------------|--------------------------------|
| Outstanding balances with ages: | | |
| Within 90 days | 10,412 | 7,577 |
| 91 – 180 days | 5,340 | 12,028 |
| 181 – 365 days | 49 | 4,224 |
| Over 365 days | 2,329 | 3,197 |
| | 18,130 | 27,026 |

13. Provision for warranty

| | 30 April 2005 HK\$'000 | 31 October 2004 HK\$'000 |
|---|---------------------------------------|--------------------------------|
| At beginning of the period/year | 6,617 | 4,297 |
| Provision for the period/year | 571 | 3,115 |
| Less: unused amounts reversed | (937) | (195) |
| Amounts (credit)/charged to income statement | (366) | 2,920 |
| | 6,251 | 7,217 |
| Less: amounts utilized | (175) | (600) |
| At end of the period/year | 6,076 | 6,617 |
| Portion classified as current liabilities | (2,711) | (1,728) |
| Portion classified as non-current liabilities | 3,365 | 4,889 |

Provision for warranty costs is made on an accrual basis by reference to the Directors' best estimates of the expenditure required to settle the obligations, and is charged to the income statement in the period in which the related sales are made. The level of provision required was assessed by the Directors annually.

14. Contingent liabilities

Performance bond facilities of approximately HK\$10 million have been granted by the banks in favor of the Group. In the event of default by the Group in the performance of the services detailed in the tender contracts offered by the EPD for the supply and installation of devices to reduce particulates from relevant exhaust of diesel vehicles, the EPD is entitled to call for payment from the banks to satisfy and discharge any damages, losses or expenses sustained by the EPD up to the amount of approximately HK\$10 million. The banks have the right of recourse to the Group. The aforesaid performance bond facilities were secured by the Group's pledged bank deposits of approximately HK\$10 million as at 30 April 2005.

Save as aforesaid, the Group did not have any other significant contingent liabilities at 30 April 2005.

15. Capital commitment

As at 30 April 2005, the Group had a capital commitment, which was contracted but not provided for, in respect of the establishment of a sino-foreign joint venture company in Nanjing, the Mainland China amounting to approximately HK\$2.4 million (31 October 2004: nil).

Save as aforesaid, the Group did not have any other significant capital commitments at 30 April 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 April 2005, the Group recorded a decline in turnover of approximately HK\$19.9 million or 39% as compared with same period last year. Net profit attributable to shareholders amounted to approximately HK\$5.11 million (2004: HK\$8.68 million), representing approximately 41% decrease as compared with last corresponding period. The decrease in turnover and net profit was mainly due to decrease in income derived from sales and installations of the Group's diesel oxidation catalysts ("Eco-Green"), which dropped by approximately HK\$14.0 million or 71%, since the project had been completed during the period under review.

The gross profit of the Group for the six months ended 30 April 2005 amounted to approximately HK\$9.9 million at a margin of 31.6% as compared with a gross profit of around HK\$17.3 million at a margin of 33.6% for the same period in the previous year. Although the amount of net exchange loss arising from settlement of purchases during the period was far lower than last corresponding period, its positive impact on gross profit was compensated by the decrease in sales of Eco-Green which earned a higher profit margin and resulted in a slight decrease in gross profit of the Group.

The administrative expenses for the six months ended 30 April 2005 dropped by approximately HK\$1 million or 17% as compared with last corresponding period. The decrease was mainly brought by decrease in staff cost by approximately HK\$1.1 million due to decrease in bonus accrued for the Directors and reduction in staff headcount of our Hong Kong office during the period under review.

Other operating income comprised of write-back of provisions for warranty of Eco-Green and doubtful debts which amounted to HK\$366,000 and HK\$1,095,000 respectively. The level of provision for warranty required was assessed by the Directors annually and the amount of warranty cost provided as at 30 April 2005 was considered adequate for future utilization. On the other side, the write-back of doubtful debts was due to the fact that some long overdue trade receivables had been collected. The Group will continue to make every effort to collect overdue debts from trade debtors.

The source of finance of the Group was primarily from the initial placing proceeds and internally generated funds. As at 30 April 2005, the Group had pledged its bank deposits of approximately HK\$10 million to secure for performance bond facilities. Nevertheless, the Group still had cash and bank balances of approximately HK\$21.8 million for its future expansion and development.

Business review and prospects

The Group is principally involved in the marketing, sale, servicing, research and development of environmental protection and quality health related products and services.

During the period under review, the contract entered into between the Group and the EPD in November 2002 for supply and installation of Eco-Green had been completed which led to significant decrease in the Group's turnover and net profit. However, leveraged on our branding strength in the field of environmental protection related products, our Group had successfully bid three new tenders issued by the EPD in April 2005. The three tenders were exclusively granted to the Group and were related to supply and installation of particulate removal devices to reduce particulates from the exhaust of pre-Euro emission standard diesel vehicles each of permitted gross vehicle weight over four tones that needs to undertake long idling duties. The operation of the new tenders is similar to the Eco-Green project and the first batch installation will be carrying out in next quarter. Based on the valuable experience of our previous product "Eco-Green", the Company expects promising orders for the coming two quarters which will significantly uplift both the Group's turnover and profit for the rest of this financial year.

In order to widen its sources of revenue and range of products and services provided, the Group had entered into a joint venture agreement to establish a sino-foreign joint venture company in Nanjing, the Mainland China, in March 2005 to seek for investment opportunities in waste water treatment business in Jiangsu Province and to promote the Group's environmental products such as Eco-Green, Eco-Air, Eco-Water and other environmental related solutions in the region. The registered capital of the joint venture company is Rmb5 million and the Company holds 50% interest. The registration of the joint venture company is in progress and hopes to be completed in next quarter.

As mentioned in the last quarterly results report, the Company's wholly-owned factory in Dongguang had already commenced its operation. Revenue of the factory mainly derived from provision of subcontract service to other industrial manufacturers. Following the enhancement of marketing efforts, more orders had been received and the production volume had been increasing during the past few months. The Group is optimistic that the factory will continue to record a reasonable growth in revenue in the coming quarters.

The Group's sale of industrial environmental protection products such as hydraulic components recorded a slight decrease for the second quarter ended 30 April 2005. Such decrease was mainly due to adverse impact of the austerity measures implemented by the Mainland China. However, the impact to the Company's PRC customers seemed to be eased as more purchase orders had been received by our Ningbo office since mid of April 2005.

Outlook

The Group will continue to develop new products and seek for new investment opportunities which will bring a good return to the Company as well as its shareholders. With the new tenders successfully bid and the increasing production volume of the Dongguan factory, the Directors are confident that the Group will achieve a satisfactory result for the rest of this financial 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 the placement, after deduction for relevant expenses, was approximately HK\$25,108,000. For the period under review, the Group financed its operations with its own available funding and did not have any bank loans. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

Treasury policies

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

Employee information

As at 30 April 2005, the Group had 45 employees (2004: 29 employees) working in Hong Kong and in the PRC. The total of employee remuneration, including that of the Directors and mandatory provident funds contributions, for the six months under review amounted to approximately HK\$3.11 million (2004: HK\$4.25 million). The dedication and hard work of the Group's staff during the six months ended 30 April 2005 are greatly appreciated and recognised.

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

Capital structure

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

Significant investments

In March 2005, the Group had entered into a joint venture agreement to establish a sino-foreign joint venture company in Nanjing, the Mainland China to seek for investment opportunities in waste water treatment business in Jiangsu Province and to promote the Group's environmental products in the region. The registered capital of the joint venture company is Rmb5 million and the Company holds 50% interest.

Save as disclosed above, the Group had no significant investments for the six months ended 30 April 2005.

Material acquisitions and disposals/future plans for material investments

The Group had no material acquisitions or disposals and has no plans for material investments or capital assets during the six months ended 30 April 2005.

Charge on group assets and contingent liabilities

As at 30 April 2005, the Group has pledged its bank deposits of approximately HK\$10 million to secure for the performance bond facilities (further details of which are set out in notes 11 and 14 above).

Save as aforesaid, the Group did not have any other significant contingent liabilities as at 30 April 2005.

Gearing ratio

As at 30 April 2005, the Group had cash and cash equivalents of approximately HK\$22 million (31 October 2004: HK\$30 million) and no bank borrowings. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 30 April 2005 (31 October 2004: Nil).

Exposure to fluctuations in exchange rates

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

For purchases of the Group denominated in currencies other than Hong Kong dollars, United States dollars or Renminbi, forward exchange contracts were used for hedging payment in certain volatile foreign currencies. As at 30 April 2005, the Group had outstanding hedging instruments amounted to approximately HK\$2.5 million (31 October 2004: Nil).

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

As at 30 April 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long positions in ordinary shares of the Company

| Number of shares held, capacity and nature of interest | | | |
|---|--|---------------------------------------|---|
| Name of Director | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital as at 30 April 2005 |
| Dr. PAU Kwok Ping (<i>Note</i>) | Through a discretionary trust | 16,584,000 | 3.00 |
| Mr. SHAH Tahir Hussain | Directly beneficially owned | 552,800 | 0.10 |
| | | 17,136,800 | 3.10 |

Note: The shares are held by Crayne Company Limited, a company wholly-owned by ING Trust Company (Jersey) Limited as trustee of the Crayne Trust which is a discretionary trust founded by Dr. PAU Kwok Ping.

Interest in underlying shares of the Company

Pursuant to a pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 21 November 2001, the Company had granted Pre-Scheme share options on the Company's ordinary shares to the executive Directors. Details of share options to subscribe for shares in the Company granted to the executive Directors as at 30 April 2005 were as follows:

| Name | Date of grant | Number of share options outstanding as at 30 April 2005 | Percentage of the Company's issued share capital as at 30 April 2005 | Exercise period of share options | Exercise price per share <i>HK\$</i> |
|-----------------------------------|---------------|---|--|----------------------------------|---|
| <i>Executive Directors</i> | | | | | |
| Dr. PAU Kwok Ping | 21/11/2001 | 27,640,000 | 5.00 | 5/12/2002 to 4/12/2005 | 0.01 |
| Mr. SHAH Tahir Hussain | 21/11/2001 | 13,820,000 | 2.50 | 5/12/2002 to 4/12/2005 | 0.01 |
| | | 41,460,000 | 7.50 | | |

None of the above-mentioned options granted under the Pre-Scheme have been exercised, cancelled or lapsed during the period under review.

On 21 November 2001, the shareholders of the Company adopted a share option scheme (the "Post-Scheme"), the principal terms of which were set out in the Prospectus. Details of share options to subscribe for shares in the Company granted under the Post-Scheme as at 30 April 2005 were as follows:

| Name | Date of grant | Number of share options outstanding as at 30 April 2005 | Percentage of the Company's issued share capital as at 30 April 2005 | Exercise period of share options | Closing price | Exercise price of share option |
|--|---------------|---|--|----------------------------------|--------------------------------------|--------------------------------|
| | | | | | immediately before the date of grant | |
| | | | | | HK\$ | HK\$ |
| Non-executive Directors | | | | | | |
| Dr. LUI Sun Wing | 21/3/2003 | 1,000,000 | 0.18 | 21/9/2003 to 20/9/2005 * | 0.245 | 0.28 |
| Mr. YOUNG Meng Cheung Andrew | 21/3/2003 | 1,000,000 | 0.18 | 21/9/2003 to 20/9/2005 * | 0.245 | 0.28 |
| Independent non-executive Directors | | | | | | |
| Ms. CHAN Siu Ping Rosa | 21/3/2003 | 500,000 | 0.09 | 21/9/2003 to 20/9/2005 * | 0.245 | 0.28 |
| Mr. TAKEUCHI Yutaka | 21/3/2003 | 500,000 | 0.09 | 21/9/2003 to 20/9/2005 * | 0.245 | 0.28 |
| | | 3,000,000 | 0.54 | | | |

* The options are vested in two exercisable periods as to (i) 50% exercisable on the expiry of 6 months from the date of grant; and (ii) 50% exercisable on the expiry of 12 months from the date of grant.

None of the options granted under the Post-Scheme have been exercised, cancelled or lapsed during the period under review.

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

| Name of Directors | Total number of ordinary shares held | Number of options held and outstanding as at 30 April 2005 | Aggregate in number | Percentage of the Company's issued share capital as at 30 April 2005 |
|------------------------------|---|---|--------------------------------|---|
| Dr. PAU Kwok Ping | 16,584,000 | 27,640,000 | 44,224,000 | 8.00 |
| Mr. SHAH Tahir Hussain | 552,800 | 13,820,000 | 14,372,800 | 2.60 |
| Dr. LUI Sun Wing | – | 1,000,000 | 1,000,000 | 0.18 |
| Mr. YOUNG Meng Cheung Andrew | – | 1,000,000 | 1,000,000 | 0.18 |
| Ms. CHAN Siu Ping Rosa | – | 500,000 | 500,000 | 0.09 |
| Mr. TAKEUCHI Yutaka | – | 500,000 | 500,000 | 0.09 |
| | 17,136,800 | 44,460,000 | 61,596,800 | 11.14 |

Save as disclosed above, as at 30 April 2005, none of the Directors and chief executives of the Company had registered an interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

As at 30 April 2005, the following persons or companies (other than the Directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

| Name | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital as at 30 April 2005 |
|---|---|--------------------------------|--|
| <i>Substantial shareholders</i> | | | |
| Cititrust (Cayman) Limited <i>(Note 1)</i> | Through a unit trust and controlled corporation | 299,341,200 | 54.15 |
| Wide Sky Management Limited <i>(Note 1)</i> | Through a controlled corporation | 299,341,200 | 54.15 |
| Team Drive Limited <i>(Note 1)</i> | Directly beneficially owned | 299,341,200 | 54.15 |
| The Hong Kong Polytechnic University <i>(Note 2)</i> | Through a controlled corporation | 80,680,800 | 14.59 |
| Advance New Technology Limited <i>(Note 2)</i> | Directly beneficially owned | 80,680,800 | 14.59 |
| <i>Other shareholder</i> | | | |
| Mr. LEE Wai Man | Directly beneficially owned | 35,620,000 | 6.44 |

Notes:

1. These shares are held by Team Drive Limited which is wholly-owned by Wide Sky Management Limited, being the trustee of a unit trust of which the entire issued units are held by Cititrust (Cayman) Limited, a discretionary trust founded by Dr. CHIANG Lily, who resigned as an executive Director and chairman of the Company with effect from 5 December 2004, and the beneficiaries of which are Dr. CHIANG Lily's children and certain charitable objects. By virtue of the SFO, Wide Sky Management Limited and Cititrust (Cayman) Limited are deemed to be interested in all the shares held by Team Drive Limited.
2. Advance New Technology Limited is a wholly-owned subsidiary of The Hong Kong Polytechnic University ("PolyU"). By virtue of its interest in Advance New Technology Limited, PolyU is deemed to be interested in all the shares of the Company held by Advance New Technology Limited.

Interest in underlying shares of the Company

| Name | Date of grant | Number of | Number of | Number of | Exercise price per share HK\$ |
|---|---------------|--|-------------------------------------|--|----------------------------------|
| | | ANT-Option outstanding as at 1 November 2004 | ANT-Option lapsed during the period | ANT-Option outstanding as at 30 April 2005 | |
| The Hong Kong Polytechnic University (Note 3) | 21/11/2001 | 13,820,000 | (13,820,000) | - | 0.2142 |
| Advance New Technology Limited (Note 3) | 21/11/2001 | 13,820,000 | (13,820,000) | - | 0.2142 |

Note:

3. On 21 November 2001, the Company granted the ANT-Option to Advance New Technology Limited as a reward to PolyU's continuing support and collaboration with the Group and for the purpose of enhancing a future co-operation relationship between PolyU and the Group. The ANT-Option was granted at a consideration of HK\$1.00 to subscribe for such number of shares that shall represent 2.5% of the then issued share capital of the Company immediately after completion of the initial placing of the Company's shares on GEM and the capitalization issue at an exercise price of HK\$0.2142 per share (equivalent to 90% of the issue price), which may be exercised at any time between the first and third anniversaries of the listing date of 5 December 2001. The ANT-Option lapsed on 4 December 2004 following the expiry of exercise period of share options.

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

OTHER OUTSTANDING SHARE OPTIONS

As at 30 April 2005, the following option for an aggregate of 55,280,000 shares granted under the Pre-Scheme remained outstanding.

| Name | Date of grant | Number of share options outstanding as at 30 April 2005 | Percentage of the Company's issued share capital as at 30 April 2005 | Exercise period of share options | Exercise price |
|-----------------|---------------|---|--|----------------------------------|----------------|
| | | | | | per share |
| | | | | | HK\$ |
| Dr. CHIANG Lily | 21/11/2001 | 55,280,000 | 10 | 5/12/2002 to 4/12/2005 | 0.01 |

Save as disclosed above, none of the other options granted under the Pre-Scheme and Post-Scheme have been exercised, cancelled or lapsed during the period under review.

DISCLOSURE OF TRADE RECEIVABLES UNDER CHAPTER 17 OF THE GEM LISTING RULES

Pursuant to Rules 17.15, 17.17 and 17.22 of the GEM Listing Rules, the following trade receivable of the Group as at 30 April 2005 exceeded 8% of the consolidated total asset value of the Group as at 30 April 2005 which amounted to approximately HK\$84,945,000.

| Customer | Amount due to the Group <i>HK\$'000</i> | Percentage of the unaudited consolidated total asset value of the Group as at 30 April 2005 |
|-----------------|---|--|
| The EPD | 6,987 | 8.2 |

The EPD is customer of the Group and is independent of, and is not connected with, the Company or its subsidiaries, the directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates (as defined in the GEM Listing Rules).

The amount due from the EPD was resulted from sales of the Group's product in its ordinary course of business and, in the opinion of the directors, on normal commercial terms. The amount is unsecured and interest free.

The EPD's repayment term is to pay the Group for its purchases in accordance with the contract signed with the Group (i.e. the EPD is required to pay (i) 80% of the invoice amount to the Group one month upon receiving the claims submitted by the Group; (ii) another 10% of the invoice amount to the Group three months after the invoice date; and (iii) the remaining 10% of the invoice amount to the Group after expiry of warranty period if no complaints are received from the qualified diesel vehicle owners after successful installations of the diesel oxidation catalyts).

Save for the above, there was no other advance which give rise to disclosure obligation under Rules 17.15, 17.17 and 17.22 of the GEM Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 April 2005. The Company had not redeemed any of its listed securities during the six months ended 30 April 2005.

COMPLIANCE WITH THE BOARD PRACTICES AND PROCEDURES

During the period under review, the Company complied with the Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices (the "Code") and Rules on Corporate Governance Report on 1 January 2005. The Code has become effective for accounting periods commencing on or after 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 October 2006.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 April 2005.

AUDIT COMMITTEE

The Company established an audit committee on 5 December 2001 with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises four members, Ms. CHAN Siu Ping Rosa, Mr. TAKEUCHI Yutaka, Professor NI Jun and Ms. HUI Wai Man Shirley, who are the independent non-executive Directors of the Company.

The Group's unaudited results for the six months ended 30 April 2005 have been reviewed by the audit 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.

As at the date of this announcement, the Directors are as follows:

Executive directors:

Dr. Pau Kwok Ping
Mr. Shah Tahir Hussain
Mr. Han Ka Lun

Non-executive directors:

Dr. Lui Sun Wing
Mr. Young Meng Cheung Andrew

Independent non-executive directors:

Ms. Chan Siu Ping Rosa
Mr. Takeuchi Yutaka
Professor Ni Jun
Ms. Hui Wai Man Shirley

By Order of the Board
Eco-Tek Holdings Limited
Pau Kwok Ping
Chairman

Hong Kong, 9 June 2005