



Half-year Report

For the six months ended 30 April 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”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 April 2002 together with the comparative figures as follows. The condensed consolidated interim financial statements have not been audited but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30 April		Six months ended 30 April	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
TURNOVER	4	5,589	4,015	10,501	12,022
Cost of sales		(3,071)	(1,172)	(4,233)	(3,052)
Gross profit		2,518	2,843	6,268	8,970
Other revenue	5	120	118	225	192
Selling expenses		(251)	(134)	(282)	(280)
Administrative expenses		(1,515)	(1,480)	(3,300)	(2,585)
PROFIT BEFORE TAX	6	872	1,347	2,911	6,297
Tax	7	(39)	(213)	(396)	(1,050)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		833	1,134	2,515	5,247
Dividends	8	—	—	—	—
RETAINED PROFIT		833	1,134	2,515	5,247
EARNINGS PER SHARE	9				
Basic (Hong Kong Cent)		0.15	0.27	0.48	1.27
Diluted (Hong Kong Cent)		0.13	N/A	0.40	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 April 2002 HK\$'000 (unaudited)	31 October 2001 HK\$'000 (audited)
NON-CURRENT ASSETS			
Fixed assets	10	592	617
Pledged deposit		1,000	1,000
		1,592	1,617
CURRENT ASSETS			
Inventories	11	671	439
Accounts receivable	12	5,318	1,646
Prepayments, deposits and other receivables	13	4,858	1,899
Cash and cash equivalents		30,648	9,821
		41,495	13,805
CURRENT LIABILITIES			
Accounts payable	14	3,633	249
Accrued liabilities and other payable		1,474	1,196
Tax payable		1,943	1,548
Amounts due to directors	15	–	4,015
		7,050	7,008
NET CURRENT ASSETS			
		34,445	6,797
		36,037	8,414
CAPITAL AND RESERVES			
Share capital	16	5,528	6
Reserves	17	30,509	8,408
		36,037	8,414

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital	Share premium	Capital reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 November 2000	6	–	95	92	193
Profit for the six months ended 30 April 2001	–	–	–	5,247	5,247
At 30 April 2001	<u>6</u>	<u>–</u>	<u>95</u>	<u>5,339</u>	<u>5,440</u>
At 1 November 2001	6	–	95	8,313	8,414
Issue of share capital	1,382	31,510	–	–	32,892
Capitalisation issue	4,140	(4,140)	–	–	–
Share issuance expenses	–	(7,784)	–	–	(7,784)
Profit for the six months ended 30 April 2002	–	–	–	2,515	2,515
At 30 April 2002	<u>5,528</u>	<u>19,586</u>	<u>95</u>	<u>10,828</u>	<u>36,037</u>

(Note 16) (Note 17) (Note 17) (Note 17)

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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

1 November 2001
to 30 April 2002
HK\$'000

NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(363)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	
Interest received	<u>170</u>
Net cash inflow from returns on investments and servicing of finance	<u>170</u>
TAX PAID	(1)
INVESTING ACTIVITIES	
Purchases of fixed assets	(72)
Increase in pledged deposit	<u>-</u>
Net cash outflow from investing activities	<u>(72)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(266)
FINANCING ACTIVITIES	
Increase in capital of subsidiaries	-
Net proceeds from listing of shares of the Company on the GEM	25,108
Repayment of amounts due to directors	<u>(4,015)</u>
Net cash inflow from financing activities	<u>21,093</u>
INCREASE IN CASH AND CASH EQUIVALENTS	20,827
Cash and cash equivalents at 1 November 2001	<u>9,821</u>
CASH AND CASH EQUIVALENTS AT 30 APRIL 2002	<u><u>30,648</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	7,387
Time deposit	<u>23,261</u>
	<u><u>30,648</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. 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 then 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.

2. 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 six months ended 30 April 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 six months ended 30 April 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 and consolidation.

3. Principal accounting policies

The accounting policies and basis of preparation adopted for the preparation of the interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 October 2001 except as described below.

Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange and with SSAP No. 2.125 “Interim financial reporting”.

In the current period, the Group has adopted, for the first time, SSAP No. 2.126 “Segment reporting”, which established principles for reporting the segmental analysis of financial information. Details are set out in Note 4.

4. Turnover and contribution to profit before tax from operating activities

Turnover represents the sales of general environmental protection related products and services as well as industrial environmental products like hydraulic filters and other related accessories.

Details of an analysis of the Group's turnover and contribution to profit before tax from operating activities by principal activity for the six months ended 30 April 2002 together with the comparative figures for the corresponding period in 2001 are as follows:

	Turnover		Contribution to profit before tax from operating activities	
	Six months ended 30 April		Six months ended 30 April	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
General environmental protection related products and services	5,733	12,022	1,287	6,193
Industrial environmental products like hydraulic filters and other related accessories	4,768	–	1,414	–
Interest Income	–	–	210	104
Total	<u>10,501</u>	<u>12,022</u>	<u>2,911</u>	<u>6,297</u>

5. Other revenue

	Three months ended 30 April		Six months ended 30 April	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest Income	120	95	210	104
Sundry Income	<u>–</u>	<u>23</u>	<u>15</u>	<u>88</u>
	<u>120</u>	<u>118</u>	<u>225</u>	<u>192</u>

6. Profit before tax

	Three months ended 30 April		Six months ended 30 April	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before tax is arrived at after charging:				
Depreciation	<u>38</u>	<u>21</u>	<u>75</u>	<u>39</u>

7. 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 periods under review. Overseas taxes have been accounted for in accordance with the applicable jurisdictions of the locations in which the Group operates.

8. Dividends

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 April 2002 (2001: nil).

9. Earnings per share

The calculation of basic earnings per share for the three months ended 30 April 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$833,000 (2001: approximately HK\$1,134,000) 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 six months ended 30 April 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$2,515,000 (2001: approximately HK\$5,247,000) and the weighted average number of approximately 528,366,851 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 six months ended 30 April 2001.

The calculation of the diluted earnings per share for the three months ended 30 April 2002 was based on the unaudited net profit attributable to shareholders for the three months ended 30 April 2002 and on a weighted average number of approximately 656,257,570 shares, being the 552,800,000 shares as used in the calculation of basic earnings per share, and the weighted average of approximately 103,457,570 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 six months ended 30 April 2002 was based on the unaudited net profit attributable to shareholders for the six months ended 30 April 2002 and on a weighted average number of approximately 632,166,706 shares, being the 528,366,851 shares as used in the calculation of basic earnings per share, and the weighted average of approximately 103,799,855 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 six months ended 30 April 2001 have not been calculated as no diluting events existed during both periods.

10. Fixed assets

	Motor vehicles	Office equipment	Plant and machinery	Furniture and fixtures	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At 1 November 2001	33	69	629	15	746
Additions	–	5	39	28	72
Disposals	–	–	(19)	(8)	(27)
At 30 April 2002	33	74	649	35	791
Accumulated depreciation:					
At 1 November 2001	8	10	109	2	129
Provided during the period	3	7	63	2	75
Disposals	–	–	(4)	(1)	(5)
At 30 April 2002	11	17	168	3	199
Net book value:					
At 30 April 2002	22	57	481	32	592
At 31 October 2001	25	59	520	13	617

11. Inventories

	30 April 2002 HK\$'000	31 October 2001 HK\$'000
Finished goods	671	439

No inventories were stated at net realisable value (31 October 2001: Nil).

12. Accounts receivable

The Group has a policy of allowing an average credit period of one to three months to its trade customers. An ageing analysis of accounts receivable is as follows:

	30 April 2002 HK\$'000	31 October 2001 HK\$'000
Within 30 days	4,840	1,646
121 – 150 days	478	–
	<u>5,318</u>	<u>1,646</u>

13. Prepayments, deposits and other receivables

	30 April 2002 HK\$'000	31 October 2001 HK\$'000
Margin deposits for trade financing	4,433	–
Other prepayments, deposits and other receivables	425	1,899
	<u>4,858</u>	<u>1,899</u>

14. Accounts payable

An ageing analysis of accounts payable is as follow:

	30 April 2002 HK\$'000	31 October 2001 HK\$'000
Within 30 days	3,615	77
31 – 60 days	–	154
61 – 90 days	–	5
181 – 360 days	5	13
Over 361 days	13	–
	<u>3,633</u>	<u>249</u>

15. Amounts due to directors

The amounts due to directors were unsecured, interest-free and were fully repaid before the end of November 2001.

16. Share capital

The following is a summary of movements in the authorised and issued share capital of the Company:

	Notes	Number of shares Ordinary shares of HK\$0.10 each '000	Number of shares Ordinary shares of HK\$0.01 each '000	Value HK\$'000
Authorised:				
On incorporation and at 31 October 2000 and at 31 October 2001	16(a)	1,000	–	100
Change of nominal value of shares from HK\$0.10 each to HK\$0.01 each	16(c)	(1,000)	10,000	–
Increase in authorised share capital	16(c)	–	4,990,000	49,900
At 5 December 2001, the listing date and at 30 April 2002		Nil	5,000,000	50,000
Issued and fully paid:				
Allotted, issued as nil paid	16(a), 16(b)	30	–	–
Change of nominal value of shares from HK\$0.10 each to HK\$0.01 each	16(c)	(30)	300	–
On acquisition of Eco-Tek (BVI)* – consideration shares issues	16(d)	–	300	3
– nil paid shares credited as fully paid	16(d)	–	–	3
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public by way of placement	16(e)	–	414,000	–
Pro forma share capital of the Group at 31 October 2001		Nil	414,600	6
Capitalisation of the share premium account as set out above	16(e)	–	–	4,140
New issue of shares	16(f)	–	138,200	1,382
At 5 December 2001, the listing date and at 30 April 2002		Nil	552,800	5,528

* Eco-Tek (BVI) stands for Eco-Tek (BVI) Investment Holdings Limited.

The following changes in the Company's authorised and issued share capital took place during the period from 6 December 2000 (date of incorporation) to the date of this report:

- (a) On 6 December 2000 (date of incorporation), the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, one share of which was allotted and issued nil paid on 6 December 2000. On 16 January 2001, 1,599 shares of HK\$0.1 each in the Company were allotted and issued nil paid. The shares was subsequently credited as fully paid as described in (d) below.
- (b) On 21 November 2001, 28,400 shares of HK\$0.10 each in the Company were allotted and issued nil paid. The said shares were subsequently credited as fully paid as described in (d) below.
- (c) Pursuant to a written resolution of all shareholders of the Company passed on 21 November 2001, by means of a sub-division of share capital, the par value to the shares of the Company was reduced from HK\$0.10 each to HK\$0.01 each, and each of the issued share of HK\$0.10 each in the capital of the Company was sub-divided into ten shares. Pursuant to a further written resolution of the Company passed on 21 November 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by the creation of an additional 4,990,000,000 shares of HK\$0.01 each.
- (d) On 21 November 2001, the Company acquired the entire share capital of Eco-Tek (BVI) and became the holding company of the Group in exchange for the Company's allotted and issued 300,000 shares of HK\$0.01 each, credited as fully paid, and credited as fully paid another 300,000 nil paid shares held by the shareholders for acquisition of the entire issued share capital of Eco-Tek (BVI).
- (e) Pursuant to written resolutions of the Company passed on 21 November 2001, the conditions of the share placement set out in the Prospectus being fulfilled, an aggregate of 414,000,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK\$4,140,000 from the share premium account arising from the share placement (the "Placing"), to the then existing shareholders of the Company in proportion to their respective shareholding.
- (f) Pursuant to the listing on the GEM on 5 December 2001, the Company issued 138,200,000 shares of HK\$0.01 each at HK\$0.238 per share to the public by way of the Placing.

17. 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 six months ended 30 April 2001	<u>–</u>	<u>–</u>	<u>5,247</u>	<u>5,247</u>
At 30 April 2001	<u>–</u>	<u>95</u>	<u>5,339</u>	<u>5,434</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 six months ended 30 April 2002	<u>–</u>	<u>–</u>	<u>2,515</u>	<u>2,515</u>
At 30 April 2002	<u>19,586</u>	<u>95</u>	<u>10,828</u>	<u>30,509</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.

18. Contingent liabilities

A performance bond facility of HK\$1,000,000 (the "Performance Bond") has been granted by a banker in favor of the Group. In the event of default by the Group in the performance of the services detailed in the tender contract offered by the Government of the Hong Kong Special Administrative Region (the "Government") for the supply and installation of devices to reduce particulates from relevant exhaust of diesel light vehicles, 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 the amount of HK\$1,000,000. The banker has the right of recourse to the Group. The aforesaid performance bond facility was secured by the Group's pledged bank deposit of HK\$1,000,000.

Save as aforesaid, the Group did not have any other significant contingent liabilities at 30 April 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

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 an unaudited turnover of approximately HK\$10,501,000 for the six months ended 30 April 2002, representing a decrease of 13% as compared that of about HK\$12,022,000 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 in fact anticipated such situation and had prepared other new products like hydraulic filters, diesel oxidation catalysts, soundproof barrier and waste plastic recycling process in its pipeline. For the six months ended 30 April 2002, turnover relating to industrial environmental products like hydraulic filters and other related accessories accounted for almost 45% of the total and it is anticipated that this business segment will constitute a stable income stream in the days to come.

The Group reported an unaudited gross profit of approximately HK\$6,268,000 at a margin of 60% for the six months ended 30 April 2002 compared with an unaudited gross profit of around HK\$8,970,000 at a margin of 75% for the corresponding period in the previous year. Decrease in gross profit can be accounted for by a decrease in turnover and a change in product mix towards a lower gross profit margin. Details of segmental analysis on turnover and contribution to profit before tax have been set out in Note 4 under the section of “Notes to the condensed financial statements”.

Administrative expenses for the six months under review increased to about HK\$3,300,000 from about HK\$2,585,000 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 payroll.

Due to the net effect of the above, the net profit from ordinary activities attributable to shareholders for the six months under review decreased from about HK\$5,247,000 to about HK\$2,515,000 for the same period in the previous year, while the net profit margins also adjusted downwards from 44% to 24%.

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, details of which have been set out under the section of "Comparison of implementation plans with actual progress for the period from 21 November 2001 to 30 April 2002". In addition, the Group has also started the product development of water filtration systems, which are expected to have market potentials on the one hand and have the effect of strengthening our product base on the other. Concrete steps have also been taken to explore markets of such kind in the PRC and Taiwan. The Group has set up, in this regard, a representative office in Beijing, 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 should have more opportunities for future growth. We remain confident in the performance of the coming quarters through the Group's continued dedication and efforts.

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. The Group intends to apply these proceeds in the manner disclosed in the Prospectus dated 27 November 2001. For the period under review, the Group financed its operations with its own available fundings 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.

Employee information

Currently, the Group has 17 employees working in Hong Kong and in the PRC. The total of employee remuneration, including that of the directors and provident contributions, for the six months under review amounted to approximately HK\$2,400,000. The Group remunerates 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 under which he or she 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. Such 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 by the Company on 21 November 2001, the Company had granted pre-IPO share options on the Company's ordinary shares in favor 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 on change in the capital structure of the Company since that date.

Significant investments

For the six months ended 30 April 2002, the Group had no significant investments.

Material acquisitions and disposals/future plans for material investments

The Group had no material acquisitions or disposals during the six months ended 30 April 2002. It has no plans for material investments or capital assets other than those set out in the Prospectus dated 27 November 2001.

Segmental information

Details have been set out in Note 4 under “Notes to the condensed financial statements” and further elaborated under “Business review” of this section.

Charge on group assets and contingent liabilities

The Performance Bond of HK\$1,000,000 has been granted by a banker in favor 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.

For the six months ended and as at 30 April 2002, such 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 30 April 2002.

Gearing ratio

As at 30 April 2002, the Group had cash and cash equivalents of around HK\$30,648,000 in its current assets while its current liabilities stood at around HK\$7,050,000. The Group did not have any long-term debts as of 30 April 2002 and its shareholders’ funds amounted to about HK\$36,037,000. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders’ funds) as of 30 April 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 of 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 were no outstanding foreign currency positions as of 30 April 2002 other than United States dollars and the Group did not have outstanding hedging instruments as at 30 April 2002.

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS FOR THE PERIOD FROM 21 NOVEMBER 2001 TO 30 APRIL 2002

ACTIONS TO BE TAKEN

Eco-Trap

- (a) continue to provide cleaning services for contaminated filter cartridges of *Eco-Trap* in Hong Kong
- (b) initiate marketing efforts for promoting *Eco-Trap* and targeting at private diesel car owners in Hong Kong who are not eligible for grants to install vehicle particulate reduction devices under the Voluntary Installation and Subsidy Program (“Non-subsidised Private Diesel Car Owners”) by direct advertisement and organized sales campaigns in the service stations of Caltex
- (c) commence designing of production process of *Eco-Trap* for in-house production
- (d) redesign and modify *Eco-Trap* for in-house production

ACTUAL PROGRESS

Eco-Trap

- (a) contaminated filter cartridges of *Eco-Trap* are collected from service stations of Caltex for centralized cleaning services
- (b) marketing efforts of *Eco-Trap* had been taken like participating in Clean Air Exhibition held in March 2002
- (c) commenced in January 2002 and completed in April 2002
- (d) commenced in January 2002 and completed in April 2002

ACTIONS TO BE TAKEN**Diesel oxidation catalysts**

- (a) complete testing of the Group's diesel oxidation catalyst in accordance with the initial specifications specified by the relevant government authorities in Hong Kong
- (b) decide whether to purchase or to produce the Group's diesel oxidation catalyst. If the diesel oxidation catalyst is decided to be produced by the Group, the Group will start designing the production process in relation thereto
- (c) modify the design of the Group's diesel oxidation catalyst according to test result
- (d) apply and obtain the efficiency certificate for the Group's diesel oxidation catalyst specified by the relevant government authorities in Hong Kong
- (e) introduce the Group's diesel oxidation catalyst for heavy diesel vehicles in Hong Kong
- (f) continue with or, where appropriate, conclude the negotiation with the relevant government authorities in Hong Kong on the use of diesel oxidation catalysts for diesel heavy vehicles in Hong Kong under the program proposed to be launched by the Hong Kong government
- (g) identify other sales opportunities for the Group's diesel oxidation in Hong Kong

ACTUAL PROGRESS**Diesel oxidation catalysts**

- (a) completed in April 2002
- (b) decided to purchase diesel oxidation catalyst from one of the shortlisted overseas vendors at a competitive price
- (c) major modifications will not be required given specifications will be more or less the same
- (d) in progress to apply an efficiency certificate from an independent body recognised by the relevant government authorities in Hong Kong
- (e) 3 diesel oxidation catalysts have been installed for introductory purpose at the end of 2001
- (f) negotiation is under progress and the tender exercise will be tentatively started in August 2002
- (g) discussions with a potential customer in the manufacturing of electric generator are under progress for installing diesel oxidation catalysts in their machinery

ACTIONS TO BE TAKEN**ACTUAL PROGRESS****Hydraulic filters****Hydraulic filters**

- | | |
|---|--|
| (a) continue the design and research and development of pressure line filter | (a) engineering drawings were completed in April 2002 |
| (b) recruit 1 engineer for the design, modification and customer service of hydraulic filters | (b) 1 engineer has been recruited for this purpose |
| (c) complete the design of the pressure line filter, start producing prototype by contractor and carry out field tests for the pressure line filter in Taiwan | (c) design completed with prototype under production in the PRC, field test is expected to be performed in July 2002 |
| (d) appoint 1 distributor for the Group's suction filter and return line filter in the U.S. | (d) due to economic downturn in the U.S., business is quite sluggish and new distributor is still under identification, which will take 6 to 9 months time |

ACTIONS TO BE TAKEN

Soundproof barrier

- (a) continue negotiation with the relevant government authorities in Hong Kong on the use of the Group's soundproof barrier
- (b) commence the research and development of the Group's soundproof barrier using the ASE technology and carrying out modification work to cater for environment in Hong Kong
- (c) identify other sales opportunities for soundproof barrier in Hong Kong
- (d) test ASE by independent consultant

Waste plastic recycling process

- (a) commence the feasibility study and negotiation with the relevant government authorities in Hong Kong on the use of the Group's proposed waste recycling process
- (b) continue with feasibility study and negotiation with the government authorities in Hong Kong on the use of the Group's proposed waste recycling process

ACTUAL PROGRESS

Soundproof barrier

- (a) has planned to install prototype in Hong Kong for testing by relevant interested parties including government authorities
- (b) research and development commenced in March 2002 and modification work will be carried out upon testing results are obtained
- (c) has promoted to some of the major potential customers in Hong Kong
- (d) will be tested by independent consultant once trial order is received

Waste plastic recycling process

- (a) negotiations are under way with relevant government authorities and private sector for introducing the use of the Group's proposed waste recycling process in Hong Kong
- (b) refer (a) above

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES FOR THE PERIOD FROM 21 NOVEMBER 2001 TO 30 APRIL 2002

The actual net proceeds from issuance of new shares in December 2001 was around HK\$25,108,000 as compared to the budgeted net proceeds of HK\$23,800,000 in the Prospectus dated 27 November 2001. The surplus of about HK\$1,308,000 will be utilized for general working capital purpose. Details of the utilization of fundings from the actual net proceeds of issuance of new shares versus that envisaged in the Prospectus are as follows:

	Proposed total fundings required from net proceeds	Proposed fundings required during the period	Actual fundings spent during the period
	HK\$'000	HK\$'000	HK\$'000
For product and service developments			
<i>Eco-Trap</i>	2,000	400	368
Diesel oxidation catalysts	1,800	400	285
Hydraulic filters	1,000	300	282
Soundproof barrier	4,000	600	435
Waste plastic recycling process	1,000	–	–
	9,800	1,700	1,370
For setting up of the Group's production facilities in the PRC			
	7,000		–
For general working capital of the Group			
	7,000		–
	23,800		1,370

Given the proposed government program with regard to the installation of diesel oxidation catalysts in heavy diesel vehicles in Hong Kong has been deferred to the end of 2002 and the overall global economy had experienced a downturn after September 2001, the Group has continued to implement tight cost control measures and uphold some of the proposed expenditures, the result of which was a lower actual spending when compared to that envisaged in the Prospectus dated 27 November 2001.

As of 31 October 2001, the Group had cash and cash equivalents of HK\$9,821,000 and it used its internally generated funds as its working capital during the six months ended 30 April 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30 April 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

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

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

Save as disclosed above, no person, other than the directors of the Company whose interests are set out below, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance as at 30 April 2002.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 April 2002, the interests of the directors and the chief executive of the Company in the share capital of the Company or its associated corporations as recorded in the register of the Company required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of listed issuer as referred to in rule 5.40 of the GEM Listing Rules are set out below:

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

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

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

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

Name of director	Number of share 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 30 April 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 30 April 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 30 April 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 two members, Mr. CHENG Ming Fun Paul and Dr. WOON Yi Teng Eden, who are independent non-executive directors of the Company. The Group's unaudited results for the three months and six months ended 30 April 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

By Order of the Board

Pau Kwok Ping

Managing Director

Hong Kong, 10 June 2002