



Interim Report

For the six months ended 30 April 2003



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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 2003 amounted to approximately HK\$35.9 million, representing an increase of approximately 242% over the corresponding period in the last financial year. Significant increase in turnover is mainly due to expansion of operations in the People's Republic of China (the "PRC") and successful bidding of 4 tenders issued by the Environmental Protection Department ("EPD") of the Government of the Hong Kong Special Administrative Region (the "Government").
- Net profit attributable to shareholders for the six months ended 30 April 2003 amounted to approximately HK\$4.2 million (2002: approximately HK\$2.5 million) which represented approximately 67% increase as compared to last corresponding period.
- Basic and diluted earnings per share for the six months ended 30 April 2003 amounted to approximately HK0.76 cent (2002: HK0.48 cent) and HK0.65 cent (2002: HK0.40 cent) respectively.

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 2003 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 (the “Audit Committee”).

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 30 April		Six months ended 30 April	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
TURNOVER	2	22,985	5,589	35,877	10,501
Cost of sales		(13,951)	(3,071)	(22,992)	(4,233)
Gross profit		9,034	2,518	12,885	6,268
Other revenue		56	120	186	225
Selling expenses		(541)	(251)	(982)	(282)
Administrative expenses		(4,471)	(1,515)	(6,660)	(3,300)
PROFIT BEFORE TAX	4	4,078	872	5,429	2,911
Tax	5				
– Hong Kong		(653)	(39)	(947)	(396)
– Elsewhere		(238)	–	(274)	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		3,187	833	4,208	2,515
Dividends	6	–	–	–	–
EARNINGS PER SHARE	7				
Basic (Hong Kong Cent)		0.58	0.15	0.76	0.48
Diluted (Hong Kong Cent)		0.49	0.13	0.65	0.40

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	As at 30 April 2003 HK\$'000	As at 31 October 2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	8	755	568
Pledged bank deposits	12	7,200	1,000
Long-term receivables	9	637	–
		8,592	1,568
CURRENT ASSETS			
Inventories	10	14,944	4,511
Accounts receivable	11	20,778	11,066
Prepayments, deposits and other receivables		1,318	328
Pledged bank deposits	12	16,599	10,651
Cash and cash equivalents	12	4,595	25,119
		58,234	51,675
CURRENT LIABILITIES			
Accounts and bills payable	13	22,138	12,758
Accrued liabilities and other payable		1,979	1,551
Provision for warranty	14	1,086	322
Tax payable		1,824	755
Amounts due to Directors	15	–	330
		27,027	15,716
NET CURRENT ASSETS			
		31,207	35,959
		39,799	37,527
CAPITAL AND RESERVES			
Share capital		5,528	5,528
Reserves		34,271	31,999
		39,799	37,527
		39,799	37,527

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 April 2003 HK\$'000	Six months ended 30 April 2002 HK\$'000 (Restated)
CASH USED IN OPERATING ACTIVITIES	----- (5,912)	----- (364)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(12,347)	98
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	<u>(2,265)</u>	<u>21,093</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(20,524)	20,827
CASH AND CASH EQUIVALENTS AT 1 NOVEMBER	<u>25,119</u>	<u>9,821</u>
CASH AND CASH EQUIVALENTS AT 30 APRIL	<u>4,595</u>	<u>30,648</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,595	7,387
Time deposits	23,799	28,694
Less: Pledged time deposits with maturity over three months	<u>(23,799)</u>	<u>(5,433)</u>
	<u>4,595</u>	<u>30,648</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital	Share Premium	Capital Reserve	Exchange Reserve	Retained Profits	Proposed Dividend	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 November 2001	6	-	95	-	8,313	-	8,414
New issue of share	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>-</u>	<u>10,828</u>	<u>-</u>	<u>36,037</u>
At 1 November 2002	5,528	19,586	95	-	10,383	1,935	37,527
Dividend approved in respect of previous year	-	-	-	-	-	(1,935)	(1,935)
Exchange differences	-	-	-	(1)	-	-	(1)
Profit for the six months ended 30 April 2003	-	-	-	-	4,208	-	4,208
At 30 April 2003	<u>5,528</u>	<u>19,586</u>	<u>95</u>	<u>(1)</u>	<u>14,591</u>	<u>-</u>	<u>39,799</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Principal accounting policies and basis of preparation

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have also complied with the applicable disclosure provisions of GEM Listing Rules. The measurement basis used in the preparation of the financial statements is historical cost.

The accounting policies and basis of preparation adopted for the preparation of the condensed interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 October 2002 except that the Group has adopted SSAP 34 “Employee benefits” which prescribes the accounting and disclosure for employee benefits. However, this SSAP has no major impact on the condensed consolidated interim financial statements of the Group.

2. Turnover

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

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	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	6,597	5,733	29,280	4,768	35,877	10,501
Other revenue	5	15	97	–	102	15
Total	<u>6,602</u>	<u>5,748</u>	<u>29,377</u>	<u>4,768</u>	<u>35,979</u>	<u>10,516</u>
Segment results	<u>170</u>	<u>1,287</u>	<u>5,748</u>	<u>1,414</u>	<u>5,918</u>	2,701
Interest income					84	210
Unallocated expenses					(573)	–
Profit before tax					5,429	2,911
Tax					(1,221)	(396)
Net profit from ordinary activities attributable to shareholders					<u>4,208</u>	<u>2,515</u>

	General environmental protection related products and services		Industrial environmental products		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	18,801	32,797	47,162	9,521	65,963	42,318
Unallocated assets					863	769
Total assets					66,826	43,087
Segment liabilities	3,162	2,974	23,678	3,762	26,840	6,736
Unallocated liabilities					187	314
Total liabilities					27,027	7,050
Other segment information:						
Depreciation and amortisation	87	75	9	–	96	75
Capital expenditure	274	72	9	–	283	72
Loss on disposal of fixed assets	–	22	–	–	–	22
Increase in provision for warranty	764	142	–	–	764	142

(b) *Geographical segments*

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

	Hong Kong		Elsewhere in the PRC		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	<u>11,497</u>	<u>10,501</u>	<u>22,836</u>	<u>-</u>	<u>1,544</u>	<u>-</u>	<u>35,877</u>	<u>10,501</u>
Segment results	<u>1,354</u>	<u>2,708</u>	<u>4,259</u>	<u>-</u>	<u>305</u>	<u>-</u>	<u>5,918</u>	<u>2,708</u>
Other segment information:								
Segment assets	<u>53,551</u>	<u>43,087</u>	<u>13,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,826</u>	<u>43,087</u>
Capital expenditure	<u>274</u>	<u>72</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283</u>	<u>72</u>

4. **Profit before tax**

	Three months ended 30 April		Six months ended 30 April	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

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

Cost of inventories sold	13,951	3,071	22,992	4,233
Depreciation of fixed assets	51	38	96	75
Minimum lease payments under operating leases on land and buildings	143	75	255	166
Research and development costs	117	-	192	-
Provision for warranty	764	17	764	142
Interest income	(25)	(120)	(84)	(210)

5. Tax

Hong Kong profits tax has been provided at the proposed rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period under review. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling at the relevant countries.

No deferred tax liability has been recognized in the financial statements in respect of the estimated assessable profits.

6. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 April 2003 (2002: nil).

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 April 2003 was based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$3,187,000 (2002: approximately HK\$833,000) and the number of 552,800,000 ordinary shares (2002: 552,800,000 shares) in issue during the period.

The calculation of basic earnings per share for the six months ended 30 April 2003 was based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$4,208,000 (2002: approximately HK\$2,515,000) and the weighted average number of approximately 552,800,000 ordinary shares (2002: 528,366,851 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the three months ended 30 April 2003 was based on the unaudited consolidated net profit attributable to shareholders of HK\$3,187,000 (2002: HK\$833,000) and the weighted average number of 649,332,700 ordinary shares in issue (2002: 656,257,570 shares) after adjusting for the effects of all dilutive potential ordinary shares.

The calculation of diluted earnings per share for the six months ended 30 April 2003 was based on the unaudited consolidated net profit attributable to shareholders of HK\$4,208,000 (2002: HK\$2,515,000) and the weighted average number of 650,556,747 ordinary shares in issue (2002: 632,166,706 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	Three months ended 30 April 2003		Six months ended 30 April 2003	
	Number of shares	2002 Number of shares	Number of shares	2002 Number of shares
Weighted average number of ordinary shares used in calculating basis earnings per share	552,800,000	552,800,000	552,800,000	528,366,851
Deemed issue of ordinary shares for no consideration	96,532,700	103,457,570	97,756,747	103,799,855
Weighted average number of ordinary shares used in calculating diluted earnings per share	649,332,700	656,257,570	650,556,747	632,166,706

8. Fixed assets

	Motor vehicles HK\$'000	Office equipment HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost:					
At 1 November 2002	33	101	649	69	852
Additions	–	167	12	104	283
At 30 April 2003	33	268	661	173	1,135
Accumulated depreciation:					
At 1 November 2002	14	27	233	10	284
Provided during the period	3	15	65	13	96
At 30 April 2003	17	42	298	23	380
Net book value:					
At 30 April 2003	16	226	363	150	755
At 31 October 2002	19	74	416	59	568

9. Long-term receivables

The amount represents trade receivables from EPD in respect of the supply and installation of diesel oxidation catalysts on qualified heavy diesel vehicles. The amount will be received by the Group if there is no complaint from the vehicle owners unresolved at the expiry of the warranty period which is sixty months from the date of installation.

10. Inventories

	30 April 2003	31 October 2002
	HK\$'000	HK\$'000
Stocks in transit	1,404	–
Finished goods	13,540	4,511
	<u>14,944</u>	<u>4,511</u>

As at 30 April 2003, no inventories were stated at net realisable value (31 October 2002: Nil).

11. Accounts receivable

The Group has a policy of allowing an average credit period of 90 days to its trade customers. An ageing analysis of accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	30 April 2003	31 October 2002
	HK\$'000	HK\$'000
Within 90 days	16,522	7,166
91 – 180 days	2,889	3,704
181 – 365 days	1,367	196
	<u>20,778</u>	<u>11,066</u>

12. Cash and cash equivalents and pledged deposits

	30 April 2003	31 October 2002
	HK\$'000	HK\$'000
Cash and bank balances	4,595	10,894
Time deposits	23,799	25,876
	28,394	36,770
Less: Pledged for the issuance of letters of credit and bills facilities	(16,599)	(10,651)
Pledged for performance bond facilities	(7,200)	(1,000)
Cash and cash equivalents	4,595	25,119

As at 30 April 2003, the Group has pledged its bank deposits of approximately HK\$16.6 million (31 October 2002: approximately HK\$10.7 million) and HK\$7.2 million (31 October 2002: HK\$1.0 million) to secure for the issuance of letters of credit and bills facilities granted to the Group and performance bond facilities, respectively (further details of which are set out in Note 16 of the financial statements).

13. 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 2003	31 October 2002
	HK\$'000	HK\$'000
Within 90 days	15,809	8,944
91 – 180 days	3,543	3,387
181 – 365 days	2,786	413
More than 1 year	–	14
	22,138	12,758

14. Provision for warranty

	30 April 2003	31 October 2002
	HK\$'000	HK\$'000
At beginning of the period/year	322	500
Increase/(decrease) in provision for the period/year	764	(178)
	<hr/> 1,086 <hr/>	<hr/> 322 <hr/>
At end of the period/year	1,086	322

During the periods under review, the Group provided a warranty of a free replacement of diesel particulate traps to the eligible vehicle owners for claims which are caused by improper installation, up to a period of five years from the date of installation. 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 profit and loss account in the period in which the related sales are made. The level of provision required is assessed by the Directors periodically and an adjustment is made if necessary.

15. Amounts due to Directors

The amounts due to Directors are unsecured, interest-free and repayable on demand. The amounts were fully repaid by the Group before 30 April 2003.

16. Contingent liabilities

Performance bond facilities of approximately HK\$7.2 million (the "Performance Bonds") have been granted by bankers 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 Government for the supply and installation of devices to reduce particulates from relevant exhaust of diesel vehicles, the Government is entitled to call for payment from the bankers to satisfy and discharge any damages, losses or expenses sustained by the Government up to the amount of approximately HK\$7.2 million. The bankers 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\$7.2 million as at 30 April 2003.

Save as aforesaid, the Group did not have any other significant contingent liabilities at 30 April 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the periods under review, the Group reported a turnover of approximately HK\$23.0 million and HK\$35.9 million for the three and six months ended 30 April 2003, representing 311% and 242% increase as compared to the same periods last year respectively. The soar in turnover was mainly due to increase in demand on the Group's industrial environment protection related products such as hydraulic filters, suction filters and return line filters in the Greater China Region and successful bidding of four tenders issued by the EPD of the Government in November 2002 which encouraged qualified vehicle owners to adopt products that reduce vehicle emissions (the "Eco-Green Project"). The Eco-Green Project commenced to generate revenue to the Group in January this year.

The administrative expenses for the three and six months ended 30 April 2003 increased by approximately 195% and 102% as compared to the corresponding periods last year respectively. The increase was mainly attributable to prudent provision made for doubtful debts of trade debtors from sales of industrial environment protection related products and for warranty of the Eco-Green Project which amounted to approximately HK\$1,368,000 and HK\$764,000 respectively in the second quarter this year. If these two factors were ignored, the net increase in administrative expenses for the three and six months ended 30 April 2003 would have been only 54% and 37% respectively as compared to the last corresponding periods.

The profit attributable to shareholders also increased by 283% and 67% for the three and six months ended 30 April 2003 respectively as compared to last corresponding periods.

The source of finance of the Group was primarily from the initial placing proceeds and internally generated funds. As at 30 April 2003, the Group has pledged its bank deposits of approximately HK\$16.6 million and HK\$7.2 million to secure for trade bills facilities granted to the Group and performance bond facilities, respectively. Nevertheless, the Group still had cash and bank balances of approximately HK\$4.6 million for its future expansion and development.

Business review and prospects

The Group is principally engaged in the development, sales and marketing of general and industrial environmental protection related products and other related accessories and services. In November 2002, the Group had successfully bid four tenders issued by EDP which were related to the supply and installation of particulate removal devices or diesel oxidation catalyst which employed gas exhaust filtration technology to reduce exhaust particulates under pre-euro emission standard to those qualified diesel vehicles (over four tons). The Eco-Green Project has been commenced since January 2003 and will last for 21 months. The Directors expect the Eco-Green Project is able to contribute a steady income to the Group in the coming quarters.

Apart from the Eco-Green Project, the sale of industrial environment protection products also contributed a substantial portion of income to the Group during the periods under review. The products are widely used in the industrial and construction sectors. Revenue derived from the sales of the products represented a substantial growth as compared to the same periods last year. Such increase was primarily attributable to the establishment of our PRC offices in Ningbo and Beijing and these products had obtained the users' recognition and successfully penetrated into the PRC markets.

The Group have conducted various tests on the quality of soundproof barrier in The Hong Kong Institute of Vocational Education in March 2003 and the Group is working on the modification according to the test results. The progress is satisfactory.

In addition, the Group also commenced to develop water purification system and air purification system which not only developed for the industrial users but also for the domestic users. The Group will conduct sales promotion once the products are ready.

Outlook

The Group is well positioned in the market for future opportunities. Promising orders from the Eco-Green Project and sales of industrial environmental related products in the coming quarters are expected. With solid financial position, the Group will continue its prudent approach in its business development and in search for potential investments in both Hong Kong and the PRC.

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 of the Company dated 27 November 2001 (the "Prospectus"). For the periods 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.

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 2003, the Group had 21 employees (2002: 17 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\$2,979,000 (2002: approximately HK\$2,400,000). The dedication and hard work of the Group's staff during the six months ended 30 April 2003 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

For the six months ended 30 April 2003, 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 2003. It has no plans for material investments or capital assets other than those set out in the Prospectus.

Charge on group assets and contingent liabilities

As at 30 April 2003, the Group has pledged its bank deposits of approximately HK\$16.6 million and approximately HK\$7.2 million to secure for the issuance of letters of credit and bills facilities granted to the Group and performance bond facilities, respectively (further details of which are set out in Notes 12 and 16 of the financial statements).

Save as aforesaid, the Group did not have any other significant contingent liabilities as at 30 April 2003.

Gearing ratio

As at 30 April 2003, the Group had cash and cash equivalents of approximately HK\$4,595,000 (31 October 2002: approximately HK\$25,119,000) 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 2003 (31 October 2002: Nil).

Exposure to fluctuations in exchange rates

Sales of the Group are denominated either in Hong Kong dollars or United States dollars and the exchange rate of United States dollars has been stable for the periods 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 at 30 April 2003 other than United States dollars and the Group did not have outstanding hedging instruments as at 30 April 2003.

COMPARISON OF IMPLEMENTATION PLANS WITH ACTUAL PROGRESS FOR THE PERIOD FROM 1 NOVEMBER 2002 TO 30 APRIL 2003

Business objectives as stated in the Prospectus *Actual business progress*

Eco-Trap

1. Continue to promote the use of Eco-Trap and the related cleaning services to non-subsidised private car owners in Hong Kong

2. Conduct study on the possibility of replacing the stainless metallic fibrous elements in Eco-Trap with any other materials for easy cleaning

Eco-Trap

The Group launched a promotional sales for the replacement of cartridges in March 2003

New materials were used but the results were not satisfactory. The Group will continue to search for more suitable materials

Diesel oxidation catalysts

1. If the relevant contract is granted to the Group, continue to sell the Group's diesel oxidation catalyst in Hong Kong under the program launched by the Government in relation to the use of diesel oxidation catalysts for diesel heavy vehicles

2. Initiate marketing efforts for promoting the Group's diesel oxidation catalyst and targeting at diesel heavy vehicle owners who are not entitled to assistance provided by the Government under the above program

Diesel oxidation catalysts

The Group had successfully bid the contract in November 2002 and the diesel oxidation catalysts were installed by 21 sub-contractors and the Group's own workshop

Promotions have been made by the Group's salesmen to heavy vehicle owners such as forklift users from time to time. In March 2003, sales promotion was conducted to the Hong Kong Dumper Truck Drivers Association

*Business objectives as stated in the Prospectus**Actual business progress*

3. Provide training to installers to maintain the diesel oxidation catalyst for cost reduction purpose
4. Conduct study on the possibility of modifying the diesel oxidation catalyst for cost reduction purpose

The installers received the Group's training from time to time

New models of the diesel oxidation catalysts were developed in March and April 2003 for Volvo and Mitsubishi vehicles

Hydraulic filters***Hydraulic filters***

1. Continue to develop the markets in Hong Kong, the PRC, Taiwan and United States of America ("USA")
2. Conduct research on the hydraulic filter market in Europe

Working closely with distributors in the PRC, Taiwan and Hong Kong and still looking for potential distributor in USA

Contacted potential distributors in Europe who agreed to carry out market research on behalf of the Group

Soundproof barrier***Soundproof barrier***

1. Continue with negotiation with the relevant government authorities in Hong Kong on the use of the Group's soundproof barrier
2. Continue with research and development of the Group's

Promotions have been made to Kowloon-Canton Railway Corporation and MTR Corporation Limited

Various tests on the quality of the soundproof barrier have been conducted and the Group is modifying the design according to the test results

Business objectives as stated in the Prospectus

Actual business progress

Waste plastic recycling process

Waste plastic recycling process

1. Continue with negotiation with the relevant government authorities in Hong Kong on the use of the Group's waste plastic recycling process

2. Continue with the research and development of the Group's waste plastic recycling process

Negotiation with the Government has been slow done due to recent outbreak of severe acute respiration syndrome and the Government's policy for the recycled material is not favorable to this technology

The Group's engineers are working on a method to increase the effectiveness of the technology

Other development

Other development

1. Complete establishment of the production facilities in the PRC

2. Recruit 2 managing staff and 2 engineering staff for the production facilities

3. Commence operation of the production facilities which are expected to support monthly production of:
 - 1,000 pieces of Eco-Traps

 - 500 pieces of diesel oxidation catalysts

 - 1,000 pieces of hydraulic filters

The commencement of the Eco-Green Project has been delayed by more than 6 months and therefore the whole plan has been postponed accordingly. However, the Group has commenced to search for a site for setting up the production facilities in the PRC

Ditto

Ditto

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES FOR THE PERIOD FROM 5 DECEMBER 2001 TO 30 APRIL 2003

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. The surplus of about HK\$1,308,000 has been 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 during the period from 5 December 2001 to 30 April 2003 (the "Period") are as follows:

	Proposed total fundings required from net proceeds HK\$'000	Proposed fundings required during the Period HK\$'000	Actual fundings spent during the Period HK\$'000
For product and service developments			
Eco-Trap	2,000	1,200	1,123
Diesel oxidation catalysts	1,800	1,300	1,266
Hydraulic filters	1,000	900	871
Soundproof barrier	4,000	1,700	1,671
Waste plastic recycling process	1,000	200	117
	<u>9,800</u>	<u>5,300</u>	<u>5,048</u>
For setting up of the Group's production facilities in the PRC			
	7,000	7,000	–
For general working capital of the Group			
	7,000	–	–
	<u>23,800</u>	<u>12,300</u>	<u>5,048</u>

As at 30 April 2003, the Group had cash and cash equivalents and pledged bank deposits of approximately HK\$28,394,000 and it used its internally generated funds as its working capital during the six months ended 30 April 2003.

Unused proceeds are mainly kept as pledged bank deposits as disclosed in Notes 12 and 16 above and the Directors believe that the net proceeds will be sufficient for future business objectives as stated in the Prospectus.

SUBSTANTIAL SHAREHOLDERS

As at 30 April 2003, the following persons had an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of other members of the Group.

Name	Number of shares held	Percentage of holding
Dr. Chiang Lily	299,341,200 (Note 1)	54.15%
Peace City Development Limited	299,341,200 (Note 1)	54.15%
Team Drive Limited	299,341,200 (Note 1)	54.15%
The Hong Kong Polytechnic University	89,000,800 (Note 2)	16.10%
Advance New Technology Limited	89,000,800 (Note 2)	16.10%
Mr. Lee Wai Man	35,620,000	6.44%

Notes:

- These shares are held by Team Drive Limited which is a wholly owned subsidiary of Peace City Development Limited, a company of which the entire issued shares are beneficially owned by Dr. Chiang Lily. Pursuant to Section 347 of Part XV of the SFO, Dr. Lily Chiang and Peace City Development Limited is deemed to be interested in all the shares held by Team Drive Limited. The shareholding of Dr. Chiang Lily is duplicated in the section headed “Directors’ Interest in Shares” below.
- Advance New Technology Limited is a wholly owned subsidiary of The Hong Kong Polytechnic University (“HKPU”). By virtue of its interest in Advance New Technology Limited, HKPU is deemed to be interested in its entire issued shares of 89,000,800.

On 21 November 2001, the Company granted the ANT-Option to Advance New Technology Limited as a reward to HKPU's continuing support and collaboration with the Group and for the purpose of enhancing a future co-operation relationship between HKPU 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 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 equivalent to 90% of the issue price of the Company, which may be exercised at any time between the first and third anniversaries of the listing date.

The exercise in full of the ANT-Option would, under the present capital structure of the Company, result in the issue of 13,820,000 additional shares of HK\$0.01 each. No ANT-Option was exercised up to the date of approval of these financial statements.

Save as disclosed above, as at 30 April 2003, there was no person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital.

DIRECTORS' INTERESTS IN SHARES

As at 30 April 2003, the interest of the Directors in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to

Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

1. Interest in shares of the Company

Name of Directors	Number of shares beneficially held		Total
	Personal interests	Corporate interests	
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 a wholly owned subsidiary of Peace City Development Limited, a company of which the entire issued shares are beneficially owned by Dr. Chiang Lily.

2. Interest in share options of the Company

Pursuant to a pre-IPO share option scheme (the “Pre-IPO Scheme”) adopted by the Company on 21 November 2001, the Company had granted pre-IPO 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 2003 were as follows:

Executive Directors

Name	Date of grant	Number of share options outstanding		Exercise period	Exercise price per share HK\$
		as at 30/4/2003			
Dr. Chiang Lily	21/11/2001	55,280,000		5/12/2002 to 4/12/2005	0.01
Dr. Pau Kwok Ping	21/11/2001	27,640,000		5/12/2002 to 4/12/2005	0.01
Mr. Shah Tahir Hussain	21/11/2001	13,820,000		5/12/2002 to 4/12/2005	0.01
			<u>96,740,000</u>		

None of the options granted under the Pre-IPO Scheme have been exercised, cancelled or lapsed during the period from the date of grant of such options to 30 April 2003.

On 21 November 2001, the shareholders of the Company adopted a share option scheme (the "Post-IPO Scheme"), the principal terms of which were set out in the Prospectus. On 21 March 2003, share options to subscribe for an aggregate of 4,000,000 shares were granted under the Post-IPO Scheme to the following non-executive Directors and independent non-executive Directors:

Name	Date of grant	Number of share options outstanding as at 30/4/2003	Exercise period	Closing price	Exercise price
				immediately before the date of grant	per share
				HK\$	HK\$
<i>Non-executive Directors</i>					
Dr. Lui Sun Wing	21/3/2003	1,000,000	21/9/2003 to 20/9/2005 *	0.245	0.28
Mr. Young Meng Cheung Andrew	21/3/2003	1,000,000	21/9/2003 to 20/9/2005 *	0.245	0.28
<i>Independent non-executive Directors</i>					
Dr. Woon Yi Teng Eden	21/3/2003	1,000,000	21/9/2003 to 20/9/2005 *	0.245	0.28
Ms. Chan Siu Ping Rosa	21/3/2003	500,000	21/9/2003 to 20/9/2005 *	0.245	0.28
Mr. Takeuchi Yutaka	21/3/2003	500,000	21/9/2003 to 20/9/2005 *	0.245	0.28
		4,000,000			

- * The options are vested in 2 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 options granted under the Post-IPO Scheme have been exercised, cancelled or lapsed during the period from the date of granted to 30 April 2003.

Save as disclosed above, as at 30 April 2003, none of the Directors had any interest or short positions in any shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

VALUATION OF SHARE OPTIONS

The options granted are not recognized in the financial statements until they are exercised. The Directors consider that it is not appropriate to state the value of the share options granted during the six months ended 30 April 2003 on the ground that a number of variables which are crucial to the valuation of the option value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company was listed on 5 December 2001 and up to 30 April 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

COMPETING INTERESTS

As at 30 April 2003, 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

Celestial Capital Limited ("CCL") has been appointed as the continuing sponsor of the Company for the purpose of the GEM Listing Rules. Pursuant to the sponsorship agreement dated 26 November 2001 entered into between the Company and CCL, for a fee, CCL acts as the Company's continuing sponsor for the period up to 31 October 2004.

As updated and notified by CCL, CCL, its directors, employees and associates (as defined in the GEM Listing Rules), as at 30 April 2003, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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.

AUDIT COMMITTEE

As required by Rules 5.23 and 5.24 of the GEM Listing Rules, the Company has established the Audit Committee with written terms of reference which deal clearly with its authority and duties. The Audit Committee's principal duties are to review and supervise the Company's financial reporting process and internal control systems. The Audit Committee comprises of four members, Ms. Chan Siu Ping Rosa, Dr. Woon Yi Teng Eden, Mr. Takeuchi Yutaka and Professor Ni Jun who are independent non-executive Directors.

The Group's unaudited results for the six months ended 30 April 2003 had been reviewed by the Audit Committee and with an opinion that the preparation of such results had already complied with the applicable accounting standards and requirements and adequate disclosures had been made accordingly.

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

Hong Kong, 12 June 2003