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INDEBTEDNESS

Borrowings

At the close of business on 30 September 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had no outstanding bank borrowings. During the period from 27 October 1999 (being the date of incorporation of Eco-Tek, the major operating company of the Group, which has been taken as the commencement date of active business pursuits and date of establishment of the Group) to 30 September 2001, the Group did not obtain or utilise any other banking facilities. As at 30 September 2001, the amounts due to directors were HK\$4,015,000, which had been settled in November 2001.

Contingent liabilities

A performance bond of HK\$1,000,000 (“Performance Bond”) was granted from a banker in favour of the Group to secure the performance of the Group under the contract entered into by the Group pursuant to the Tender. In the event of default of the performance of the services under contract in relation to the Tender, the Hong Kong government is entitled to call for payment from the banker to satisfy and discharge any damages, losses or expenses sustained by the Hong Kong government up to an amount of HK\$1,000,000. The banker has the right of recourse from the Group.

Save as aforesaid, the Group had no other significant contingent liabilities as at 30 September 2001.

Security

Prior to 27 March 2001, the Performance Bond of the Group was secured by the deposit of HK\$1,000,000 (“Deposit”) pledged by Dr. Lily Chiang, a Director of the Company.

As confirmed by the Directors, the Group did not give any fee nor provide any security to Dr. Lily Chiang in return for the pledge of the Deposit. The Deposit was released and replaced by the Group’s deposit of HK\$1,000,000 on 27 March 2001.

Disclaimer

Save as aforesaid or as otherwise disclosed in this prospectus, and apart from intra-group liabilities, the Group did not, at the close of business on 30 September 2001, have any outstanding loan capital issued and outstanding indebtedness, or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

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No material adverse change

The Directors have confirmed that there have been no material changes in the indebtedness commitments and contingent liabilities of the companies comprising the Group since 30 September 2001.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital structure

As at 30 September 2001, the Group had net assets of approximately HK\$8.3 million comprising fixed assets of approximately HK\$0.6 million, a pledged deposit of HK\$1.0 million and net current assets of approximately HK\$6.7 million, which comprised inventories of approximately HK\$0.2 million, accounts receivable of approximately HK\$3.5 million, other receivables, prepayments and deposits of approximately HK\$1.7 million and cash and cash equivalents of approximately HK\$8.9 million, net of accounts payable of approximately HK\$0.4 million, other payables and accrued liabilities of approximately HK\$1.7 million, amounts due to Directors of approximately HK\$4.0 million and tax payable of approximately HK\$1.5 million.

Capital Commitments

As at 30 September 2001, the Group had no significant capital commitments.

Financial resources, borrowings and banking facilities

The Group generally finances its operations with internally generated resources and amounts due to directors and does not have any banking facilities.

Foreign exchange exposure and hedging instruments

Since all transactions of the Group are denominated in Hong Kong dollars or US dollars and the exchange rates of such currencies have been stable for the period under review, no hedging or other alternatives have been implemented.

As at 30 September 2001, the Group did not have outstanding hedging instruments.

Directors' opinion on the working capital position

The Directors are of the opinion that, after taking into consideration the existing financial resources available to the Group including internally generated funds and the estimated net proceeds of the Placing (assuming the Over-allotment Option is not exercised), the Group has sufficient resources to meet its foreseeable capital expenditure and working capital requirements.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, the Directors were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

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TRADING RECORD

The following table is a summary of the audited combined results of the Group for the period from 27 October 1999 (being the date of establishment of the Group) to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001. The summary is prepared on the assumption that the current structure of the Group had been in place throughout the period under review and should be read in conjunction with the accountants' report, the text of which is set out in Appendix I to this prospectus.

		Period from 27 October 1999 to 31 October 1999	Year ended 31 October 2000	Nine months ended 31 July 2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(1)	–	1,621	16,906
Cost of sales		–	(421)	(4,254)
Gross profit		–	1,200	12,652
Other income		–	–	387
Selling expenses		–	(51)	(416)
Administrative expenses		–	(1,057)	(4,077)
Profit before tax		–	92	8,546
Tax		–	–	(1,366)
Net profit from ordinary activities attributable to shareholders		–	92	7,180
Dividends		–	–	–
Earnings per share:				
Basic	(2)	–	0.02 cents	1.73 cents
Diluted	(3)	–	0.02 cents	1.41 cents

Notes:

1. Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. Turnover generated from the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program represented 100% and 96% of the Group's total turnover for the year ended 31 October 2000 and nine months ended 31 July 2001, respectively.

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2. The calculation of basic earnings per Share for the year ended 31 October 2000 and for the nine months ended 31 July 2001 are based on the net profit from ordinary activities attributable to shareholders of the Company for the year ended 31 October 2000 and for the nine months ended 31 July 2001 and on the 414,600,000 Shares deemed to have been in issue, comprising 600,000 Shares in issue and 414,000,000 Shares to be issued pursuant to the Capitalisation Issue, as described more fully in the paragraph headed “Written resolutions of all shareholders of the Company passed on 21 November 2001” under the section headed “Statutory and general information” in Appendix IV to this prospectus.
3. The calculation of diluted earnings per Share for the year ended 31 October 2000 and for the nine months ended 31 July 2001 are based on the net profits from ordinary activities attributable to shareholders of the Company for the year ended 31 October 2000 and the nine months ended 31 July 2001 and on 508,691,167 Shares, being the 414,600,000 Shares as used in the calculation of basic earnings per Share, and the weighted average of 94,091,167 Shares assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Share Options and the ANT-Option as set out in Appendix IV to this prospectus.

For the purpose of calculating diluted earnings per share, the fair value of Shares assumed to have been issued upon exercise of these options is determined as the mid-point of the stated Issue Price range of HK\$0.24 per Share in respect of the Company’s initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of ordinary Shares for no consideration.

The SFC has granted a waiver in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule of the Companies Ordinance and the Stock Exchange has granted a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules so that the Group is only required to include in this prospectus the trading record, financial results and information covering the period from 27 October 1999 to 31 October 1999, the year ended 31 October 2000 and the nine months ended 31 July 2001. Please refer to the paragraphs headed “Financial periods” and “Companies Ordinance waiver” respectively under the section headed “Waivers from compliance with the GEM Listing Rules and the Companies Ordinance” in this prospectus for details of such waivers.

The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed in this prospectus, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 1 August 2001, and there is no event which would materially affect the information shown in the accountants’ report of the Group as set out in Appendix I to this prospectus.

Period from 27 October 1999 to 31 October 1999

Since the Group did not generate any income or incur any costs during the period, no results were recorded accordingly.

Year ended 31 October 2000

The Group recorded a turnover of about HK\$1.6 million for the year ended 31 October 2000. It was attributable to the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program. The administrative expenses for the year ended 31 October 2000 amounted to about HK\$1.1 million which consisted mainly directors’

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remuneration (which is also classified as the research and development costs), and staff salaries. The net profit after tax attributable to shareholders of the Company was HK\$92,000. Gross profit margin and net profit margin for that year were about 74% and 6% respectively.

Nine months ended 31 July 2001

The Group recorded a turnover of about HK\$16.9 million for the nine months ended 31 July 2001. It was also mainly attributable to the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program which accounted for 96% of the Group's total turnover. The remaining 4% of the Group's total sales mainly represented direct sales of filter cartridges and adaptors to the vehicles owners. The administrative expenses for the nine months ended 31 July 2001 amounted to about HK\$4.1 million. The net profit after tax attributable to shareholders of the Company was about HK\$7.2 million. Gross profit margin and net profit margin for the period were about 75% and 42% respectively.

Since the sales and installation of *Eco-Trap* in Hong Kong commenced in September 2000, the turnover for the year ended 31 October 2000 only represented approximately one month sales transaction. Due to the extensive advertising campaigns conducted by the Hong Kong government in relation to the Voluntary Installation and Subsidy Program, more eligible vehicles owners participated in the Voluntary Installation and Subsidy Program. Accordingly, the turnover for the nine months ended 31 July 2001 was increased dramatically in comparison with that for the year ended 31 October 2000. Besides, the Group consistently engaged independent contractors to undertake the mass production of *Eco-Traps* during the periods. Accordingly, the Group's gross profit margin remained steady during the period under review. Moreover, administrative expenses represented primarily directors' remuneration (which is also classified as the research and development costs) and staff salaries. During the year ended 31 October 2000 and the nine months ended 31 July 2001, selling expenses amounted to about HK\$0.05 million and about HK\$0.4 million primarily comprised advertising and promotional expenses and travelling expenses. Increase in administrative expenses for the nine months ended 31 July 2001 is mainly attributable to the employment of additional staff, including a director, Dr. Pau, and an accountant/financial controller, during the period. Due to the net effect of the above, the net profit margin for the nine months ended 31 July 2001 therefore increased significantly.

During the period from 27 October 1999 to 31 March 2001, the Group shared an office with E1 Media Technology Limited ("E1 Media"), a related company of the Company in which Dr. Lily Chiang has a beneficial interest. In return, E1 Media charged a management fee, including the portion of operating lease rentals and other overheads shared by the Group, of HK\$20,000 per month. Accordingly, nil operating rentals were recorded by the Group for the year ended 31 October 2000. The transaction was terminated on 31 March 2001. During the year ended 31 October 2000 and the nine months ended 31 July 2001, the management fee paid by the Group to E1 Media amounted to HK\$140,000 and HK\$100,000.

In January 2001, the Group entered into a tenancy agreement with an independent third party for the Group's factory and general office for a term of 1 year commenced from 9 January 2001 and expiring on 8 January 2002 at a monthly rental of HK\$42,000.

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Taxation

The principal taxation liabilities of the Group are Hong Kong profits tax.

Hong Kong profits tax has not been provided as the Group did not generate any estimated assessable profits arising in Hong Kong during the period from 27 October 1999 to 31 October 1999 and the year ended 31 October 2000. Hong Kong profits tax has been provided at the rate of 16% on estimated assessable profits arising in Hong Kong during the nine months ended 31 July 2001.

ADJUSTED NET TANGIBLE ASSETS

The following is a statement of adjusted net tangible assets of the Group which is based on the combined net assets of the Group as at 31 July 2001 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	<i>HK\$'000</i>
Audited net assets of the Group as at 31 July 2001	7,373
Combined net profit after tax of the Group for the two months ended 30 September 2001 based on unaudited management accounts of companies now comprising the Group	904
Estimated net proceeds of the Placing (<i>Note 1</i>)	<u>23,800</u>
Adjusted net tangible asset	<u><u>32,077</u></u>
Adjusted net tangible asset value per Share (<i>Note 2</i>)	<u><u>5.80 cents</u></u>

Notes:

- (1) The estimated net proceeds of the Placing is based on the minimum point of the stated price range of HK\$0.23 per Share and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated additional net proceeds payable to the Company will be approximately HK\$4.8 million.
- (2) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 552,800,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the ANT-Option or any options granted or which may be granted under the Share Option Schemes or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed "Written resolutions of all shareholders of the Company passed on 21 November 2001" under the section headed "Statutory and general information" in Appendix IV to this prospectus. Upon the exercise of the ANT-Option and the Pre-IPO Share Options in full, 13,820,000 Shares and 96,740,000 Shares will be issued at aggregate considerations of approximately HK\$2.9 million and HK\$1.0 million, respectively. The adjusted net tangible asset value per Share will be 5.41 cents, on the basis of 663,360,000 Shares expected to be in issue immediately after the completion of the

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Placing and the Capitalisation Issue and upon the exercise of the ANT-Option and the Pre-IPO Share Options, based on the minimum point of the stated price range of HK\$0.23 per Share. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value of the Group and the adjusted net tangible asset value per Share will be about HK\$36.8 million and 6.42 cents, respectively, based on the minimum point of the stated price range of HK\$0.23 per Share. The adjusted net tangible asset value per Share will be 5.95 cents, on the basis of 684,090,000 Shares expected to be in issue immediately after the completion of the Placing and the Capitalisation Issue and upon the exercise of the Over-allotment Option, the ANT-Option and the Pre-IPO Share Options, based on the minimum point of the stated price range of HK\$0.23 per Share.

PROPERTY INTERESTS

As at the Latest Practicable Date, the property leased by the Group is situated at Flat B, Ground Floor, Fu Hop Factory Building, Nos. 209 and 211, Wai Yip Street, Kowloon, Hong Kong. Details of this property is set out in Appendix II to this prospectus.

Chesterton Petty Limited, an independent property valuer, has valued the above property interests of the Group as at 31 October 2001 as having no commercial value to the Group. Details of the valuation report together with the valuation certificate from Chesterton Petty Limited are set out in Appendix II to this prospectus.

DIVIDEND POLICY

The Directors currently do not expect to recommend payment of any dividends for the two years ending 31 October 2002. The amount of any dividends to be declared in the future will depend on, among other things, the Company's results of operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends (if any) will be paid in around July and February of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

DISTRIBUTABLE RESERVES

As at 31 July 2001, the Company had no reserve available for distribution to the shareholders of the Company.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 July 2001.