



ECO-TEK HOLDINGS LIMITED

環康集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

PRELIMINARY RESULTS ANNOUNCEMENT

For the year ended 31 October 2001

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.

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

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* For the purpose of identification only

HIGHLIGHTS

- Turnover increased from approximately HK\$1.6 million to approximately HK\$20.1 million.
- Net profit from ordinary activities attributable to shareholders increased from approximately HK\$0.1 million to approximately HK\$8.2 million.
- To retain cashflow for future development, the board of directors of Eco-Tek Holdings Limited does not recommend the payment of a final dividend for the year ended 31 October 2001.

FINAL RESULTS

The board of directors (the “Board”) of Eco-Tek Holdings Limited (the “Company”) is pleased to announce the audited pro forma combined profit and loss account of the Company and its subsidiaries (collectively referred to as the “Group”) which was legally formed on 21 November 2001 subsequent to the year end date of 31 October 2001 (Notes 1 and 2).

| | | Pro Forma Combined Profit and Loss Account Year ended 31 October | |
|---|--------------|---|---------------------|
| | | 2001 | 2000 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| TURNOVER | 3 | 20,144 | 1,621 |
| Cost of sales | | (4,792) | (421) |
| Gross profit | | 15,352 | 1,200 |
| Other revenue | 3 | 470 | – |
| Selling expenses | | (468) | (51) |
| Administrative expenses | | (5,585) | (1,057) |
| PROFIT BEFORE TAX | 4 | 9,769 | 92 |
| Tax | 5 | (1,548) | – |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 6 | 8,221 | 92 |
| Dividends | 7 | – | – |
| RETAINED PROFIT | | <u>8,221</u> | <u>92</u> |
| EARNINGS PER SHARE | 8 | | |
| Basic | | <u>HK1.98 cents</u> | <u>HK0.02 cents</u> |
| Diluted | | <u>HK1.62 cents</u> | <u>HK0.02 cents</u> |

Other than the net profit from ordinary activities attributable to shareholders, the Group had no recognised gains or losses. Accordingly, no separate pro forma combined statement of recognised gains and losses is presented.

Notes:

1. Group reorganisation and basis of presentation

The Company

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. On incorporation, the Company had authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, of which 1 share and 1,599 shares were allotted and issued nil paid on 6 December 2000 and 16 January 2001, respectively. Apart from the foregoing, no other transactions were carried out by the Company during the period from 6 December 2000 (date of incorporation) to 31 October 2001. Accordingly, the Company did not have any profits and losses for the period.

Group reorganisation

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

Basis of presentation

The Group Reorganisation involved companies under common control. Because the Group Reorganisation took place on 21 November 2001, according to the Statement of Standard Accounting Practice (“SSAP”) No. 2.127 “Accounting for Group Reconstructions”, the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group’s financial statements commencing the year ending 31 October 2002. Nevertheless, for the benefit of shareholders, pro forma combined financial statements for the current year and the related notes thereto have been presented in these financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of acquisition of the subsidiaries on 21 November 2001. The pro forma combined results of the Group for the years ended 31 October 2000 and 2001 include the results of the Company and its subsidiaries with effect from 27 October 1999 or since their respective dates of incorporation, where this is a shorter period. As disclosed in the Prospectus dated 27 November 2001, since the Group did not generate any income or incur any costs during the period from 27 October 1999 to 31 October 1999, both days inclusive, no results were recorded accordingly for the said period.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group Reorganisation had not been completed and accordingly, the Group did not legally exist until 21 November 2001, in the opinion of the directors, the presentation of such pro forma combined financial statements prepared on the aforesaid basis is necessary to apprise the Company’s shareholders of the Group’s results and its state of affairs as a whole.

2. Corporate information

Had the Group Reorganisation been completed on 27 October 1999 (pro forma formation date of the Group) and had the Group been in existence since that date, the Group's principal activities would have been involved in the marketing, sales, servicing, research and development of environment protection related products and services carried out in Hong Kong during the period from 27 October 1999 (pro forma formation date of the Group) to 31 October 2001.

In the opinion of the directors, had the Group Reorganisation been completed on 27 October 1999 (pro forma formation date of the Group) and had the Group been in existence since that date, the ultimate holding company of the Company as at 31 October 2001 would have been Peace City Development Limited, a company incorporated in Hong Kong with limited liability.

3. Turnover and revenues

| | Year ended 31 October | |
|---|-----------------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Sales of environmental protection related products and services | <u>20,144</u> | <u>1,621</u> |
| Other revenues | | |
| Interest income | 269 | – |
| Sponsorship | 101 | – |
| Sundry incomes | <u>100</u> | – |
| | <u>470</u> | <u>–</u> |

No analysis of the Group's pro forma combined turnover and its contribution to profit before tax by principal activities for the year ended 31 October 2001 are presented as more than 90% of the Group's turnover and profit before tax related to sales of environmental protection related products and services in Hong Kong.

4. Profit before tax

The Group's profit before tax is arrived at after charging :

| | Year ended 31 October | |
|--|-----------------------|------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 4,792 | 421 |
| Depreciation of fixed assets | 120 | 9 |
| Operating lease rentals in respect of land and buildings | 417 | – |
| Research and development costs | 1,320 | 100 |
| Auditors' remuneration | 300 | 100 |
| Staff costs, excluding directors' emoluments | | |
| Wages and salaries | 2,037 | 335 |
| Retirement scheme contributions | 111 | – |
| Management fee paid to a related company | <u>100</u> | <u>140</u> |

The cost of inventories sold for the year ended 31 October 2001 included HK\$152,000 (2000: HK\$54,000), relating to direct staff costs and depreciation, which were also included in the respective total amounts disclosed separately above for each of these types of expenses for respective years.

The research and development costs for the year ended 31 October 2001 amounted to HK\$1,320,000 (2000: HK\$100,000) which were related to directors' emoluments.

A management fee of HK\$240,000 was paid to E1 Media Technology Limited, a related company of the Company in which Dr. Chiang Lily, an executive director of the Company, has a beneficial interest, at HK\$20,000 per month from April 2000 to March 2001 inclusive. The management fee was charged with reference to the costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads. The directors of the Company have confirmed that the charging of such management fee was terminated after March 2001.

No segmental analysis on turnover and contributions by operating activity is provided as the Group was only engaged in the marketing, sales, servicing, research and development of environmental protection related products and services.

No geographical analysis on turnover and contributions by operating activity is provided as all business was considered to be derived and transacted in Hong Kong.

5. Tax

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Hong Kong profits tax has not been provided for the year ended 31 October 2000 as the Group did not generate any estimated assessable profits arising in Hong Kong during the year.

At 31 October 2001, the Group had unprovided deferred tax liabilities of HK\$67,000 (2000: HK\$14,000), which represented accelerated depreciation allowances.

6. Reserves

| | Capital reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|---------------------------------|
| At 1 November 1999 | (6) | – | (6) |
| Increase in capital of subsidiaries | 101 | – | 101 |
| Profit for the year | – | 92 | 92 |
| | <hr/> | <hr/> | <hr/> |
| At 31 October 2000 and 1 November 2000 | 95 | 92 | 187 |
| Profit for the year | – | 8,221 | 8,221 |
| | <hr/> | <hr/> | <hr/> |
| At 31 October 2001 | <u>95</u> | <u>8,313</u> | <u>8,408</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 issues as consideration in exchange therefor.

7. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group since their respective dates of incorporation.

8. Earnings per share

The pro forma basic earnings per share for the year is calculated based on the pro forma combined net profit attributable to shareholders of the Company for the year of HK\$8,221,000 (2000: HK\$92,000) and on 414,600,000 shares (2000: 414,600,000 shares) deemed to have been issued and issuable during the year on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 414,000,000 shares of the Company had been effective on 27 October 1999 (pro forma formation date of the Group).

The calculation of the pro forma diluted earnings per share for the year ended 31 October 2000 and 31 October 2001 are based on the pro forma combined net profit attributable to shareholders of the Company for the year ended 31 October 2000 and 31 October 2001 and on 508,657,294 shares, being the 414,600,000 shares as used in the calculation of pro forma basic earnings per share, and the weighted average of 94,057,294 shares assumed to have been issued at no consideration on the deemed exercise of the pre-IPO share options and the option granted to Advance New Technology Limited.

For the purpose of calculating pro forma diluted earnings per share, the fair value of the shares assumed to have been issued upon the deemed exercise of these options was determined as the issue price of HK\$0.238 per share in respect of the Company's placement 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation review

For the year under review, the Group's turnover increased to approximately HK\$20.1 million as compared to approximately HK\$1.6 million in the previous year, representing an increase of 12.6 times. It was attributable to the sales and installation of *Eco-Trap* in Hong Kong under the Voluntary Installation and Subsidy Program (the "Program") launched by the Hong Kong SAR Government (the "Government"). Since the Program commenced only in September 2000 and as more eligible vehicles owners participated in the Program starting 2001, the turnover for the year under review increased, accordingly, dramatically in comparison with that in the previous year.

Given the Group consistently engaged independent contractors to undertake the mass production of *Eco-Traps* during the years under review, the Group's gross profit margin remained steady at around 75% during the years under review.

The administrative expenses for the year under review amounted to about HK\$5.6 million whereas that for last year was about HK\$1.1 million. Administrative expenses represented primarily directors' and staff remuneration and such increase for the year under review was mainly attributable to the employment of additional staff. During the year under review and

the previous year, selling expenses amounted to about HK\$0.5 million and about HK\$0.1 million respectively, which were primarily comprised of advertising and promotional expenses, and traveling expenses.

Due to the net effect of the above, the net profit from ordinary activities attributable to shareholders of the Company therefore increased, for the two years under comparison, from about HK\$0.1 million to about HK\$8.2 million while the net profit margin also increased from about 6% to about 41%.

Use of net proceeds from listing

The Company was listed on the GEM of The Stock Exchange on 5 December 2001 through a placement of 138,200,000 shares. The net proceeds from such placement after deduction of the relevant expenses incurred were approximately HK\$25 million. The Group intends to apply such net proceeds for its promotion and marketing activities of existing product, research and development of future products, setting up of its production facilities in the People's Republic of China (the "PRC") and additional general working capital. As of the date of this announcement, the Group has not spent any of the proceeds from the abovementioned share offer and such proceeds are placed on short-term deposits with a bank in Hong Kong. The directors intend to use the net proceeds in the manner as disclosed in the Prospectus dated 27 November 2001.

Financial position

For the year under review, the Group financed its operations with its own working capital and advances from the directors and did not have any bank borrowings. As at 31 October 2001, the Group had total assets of approximately HK\$15.4 million, including cash and bank balances of approximately HK\$9.8 million. Amounts due to directors as at 31 October 2001 were approximately HK\$4.0 million and they were repaid in full in November 2001. Taking into consideration the existing financial resources available to the Group including internally generated funds and the net proceeds from listing, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

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

As at 31 October 2001, the Group did not have any outstanding hedging instruments.

Contingent liability and charge on group asset

A performance bond facility ("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.

Prior to 27 March 2001, such Performance Bond was secured by a deposit of HK\$1,000,000 pledged by Dr. Chiang Lily, an executive director of the Company. On 27 March 2001, the Group received a consent from the relevant banker to aforesaid pledged deposit being released and replaced by the Group's pledged bank deposit of the same amount.

Save as above, the Group did not have any other contingent liabilities as at 31 October 2001.

Employees

As at 31 October 2001, the Group had 17 full-time employees. The total of employee remuneration, including that of the directors, for the year under review and last year amounted respectively to about HK\$4.2 million and HK\$0.8 million. 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 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 have been granted under the post-IPO share option scheme.

Outlook

The Group has formulated major business strategies and implementation plans for the development of new innovative environmental protection related products and services, like diesel oxidation catalysts, soundproof barrier, etc. and the development of new markets, like the PRC and the Taiwan markets. Details of such business strategies and implementation plans can be found in the Prospectus dated 27 November 2001. Leveraging on the success in the development and commercialisation of *Eco-Trap* in Hong Kong and together with the extensive experience and technical expertise of the Group's management team, the directors are confident that the Group can achieve its objective to become one of the leading providers of environmental protection related products and services in Hong Kong and in other overseas markets.

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.

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 Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 5 December 2001.

AUDIT COMMITTEE

The Company established an audit committee on 21 November 2001 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control 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 audited results for the year ended 31 October 2001 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, 16 January, 2002