



Kanstar Environmental Technology Holdings Limited
建星環保科技控股有限公司
(Incorporated in the Cayman Islands with limited liability)

Kanstar



INTERIM REPORT 2 0 0 2



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of Kanstar Environmental Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

HIGHLIGHTS

- Turnover increased by approximately 77 times over the corresponding period in the previous year to approximately HK\$6.9 million for the six months ended 30 June 2002.
- Loss attributable to shareholders decreased by approximately 61% compared to the corresponding period in the previous year to approximately HK\$610,000 for the six months ended 30 June 2002.
- The Directors do not declare any interim dividend for the six months ended 30 June 2002.
- Successfully listed on the GEM of the Stock Exchange on 12 July 2002.

INTERIM RESULTS

The board of directors (the "Board") of Kanstar Environmental Technology Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 June 2002, together with the comparative unaudited figures for the corresponding periods in 2001, as set out below:

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Notes	(unaudited) Three months ended 30 June		(unaudited) Six months ended 30 June	
		2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Turnover	2	4,993,453	89,985	6,934,572	89,985
Cost of sales		(4,770,029)	(94,109)	(6,601,313)	(94,109)
Gross profit (loss)		223,424	(4,124)	333,259	(4,124)
Other revenue		11,703	28,490	11,491	51,075
Selling and distribution expenses		(69,294)	(1,781)	(143,950)	(1,781)
Administrative expenses		(372,572)	(793,134)	(810,874)	(1,603,690)
Loss from operations		(206,739)	(770,549)	(610,074)	(1,558,520)
Finance costs		-	-	-	(18,023)
Loss before taxation	3	(206,739)	(770,549)	(610,074)	(1,576,543)
Taxation	4	-	-	-	-
Loss for the period	2	(206,739)	(770,549)	(610,074)	(1,576,543)
Dividend	5	-	-	-	-
Loss per share – basic (cent)	6	(0.032)	(0.120)	(0.095)	(0.246)



CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2002 (unaudited) HK\$	At 31 December 2001 (audited) HK\$
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	7	39,848,450	8,671,589
Current assets			
Inventories		5,350,971	6,801,474
Trade and other receivables	8	3,420,456	3,176,795
Deferred expenses	9	1,746,351	–
Bank balances and cash		1,005,224	2,393,599
		11,523,002	12,371,868
Current Liabilities			
Trade and other payables	10	4,542,140	3,594,720
Amount due to a director		–	18,467,247
Amount due to a related company		–	1,415,094
Government loan		3,773,585	3,773,585
		8,315,725	27,250,646
Net current assets (liabilities)		3,207,277	(14,878,778)
		43,055,727	(6,207,189)
Capital and reserves			
Share capital	11	20,000	1,000,000
Reserves		43,035,727	(7,207,189)
		43,055,727	(6,207,189)



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$	Share premium HK\$	Merger reserve HK\$	Asset revaluation reserve HK\$	Exchange reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2001	-	-	-	-	1,274	(1,745,588)	(1,744,314)
Exchange difference on translation of overseas operations	-	-	-	-	128	-	128
Loss for the year	-	-	-	-	-	(5,463,003)	(5,463,003)
At 31 December 2001	-	-	-	-	1,402	(7,208,591)	(7,207,189)
Allotted and issued as nil paid on incorporation	-	-	-	-	-	-	-
Credited as fully paid from contributed surplus	10,000	-	-	-	-	-	10,000
Issue of shares upon the Group reorganisation	5,000	-	-	-	-	-	5,000
Issue of shares upon capitalisation of shareholder's loan and amount due to a related company	5,000	-	-	-	-	-	5,000
Merger reserve arising on Group reorganisation	-	-	985,000	-	-	-	985,000
Premium arising on capitalisation of shareholder's loan and amount due to a related company	-	18,334,888	-	-	-	-	18,334,888
Revaluation increase arising on revaluation of property, plant and equipment	-	-	-	31,533,102	-	-	31,533,102
Loss for the period	-	-	-	-	-	(610,074)	(610,074)
At 30 June 2002	<u>20,000</u>	<u>18,334,888</u>	<u>985,000</u>	<u>31,533,102</u>	<u>1,402</u>	<u>(7,818,665)</u>	<u>43,055,727</u>
	(Note 7D)						

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The merger reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition under the Group reorganisation as described in notes 1 to the financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six month period ended 30 June	
	2002 HK\$	2001 HK\$
Net cash inflow (outflow) from operating activities	172,068	(5,812,948)
Net cash outflow from investing activities	(17,990)	(322,386)
Net cash outflow from financing activities	<u>(1,542,453)</u>	<u>(2,935,462)</u>
Decrease in cash and cash equivalents	(1,388,375)	(9,070,796)
Cash and cash equivalent at beginning of period	<u>2,393,599</u>	<u>9,609,392</u>
Cash and cash equivalent at end of period	<u><u>1,005,224</u></u>	<u><u>538,596</u></u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<u><u>1,005,224</u></u>	<u><u>538,596</u></u>

Notes:

1. Group reorganisation and basis of presentation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 March 2002. Listing of the shares of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("The Stock Exchange") commenced on 12 July 2002.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM, the Company became the ultimate holding company of the Group on 26 June 2002. Further particulars of the Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix IV to the prospectus of the Company dated 5 July 2002 (the "Prospectus"). The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing Group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the condensed consolidated financial statements of the Group have been prepared as if the Group for the six months ended 30 June 2002 and 30 June 2001 had been in existence throughout the periods covered by the report or since their respective dates of incorporation, where this is a shorter period.

All significant transactions and balances between companies now comprising the Group have been eliminated on consolidation. The interim financial statements are prepared in accordance with the requirements as set out in the GEM Listing Rules and the Statement of Standard Accounting Practice 2.125 "Interim Financial Reporting" as issued by the Hong Kong Society of Accountants. The accounting policies and basis for the preparation of the unaudited condensed consolidated interim financial statements of the Group are consistent with those used in the Accountants' Report as set out in the Prospectus.



2. Segmental information

Business segments

For management purposes, the Group is currently organised into two operating divisions – manufacture and distribution of pulps and papers and of paper filling materials. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Pulps and papers – manufacture and distribution of pulps and papers
 Paper filling materials – manufacture and distribution of paper filling materials

For the six months ended 30 June 2002

	Pulps and papers	Paper filling materials	Eliminations	Combined
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
TURNOVER				
External sales	6,934,572	–	–	6,934,572
Inter-segment sales	–	289,162	(289,162)	–
	<u>6,934,572</u>	<u>289,162</u>	<u>(289,162)</u>	<u>6,934,572</u>
Total	<u>6,934,572</u>	<u>289,162</u>	<u>(289,162)</u>	<u>6,934,572</u>
RESULT				
Segment loss	(433,546)	(170,069)		(603,615)
Unallocated other revenue				11,491
Unallocated corporate and finance expenses				(17,950)
				<u>(610,074)</u>
Loss before taxation				(610,074)
Taxation				–
				<u>–</u>
Loss for the period				<u>(610,074)</u>



For the six months ended 30 June 2001

	Pulps and papers <i>HK\$</i>	Paper filling materials <i>HK\$</i>	Combined <i>HK\$</i>
TURNOVER			
External sales	<u>–</u>	<u>89,985</u>	<u>89,985</u>
RESULT			
Segment loss	(205,398)	(1,376,841)	(1,582,239)
Unallocated other revenue			51,075
Unallocated corporate and finance expenses			<u>(45,379)</u>
Loss before taxation			(1,576,543)
Taxation			<u>–</u>
Loss for the year			<u>(1,576,543)</u>

Geographical segment

All of the Group's business are derived from activities in the People's Republic of China ("PRC") in both periods.

3. Loss before taxation

Loss before taxation has been arrived at after charging (crediting):

	For the three months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Depreciation of property, plant and equipment	278,714	90,321	375,721	180,643
Bank interest income	(902)	(1,235)	(1,490)	(48,145)
Interest on bank borrowings wholly repayable within 5 years	<u>–</u>	<u>–</u>	<u>–</u>	<u>18,023</u>

4. Taxation

No provision for Hong Kong Profits tax has been made as the Group had no assessable profit in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, Kunming Kanstar and Changning Kanstar (wholly-owned subsidiaries of the Group) are exempted from the PRC income tax for two years starting from their first profit-marking year, followed by a 50% reduction for the next three years. No provision for the PRC income tax has been made in the financial statements as these two companies had no assessable profit during the periods.



5. Dividend

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

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders for the three months and six months ended 30 June 2002 of approximately HK\$207,000 and HK\$610,000 (2001: HK\$771,000 and HK\$1,577,000) respectively, and on the assumption that 640,000,000 shares were deemed to have been issued, comprising 2,000,000 shares in issue as at 30 June 2002 and 638,000,000 shares to be issued pursuant to the capitalisation issue as described in the paragraph headed "Resolutions in writing of the sole shareholder of the Company passed on 26 June 2002" in appendix IV to the Prospectus.

Diluted loss per share has not been presented for the three months and six months ended 30 June 2002 and their corresponding periods in 2001 as the exercise of the Company's outstanding options would have an anti-dilutive effect to the basic loss per share.

7. Property, plant and equipment

The increase in property, plant and equipment during the period was mainly attributable to the revaluation increase arising on revaluation of the Group's machineries at 30 April 2002 amounted to HK\$31.5 million.

8. Trade and other receivables

The Group has a policy of allowing average credit periods ranging from 2 weeks to one month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

An aged analysis of trade receivables is as follows:

	At 30 June 2002 HK\$	At 31 December 2001 HK\$
0 – 30 days	1,140,063	1,564,035
31 – 60 days	915,076	3,774
61 – 90 days	698,191	–
	2,753,330	1,567,809
Other debtors, deposits and prepayments	667,126	1,608,986
	3,420,456	3,176,795

9. Deferred expenses

Deferred expenses represent share issue expenses that would be written off through share premium arising on Placing of shares for listing on GEM.



10. Trade and other payables

An aged analysis of trade receivables is as follows:

	At 30 June 2002 HK\$	At 31 December 2001 HK\$
0 – 30 days	481,538	1,525,402
31 – 60 days	1,053,197	92,956
61 – 90	262,967	27,360
91 – 120	–	113,627
Over 120	–	1,118,866
	1,797,702	2,878,211
Other creditors and accrued charges	2,744,438	716,509
	4,542,140	3,594,720

11. Share capital

	Number of shares	Value HK\$
Ordinary share of HK\$0.01 each		
Authorised:		
On incorporation	1,000,000	10,000
Increase in authorised share capital	1,999,000,000	19,990,000
At 30 June 2002	2,000,000,000	20,000,000
Issue and fully paid		
Allotted and issued as nil paid on incorporation	1,000,000	–
Credited as fully paid from contributed surplus	–	10,000
Issue of shares upon Group reorganisation	500,000	5,000
Issue of shares upon capitalisation of shareholder's loan and amount due to a related company	500,000	5,000
At 30 June 2002	2,000,000	20,000



The following changes in the share capital of the Company took place during the period from 6 March 2002 (date of incorporation) to 30 June 2002:

- (a) The Company was incorporated on 6 March 2002 with an authorised share capital of HK\$10,000 divided into 1,000,000 shares. On 14 March 2002, 1,000,000 shares were allotted and issued as nil paid.
- (b) Pursuant to the resolutions in writing of all shareholders of the Company passed on 26 June 2002:
 - i. the authorised share capital of the Company was increased from HK\$10,000 to HK\$20,000 by the creation of an additional 1,000,000 shares of HK\$0.01 each.
 - ii. 1,000,000 nil paid shares of HK\$0.01 each were credited as fully paid at par as partial consideration for the acquisition by the Company of the entire issued share capital of Kanstar Environmental Technology Group Limited.
 - iii. 500,000 new shares were further allotted, issued and credited as fully paid at par as the remaining consideration for the acquisition by the Company of the entire issued share capital of Kanstar Environmental Technology Group Limited as described in (b) (ii) above.
 - iv. 500,000 new shares were further allotted, issued and credited as fully paid at par as consideration for capitalisation of shareholder's loan and amount due to a related company.
 - v. an amount of HK\$10,000, being part of the amount credited to the contributed surplus of the Company arising from the issue of shares described in (b) (ii) (iii) above, was applied to pay up in full at par the 1,000,000 ordinary shares of HK\$0.01 each allotted and issued on 14 March 2002 as referred to in (a) above.
- (c) Pursuant to another resolutions in writing of the sole shareholder of the Company passed on 26 June 2002, the authorised share capital of the Company was further increased from HK\$20,000 to HK\$20 million by the creation of a further 1,998 million shares.



12. Subsequent events

Subsequent to 30 June 2002, the following significant events took place:

- (a) Pursuant to a resolutions in writing of the sole shareholder of the Company passed on 26 June 2002, the Directors were authorised to capitalise HK\$6,380,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 638 million Shares for allotment and issue to Mr. Chim Kim Kiu, Jacky ("Mr. Chim"), the sole shareholder of Company at the close of business on 26 June 2002.

- (b) On 12 July 2002, the Group was successfully listed on GEM by way of placing of 160 million of new shares and 40 million sales shares at the price of HK\$0.2 each. The Group raised approximately HK\$25.3 million through listing.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

During the period under review, the Group was principally engaged in the manufacture and distribution of pulps and papers and the proprietary paper filling materials (i.e. "Leewood").

The Group reported an unaudited turnover of approximately HK\$6.9 million for the six months ended 30 June 2002, increased by approximately 77 times over the corresponding period in the previous year. During the six months ended 30 June 2001, the Group focused on the research and development, manufacture and sales of Leewood. For the current period, apart from the research and development of Leewood, the Group also focused on the manufacture and sales of specialised Leewood-added pulp and paper products, following the commencement of pulp and paper production at the Changing paper factory in July 2001. All Leewood manufactured in the current period were used for the Group's own pulp and paper production and approximately 68% of pulp and paper sales were sold with the Leewood added. Since April 2002, all the Group's pulp and paper sales were specialised products with Leewood added.

The Group reported an unaudited gross profit of approximately HK\$333,000 at a gross profit margin of approximately 5% for the six months ended 30 June 2002, compared with an unaudited gross loss of around HK\$4,000 for the corresponding period in the previous year. The gross loss incurred for the six months ended 30 June 2001 represented the sales of Leewood, as a result of the mediocre reception by the market on this new product. Nevertheless, the later developed market acceptance has resulted into stronger demand and lead to the gross profits from the sales of specialised Leewood-added pulp and paper products in current period.

Selling and distribution expenses for the six months under review increased to approximately HK\$144,000 as a result of the increase in the sales of the pulp and paper products during the period.

Administrative expenses for the six months under review decreased by approximately 49% to about HK\$811,000 when compared with corresponding period in the previous year. It was mainly attributable to the relatively higher expenditures incurred for the pre-operation of the Changing Kanstar, which include the repair and maintenance of plant and machineries, trial production expenses, and the research and development of Leewood in the same period in the previous years.

Due to the net effect of the above, the net loss for the period for the six months under review decreased from about HK\$1.6 million to about HK\$610,000 when compared with the same period in the previous year.



Liquidity and Financial Resources

As at 30 June 2002, the Group had a healthy financial position with net assets amounted to approximately HK\$43 million. Net current assets increased to approximately HK\$3 million with current ratio of approximately 1.4 (31 December 2001: 0.45). The Group had a loan from government of Changning County of Yunan Province in the PRC of RMB4 million (approximately HK\$3,774,000), which is non-interest bearing and repayable within one year. The gearing ratio of the Group, based on the total borrowings to shareholders' equity, was 8.8% (31 December 2001: total borrowings were 3.8 times over the net liabilities). The change in current ratio and gearing is mainly attributable to the capitalisation of shareholder's loan and amount due to a related company during the period.

During the period under review, the funding of operations was mainly derived from the internal resources of the Group. After the Group's listing on GEM on 12 July 2002, the Group utilised the net proceeds of approximately HK\$25.3 million as detailed in the section headed "Use of Proceeds" in the Prospectus. The Group will continue to adopt its treasury policy of placing the cash and cash equivalents in interest bearing deposits.

As at 30 June 2002, the Group had no contingent liabilities (2001: nil), did not have any charges on its assets (2001: nil), and did not have any committed banking facilities (2001: nil).

As most of the Group's monetary assets and liabilities are denominated in Renminbi, the exchange rate risks of the Group is considered to be minimal.

The Group did not have any material acquisition or disposal of subsidiary and affiliated company during the period and the corresponding period in the previous year. Other than those disclosed in the Prospectus under the section headed "Business Objectives and Strategies", the Group did not have any plan for material investments and acquisition of material capital assets as at 30 June 2002.

Prospect

On 12 July 2002, the Group was successfully listed on GEM by way of placing of 160 million of new shares and 40 million sales shares at the price of HK\$0.2 each. The Group raised approximately HK\$25.3 million through listing.

With the listing proceeds, the Group will focus on expanding its paper filling material and pulp and paper production capability as well as in the area of sales and marketing in the PRC. The Group will also focus on the development of its paper filling material, to be sold either as a stand alone product or as a cost saving and environmentally friendly additive for the production of paper products.

For the Group's paper filling material, it is the Group's objective to continue research and development of its paper filling material so that up to 50% of the wood used in pulp and paper manufacturing can be substituted. It is also the Group's aim that, given time, 80% of the Group's paper filling material produced will be sold to third parties with the remaining 20% to be used for the Group's own paper production only. The Group plans to increase its annual production capacity of paper filling material gradually from 1,000 tonnes to 25,000 tonnes by the end of 2004 by installing new production line in the pulp and paper factory in Changning.



The Directors believe the Group's pulp and paper factory in Changning has good prospects as it will be able to produce both pulp and paper and its proprietary paper filling material. With the addition of the Group's proprietary filling material, the Directors believe that the Group's paper products will be favourably accepted by the market given their lower price compared to traditional pure wood based paper and their environmentally friendly nature. To cater for production expansion, the Group plans to upgrade its existing pulp and paper production facilities in Changning in second half of 2002 by installing additional equipment. Upon completion of such installation in early 2003, the Group's pulp and paper production capacity is expected to increase from 10,000 tonnes to 20,000 tonnes a year.

Employee information

The Group had a total staff of approximately 380 employees (2001: approximately 200). Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus are awarded to employees according to the assessment of individual performance. Besides, a share option scheme was adopted by the Company, pursuant to which the Directors may offer to any eligible employees (including executive directors and independent non-executive directors) of the Company and any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, save for the Pre-IPO share options, no other options have been granted up to 30 June 2002. Staff cost was approximately HK\$1,057,000 for the period as compared with that of approximately HK\$620,000 for the corresponding period of the previous year. The increase in salary resulted from the increase in employees involved in production, sales and marketing of pulp and paper products during the period.

BUSINESS OBJECTIVE REVIEW

As this interim report covers activities up to 30 June 2002 only, all business objectives stated in the paragraph headed "Business objectives and strategies" under the section headed "Statement of business objectives" of the Company's Prospectus are still in progress and no further update is applicable.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 12 July 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 12 July 2002, interests of the Directors and chief executives of the Group in the shares of the Company (the "Shares") and in the share capital of any of its associated corporations pursuant to section 29 of the SDI Ordinance were as follows:

Director	Number of Shares				Total interests
	Corporate interests	Personal interests	Family interests	Other interests	
Mr. Chim	600,000,000 (Note)	–	–	–	600,000,000

Note: These Shares are registered in the name of Siko Venture, the entire issued share capital of which is held by Mr. Chim.



SUBSTANTIAL SHAREHOLDERS

At 12 July 2002, the following persons were directly or indirectly interested in 10 percent or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Siko Venture	600,000,000 <i>(Note)</i>	75%
Mr. Chim	600,000,000 <i>(Note)</i>	75%

Note: These Shares are registered in the name of Siko Venture, the entire issued share capital of which is held by Mr. Chim.

SHARE OPTIONS SCHEME

Pursuant to the resolutions in writing passed by the sole shareholder of the Company on 26 June 2002, the Company has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme (the "Scheme") under which the directors and employees of the Company and its subsidiaries may be granted options to subscribe for shares of the Company under the terms and conditions stipulated in the Schemes. Summary of terms of the Schemes are set out in the paragraph headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix IV to the Prospectus.



Pre-IPO Share Options Scheme

At the date of listing of the Company on 12 July 2002, options comprising a total of 50,220,000 underlying shares were granted to 3 executive directors and 4 employees of the Group. Details of these options were as follows:

Name of grantees (relations with the Group)	Period during which the options remain exercisable	Exercise price per Share	Number of underlying Shares under the options
Mr. Li Gang (Executive Director)	5 years commencing from and including the date falling 12 months from the Listing Date	HK\$0.01	3,800,000
Mr. Ip Kai Cheong (Executive Director)	(i) options to subscribe up to 13,000,000 Shares exercisable within a period of 5 years commencing from the Listing Date	HK\$0.01	21,670,000
	(ii) options to subscribe up to 8,670,000 Shares exercisable within a period of 5 years commencing from and including the date following 6 months from the Listing Date		
Mr. Sun Tak Keung (Executive Director)	(i) options to subscribe up to 9,000,000 Shares exercisable within a period of 5 years commencing from the Listing Date	HK\$0.01	15,000,000
	(ii) option to subscribe up to 6,000,000 Shares exercisable within a period of 5 years commencing from and including the date following 6 months from the Listing Date		
4 employees of the Group	5 years commencing from and including the date falling 12 months from the Listing Date	HK\$0.01	9,750,000

Total: 50,220,000



No options granted pursuant to the Pre-IPO share Option Scheme as stated above had been exercised or cancelled since the date of grant on 26 June 2002 and up to the date of this report.

The fair value of options granted during the period has not been presented since the Group has not been listed on GEM at the date of grant.

No charge is recognised in the Condensed Consolidated Income Statement in respect of the value of options granted in the period. The charge would be recognised in the period when the options are exercised.

Share Options Scheme

No options had been granted to directors or employees of the Group under the Share Options Scheme as mentioned above up to the date of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the periods from 1 January 2002 to 12 July 2002 was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors or chief executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

COMPETING INTERESTS

Up to 12 July 2002, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

INTEREST OF SPONSORS

As updated and notified by the Company's sponsor, South China Capital Limited ("SCCL"), as at 12 July 2002, neither SCCL nor its directors, employees and their associates had any interest in the shares of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

SCCL and the Company have entered into a sponsor's agreement, pursuant to which, SCCL will receive fee for acting as the Company's sponsor for the period up to 31 December 2004 subject to terms and conditions agreed between the parties thereto.

COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES

Since the date of listing of the Group on 12 July 2002, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.



AUDIT COMMITTEE

The Company has established an audit committee, comprising Mr. Lau Kwok Wing, Chris and Mr. Chan Chi Hung, Anthony, both of whom are independent non-executive Directors, with written terms of reference in compliance with Rules 5.23, 5.24, and 5.25 of the GEM Listing Rules. Mr. Lau Kwok Wing, Chris has been appointed as the chairman of the audit committee. The primary responsibilities of the audit committee are (i) to review the annual report and accounts, half-yearly report and quarterly reports and provide advice and comments thereon to the Board and (ii) to review and supervise the financial reporting process and internal control system of the Group.

On behalf of the Board

Chim Kim Kiu, Jacky

Chairman

Hong Kong, 12 August 2002

