



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)

2003
INTERIM REPORT

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 110% over the corresponding period in the previous year to approximately HK\$14.5 million for the six months ended 30 June 2003.
- Loss attributable to shareholders increased by approximately 78% compared to the corresponding period in the previous year to approximately HK\$1,087,000 for the six months ended 30 June 2003.
- The Directors do not declare any interim dividend for the six months ended 30 June 2003.

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 2003, together with the comparative unaudited figures for the corresponding periods in 2002, as set out below:

CONDENSED CONSOLIDATED INCOME STATEMENTS

| | Notes | (unaudited) | | (unaudited) | |
|-----------------------------------|-------|-------------------------------|--------------|-----------------------------|--------------|
| | | Three months ended 30 June | 2002 | Six months ended 30 June | 2002 |
| | | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Turnover | 2&3 | 8,698,499 | 4,993,453 | 14,529,343 | 6,934,572 |
| Cost of sales | | (8,210,060) | (4,770,029) | (14,462,123) | (6,601,313) |
| Gross profits | | 488,439 | 223,424 | 67,220 | 333,259 |
| Other revenue | | 4,974 | 11,703 | 18,028 | 11,491 |
| Selling and distribution expenses | | (144,485) | (69,294) | (165,952) | (143,950) |
| Administrative expenses | | (486,306) | (372,572) | (1,006,068) | (810,874) |
| Loss from operations | | (137,378) | (206,739) | (1,086,772) | (610,074) |
| Finance costs | | — | — | — | — |
| Loss before taxation | 4 | (137,378) | (206,739) | (1,086,772) | (610,074) |
| Taxation | 5 | — | — | — | — |
| Loss for the period | | (137,378) | (206,739) | (1,086,772) | (610,074) |
| Dividend | 6 | — | — | — | — |
| Loss per share — basic (cent) | 7 | (0.017) | (0.032) | (0.136) | (0.095) |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | At 30 June 2003 (unaudited) HK\$ | At 31 December 2002 (Restated) HK\$ |
|--|--------------|---|--|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | | 49,898,894 | 46,250,953 |
| Current assets | | | |
| Inventories | | 10,189,003 | 11,730,540 |
| Trade and other receivables | 8 | 7,459,196 | 5,544,970 |
| Bank balances and cash | | 3,837,612 | 9,908,345 |
| | | 21,485,811 | 27,183,855 |
| Current Liabilities | | | |
| Trade and other payables | 9 | 8,357,891 | 6,230,880 |
| Amounts due to directors | | — | 3,086,792 |
| Amount due to ultimate holding company | | — | 3,550 |
| | | 8,357,891 | 9,321,222 |
| Net current assets | | | |
| | | 13,127,920 | 17,862,633 |
| Total assets less current liabilities | | | |
| | | 63,026,814 | 64,113,586 |
| Non-current liability | | | |
| Deferred taxation | 5 | 10,241,016 | 10,241,016 |
| | | 52,785,798 | 53,872,570 |
| Capital and reserves | | | |
| Share capital | 10 | 8,000,000 | 8,000,000 |
| Reserves | | 44,785,798 | 45,872,570 |
| | | 52,785,798 | 53,872,570 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| | Share capital | Share premium | Special reserve | Revaluation reserve | Exchange reserve | Accumulated losses | Total |
|---|------------------|-------------------|--------------------|------------------------|---------------------|-----------------------|-------------------|
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| At 1 January 2002 | 1,000,000 | — | — | — | 1,402 | (7,208,591) | (6,207,189) |
| Capitalisation of advances from a director | 5,000 | 18,334,888 | — | — | — | — | 18,339,888 |
| Special reserve arising on group reorganisation | (985,000) | — | 985,000 | — | — | — | — |
| Surplus on revaluation of machinery and equipment | — | — | — | 31,660,286 | — | — | 31,660,286 |
| Loss for the period | — | — | — | — | — | (610,074) | (610,074) |
| Effects of adopting SSAP 12 | — | — | — | (10,241,016) | — | — | (10,241,016) |
| At 30 June 2002 | 20,000 | 18,334,888 | 985,000 | 21,419,270 | 1,402 | (7,818,665) | 32,941,895 |
| At 1 January 2003 | | | | | | | |
| As previously stated | 8,000,000 | 35,770,199 | 985,000 | 31,660,286 | (2,096) | (12,299,803) | 64,113,586 |
| Effects of adopting SSAP 12 | — | — | — | (10,241,016) | — | — | (10,241,016) |
| Loss for the period | — | — | — | — | — | (1,086,772) | (1,086,772) |
| At 30 June 2003 | 8,000,000 | 35,770,199 | 985,000 | 21,419,270 | (2,096) | (13,386,575) | 52,785,798 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| | For the six month period ended 30 June | |
|--|---|--------------|
| | 2003 HK\$ | 2002 HK\$ |
| Net cash (outflow) inflow from operating activities | (6,883) | 172,068 |
| Net cash outflow from investing activities | (2,973,508) | (17,990) |
| Net cash outflow from financing activities | (3,090,342) | (1,542,453) |
| Decrease in cash and cash equivalents | (6,070,733) | (1,388,375) |
| Cash and cash equivalent at beginning of period | 9,908,345 | 2,393,599 |
| Cash and cash equivalent at end of period | 3,837,612 | 1,005,224 |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 3,837,612 | 1,005,224 |

Notes:

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I. Basis of preparation and principal accounting policies

The condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), and with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31 December, 2002, except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where whose timing differences were not expected to reverse in the foreseeable future.

SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The balance on the Group's revaluation reserve at 30 June 2002 has been reduced by approximately HK\$10 million, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group's machinery and equipment.

2. Turnover

Turnover represents revenue from the sales of pulps, papers and paper filling materials, net of discounts and returns during the period.

3. Segment 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 2003

| | Pulps and papers HK\$ | Paper filling materials HK\$ | Eliminations HK\$ | Combined HK\$ |
|---|-----------------------------|------------------------------------|----------------------|--------------------|
| TURNOVER | | | | |
| External sales | 14,529,343 | — | — | 14,529,343 |
| Inter-segment sales | — | 419,274 | (419,274) | — |
| Total | 14,529,343 | 419,274 | (419,274) | 14,529,343 |
| RESULT | | | | |
| Segment loss | (498,270) | (36,694) | | (534,964) |
| Unallocated other revenue | | | | 18,028 |
| Unallocated corporate and finance expenses | | | | (569,836) |
| Loss before taxation | | | | (1,086,772) |
| Taxation | | | | — |
| Loss for the year | | | | (1,086,772) |

For the six months ended 30 June 2002

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

Geographical segment

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

4. 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 | |
|--|---------------------------------------|--------------|-------------------------------------|--------------|
| | 2003 HK\$ | 2002 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Depreciation of property, plant and equipment | 404,119 | 278,714 | 777,843 | 375,721 |
| Bank interest income | (4,974) | (902) | (18,028) | (1,490) |

5. 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.

Deferred taxation has been provided on the revaluation surplus on the revaluation of machinery and equipment at 30 April 2002 and has been charged directly to equity.

6. Dividend

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

7. Loss per share

The calculation of basic loss per share is based on the loss for the three months and six months ended 30 June 2003 of approximately HK\$137,000 and HK\$1,087,000 (2002: HK\$207,000 and HK\$610,000) respectively, and on the weighted average number of 800,000,000 (2002: 640,000,000) ordinary shares in issue during the year.

No diluted loss per share is calculated because the effect of assumed exercise of share options outstanding during the period ended 30 June 2003 would result in reduction in loss per share.

The number of shares for the three months and six months ended 30 June 2002 of 640,000,000 are deemed to be issued throughout the year, assuming that the Group Reorganisation had been effective on 1 January 2001.

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 2003 HK\$ | At 31 December 2002 HK\$ |
|---|-------------------------------------|-----------------------------------|
| 0 — 30 days | 358,761 | 1,153,357 |
| 31 — 60 days | 380,411 | 94,008 |
| 61 — 90 days | 1,324 | 309,442 |
| 91 — 120 days | 10,748 | — |
| Over 120 days | 858,039 | 1,857,853 |
| | 1,609,283 | 3,414,660 |
| Other debtors, deposits and prepayments | 5,849,913 | 2,130,310 |
| | 7,459,196 | 5,544,970 |

9. Trade and other payables

An aged analysis of trade payable is as follows:

| | At 30 June 2003 HK\$ | At 31 December 2002 HK\$ |
|-------------------------------------|-------------------------------------|---|
| 0 — 30 days | 1,085,579 | 3,177,170 |
| 31 — 60 days | 447,379 | 98,209 |
| 61 — 90 | 1,045,682 | 31,639 |
| 91 — 120 | 390,871 | 312,285 |
| Over 120 | 1,212,885 | 722,993 |
| | 4,182,396 | 4,342,296 |
| Other creditors and accrued charges | 4,175,495 | 1,888,584 |
| | 8,357,891 | 6,230,880 |

10. Share capital

Ordinary shares of HK\$0.01 each

| | Number of shares | share capital HK\$ |
|--------------------------------------|-----------------------------|-------------------------------|
| Authorised: | | |
| At 31 December 2002 and 30 June 2003 | 2,000,000,000 | 20,000,000 |
| Issued and fully paid: | | |
| At 31 December 2002 and 30 June 2003 | 800,000,000 | 8,000,000 |

MANAGEMENT DISCUSSION AND ANALYSIS**Business Overview**

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 (Leewoods).

The Group's unaudited turnover increased by approximately 110% to HK\$14,529,000 in the half-yearly period as compared to HK\$6,935,000 in the same period last year. In June 2003, the Group successfully recorded an operating profit. Both the sharp increase in turnover and the operating profit are contributed by the success in the improvement works of the original pulp and paper production line carried out in the first quarter.

The directors of the Company do not recommend the payment of an interim dividend for the half-yearly period. (2002: nil).

With the increase in the scale of business and the promotion of Kanstar's products in 2003, the amount of both selling and distribution expenses and administrative expenses increased by 15% and 24% respectively. With the effective cost control policy carried out by the management in this year, the increase in turnover is much greater than the increase in the amount of both selling and distribution expenses and administrative expenses.

During the period under review, there is an outbreak of severe acute respiratory syndromes (SARS), which restricted the incoming of construction workers into Changning. The construction works of the new pulp and paper production line thus faced a short delay. However, with the great efforts spent by the managements, the construction works had substantially completed by the end of this review period and the trial production will probably be started in the third quarter. With the success of the new production line, the annual production capacity will further increased to 20,000 tonnes. The increase in production will further reduce the production cost and thus will improve the profitability of the Group.

The outbreak of SARS also increases the costs of production. For example, the cost of chlorine, one main chemical in the production process, increased greatly by more than 30% during this period and the transportation cost of other materials also increased due to the travel restriction within the province. This increases the amount of cost of sales and reduces the amount of gross profit in current period.

Prospects

The Group is diligently working towards the expansion of production capacity in current year. In the first quarter of 2003, the Group successfully increased the annual production capacity of pulps and papers from 7,000 tonnes to 10,000 tonnes by upgrading the existing pulp and paper production facilities. In the second quarter, the Group concentrated on the installation of the new production line and the trial production will begin at the end of third quarter. With the success of this production line, the annual production capacity will further increase to 20,000 tonnes.

In the forth quarter of 2003, the Group will have three separate production lines. Each production line will be specialized in the production of pulps, writing papers and copying papers respectively. This specialization improves both the efficiency and stability of the machines and reduces the cost incurred for the change of production.

During this review period, the Group successfully installed four evaporators which can help to minimize the fluctuation in the prices of woods and to reduce the production costs as the Group can use bagasse as another substitution of woods. With the implementation of the new pulp and paper production line, the Group can use a mixture of woods, bamboos, bagasse and paper filling material for the production of paper products.

For the manufacturing of Leewoods, the Group had investigated the improvement in the quality of Leewoods and intends to increase the percentage of these Leewoods in the production process.

In 2002, the Group set up offices in both Kunming and Baoshan in order to promote the Group's paper products. In the second half of 2003, the Group plans to set up offices in both Sichuan and Guangzhou to expand its business.

With the continuous expansion, improvement of the products and the penetration in the market, the management has confidence in the future prospects of the Group.

Liquidity and Financial Resources

As at 30 June 2003, the Group had a healthy financial position with net assets amounted to approximately HK\$53 million. Net current assets decreased from HK\$18 million to HK\$13 million from 31 December 2002 to 30 June 2003 with current ratio of approximately 2.6 (31 December 2002: 3). The gearing ratio of the Group, based on the total borrowings to shareholders' equity, was zero (31 December 2002: 5.7%). During the review period, the Group finances its operations with its internally generated cash and remaining net proceeds from the placing of shares upon the listing of the Company. There is no borrowing during this review period.

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As at 30 June 2003, the Group had no contingent liabilities (31 December 2002: nil), did not have any charges on its assets (31 December 2002: nil), and did not have any committed banking facilities (31 December 2002: 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.

Employee information

The Group had a total staff of approximately 400 employees (31 December 2002: approximately 330). Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is 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 2003. Staff cost was approximately HK\$1,539,000 for the period as compared with that of approximately HK\$1,057,000 for the corresponding period of the previous year. The increase in salary was resulted from the increase in employees involved in production, sales and marketing of pulp and paper products during the period.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The Comparison of the Group's business objectives as set out in the Prospectus dated 5 July 2002 to actual business progress for the period ended 30 June 2003 is as following:

Business objectives as stated in the prospectus dated 5 July 2002 from 12 July 2002 to 30 June 2003

Actual business progress in respect of the period ended 30 June 2003

Paper filling material

- | | |
|---|--|
| <p>1. Acquire and install new production line in Changning for the expansion of production of paper filling material from 1,000 tonnes to 15,000 tonnes per year.</p> | <p>Uses RMB1.6 million to acquire and install a new production line with annual production capacity of 5,000 tonnes and uses RMB0.7 million for the infrastructure works of other new production line with 10,000 tonnes annual production capacity.</p> |
| <p>2. Commence trial production run using new production line.</p> | <p>Trial production for the first production line with annual production capacity of 5,000 tonnes started in late 2002 and the construction of the second production line was still in progress.</p> |
| <p>3. Recruit an additional 3 staff in the sales and marketing team to promote the Group's paper products and paper filling material.</p> | <p>Additional staffs have been employed to promote the Group's paper products and paper filling material.</p> |
| <p>4. Set up offices in Chengdu, Kunming and Baoshan and hiring of sales staff.</p> | <p>Kunming and Baoshan offices have been set up.</p> |
| <p>5. Upon completion of the installation of the new production line, approximately 20% of the paper filling material produced will be used by the Group's own paper production with the remaining 80% to be sold to other paper manufacturers in Guangdong, Sichuan and Henan.</p> | <p>As the construction of the second new production line is still in progress, the paper filling material produced from the first line is used by the Group's own paper production.</p> |

Wood pulp and paper

- | | |
|--|---|
| 1. Complete expansion works in relation to water and power supply and waste water treatment for the new wood pulp and paper manufacturing facilities. | The expansion works for the new wood pulp and paper manufacturing facilities have been completed during the review period. |
| 2. Complete installation of the new pulp and paper production line. Upon completion of the new production line, the Group's annual production capacity will increase to 20,000 tonnes. | The Group has purchased production equipment for the new pulp and paper production line. The installation process has come to the final stage and trial production will probably be started in the third quarter of 2003. |
| 3. Negotiate and complete the acquisition of the land use right of the Changing paper factory, expected to cost RMB2.0 million. | Due to the change of management of the local government and the outbreak of severe acute respiratory syndromes (SARS) in the second quarter, the negotiation of the acquisition of the land use right has been delayed. |
| 4. Commence trial production run using new pulp and paper production line. | The trial production run will be started in the third quarter of 2003. |
| 5. Focus on research and production of higher quality writing paper with the aim to increase competitiveness and profit margins. | The Group has continuously improved the quality of its paper products in order to improve both the competitiveness and profit margins. Comparing to that of last year, the selling price of Kanstar's products has increased by around 15% and the quality have been generally accepted by its customers. |
| 6. Recruit an additional 4 staff in the sales and marketing team to promote the Group's paper products and paper filling material. | Additional staffs have been employed to promote the Group's paper products and paper filling material. |
| 7. Explore the possibility of commencing retail sales of the Group's paper products in Chengdu, Kunming and Baoshan. | Kanstar has set up an office in both Kunming and Baoshan to promote its paper products. |
| 8. Focus on the sales and marketing of higher grade writing paper in Yunnan and Sichuan provinces. | Kunming and Baoshan offices are set up to focus on the sales and marketing Kanstar's paper products. |

Use of Proceeds from the Initial Public Offering

From the date of listing on 12 July 2002, the Group invested approximately HK\$21,500,000 in the following areas:

| | Notes | From 12 July 2002 (Date of Listing) to 30 June 2003 | |
|---|-------|---|------------------------|
| | | Proposed HK\$ million | Actual HK\$ million |
| Establishment of an additional pulp and paper production line | 1 | 9.9 | 8.4 |
| Establishment of a new paper filling material production line | 2 | 5.7 | 2.3 |
| Purchase of the land use right of the site in Changning | 3 | 1.9 | — |
| Repayment of Changning county Government loan | | 3.8 | 3.8 |
| Set up sales offices in Baoshan, Chengdu and Kunming | 4 | 0.2 | 0.1 |
| Working capital | 5 | 2.0 | 6.9 |
| | 6 | 23.5 | 21.5 |

Notes:

1. The establishment works of the new pulp and paper production line has reached the final stage. Trial production will begin in the third quarter of 2003. Around HK\$2 million of the construction cost of this new production line will be paid upon completion.
2. Among the three paper filling material production lines, the construction of the first one has been completed and the infrastructure works of the remaining two production lines started in the first half of 2003.
3. Due to the change of management of the local government and the outbreak of SARS in the second quarter, the negotiation of the acquisition of the land use right has been delayed.
4. As the Group has already entered into a sales agreement with a customer in Sichuan and the customer agreed to purchase 8,000 tonnes copying paper per year, the group plans to delay the setting up of an office in Chengdu, Sichuan Province in order to save the administrative expenses.
5. The amount spent as working capital during the year was about HK\$6,900,000, which is HK\$4,900,000 more than the amount stated in the prospectus. About HK\$1,500,000 proceeds is spent in up-grading the original pulp and paper production line. Another reason for such increase was the operating loss incurred in last year. The reason for such operating loss has been disclosed in the annual report dated 26 March 2003.
6. For the unused proceeds, the Group has deposited it in a registered bank.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, 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, were as follows:

Long positions in the shares of the Company

| Name of Director | Capacity | Number of Ordinary Shares | | | | Total | Percentage of Shareholding |
|------------------|--------------------------------------|---------------------------|------------------|-------------------------|-----------------|-------------|----------------------------|
| | | Personal Interests | Family Interests | Corporate Interests | Other Interests | | |
| Mr. Chim Kin Kiu | Interest of a controlled corporation | — | — | 600,000,000 (Note 1) | — | 600,000,000 | 75% |

Note:

- These shares are beneficially owned and registered in the name of Siko Venture Limited, the entire issued share capital of which is held by Mr. Chim Kin Kiu.

Long positions in underlying shares of the Company

| Name of Grantees (Relations with the Group) | Capacity | Description of equity derivatives (number of underlying shares) |
|--|------------------|---|
| Mr. Li Gang (Executive Director) | Beneficial owner | share options to subscribe for shares (3,800,000 shares) (Note) |

| Name of Grantees (Relations with the Group) | Capacity | Description of equity derivatives (number of underlying shares) |
|--|------------------|---|
| Mr. Ip Kai Cheong (Executive Director) | Beneficial owner | share options to subscribe for shares (21,670,000 shares) (Note) |
| Mr. Sun Tak Keung (Executive Director) | Beneficial owner | share options to subscribe for shares (15,000,000 shares) (Note) |
| Ms. Li Ling (Employee of the Group) | Beneficial owner | share options to subscribe for shares (6,500,000 shares) (Note) |

Note: For details of the share options granted, please refer to the section headed "Share Option Scheme" below.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30 June 2003, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its 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 were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or 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 nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

| Name | Number of shares held | Approximate percentage of issued shares |
|----------------------|-----------------------|---|
| Siko Venture Limited | 600,000,000 (Note) | 75% |

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

Save as disclosed above, as at 30 June 2003, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 26 June 2002, certain Directors and participants have been granted options to subscribe for shares at an exercise price of HK\$0.01 per share, details of which are set out as follows:

| Name of grantee | Date of grant | Exercise period | Granted | Number of shares options | | Outstanding as at 30 June 2003 |
|----------------------------|---------------|---------------------------------|------------|----------------------------------|---------------------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2003 | Lapsed during the period under review | |
| <i>Executive directors</i> | | | | | | |
| Mr. Li Gang | 26 June 2002 | 12 July 2003-11 July 2008 | 3,800,000 | 3,800,000 | — | 3,800,000 |
| Mr. Ip Kai Cheong | 26 June 2002 | 12 July 2002-11 July 2007 | 13,000,000 | 13,000,000 | — | 13,000,000 |
| | | 12 January 2003-11 January 2008 | 8,670,000 | 8,670,000 | — | 8,670,000 |
| Mr. Sun Tak Keung | 26 June 2002 | 12 July 2002-11 July 2007 | 9,000,000 | 9,000,000 | — | 9,000,000 |
| | | 12 January 2003-11 January 2008 | 6,000,000 | 6,000,000 | — | 6,000,000 |
| <i>Other participants</i> | | | | | | |
| Employees in aggregate | 26 June 2002 | 12 July 2003-11 July 2008 | 9,750,000 | 9,750,000 | 3,150,000 | 6,600,000 |
| Total | | | | 50,220,000 | 3,150,000 | 47,070,000 |

No share options under the share option scheme (the “Share Option Scheme”) adopted by the Company on 26 June 2002 were granted during the six months ended 30 June 2003.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in the Prospectus.

DIRECTORS’ AND CHIEF EXECUTIVE’S RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the periods from 1 January 2003 to 30 June 2003 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 30 June 2003, 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 30 June 2003, 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

Up to 30 June 2003, 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, 14 August 2003