



Kanstar Environmental Paper Products Holdings Limited
建星環保紙品控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8011

Interim Report 2004

Kanstar
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*For identification only

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This report, for which the directors of Kanstar Environmental Paper Products 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 58% over the corresponding period in the previous year to approximately HK\$23 million for the six months ended 30 June 2004.
- Net profit attributable to shareholders for the six months ended 30 June 2004 amounted to HK\$823,000 whereas the net loss attributable to shareholders of approximately HK\$1,087,000 was recorded in previous period.
- The Directors do not declare any interim dividend for the six months ended 30 June 2004.

INTERIM RESULTS

The board of directors (the “Board”) of Kanstar Environmental Paper Products 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 2004, together with the comparative unaudited figures for the corresponding periods in 2003, as set out below:

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Notes	(unaudited)		(unaudited)	
		Three months ended 30 June 2004 HK\$	2003 HK\$	Six months ended 30 June 2004 HK\$	2003 HK\$
Turnover	2&3	15,110,318	8,698,499	22,988,865	14,529,343
Cost of sales		(13,415,523)	(8,210,060)	(20,515,423)	(14,462,123)
Gross profit		1,694,795	488,439	2,473,442	67,220
Other revenue		666	4,974	27,471	18,028
Selling and distribution expenses		(431,424)	(144,485)	(692,379)	(165,952)
Administrative expenses		(531,010)	(486,306)	(902,623)	(1,006,068)
Profit (loss) from operations		733,027	(137,378)	905,911	(1,086,772)
Finance costs		(62,766)	—	(82,763)	—
Profit (loss) before taxation	4	670,261	(137,378)	823,148	(1,086,772)
Taxation	5	—	—	—	—
Profit (loss) for the period		670,261	(137,378)	823,148	(1,086,772)
Dividend	6	—	—	—	—
Earnings (loss) per share (cents)	7				
— basic		0.017	(0.003)	0.021	(0.027)
			(Restated)		(Restated)
— diluted		0.016	N/A	0.020	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2004 (unaudited) HK\$	At 31 December 2003 (Audited) HK\$
	<i>Notes</i>		
Non-current asset			
Property, plant and equipment		58,050,874	55,896,816
Current assets			
Inventories		9,401,384	12,340,546
Trade and other receivables	8	4,272,807	4,550,913
Bank balances and cash		3,072,426	1,511,204
		16,746,617	18,402,663
Current liabilities			
Trade and other payables	9	6,281,494	8,374,940
Amounts due to directors		1,855,403	3,777,093
Bank borrowings		3,690,000	—
		11,826,897	12,152,033
Net current assets		4,919,720	6,250,630
Total assets less current liabilities		62,970,594	62,147,446
Non-current liability			
Deferred taxation	5	(8,151,116)	(8,151,116)
		54,819,478	53,996,330
Capital and reserves			
Share capital	10	8,000,000	8,000,000
Reserves		46,819,478	45,996,330
		54,819,478	53,996,330

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$	Share premium HK\$	Special reserve HK\$	Revaluation reserve HK\$	Exchange reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2003	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(12,299,803)	55,962,470
Loss for the period	—	—	—	—	—	(1,086,772)	(1,086,772)
At 30 June 2003	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(13,386,575)	54,875,698
At 1 January 2004	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(14,265,943)	53,996,330
Profit for the period	—	—	—	—	—	823,148	823,148
At 30 June 2004	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(13,442,795)	54,819,478

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six month period ended 30 June	
	2004 HK\$	2003 HK\$
Net cash inflow (outflow) from operating activities	2,792,634	(6,883)
Net cash outflow from investing activities	(2,999,722)	(2,973,508)
Net cash inflow (outflow) from financing activities	1,768,310	(3,090,342)
Increase (decrease) in cash and cash equivalents	1,561,222	(6,070,733)
Cash and cash equivalent at beginning of period	1,511,204	9,908,345
Cash and cash equivalent at end of period	3,072,426	3,837,612
Analysis of balances of cash and cash equivalents		
Bank balances and cash	3,072,426	3,837,612

Notes:

1. Basis of presentation and principal accounting policies

The Company was incorporated in the Cayman Islands on 6 March 2002 as an exempted company under the Companies Law and its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 12 July 2002. Its ultimate holding company is Siko Venture Limited, a limited company incorporated in the British Virgin Islands.

The Group's unaudited consolidated results have been prepared in accordance with Statements of Standard Accounting Practices issued by the Hong Kong Society of Accountants and generally accepted accounting principles in Hong Kong.

The accounting policies and basis of preparation of the unaudited consolidated results are consistent with those used in the annual financial statements for the year ended 31 December 2003.

2. Turnover

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

3. Segment information

For the six months ended 30 June 2004, the Group was principally engaged in the sales of pulps and papers and all the turnover are derived in the People's Republic of China ("PRC"). Accordingly, no business or geographic segment information is presented.

4. Profit (loss) before taxation

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

	For the three months ended 30 June		For the six months ended 30 June	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Depreciation of property, plant and equipment	433,705	404,119	846,330	777,843
Bank interest income	(666)	(4,974)	(1,626)	(18,028)
Interest on bank borrowings wholly repayable within 5 years	62,766	—	82,763	—

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, one of the PRC subsidiary of the Company is exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for the PRC income tax has been made in the consolidated accounts as this company had no assessable profit during the periods. The other PRC subsidiary was in loss making position for the current and the previous years and accordingly did not have any assessable profit.

There was no unprovided deferred tax in respect of the three months and six months ended 30 June 2004 (three months and six months ended 30 June 2003: Nil).

6. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

7. Earnings (loss) per share

The calculations of the basic and diluted earnings (loss) per share are based on the following data:

	For the three months ended 30 June		For the six months ended 30 June	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Profit (loss) for the period				
Profit (loss) for calculating basic and diluted earnings (loss) per share	670,261	(137,378)	823,148	(1,086,772)
Number of shares				
Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	4,000,000,000	4,000,000,000	4,000,000,000	4,000,000,000
Effect of dilutive potential ordinary share	182,941,164	N/A	184,490,296	N/A
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,182,941,164	N/A	4,184,490,296	N/A

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

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 7 October 2003, each of the initial issued and unissued shares having a par value of HK\$0.01 were subdivided into five subdivided shares having a par value of HK\$0.002 each with effect from 8 October 2003. Upon the share subdivision becoming effective on 8 October 2003, the authorised share capital of the Company became HK\$20 million divided into 10,000 million subdivided shares, of which 4,000 million subdivided shares are in issue and fully paid. The subdivided shares rank pari passu in all respects with each other and the rights attaching to the subdivided shares are not effected by the share subdivision. The weighted average number of ordinary shares for the three months and six months ended 30 June 2003 for the purposes of calculating the basic loss per share have been retrospectively adjusted for the one-to-five share subdivision which took place in October 2003.

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 2004 HK\$	At 31 December 2003 HK\$
0 — 30 days	879,574	1,067,417
31 — 60 days	27,701	12,848
61 — 90 days	896	201,302
91 — 120 days	—	93,023
Over 120 days	71,650	715,460
	979,821	2,090,050
Other debtors, deposits and prepayments	3,292,986	2,460,863
	4,272,807	4,550,913

9. Trade and other payables

An aged analysis of trade payable is as follows:

	At 30 June 2004 HK\$	At 31 December 2003 HK\$
0 — 30 days	1,727,855	1,622,612
31 — 60 days	363,339	539,474
61 — 90	619,169	205,181
91 — 120	443,831	81,477
Over 120	1,450,814	2,497,096
	4,605,008	4,945,840
Other creditors and accrued charges	1,676,486	3,429,100
	6,281,494	8,374,940

10. Share capital

Ordinary shares of HK\$0.002 each

	Number of shares	share capital HK\$
Authorised:		
At 31 December 2003 and 30 June 2004	10,000,000,000	20,000,000
Issued and fully paid:		
At 31 December 2003 and 30 June 2004	4,000,000,000	8,000,000

11. Capital commitments

At 30 June 2004, the Group had capital commitments amounting to approximately HK\$1,800,000 (31 December 2003: HK\$3,856,708) in respect of the acquisition of land use right in PRC contracted but not provided for in the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS**Business Overview**

For the six months ended 30 June 2004, the Group successfully turnaround to record an unaudited operating profits after interests and depreciation of approximately HK\$823,000, whereas an unaudited operating loss of HK\$1,083,000 was noted in last corresponding period. For the amount of turnover, the amount has sharply increased by approximately 58% to nearly HK\$23 million when compared to the corresponding figures for last year.

The directors of the Company do not recommend the payment of an interim dividend for the period (six months ended 30 June 2004: nil).

In this review period, for the production line manufacturing photo-copying papers, the quality of the products are continuously improving and the prices are increasing. Customers spread over Shanghai, Guizhou and Yunnan Provinces. Such diversification of customers can stabilize the Group's performance. For writing papers, one independent customer in Yunnan had agreed with the Company to undertake the products from the production line.

For the pulps production line, due to the shortage of raw materials in the rainy season and in order to further reduce the production cost and improve the products' quality, the Group is trying to change the composition of raw materials for the manufacture of pulps. Comparing to that of late 2003, the production cost for pulps has been reduced by nearly 10%.

In this rainy season, the purchase costs of the Group's raw materials, such as coals, bamboos and woods, increased sharply. The heavy rains caused floods in many places in Yunnan. Although the Group has reserved tones of raw materials before the rainy season, the sharp increase in both purchase and transportation costs still reduce the profit margin in current period.

Also, the floods in Yunnan and other provinces in the PRC also increase the transportation costs of the Group's products. In current period, the selling and distribution expenses has increased by more than 3 times to approximately HK\$692,000 when comparing to the corresponding period of last year.

Around HK\$83,000 finance costs was recorded in current period due to the bank loan raised in this review period in order to reserve more raw materials to stabilize production of the Group.

Prospectus

In the coming fourth quarter, the Group will increase the reserve of raw materials. The Group intends to reserve raw materials adequate for half years' productions for the three production lines before the Chinese New Years. The Group tries to negotiate with the suppliers to undertake its products in order to get a lower purchase costs.

Also, in order to save the transportation costs of the Group's products, the Group will try to speed up the promotion of Kanstar's products in Yunnan Province. The Group targets to sell more than 70% Kanstar's products in Yunnan Province.

With the valuable experience in turnaround the loss-making paper plant in Changning and in setting up new pulp and paper production line, the Group will try to identify and take over other pulp and paper manufacturing plants with similar size. Based on the Group's past successful experience, we have confidence to operate them efficiently and the management believes the take-over can further speed up the business expansion plan of the Group.

Liquidity and Financial Resources

As at 30 June 2004, the Group had a healthy financial position with net assets amounted to approximately HK\$55 million. Net current assets decreased from HK\$6.2 million to HK\$4.9 million from 31 December 2003 to 30 June 2004 with current ratio of approximately 1.4 (31 December 2003: 1.5). The gearing ratio of the Group, based on the total borrowings to shareholders' equity, was 10% (31 December 2003: 7%).

As at 30 June 2004, the Group had a short-term bank borrowing amounting to HK\$3,690,000 (31 December 2003: nil). The Group had no contingent liabilities (31 December 2003: HK\$188,690) and did not have any charges on its assets (31 December 2003: 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 520 employees (31 December 2003: approximately 500 employees). Remuneration packages are 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 share option granted prior to the listing, no other options have been granted up to 30 June 2004. Staff cost was approximately HK\$1,648,000 for the period as compared with that of approximately HK\$1,539,000 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

For the period ended 30 June 2004

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 2004 is as follows:

Business objectives as stated in the prospectus dated 5 July 2002

Paper filling material

1. Acquire and install new production line in Changning for the expansion of production of paper filling material from 1,000 tonnes to 25,000 tonnes.
2. 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.

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

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.

All the paper filling materials produced are used by the Group's own paper production.

Paper filling material

- | | |
|--|---|
| 3. Commence sales efforts in other provinces including Guizhou, Henan and Guangxi. | As all the paper fillings materials are produced for the Group's internal use, no sales effort was carried out. |
| 4. Increase the number of sales staff in both Chengdu and Kunming offices | As all the paper fillings materials are produced for the Group's internal use, no sales effort was carried out. |

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 in relation to water and power supply and waste water treatment for the new wood pulp and paper manufacturing facilities have been completed in 2003. |
| 2. Acquire and install a 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. | Acquired and installed a new pulp and paper production line and trial production has been completed in late 2003. The Group's annual production capacity has increased to 20,000 tonnes. |
| 3. Ensure smooth production of pulp and paper using new production line. | Both the quality and the selling prices of the products have been improved during the review period. |
| 4. Negotiate and complete the acquisition of the land use right of the Changning paper factory, expected to cost RMB 2.0 million. | Completed the negotiation process with the local government and agreed to pay approximately RMB2.4 million for the acquisition of the land use right. |
| 5. Focus on research and production of higher quality writing paper with the aim to increase competitiveness and profit margins. | Successfully produces higher quality paper products which increase the general selling price. |
| 6. Commence sales efforts in other provinces including Guizhou, Henan and Guangxi. | Kanstar's paper products have been sold to customers in Guizhou, Guangxi, Guangdong and Shanghai Provinces. |
| 7. Consider acquisition possibilities of other pulp and paper production plant in Yunnan Province. | Kanstar tries to explore the possibilities of acquiring other pulp and paper production plant in Yunnan Province. |

Use of Proceeds from the Initial Public Offering

From the date of listing on 12 July 2002, the Group invested approximately HK\$25,400,000 in the following areas:

	Notes	From 12 July 2002 (Date of Listing) to 30 June 2004	
		Proposed HK\$ million	Actual HK\$ million
Establishment of an additional pulp and paper production line	1	9.9	12.8
Establishment of a new paper filling material production line	2	7.6	2.3
Purchase of the land use right of the site in Changning	3	1.9	0.5
Repayment of Changning county Government loan		3.8	3.8
Set up sales offices in Baoshan, Chengdu and Kunming	4	0.2	0.15
Working capital	5	2.0	5.85
		25.4	25.4

Notes:

- The establishment works of the new pulp and paper production line and the trial production have been completed in 2003. The amount spent for this new production line is around HK\$12,800,000 which is HK\$2,900,000 more than the proposed amount. With the valuable experience for the improvement of the original pulp and paper production line, the Group has spent more to take up the improvements for the new line. Also, due to the outbreak of SARS in last year, the installation costs for the new line have increased.
- In last year, due to the concentration on the installation of the new pulp and paper production line and the outbreak of SARS, the construction work of the remaining two paper filling material production lines was delayed.
- Due to the change of management of the local government and the outbreak of SARS in last year, the negotiation of the acquisition of the land use right has been delayed. In current review period, the Group has agreed with the local government to acquire the land use right at HK\$2.3 million. The Group had paid HK\$500,000 for deposit.
- As the Group has customers in many different provinces, including Yunnan, Sichuan, Guizhou, Guangxi, Guangdong and Shanghai, the Group plans to delay the setting up of an office in Chengdu, Sichuan Province in order to save the administrative expenses.
- The amount spent as working capital was about HK\$5.85 million, which is HK\$3.85 million more than the amount stated in the prospectus. The reason for such increase was due to the operating loss recorded in past years.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 30 June 2004, 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 2004, 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 5.46 of the GEM Listing Rules, relating to the required standard of dealings by directors of listed issuers, 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 Kim Kiu, Jacky	Interest of a controlled corporation	—	—	3,000,000,000 (Note 1)	—	3,000,000,000	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 Kim Kiu, Jacky.

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. Ip Kai Cheong (Executive Director)	Beneficial owner	share options to subscribe for shares (108,350,000 shares) (Note)

Name of Grantees (Relations with the Group)	Capacity	Description of equity derivatives (number of underlying shares)
Mr. Sun Tak Keung (Executive Director)	Beneficial owner	share options to subscribe for shares (75,000,000 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 2004, 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 5.46 of the GEM Listing Rules.

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SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, 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 as recorded in the register required to be kept under Section 336 of the SFO or had otherwise notified to the Company were as follows:

Name	Number of shares held	Approximate percentage of issued shares
Siko Venture Limited	3,000,000,000 (Note 1)	75.00%
Mr. Chim Pui Chung	220,000,000 (Note 2)	5.50%

Notes:

- The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky.
- Total interests of Mr. Chim Pui Chung in 220,000,000 ordinary shares of the Company referred above include 170,000,000 ordinary shares held by Golden Mount Ltd. and 50,000,000 ordinary shares held by Gallery Land Ltd. The entire issued share capital of both Golden Mount Ltd. and Gallery Land Ltd. are beneficially owned by Mr. Chim Pui Chung.

Save as disclosed above, as at 30 June 2004, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

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\$0.002 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 1 January 2004	Lapsed during the period under review	Outstanding as at 30 June 2004
<i>Executive directors</i>						
Mr. Li Gang	26 June 2002	12 July 2003 - 11 July 2008	19,000,000	—	—	—
Mr. Ip Kai Cheong	26 June 2002	12 July 2002 - 11 July 2007	65,000,000	65,000,000	—	65,000,000
		12 January 2003 - 11 January 2008	43,350,000	43,350,000	—	43,350,000
Mr. Sun Tak Keung	26 June 2002	12 July 2002 - 11 July 2007	45,000,000	45,000,000	—	45,000,000
		12 January 2003 - 11 January 2008	30,000,000	30,000,000	—	30,000,000
<i>Other participants</i>						
Employees in aggregate	26 June 2002	12 July 2003 - 11 July 2008	48,750,000	33,000,000	32,500,000	500,000
Total				216,350,000	32,500,000	183,850,000

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 2004.

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 2004 to 30 June 2004 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 2004, 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.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2004, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for the directors' securities transactions during the six months ended 30 June 2004.

INTEREST OF SPONSORS

As updated and notified by the Company's sponsor, Kingston Corporate Finance Limited ("Kingston"), as at 30 June 2004, neither Kingston 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.

Kingston and the Company have entered into a sponsor's agreement, pursuant to which, Kingston 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 5.34 TO 5.45 OF THE GEM LISTING RULES

Up to 30 June 2004, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee, comprising Mr. Lau Ka Ho, Mr. Wang Ai Guo and Mr. Chan Chi Hung, Anthony, all of whom are independent non-executive Directors, with written terms of reference in compliance with the GEM Listing Rules. Mr. Lau Ka Ho 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. The audit committee has reviewed the interim report for the six months ended 30 June 2004.

On behalf of the Board

Chim Kim Kiu, Jacky

Chairman

Hong Kong, 13 August 2004

At the date of this report, the Board is comprised of Mr. Chim Kim Kiu, Jacky, Mr. Ip Kai Cheong, Mr. Li Gang and Mr. Sun Tak Keung as executive directors, Mr. Chan Chi Hung, Anthony, Mr. Lau Ka Ho and Mr. Wong Ai Guo as independent non-executive directors.