



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)

Kanstar

First Quarterly Report 2004

*For identification only

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

HIGHLIGHTS

- Turnover increased by approximately 35% over the corresponding period in the previous year to approximately HK\$7,879,000 for the three months ended 31 March 2004.
- Net profit attributable to shareholders for the period ended 31 March 2004 amounted to approximately HK\$153,000 whereas the net loss attributable to shareholders of approximately HK\$949,000 was recorded in previous period.
- The Directors do not declare any dividend for the three months ended 31 March 2004.

QUARTERLY RESULTS

The board of directors (the "Board") of Kanstar Environmental Paper Products Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2004, together with the comparative unaudited figures for the corresponding period in 2003, as set out below:

Unaudited Consolidated Results

		Three months ended 31 March	
	<i>Notes</i>	2004 HK\$	2003 HK\$
Turnover	2	7,878,547	5,830,844
Cost of sales		(7,099,900)	(6,252,063)
Gross profit (loss)		778,647	(421,219)
Other revenue		26,805	13,054
Selling and distribution expenses		(260,955)	(21,467)
Administrative expenses		(371,613)	(519,762)
Profit (loss) from operations		172,884	(949,394)
Finance costs		(19,997)	—
Profit (loss) before taxation	3	152,887	(949,394)
Taxation	4	—	—
Profit (loss) for the period		152,887	(949,394)
Dividend	5	—	—
			<i>(Restated)</i>
Earnings (loss) per share	7		
— basic		0.004 cents	(0.024 cents)
— diluted		0.004 cents	N/A

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 periods.

3. Profit (loss) before taxation

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

	For the three months ended 31 March	
	2004 HK\$	2003 HK\$
Depreciation of property, plant and equipment	412,625	373,724
Bank interest income	(960)	(13,054)
Interest on bank borrowings wholly repayable within 5 years	19,997	—

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, 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 ended 31 March 2004 (three months ended 31 March 2003: Nil).

5. Dividend

The Board does not recommend the payment of a dividend for the three months ended 31 March 2004 (three months ended 31 March 2003: Nil).

6. Reserves

Other than the net profit and net loss for the three months ended 31 March 2004 and 31 March 2003 respectively, there were no movements to or from reserves of the Company.

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 31 March	
	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Profit (loss) for the period		
Profit (loss) for calculating basic and diluted earnings (loss) per share	152,887	(949,394)
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
Effect of dilutive potential ordinary share	185,985,037	N/A
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,185,985,037	N/A

No diluted loss per share is calculated for the three months ended 31 March 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 ended 31 March 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the three months ended 31 March 2004, the Group successfully turnaround to record an unaudited operating profits after interests and depreciation of HK\$152,887, whereas an unaudited operating loss of HK\$949,394 was noted in last corresponding period. The turnaround was mainly contributed by the continuous improvement in the Group's pulp and paper production lines and the continuous increase in the production scale. Also, an unaudited turnover of approximately HK\$7,879,000, which was increased by 35% when compared to that of the corresponding period of last year, was recorded in current period.

The directors of the Company do not recommend the payment of an interim dividend for the period (three months ended 31 March 2003: nil).

In this review period, production has suspended for about half month due to the Chinese New Year Holiday and the Group used this suspension period for the normal repair and maintenance works of the pulp and paper production lines. In January and February, there was the shortage of electricity in the Western Districts of the PRC which affected the stability of production and thus increased the production costs slightly. The suspension and shortage of electricity affected the profitability of the Company in the first two months.

Comparing with the selling and distribution costs in last corresponding period, the amount in current period was greatly increased by around 11 times to approximately HK\$261,000. In last review period, the Group's customers were mainly located in Yunnan and Sichuan Provinces and some of these customers paid the transportation costs by themselves. The Group's current customers spread over Shanghai, Sichuan, Guangxi and Guizhou. The increase in the distance to the customers leads to the sharp increase in the distribution costs in this period.

In current period, the Group has obtained a banking facility to reserve more raw materials. This banking facilities lead to the occurrence of finance costs of about HK\$20,000 in current period.

Prospects

In 2004, the Group has three separate production lines; each specializes in the production of pulps, writing papers and copying papers. This specialization in production will surely improve both the efficiency and stability of production.

With the support from the bank, the Group can now reserve more raw materials, such as bamboos, woods, coals and chemicals. The adequate supplies of these raw materials can surely improve the stability of production and the great purchase will surely increase the bargaining power of the Group and thus further reduce the production costs.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 31 March 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 31 March 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:

1. 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)
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 31 March 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 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.

2. 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 31 March 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 31 March 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 three months ended 31 March 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 31 March 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 31 March 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.

INTEREST OF SPONSORS

As updated and notified by the Company's sponsor, Kingston Corporate Finance Limited ("Kingston"), as at 31 March 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 31 March 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 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 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. The audit committee has reviewed the quarterly report for the three months ended 31 March 2004.

On behalf of the Board
Chim Kim Kiu, Jacky
Chairman

Hong Kong, 14 May 2004