



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

annual report **04**

* For identification only

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CORPORATE INFORMATION

Executive Directors

CHIM Kim Kiu, Jacky
(Chairman and Managing Director)
IP Kai Cheong
LI Gang
SUN Tak Keung

Independent Non-Executive Directors

LAU Ka Ho
CHAN Chi Hung, Anthony
WANG Ai Guo

Compliance Officer

Ip Kai Cheong

Company Secretary and Qualified Accountant

Cheung Ka Fai *CPA, ACCA*

Authorised Representatives

IP Kai Cheong
SUN Tak Keung

Members of the Audit Committee

LAU Ka Ho (*Chairman*)
CHAN Chi Hung, Anthony
WANG Ai Guo

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Sponsor

Kingston Corporate Finance Limited
Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Legal Adviser

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Hong Kong

Principal Place of Business in Hong Kong

Room 604, Seaview Commercial Building
21-24 Connaught Road West
Hong Kong

Principal Share Registrar and Transfer Office in Cayman Islands

Bank of Butterfield International (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 75
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Standard Registrars Limited
28/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Auditors

Louis Leung & Partners CPA Limited
Certified Public Accountants
13th Floor, Sun House
181 Des Voeux Road Central
Hong Kong

Principal Bankers

Bangkok Bank Public Company Limited
28 Des Voeux Road Central
Hong Kong

Liu Chong Hing Bank
Ground Floor, New World Tower II
16-18 Queen's Road Central
Hong Kong

China Construction Bank
Changning Branch
Xing Yu Jie
Changning County
Baoshan City
Yunnan Province
PRC

CHAIRMAN'S STATEMENT

I am pleased to present to shareholders the annual report of Kanstar Environmental Paper Products Holdings Limited and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004.

In 2004, the Group continues its efforts in both expansion and improvement of its production facilities. Its audited consolidated turnover had increased sharply by approximately 63% comparing to that of 2003 and even by 3.6 times comparing to that of 2002 to approximately HK\$50 million in 2004. With this sharp increase in the business scale, the Group succeeds in turnaround its loss making position and recorded a net profit of approximately HK\$1 million in current year.

2004 is a challenging year for the Group. The abnormal lengthy rainy season in Yunnan Region and the increase in the general oil price sharply increase the transportation costs. However, with the great efforts of the Group's management, the Group negotiated with its customers and successfully transfer part of these costs to them. In the long run, the Group plans to speed up the promotion of the Group's products in Yunnan Market, which the management believes is the most efficient way to reduce the transportation costs. The Group targeted to sell around 70% of Kanstar's products in Yunnan Region in the coming years.

Expansion in business scale and improvement in products quality is a never ending task for the Group and is the key to succeed. In 2004, the improvement in the Group's products increased its demand sharply. In the last few months, the Group even faced excessive demand for its products. This shows the success of the improvement of Kanstar's products and the development opportunities for the future expansion of the Group.

In order to take such development opportunities and with the valuable experience in turnaround the originally bankrupted 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, the Group has confidence to turnaround them to unlock their hidden value and the management believes that such acquisition can further speed up the business expansion plan of the Group.

On behalf of the board of Directors, I would like to extend my sincere gratitude to the customers, shareholders and business partners, who have always offered their support and encouragement to the Group. The continuous improvement of the Group was made possible by the dedication and diligence of its management and staff. I strongly believe that with the further expansion in the production scale, specialization of the production lines, continuing improvements in the products' qualities and diversification in customers, the Group will enjoy an even brighter future.

Chim Kim Kiu, Jacky

Chairman

Hong Kong, 29 March 2005

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group continued to expand and improve its production capacities and succeeded in turnaround its loss making position to record a net profit for the year. The audited turnover was over HK\$50 million which is 63% increased comparing to that of 2003 and is approximately 3.6 times to that of 2002.

Business Overview

For the year ended 31 December 2004, the Group recorded an audited turnover of approximately HK\$50,313,000 which representing a 63% increase comparing to that of 2003 and succeeded in turnaround its loss making position to record an audited profit for the year of approximately HK\$1 million whereas an audited loss for the year of HK\$1.97 million was recorded in 2003.

The directors of the Company do not recommend the payment of a final dividend in respect of the year 2004 (2003: nil).

The amount of gross profit was increased sharply by nearly 5 times from last year's HK\$0.8 million to over HK\$4 million in current year. It was mainly contributed by (i) the continuous improvement in the qualities of Kanstar's products, (ii) the promotion of Kanstar's brand name and (iii) the expansion of the production facilities. In 2004, Kanstar's customers spread over Shanghai, Guizhou, Yunnan and Guangdong Provinces which proved Kanstar's products are well accepted by its customers. Also, it creates the development opportunities to the Group. Such diversification of the customer base stabilizes the Group's performance.

In the second half of 2004, both the abnormal lengthy rainy season in Yunnan District and the general increase in the oil prices lead to the sharp increase in the transportation costs of the Group. In this year, the transportation costs for the purchase of raw materials have increased by more than 30% compared to that of last year. The selling and distribution costs during the year also increased. However, with the great efforts of the management, the Group succeeded in transferring part of these costs to its customers. This explained the percentage increase in turnover is greater than the percentage increase in the selling and distribution costs in current year.

In order to reserve more raw materials to stabilize production for the coming rainy season, the Group has obtained a banking facility during the year. This created the finance costs of around HK\$204,000 during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

To reduce the transportation costs in the long run, the Group plans to concentrate more and devote more efforts in the local market, i.e. in Yunnan Province. It targeted to sell around 70% of Kanstar's products in the Yunnan Market in the coming year. For the remaining 30% Kanstar's products, in order to stabilize sales, the Group will sell to those customers in other Provinces to maintain their relationship.

In the coming years, the Group's expansion will focus on two main areas. First, the Group will continue its efforts in upgrading its existing production facilities in Changning paper factory to produce higher quality paper products and further reduce the production cost. During the year under review, the Group tried to upgrade its pulp and paper production line to use different composition of raw materials to manufacture other products, such as cardboard for paper cups, which have a greater profit margin. The Group expects the operations will further be improved with the success in the development of new products.

Another way of expansion for the Group is to try to explore the possibilities to identify some low-efficient or even loss-making paper manufacturing plants and acquire them at bargain prices. With the valuable experience in turnaround the originally bankrupted paper plant in Changning and in setting up new pulp and paper production line, the managements are confident to turnaround the operations of such plants and ultimately can contribute profit to the Group.

In late 2004, the chairman and the substantial shareholder of the Group, Mr. Chim Kim Kiu, Jacky, ("Mr. Chim") has purchased the assets of a bankrupted paper manufacturing plant. In order not to distort the results of the Group and reduce the risks of re-commission the plant for pulp and paper production, Mr. Chim purchased these assets through his private owned company, Riches Good Limited, and Mr. Chim agreed to sell all his interests in Riches Good Limited to the Group after the success in the trial production of the new plant. Such acquisition will be subject to the approval of the shareholders and the approving authorities.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2004, the Group had a healthy financial position with net assets amounted to approximately HK\$55 million. Net current assets decreased to approximately HK\$3.3 million with current ratio of approximately 1.24 (2003: 1.51). The gearing ratio of the Group, based on the total borrowings to shareholders' equity, was 14% (2003: 7%).

As at 31 December 2004, guarantee was given by the Company to bank to secure banking facilities made available to a subsidiary amounted to HK\$10,000,000 (2003: nil). Except this, the Group did not have any charges on its assets (2003: nil), and did not have other committed banking facilities (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.

The Group did not have any material acquisition or disposal of subsidiary and of affiliated company during the year 2004 and 2003. Up to 31 December 2004, except for the potential acquisition for the interests in Riches Good Limited as stated above, the Group did not have any other plan for material investments and acquisition of material capital assets.

Employee Information

The Group had a total staff of approximately 480 employees (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 31 December 2004. Staff cost was approximately HK\$3,586,000 for the year (2003: HK\$3,876,000).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTIVE BUSINESS PROGRESS

For the year ended 31 December 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 year ended 31 December 2004 is as follows:

Business Objectives as stated in the Prospectus dated 5 July 2002

Actual Business Progress in respect of the year ended 31 December 2004

Paper filling material

- | | |
|--|---|
| 1. Complete installation of new production line in Changning for the production of paper filling material from 1,000 tonnes to 25,000 tonnes per annum. | 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. |
| 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. | All the paper filling materials produced are used by the Group's own paper production. |
| 3. Commence sales efforts in other provinces including Guizhou and Guangxi. | As all the paper filling 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 filling 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. |
|---|---|

COMPARISON OF BUSINESS OBJECTIVES WITH ACTIVE BUSINESS PROGRESS

For the year ended 31 December 2004

Business Objectives as stated in the Prospectus dated 5 July 2002

2. Acquire, install and ensure smooth production 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.
3. Continue to upgrade existing production facilities at Changning paper factory to produce higher quality paper products.
4. Focus on research and production of higher quality writing paper with the aim to increase competitiveness and profit margins.
5. Commence sales efforts in other provinces including Guizhou, Henan and Guangxi.
6. Negotiate and complete the acquisition of the land use right of the Changning paper factory, expected to cost RMB2.0 million.
7. Consider acquisition possibilities of other pulp and paper production plant in Yunnan Province.

Actual Business Progress in respect of the year ended 31 December 2004

Acquired and installed a new pulp and paper production line and trial production has been completed. The Group's annual production capacity has increased to 20,000 tonnes.

In the second half of 2004, in order to increase the competitiveness and profit margin of the Group's products, the Group tried to upgrade the pulp and paper production line to produce higher quality paper products.

Continuously improved the quality of the paper products which increase the general selling prices.

Kanstar's paper products have been sold to customers in Guizhou, Guangdong and Shanghai Provinces.

Completed the negotiation process with the local government and agreed to pay approximately RMB2.4 million for the acquisition of the land use right.

Mr. Chim Kim Kiu, Jacky ("Mr. Chim"), the chairman and the substantial shareholder of the Group, has acquired all the assets of a bankrupted pulp and paper factory in Yunnan during the year. After successfully re-commission its production facilities, Mr. Chim agrees to sell all his interests to the Group. For details, please refer to the section "Management Discussion and Analysis".

COMPARISON OF BUSINESS OBJECTIVES WITH ACTIVE BUSINESS PROGRESS

For the year ended 31 December 2004

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:

		From 12 July 2002 (Date of Listing) to 31 December 2004	
		Proposed	Actual
	Notes	HK\$ million	HK\$ million
Establishment of an additional pulp and paper production line	1	9.9	12.8
Establishment of new paper filling material production lines	2	7.6	2.3
Purchase of the land use right of the site in Changning	3	1.9	1.3
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	5.05
		<u>25.4</u>	<u>25.4</u>

Notes:

1. 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 2003, the installation costs for the new line have increased.
2. In previous years, 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 paper filling material production lines was delayed.
3. Due to the change of management of the local government and the outbreak of SARS in 2003, the negotiation of the acquisition of the land use right has been delayed. In current year, the Group has agreed with the local government to acquire the land use right at HK\$2.3 million. The Group had paid HK\$1,253,000 for deposit.
4. 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.
5. The amount spent as working capital was about HK\$5.05 million, which is HK\$3.05 million more than the amount stated in the prospectus. The reason for such increase was due to the operating loss recorded in past years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chim Kim Kiu, Jacky, (詹劍嶠), aged 32, is the founder, Chairman and the managing director of the Company. He was one of the founders of Leewood, the Group's proprietary paper filling material. Mr. Chim is responsible for the Group's strategic development and day-to-day management. Prior to the establishment of the Group's businesses in Yunnan Province, he was a director of Kunming Vintin Property Development Limited, a company primarily engaged in property development and investment in the PRC. He was educated in Canada.

Mr. Ip Kai Cheong, (葉啟昌), aged 45, is responsible for the Group's general management and financial control. Prior to joining the Group in May 1999, Mr. Ip held managerial positions with Chintex Oil and Gas Company Limited, a listed company in Hong Kong, now renamed Grandfield Group Holdings Limited, and with Rightearth Development Limited, which is engaged in property development, and has experience in corporate management and business development. Mr. Ip studied bachelor of business administration course under the Open University of Hong Kong.

Mr. Li Gang, (李剛), aged 51, is responsible for the Group's management and manufacturing operation as well as sales and marketing activities. He is also the general manager of Changning Kanstar. Prior to joining the Group in October 2000, he was the general manager of Deyang Chemical and Construction Material Factory in Sichuan Province, PRC and worked for the PRC Government as an officer representing Deyang City of Sichuan Province in Kunming, Yunnan Province. He has an industrial economics degree from the Sichuan Financial University, PRC.

Mr. Sun Tak Keung, (辛德強), aged 41, is responsible for the Group's paper filling material and paper products marketing activities. Prior to joining the Group in March 2002, he was a manager in Trigold & Co. and had over ten years of marketing and trading experiences in the garment industry and in daily consumable goods in Hong Kong and overseas.

Independent non-executive Directors

Mr. Lau Ka Ho, (劉家豪), aged 30, is a senior consultant of ST Personnel Consultants Ltd. Prior to joining ST Personnel Consultants Ltd. in March 2004, he was an executive director and the company secretary of the New Chinese Medicine Holdings Limited, a company listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited. He is both an associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He was appointed as an independent non-executive Director in July 2004.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Chi Hung, Anthony, (陳志雄), aged 38, is currently serving as a dealer representative for Berich Brokerage Limited, a securities broking firm in Hong Kong. Prior to joining Berich Brokerage Limited in early 2001, he was a partner of Sun Yeung Food (Direct Marketing) Company and engaged in foodstuff trading for 2¹/₂ years. He was also a manager of Trigold & Co. and was engaged in the sales and marketing of garment products for the overseas market for 3 years to December 1997. He was appointed as an independent non-executive Director in June 2002.

Mr. Wang Ai Guo, (王愛國), aged 35 is a qualified PRC lawyer. He is currently a lawyer of Hu Bei Jia He Law Firm. He was appointed as an independent non-executive Director in July 2004.

Senior Management

Mr. Wang Qi Nian, (王啟年), aged 48, is the assistant general manager of Changning Kanstar responsible for the Group's pulp and paper manufacturing operations as well as sales and marketing activities. Prior to joining the Group in March 2003, he was the assistant general manager of Hubei Jingzhou City Paper Factory (湖北荊州市造紙廠) in Hubei province. He was graduated from the Hubei Province Light Industry College (湖北省輕工業學院) in pulp and paper manufacturing.

Mr. Zhao Xian Wan, (趙賢萬), aged 40, is manager responsible for pulp and paper production. Prior to joining the Group in July 2001, he was a manager at Sichuan Province Qingcheng Paper Factory (四川省青城造紙廠) in Sichuan province and had over 18 years experience in the production of pulp and papers. He studied pulp and paper manufacturing at the Shensi Xibei Province Light Industry College (陝西省西北輕工業學院) in pulp and paper manufacturing.

Mr. Wang De Lin, (王德林), aged 34, is a manager responsible for general administration works for Changning Kanstar. Prior to joining the Group in May 2001, he was the head of the technical department of the original Changning Paper Factory. He was graduated from the Sichuan Province Light Industry College (中國四川省輕工業學院)

Mr. Cheung Ka Fai, (張家輝), aged 30, is the qualified accountant and company secretary of the Group. Prior to joining the Group in September 2002, he served as an auditor with Deloitte Touche Tohmatsu for 5 years. He has a bachelor of arts degree in accountancy from the Hong Kong Polytechnic University and is both the associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 29 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Major Customers and Suppliers

For the year ended 31 December 2004, the top five suppliers of the Group together accounted for approximately 30.04% of the Group's total purchases of materials, and the largest supplier accounted for approximately 11.69% of the Group's total purchases of materials.

The Group's five largest customers together accounted for approximately 74.92% of the total sales of the Group, and the largest customer accounted for approximately 21.97% of the Group's total sales for the year ended 31 December 2004.

None of the directors, their respective associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the issued share capital of the Company) had any interests in the Group's five largest suppliers or customers.

Results

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 21.

The directors do not recommend the payment of any dividend for the year ended 31 December 2004.

Financial Summary

A summary of the results of the Group for the past five financial years ended 31 December 2004 is set out on page 46 of the annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 29 to the financial statements.

DIRECTORS' REPORT

Share Capital and Share options

Details of the share capital and share options of the Company are set out in notes 21 and 22 to the financial statements.

Directors

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mr. Chim Kim Kiu, Jacky (*Chairman*)

Mr. Ip Kai Cheong

Mr. Li Gang

Mr. Sun Tak Keung

Independent non-executive directors:

Mr. Chan Chi Hung, Anthony

Mr. Lau Ka Ho (appointed on 25 July 2004)

Mr. Wang Ai Guo (appointed on 25 July 2004)

Mr. Lau Kwok Wing, Chris (resigned on 25 July 2004)

In accordance with Clause 108 of the Company's Articles of Association, Mr. Sun Tak Keung retires and being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with Clause 111 of the Company's Articles of Association, Mr. Lau Ka Ho and Mr. Wang Ai Guo retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining directors continue in office.

Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 1 June 2002.

The independent non-executive directors have no set term of office but are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 31 December 2004, the interests or short positions of the Directors and the 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 to 5.68 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	Personal Interests	Family Interests	Corporate Interests	Other Interests	Percentage of Total Shareholding
Mr. Chim Kim Kiu, Jacky	Interest of a controlled corporation	—	—	3,000,000,000	—	75%

Note: These shares are beneficially owned by and registered in the name of Siko Venture Limited. Mr. Chim Kim Kiu, Jacky beneficially owns the entire issued share capital of Siko Venture Limited.

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 December 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 to 5.68 of the GEM Listing Rules.

DIRECTORS' REPORT

Arrangements to Acquire Shares or Debentures

Other than the share option schemes disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Substantial Shareholders

As at 31 December 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 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	3,000,000,000	75%
Mr. Chim Pui Chung	220,000,000	5.5%

Notes:

1. The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky, the director of the Company.
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 December 2004, 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.

DIRECTORS' REPORT

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 (Note) per share, details of which are set out as follows:

Name of grantee	Date of grant	Exercise period	Granted	Outstanding as at 1 January 2004	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2004
Executive directors						
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 (Note)	65,000,000	—	65,000,000
		12 January 2003 — 11 January 2008	43,350,000 (Note)	43,350,000	—	43,350,000
		12 January 2003 — 11 January 2008	30,000,000 (Note)	30,000,000	—	30,000,000
Mr. Sun Tak Keung	26 June 2002	12 July 2002 — 11 July 2007	45,000,000 (Note)	45,000,000	—	45,000,000
		12 January 2003 — 11 January 2008	30,000,000 (Note)	30,000,000	—	30,000,000
		12 January 2003 — 11 January 2008	30,000,000 (Note)	30,000,000	—	30,000,000
Other participants						
Employees in aggregate	26 June 2002	12 July 2003 — 11 July 2008	48,750,000 (Note)	33,000,000	32,500,000	500,000
Total				216,350,000 (Note)	32,500,000	183,850,000

Note: 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. This share subdivision gave rise to adjustments to both the exercise price and the number of underlying shares granted under the pre-IPO share option scheme, and accordingly every option originally granted was increased to five options.

DIRECTORS' REPORT

Directors' Interests in Contracts

Other than the personal guarantee given by Mr. Chim Kim Kiu, Jacky to the Group stated in note 26 to the financial statement, there was no other transaction during the year which need to be disclosed as a connected transaction in accordance with the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"); and

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share options as set out in note 22 to the financial statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2004.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Sponsors' Interest

As notified by the Company's sponsor, Kingston Corporate Finance Limited (the "Kingston"), none of Kingston, its directors, employees or associates had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2004 and the date of this report respectively. The sponsor agreement between the Company and Kingston has been completed on 31 December 2004.

Pursuant to the agreement dated 31 October 2003 entered into between the Company and Kingston, Kingston has received a fee for acting as the Company's retained sponsor for the period from 31 October 2003 to 31 December 2004.

DIRECTORS' REPORT

Audit Committee

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-year reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises the independent non-executive directors and met four times during the year ended 31 December 2004.

Corporate Governance

The Company has complied throughout the year ended 31 December 2004 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ended 31 December 2005.

Potential Competing Interests

Mr. Chim Kim Kiu, Jacky and Mr. Ip Kai Cheong, the executive directors of the Company, are directors of Riches Good Limited ("Riches Good"), the entire issued share capital of which is held by Mr. Chim Kim Kiu, Jacky, the Chairman and Management Shareholder of the Company. In October 2004, Riches Good has purchased the assets and production machines from a bankrupted paper manufacturing plant and plans to use one year to restore production. It expects to produce cardboard, corrugating papers and packaging papers after the restoration period. Up to the date of this report, there is no production made by Riches Good.

Save as disclosed above, 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.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' REPORT

Auditors

Up to the financial year ended 31 December 2002, Messrs. Deloitte Touche Tohmatsu has been the auditors of the Company. On 11 December 2003, Messrs. Deloitte Touche Tohmatsu resigned as the auditors of the Company and Louis Leung & Partners CPA Limited were appointed to fill the vacancy and have remained as the Company's auditors since then.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Louis Leung & Partners CPA Limited as auditors of the Company.

On behalf of the Board

Chim Kim Kiu, Jacky

Chairman

Hong Kong, 29 March 2005

AUDITORS' REPORT

TO THE SHAREHOLDERS OF

Kanstar Environmental Paper Products Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

LOUIS LEUNG & PARTNERS CPA LIMITED

AU YANG SUNG FAT, *Certified Public Accountant*

Practising Certificate Number: P2433

Hong Kong, 29 March 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	2004 HK\$	2003 HK\$
Turnover	3	50,313,475	30,782,461
Cost of sales		(46,302,009)	(29,979,122)
Gross profit		4,011,466	803,339
Other operating income	5	55,787	117,264
Selling and distribution expenses		(797,368)	(716,127)
Administrative expenses		(2,034,705)	(2,170,616)
Profit/(loss) from operations	6	1,235,180	(1,966,140)
Finance costs	7	(226,543)	—
Profit/(loss) before taxation		1,008,637	(1,966,140)
Taxation	9	—	—
Profit/(loss) for the year		1,008,637	(1,966,140)
Dividend	10	—	—
Earnings/(loss) per share	11		
— basic		0.03 cents	(0.05 cents)
— diluted		0.02 cents	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Notes	2004 HK\$	2003 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	12	<u>59,874,428</u>	<u>55,896,816</u>
CURRENT ASSETS			
Inventories	14	7,052,789	12,340,546
Trade and other receivables	15	7,351,752	4,550,913
Bank balances and cash	16	<u>2,483,791</u>	<u>1,511,204</u>
		<u>16,888,332</u>	<u>18,402,663</u>
CURRENT LIABILITIES			
Bank loan, secured	17	7,500,000	—
Trade and other payables	18	5,896,152	8,374,940
Amounts due to directors	19	<u>210,525</u>	<u>3,777,093</u>
		<u>13,606,677</u>	<u>12,152,033</u>
NET CURRENT ASSETS			
		<u>3,281,655</u>	<u>6,250,630</u>
		63,156,083	62,147,446
NON-CURRENT LIABILITIES			
Deferred tax liabilities	20	<u>(8,151,116)</u>	<u>(8,151,116)</u>
		<u>55,004,967</u>	<u>53,996,330</u>
CAPITAL AND RESERVES			
Share Capital	21	8,000,000	8,000,000
Reserves		<u>47,004,967</u>	<u>45,996,330</u>
		<u>55,004,967</u>	<u>53,996,330</u>

The financial statements on pages 21 to 45 were approved and authorized for issue by the Board of Directors on 29 March 2005 and are signed on its behalf by:

Ip Kai Cheong
Director

Sun Tak Keung
Director

BALANCE SHEET

As at 31 December 2004

	Notes	2004 HK\$	2003 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	12	72,065	26,928
Interests in subsidiaries	13	66,098,679	67,046,608
		<u>66,170,744</u>	<u>67,073,536</u>
CURRENT ASSETS			
Other receivables		—	18,690
Bank balances and cash		224,385	520,285
		<u>224,385</u>	<u>538,975</u>
CURRENT LIABILITIES			
Amount due to a director		402,584	558,051
Other payables		111,771	248,971
		<u>514,355</u>	<u>807,022</u>
NET CURRENT LIABILITIES		<u>(289,970)</u>	<u>(268,047)</u>
		<u>65,880,774</u>	<u>66,805,489</u>
CAPITAL AND RESERVES			
Share Capital	21	8,000,000	8,000,000
Reserves	23	57,880,774	58,805,489
		<u>65,880,774</u>	<u>66,805,489</u>

Ip Kai Cheong
Director

Sun Tak Keung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital HK\$	Share premium HK\$	Special reserve HK\$	Revaluation reserve HK\$	Exchange reserve HK\$	Accumulated loss 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 year	—	—	—	—	—	(1,966,140)	(1,966,140)
At 31 December 2003	<u>8,000,000</u>	<u>35,770,199</u>	<u>985,000</u>	<u>23,509,170</u>	<u>(2,096)</u>	<u>(14,265,943)</u>	<u>53,996,330</u>
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 year	—	—	—	—	—	1,008,637	1,008,637
At 31 December 2004	<u>8,000,000</u>	<u>35,770,199</u>	<u>985,000</u>	<u>23,509,170</u>	<u>(2,096)</u>	<u>(13,257,306)</u>	<u>55,004,967</u>

Special reserve represents the difference between the paid up capital of the previous holding company of the Group acquired and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation for the listing of the Company's shares on the Growth Enterprise Market in 2002.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 HK\$	2003 HK\$
OPERATING ACTIVITIES		
Profit/(loss) before taxation	1,008,637	(1,966,140)
Interest income	(8,815)	(20,674)
Interest expenses	226,543	—
Loss on disposal of a motor vehicle	27,924	—
Depreciation	1,951,411	1,646,527
	<hr/>	<hr/>
Operating profit/(loss) before movements in working capital	3,205,700	(340,287)
Decrease/(increase) in inventories	5,287,757	(610,006)
(Increase)/decrease in trade and other receivables	(2,800,839)	994,057
(Decrease)/increase in trade and other payables	(2,478,788)	2,144,060
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	3,213,830	2,187,824
INVESTING ACTIVITIES		
Interest received from bank deposits	8,815	20,674
Proceeds from disposal of a motor vehicle	20,755	—
Purchase of property, plant and equipment	(5,977,702)	(11,292,390)
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(5,948,132)	(11,271,716)
FINANCING ACTIVITIES		
New bank loan raised	7,500,000	—
Interest expenses paid	(226,543)	—
(Repayment to)/advance from directors	(3,566,568)	690,301
Repayment to an ultimate holding company	—	(3,550)
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	3,706,889	686,751
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	972,587	(8,397,141)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,511,204	9,908,345
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	2,483,791	1,511,204
	<hr/>	<hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	2,483,791	1,511,204
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. Corporate Information

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 ("Siko Venture"), a limited company incorporated in the British Virgin Islands.

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 29.

2. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of machinery and equipment under property, plant and equipment.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. Significant Accounting Policies (Continued)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time proportion basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than machinery and equipment are stated at cost less depreciation and accumulated impairment losses.

Machinery and equipment are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of machinery and equipment is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment, over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	Over the shorter of the operation period of the relevant company, or 30 years
Machinery and equipment	3 $\frac{1}{3}$ %
Furniture and fixtures	20%
Motor vehicles	20%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. Significant Accounting Policies *(Continued)*

Property, plant and equipment *(Continued)*

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. Significant Accounting Policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in income statement for the year.

On consolidation, the assets and liabilities of the Group's subsidiaries in the People's Republic of China (the "PRC") are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the subsidiary is disposed of.

Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in reserves, in which case they are recognised in reserves.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. Significant Accounting Policies *(Continued)*

Income tax

(iii) *(Continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. The carrying amount of deferred tax assets/liabilities is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company and the Group has the legally enforceable right to set off current tax assets against current tax liabilities. The principle of offsetting usually applies to income tax levied by the same tax authority on same taxable entity.

Operating leases

Leases where substantially all the risks and rewards of ownership remains with the lessor are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

3. Turnover

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

4. Segment Information

No analysis of the Group's turnover by principal activities for the year ended 31 December 2004 and 2003 is presented as over 90% of the Group's turnover was from the sales of pulps and papers and all the turnover were derived in the People's Republic of China in both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

5. Other Operating Income

Included in other operating income is interest income from bank deposits of HK\$8,815 (2003: HK\$20,674).

6. Profit/(Loss) from Operations

Profit/(loss) from operations has been arrived at after charging:

	2004	2003
	HK\$	HK\$
Auditors' remuneration		
— provided for in current year	110,377	107,547
— over-provided for in previous year	—	(90,000)
	110,377	17,547
Directors' remuneration		
— fees	—	—
— other emoluments	77,609	80,661
Other staff costs	3,508,360	3,795,639
Total staff costs	3,585,969	3,876,300
Depreciation	1,951,411	1,646,527
Operating lease payment in respect of rented premises	27,358	32,604
Research and development costs	—	3,445
Loss on disposal of a motor vehicle	27,924	—

Contributions to defined contribution retirement benefit scheme included in other staff costs amounted to HK\$128,460 (2003: HK\$41,599).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. Finance Costs

	2004 HK\$	2003 HK\$
Interest on bank loan, wholly repayable within 1 year	204,340	—
Interest on other loan, wholly repayable within 1 year	22,203	—
	<u>226,543</u>	<u>—</u>

8. Directors' Remuneration and Five Highest Paid Employees' Emoluments

A director

	2004 HK\$	2003 HK\$
Fees	—	—
Salaries and other benefits	77,609	80,661
Bonus	—	—
Contributions to retirement benefit scheme	—	—
	<u>77,609</u>	<u>80,661</u>

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Employees

Of the five highest paid individuals of the Group, one was director of the Company in 2004 and 2003. The remuneration of the remaining four individuals in 2004 and 2003 were as follows:

	2004 HK\$	2003 HK\$
Salaries and other benefits	251,283	248,058
Contributions to retirement benefits scheme	9,470	10,863
	<u>260,753</u>	<u>258,921</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

9. Taxation

The Group's primary operations are carried out in the PRC. The general tax rate for corporation in the PRC is 33%. Pursuant to the relevant laws and regulations in the PRC, Yunnan Changning Kanstar Paper Co., Limited ("Yunnan Changning"), one of the PRC subsidiaries, is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made for the year as Yunnan Changning has available tax losses brought forward from previous years to offset against current year assessable profits (2003: Nil). Yunnan Kanstar High Tech Products Development Company Limited ("Yunnan Kanstar"), the other PRC subsidiary, was in loss making position for the current and the previous years. Accordingly, Yunnan Kanstar did not have any assessable profits and no provision for PRC income tax has been made for the year (2003: Nil).

No provision for Hong Kong profits tax has been made for the year as the Company's Hong Kong subsidiaries had no assessable profits in Hong Kong (2003: Nil).

Reconciliation between tax expense and accounting profit/(loss) multiplied by the PRC income tax rate is as follows:

	2004 HK\$	2003 HK\$
Profit/(loss) before taxation	<u>1,008,637</u>	<u>(1,966,140)</u>
Tax at the PRC income tax rate of 33%	332,850	(648,826)
Tax effect of:		
— Income not subject to tax	(622,222)	(1,204,258)
— Expenses not deductible for tax purposes	649,888	687,515
— Different tax rates of operation in other jurisdictions	182,270	160,940
— Utilization of tax loss not previously recognized	<u>(542,786)</u>	<u>1,004,629</u>
Tax expense for the year	<u>—</u>	<u>—</u>

10. Dividend

No dividend has been paid or proposed during 2004, nor has any dividend been proposed since the balance sheet date (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

11. Earnings/(Loss) Per Share

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

	2004 HK\$	2003 HK\$
Profit/(loss) for the year		
Profit/(loss) for calculating basic and diluted earnings/(loss) per share	<u>1,008,637</u>	<u>(1,966,140)</u>
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	<u>183,517,337</u>	N/A
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>4,183,517,337</u>	N/A

No diluted loss per share is calculated for the year ended 31 December 2003 because the effect of assumed exercise of share options outstanding during the year 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 affected by the share subdivision.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. Property, Plant and Equipment

The Group

	Buildings	Machinery & equipment	Furniture & fixtures	Motor vehicles	Construction in progress	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost/valuation						
At 1/1/2004	4,061,179	53,965,061	341,490	680,637	66,129	59,114,496
Additions	—	1,005,933	107,690	38,679	4,825,400	5,977,702
Disposals	—	—	—	(79,802)	—	(79,802)
Reallocation	—	922,223	—	—	(922,223)	—
At 31/12/2004	4,061,179	55,893,217	449,180	639,514	3,969,306	65,012,396
Comprising:						
At cost	4,061,179	19,743,185	449,180	639,514	3,969,306	28,862,364
At valuation	—	36,150,032	—	—	—	36,150,032
At 31/12/2004	4,061,179	55,893,217	449,180	639,514	3,969,306	65,012,396
Depreciation						
At 1/1/2004	401,499	2,436,073	123,359	256,749	—	3,217,680
Eliminated on disposals	—	—	—	(31,123)	—	(31,123)
Provided for the year	121,835	1,618,238	97,925	113,413	—	1,951,411
At 31/12/2004	523,334	4,054,311	221,284	339,039	—	5,137,968
Net book values						
At 31/12/2004	3,537,845	51,838,906	227,896	300,475	3,969,306	59,874,428
At 31/12/2003	3,659,680	51,528,988	218,131	423,888	66,129	55,896,816

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. Property, Plant and Equipment (Continued)

The Company

	Furniture & fixtures HK\$
Cost	
At 1/1/2004	28,010
Additions	60,620
	<hr/>
At 31/12/2004	88,630
	<hr style="border-top: 1px dashed black;"/>
Depreciation	
At 1/1/2004	1,082
Provided for the year	15,483
	<hr/>
At 31/12/2004	16,565
	<hr style="border-top: 1px dashed black;"/>
Net book values	
At 31/12/2004	72,065
	<hr style="border-top: 3px double black;"/>
At 31/12/2003	26,928
	<hr style="border-top: 3px double black;"/>

The buildings are situated in the PRC.

In preparing the listing of the Company's shares on GEM, the Group revalued all of the machinery and equipment at 30 April 2002, resulting in a revaluation surplus of HK\$31,660,286 which has been credited to the revaluation reserve. The valuation was carried out by Messrs. Sallmanns (Far East) Limited, a firm of professional valuers, on an open market value basis.

The carrying value of these revalued machinery and equipment amounted to approximately HK\$32,457,000 at 31 December 2004 (2003: HK\$33,718,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation of approximately HK\$3,799,000 (2003: HK\$3,929,000).

The directors consider the carrying value of machinery and equipment at 31 December 2004 was not significantly different from its fair value at that date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. Interests in Subsidiaries

	2004 HK\$	2003 HK\$
Unlisted shares, at cost	24,894,410	24,894,410
Amounts due from subsidiaries	41,204,269	42,152,198
	<u>66,098,679</u>	<u>67,046,608</u>

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation.

The amounts due from subsidiaries are unsecured and interest free. The Company will not demand the subsidiaries for repayment within the next twelve months from the balance sheet date.

Particulars of the Company's subsidiaries as at 31 December 2004 are set out in note 29.

14. Inventories

	2004 HK\$	2003 HK\$
Raw materials and consumables	5,000,026	5,970,671
Work in progress	238,821	72,065
Finished goods	1,813,942	6,297,810
	<u>7,052,789</u>	<u>12,340,546</u>

All the inventories are carried at cost as at 31 December 2004 and 2003.

15. Trade and Other Receivables

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. Trade and Other Receivables (Continued)

An aged analysis of trade receivables is as follows:

	2004	2003
	HK\$	HK\$
0 — 30 days	1,205,983	1,067,417
31 — 60 days	173,942	12,848
61 — 90 days	351,087	201,302
91 — 120 days	43,953	93,023
Over 120 days	227,392	715,460
	<hr/>	<hr/>
	2,002,357	2,090,050
Other debtors, deposits and prepayments	5,349,395	2,460,863
	<hr/>	<hr/>
	7,351,752	4,550,913
	<hr/> <hr/>	<hr/> <hr/>

16. Bank Balances and Cash

Included in bank balances and cash as at 31 December 2004 was an aggregate amount of approximately HK\$2,168,000 (2003: HK\$840,000) in Renminbi. Renminbi is generally regarded as a currency that cannot be fully converted to other currencies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

17. Bank Loan, Secured

The Group's bank loan amounting to HK\$7,500,000 (2003: Nil) is a revolving loan repayable not exceeding 90 days at the time of drawing.

18. Trade and Other Payables

An aged analysis of the trade payables is as follows:

	2004 HK\$	2003 HK\$
0 — 30 days	1,868,639	1,622,612
31 — 60 days	402,893	539,474
61 — 90 days	93,169	205,181
91 — 120 days	24,956	81,477
Over 120 days	952,292	2,497,096
	<hr/> 3,341,949	<hr/> 4,945,840
Other creditors and accrued charges	2,554,203	3,429,100
	<hr/> 5,896,152	<hr/> 8,374,940

19. Amounts Due to Directors

All the amounts due to directors are unsecured, interest-free and have no fixed term of repayment.

20. Deferred Taxation

At 31 December 2004 & 2003, the deferred tax liabilities represented amount recognized in respect of the revaluation surplus on the Group's machinery and equipment.

At the balance sheet date, the Group has unrecognized PRC tax losses of HK\$7,124,055 (2003: HK\$8,768,860) which will expire at various years up to 2008. No deferred tax has been recognized due to the unpredictability of future profit streams.

The Group has no other significant deferred taxation unrecognized at the balance sheet date (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

21. Share Capital

Details of share capital were as follows:

	Number of shares	HK\$
Authorised:		
At 31 December 2004 and 2003, ordinary shares of HK\$0.002 each	<u>10,000,000,000</u>	<u>20,000,000</u>
Issued & fully paid:		
At 31 December 2004 and 2003, ordinary shares of HK\$0.002 each	<u>4,000,000,000</u>	<u>8,000,000</u>

22. Share Option Schemes

The Company adopted two share option schemes (hereinafter refer to the "Pre-IPO Share Option Scheme" and the "Share Option Scheme") on 26 June 2002 for the purpose of providing incentives to the directors and eligible participants, under which the Company may grant options to the directors and employees of the Group and also other eligible participants to subscribe for shares of the Company.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or their associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

A nominal consideration of HK\$1 is payable on acceptance of each grant. Options may be exercised at any time during a period which may commence on a day after the date of grant of the share options but shall end at any event not later than ten years from the date of grant of the options. The exercise price is determined by the directors of the Company, and will be at least the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant, and (iii) the nominal value of the shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

22. Share Option Schemes (Continued)

On 26 June 2002, prior to its listing, the Company granted options to certain executive directors and employees of the Group to subscribe for an aggregate of 251,100,000 shares (note) in the Company under the Pre-IPO Share Option Scheme. The terms of the Pre-IPO Share Option Scheme different to the terms of the Share Option Scheme as described above except that:

- (i) the eligible participants are confined to certain directors, senior management, employees, consultants and advisers of the Group;
- (ii) there is no minimum subscription price;
- (iii) the general scheme limit, the individual limit applicable to each proposed grantee and the restrictions on grant of options to a connected person do not apply; and
- (iv) the directors may only grant options under the Pre-IPO Share Option Scheme at any time within a period from 26 June 2002 to 12 July 2002.

Details of share options granted under the Pre-IPO Share Option Scheme to certain directors and employees to subscribe for shares in the Company are as follows:

Exercisable period		No of options as at 1 January 2004 (Note)	Cancelled/ Lapsed during the year (Note)	No of options as at 31 December 2004 (Note)
Directors	12 July 2002 — 11 July 2007	110,000,000	—	110,000,000
	12 January 2003 — 11 January 2008	73,350,000	—	73,350,000
Employees	12 July 2003 — 11 July 2008	33,000,000	32,500,000	500,000
		<u>216,350,000</u>	<u>32,500,000</u>	<u>183,850,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

22. Share Option Schemes (Continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognized in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Note: 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. This share subdivision gave rise to adjustments to both the exercise price and the number of underlying shares granted under the Pre-IPO Share Option Scheme, and accordingly every option originally granted was increased to five options.

23. Reserves

	Share premium HK\$	Accumulated loss HK\$	Total HK\$
At 31 December 2002	60,649,609	(807,030)	59,842,579
Loss for the year	—	(1,037,090)	(1,037,090)
At 31 December 2003	60,649,609	(1,844,120)	58,805,489
Loss for the year	—	(924,715)	(924,715)
At 31 December 2004	<u>60,649,609</u>	<u>(2,768,835)</u>	<u>57,880,774</u>

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$57,880,774 (2003: HK\$58,805,489).

24. Retirement Benefit Schemes

All the staffs in Hong Kong of the Group are required to join the Mandatory Provident Fund Scheme. The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

24. Retirement Benefit Schemes (Continued)

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute 24% (2003: 25%) of the stipulated salary set by the Yunnan provincial government to the retirement benefits schemes to fund the retirement benefits of certain Group's employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the scheme.

During the year, the Group has contributed HK\$128,460 (2003: HK\$41,599).

25. Operating Lease Commitments

At the balance sheet date, the Group had the total future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2004	2003
	HK\$	HK\$
Within one year	118,845	172,805
In the second to fifth year, inclusive	—	104,128
	118,845	276,933

For rented premises, leases are negotiated for an average term of two to five years and rentals are fixed throughout the lease period.

On 22 September 2000, a land use right in PRC was granted by the Land Bureau of Changning in the PRC (the "Land Bureau") to a subsidiary for the period from 1 October 2000 to 1 October 2005 at an annual rental of approximately HK\$139,000 with a rental free period from 1 October 2000 to 30 September 2001.

On 4 June 2002, an undertaking was given by the Land Bureau for extending the said land use right to 21 September 2030 at an annual rental of approximately HK\$139,000 on which the paper plant situated and operated by a subsidiary of the Company. Pursuant to the undertaking, the rent will be subject to adjustment every five years, provided that the adjusted increment would not exceed 20%.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. Operating Lease Commitments (Continued)

On 14 November 2002, the Land Bureau has agreed to waive the rental payable by the subsidiary for the period from 1 January 2002 to 30 September 2002 amounted to approximately HK\$104,000. As the acquisition of the said land use right is in the final stage, and included in the amounts of other receivable was deposit of approximately HK\$1,253,000 to the Land Bureau for the acquisition, the subsidiary and the Land Bureau have intended and considered the rental would further be waived up to 31 December 2004, and accordingly, no such rental was provided for in the financial statements.

26. Related Parties Transaction

During the year, Mr. Chim Kim Kiu, Jacky, the director of the Company has given personal guarantee amounting to HK\$10,000,000 to a bank for granting banking facilities to a subsidiary (2003: Nil).

27. Capital Commitments

At 31 December 2004, the Group had capital commitments amounting to HK\$1,414,764 (2003: HK\$3,856,708) in respect of the acquisition of land use right in PRC and the acquisition of property, plant and equipment contracted but not provided for in the financial statements.

28. Contingent Liabilities

The Company has given guarantees amounting to HK\$10,000,000 to a bank in respect of general banking facilities granted to a subsidiary amounting to HK\$10,000,000 (2003: Nil). The extent of such facilities utilized by the subsidiary at 31 December 2004 was HK\$7,500,000 (2003: Nil).

29. Particulars of Subsidiaries

Particulars of the Company's subsidiaries at 31 December 2004 were as follows:

Name of subsidiary	Place of incorporation/ establishment	Forms of legal entity	Issued and fully paid share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Kanstar Environmental Technology Group Limited	The British Virgin Islands	Limited liability Company	US\$1,000	100%	—	Investment holding
Kanstar Hong Kong Limited	Hong Kong	Limited liability Company	HK\$1,000,000	—	100%	Investment holding and management services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

29. Particulars of Subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ establishment	Forms of legal entity	Issued and fully paid share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Addata Development Limited	Hong Kong	Limited liability Company	HK\$10,000	—	100%	Holding and administration of intellectual property rights for paper filling materials and "Kanstar" brandname
雲南建星新技術 產品開發有限公司 Yunnan Kanstar High Tech Products Development Company Limited	The PRC	Foreign owned enterprise	US\$420,000*	—	100%	Research, development, manufacture and sale of paper filling materials
雲南昌寧建星紙業 有限公司 Yunnan Changning Kanstar Paper Co., Ltd.	The PRC	Foreign owned enterprise	RMB13,357,659*	—	100%	Development, manufacture and sale of pulp and paper products
Modern Lucky International Limited	Hong Kong	Limited liability Company	HK\$2	—	100%	Dormant

None of the subsidiaries had issued any debt securities at the end of the year.

30. Comparative Figures

Certain comparative figures have been reclassified to conform with current year's presentation.

FINANCIAL SUMMARY

For the year ended 31 December 2004

Result

	For the years ended 31 December				2004 HK\$
	2000 HK\$	2001 HK\$	2002 HK\$	2003 HK\$	
Turnover	—	2,909,965	14,058,190	30,782,461	50,313,475
Cost of sales	—	(4,902,490)	(16,872,043)	(29,979,122)	(46,302,009)
Gross (loss)/profit	—	(1,992,525)	(2,813,853)	803,339	4,011,466
Other operating income	10,425	55,631	160,014	117,264	55,787
Selling and distribution expenses	—	(102,643)	(363,159)	(716,127)	(797,368)
Administrative expenses	(1,678,183)	(3,405,004)	(2,074,214)	(2,170,616)	(2,034,705)
(Loss)/profit from operations	(1,667,758)	(5,444,541)	(5,091,212)	(1,966,140)	1,235,180
Finance costs	(47,377)	(18,462)	—	—	(226,543)
(Loss)/profit before taxation	(1,715,135)	(5,463,003)	(5,091,212)	(1,966,140)	1,008,637
Taxation	—	—	—	—	—
(Loss)/profit for the year	<u>(1,715,135)</u>	<u>(5,463,003)</u>	<u>(5,091,212)</u>	<u>(1,966,140)</u>	<u>1,008,637</u>

Assets and Liabilities

	At 31 December				2004 HK\$
	2000 HK\$	2001 HK\$	2002 HK\$	2003 HK\$	
Total assets	20,951,988	21,043,457	73,434,808	74,299,479	76,762,760
Total liabilities	(22,686,302)	(27,250,646)	(17,472,338)	(20,303,149)	(21,757,793)
(Deficiency of)/shareholders' funds	<u>(1,734,314)</u>	<u>(6,207,189)</u>	<u>55,962,470</u>	<u>53,996,330</u>	<u>55,004,967</u>

Notes:

1. The Company was incorporated in Cayman Islands on 6 March 2002 and became the holding company of the Group with effect from 26 June 2002 upon completion of the Group Reorganisation as set out in the Company's prospectus dated 5 July 2002.
2. The results of the Group for the two years ended 31 December 2001 and the balance sheet of the Group as at 31 December 2000 and 2001 have been prepared on a merger basis and are extracted from the Company's prospectus dated 5 July 2002.