



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

First Quarterly
Report **2005**

** For identification only*

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 report 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 report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover increased by approximately 56% over the corresponding period in last year to approximately HK\$12,295,000 for the three months ended 31 March 2005.
- Net profits attributable to shareholders for the three months ended 31 March 2005 amounted to approximately HK\$167,000 which was increased by around 9% over the corresponding period of last year.
- The Directors do not declare any dividend for the three months ended 31 March 2005.

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 2005, together with the comparative unaudited figures for the corresponding period in 2004, as set out below:

Unaudited Consolidated Results

		Three months ended	
		31 March	
		2005	2004
	<i>Notes</i>	HK\$	<i>HK\$</i>
Turnover	2	12,295,444	7,878,547
Cost of sales		(11,046,495)	(7,099,900)
Gross profits		1,248,949	778,647
Other revenue		—	26,805
Selling and distribution expenses		(354,742)	(260,955)
Administrative expenses		(597,102)	(371,613)
Profits from operations		297,105	172,884
Finance costs		(130,420)	(19,997)
Profits before taxation	3	166,685	152,887
Taxation	4	—	—
Profits for the period		166,685	152,887
Dividend	5	—	—
Earnings per share	7		
— basic		0.004 cents	0.004 cents
— diluted		0.004 cents	0.004 cents

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 accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They are prepared under the historical cost convention, as modified for the revaluation of machinery and equipment under property, plant and equipment.

In 2004, the HKICPA 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 adoption of the new HKFRSs had no material impact on the Group’s results of operations and financial position.

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2005 and 2004 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2004. The consolidated results are unaudited but have been reviewed by the Company’s audit committee.

2. Turnover

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

3. Profits before taxation

Profits before taxation have been arrived at after charging (crediting):

	For the three months ended 31 March	
	2005	2004
	HK\$	HK\$
Depreciation of property, plant and equipment	404,670	412,625
Bank interest income	—	(960)
Interest on bank borrowings wholly repayable within 5 years	130,420	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 2005 (three months ended 31 March 2004: Nil).

5. Dividend

The Board does not recommend the payment of a dividend for the three months ended 31 March 2005 (three months ended 31 March 2004: Nil).

6. Reserves

Other than the net profits for the three months ended 31 March 2005 and 2004 respectively, there were no movements to or from reserves of the Company.

7. Earnings per share

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

	For the three month ended 31 March	
	2005	2004
	HK\$	HK\$
Profits for the period		
Profits for calculating basic and diluted earnings per share	166,685	152,887
Number of shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	4,000,000,000	4,000,000,000
Effect of dilutive potential ordinary share	182,709,095	185,985,037
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,182,709,095	4,185,985,037

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the three months ended 31 March 2005, the Group continued its efforts to expand. The unaudited turnover was about HK\$12.3 million which had increased greatly by approximately 56% comparing to that of last corresponding period. The net profit for the period was about HK\$167,000 which increased slightly by 9% comparing to that of the corresponding period in 2004.

The directors of the Company do not recommend the payment of an interim dividend for the period (three months ended 31 March 2004: nil).

In this review period, the Group intensified the promotion of Kanstar's products in the Yunnan Market by increasing the number of sales staffs in the Kunming office. The management believes that the promotion in local market will increase the Group's profits margin. Also, with the improvement in the quality of the Group's products, the general selling prices of the products have been increased by around 3% in this review period.

However, the general increase in the selling price was set off by the increase in the prices of both chemicals and coals in this review period which was lead by the recent high level of oil prices and the various accidents of the coal fields in the PRC. For example, comparing to that of December 2004, the purchase cost of chlorine, one of the main chemical in the production process, has increased by nearly 20% in this review period.

With the continuous expansion in the operating scale, the selling and distribution expenses had increased by around 36% compared to last corresponding period. In order to reduce such distribution cost, the Group tried to organize its own transportation team in current period. The management expects that this can help to reduce such distribution cost by at least 10% in the long run.

The amount of administrative expenses had increased by approximately 60% compared to that of last corresponding period. Such increase was in line with the expansion in the business operations. For the finance costs in current period, in order to reserve adequate raw materials in the coming rainy season, the Group has raised loans from the banks to purchase raw materials which lead to the increase in the finance costs.

Prospects

The management believes the general prices for both the chemicals and coals will not remain at such high level in the long run and will reduce to the normal level at a later stage in current year. When these prices returned to such level, the gross profit margin of the group's products will surely be improved.

Another development area for the Group was the development of new products with higher profit margin. In this review period, the Group has upgraded one of its pulp and paper production line to produce cardboard for paper cups. The quality of these new products was preliminary accepted by its customers and commercial production will probably be started in the second quarter of 2005.

As stated in last year's annual report, 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 through his wholly owned company, Riches Good Limited, ("Riches Good") in 2004. It is proposed that after the success of the trial production of this paper manufacturing plant and subject to the approval of the shareholders and the approving authorities, the Group will acquire all the interests in Riches Good. The management believes that the acquisition can further speed up the Group's expansion process. Up to the date of this report, there is no formal timetable for such acquisition.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 31 March 2005, 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 2005, the interests or short positions of the Directors and chief executives 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 Rule 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	Personal Interests	Family Interests	Number of Ordinary Shares		Total	Percentage of Shareholding
				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 <i>(Executive Director)</i>	Beneficial owner	share options to subscribe for shares (108,350,000 shares) <i>(Note)</i>
Mr. Sun Tak Keung <i>(Executive Director)</i>	Beneficial owner	share options to subscribe for shares (75,000,000 shares) <i>(Note)</i>

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 executives of the Company had, as at 31 March 2005, 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 Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, so far as 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:

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 March 2005, 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.

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	500,000	–	500,000
Total				183,850,000	–	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 2005.

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

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the periods from 1 January 2005 to 31 March 2005 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the three months ended 31 March 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.

AUDIT COMMITTEE

The Company has established an audit committee, comprising Mr. Chan Chi Hung, Anthony, Mr. Lau Ka Ho and Mr. Wang Ai Guo, all of them are independent non-executive Directors, with written terms of reference in compliance with the GEM Listing Rules. Mr. Lau Ka Ho has been appointed as the chairman of the audit committee. The primary responsibilities of the audit committee are (i) to review the annual report and accounts, half-yearly report and quarterly reports and provide advice and comments thereon to the Board and (ii) to review and supervise the financial reporting process and internal control system of the Group. The audit committee has reviewed the quarterly report for the three months ended 31 March 2005.

On behalf of the Board
Chim Kim Kiu, Jacky
Chairman

Hong Kong, 12 May 2005

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