



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 2006



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This report, for which the directors of Kanstar Environmental Paper Products Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Kanstar Environmental Paper Products Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— 1. the information contained in this 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

- Unaudited turnover of HK\$15,270,888 for the three months ended 31 March 2006, representing an increase of 24% as compared to that of the corresponding period in last year.
- Unaudited net profit attributable to shareholders for the three months ended 31 March 2006 amounted to HK\$227,446 whereas the unaudited net profit attributable to shareholders of HK\$166,685 was recorded in the corresponding period of last year.
- The Directors do not declare any dividend for the three months ended 31 March 2006.



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 2006, together with the comparative unaudited figures for the corresponding period in 2005, as set out below:

Unaudited Consolidated Results

	<i>Notes</i>	Three months ended 31 March	
		2006 HK\$	2005 HK\$
Turnover	3	15,270,888	12,295,444
Cost of sales		(13,701,503)	(11,046,495)
Gross profit		1,569,385	1,248,949
Other revenue		6,944	—
Selling and distribution expenses		(133,869)	(354,742)
Administrative expenses		(965,255)	(597,102)
Profits from operations		477,205	297,105
Finance costs		(249,759)	(130,420)
Profit before taxation	4	227,446	166,685
Taxation	5	—	—
Profit for the period		227,446	166,685
Dividend	6	—	—
Earnings per share	7		
— basic		0.005 cents	0.004 cents
— diluted		0.005 cents	0.004 cents



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$	Share premium HK\$	Special reserve HK\$	Revaluation reserve HK\$	Exchange reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2005	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(13,257,306)	55,004,967
Profit for the period	—	—	—	—	—	166,685	166,685
At 31 March 2005	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(13,090,621)	55,171,652
At 1 January 2006	8,000,000	35,770,199	985,000	23,509,170	161,659	(13,154,087)	55,271,941
Profit for the period	—	—	—	—	—	227,446	227,446
At 31 March 2006	8,000,000	35,770,199	985,000	23,509,170	161,659	(12,926,641)	55,499,387



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.

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2006 and 2005 are consistent with those following the preparation of the Group's annual financial statements for the year ended 31 December 2005. The Consolidated results are unaudited but have been reviewed by the Company's audit committee.

2. Adoption of new and revised Hong Kong financial reporting standards

The Group has applied a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to its operations and effective for accounting periods commencing on or after 1 January 2006. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity.

The adoption of the new and revised HKASs and HKFRSs had no material impact on the Group's results of operations and financial position.

The Company has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations, if appropriate, will have no material impact on the financial statements of the Company.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.



3. Turnover

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

4. Profits before taxation

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

	For the three months ended 31 March	
	2006 HK\$	2005 HK\$
Depreciation of property, plant and equipment	444,030	404,670
Interest on bank borrowings wholly repayable within 5 years	249,759	130,420

5. Taxation

No provision for Hong Kong Profits tax has been made as the Group had no assessable profit in Hong Kong.

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

There was no unprovided deferred tax in respect of the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

6. Dividend

The Board does not recommend the payment of a dividend for the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).



7. Earnings per share

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

	For the three months ended 31 March	
	2006 HK\$	2005 HK\$
Profit for the period		
Profit for calculating basic and diluted earnings per share	227,446	166,685
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	182,800,412	182,709,095
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,182,800,412	4,182,709,095



MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the three months ended 31 March 2006, the Group recorded an unaudited turnover of HK\$15.27 million which was increased by approximated 24% comparing to that of last corresponding period. The unaudited net profit for the period was HK\$227,446. In last corresponding period, the Group has recorded an unaudited profit of HK\$166,685.

The directors of the Company do not recommend the payment of an interim dividend for the period (three months ended 31 March 2005: nil)

In this review period, the Group continued its efforts to expand and intensified the productivity and the quality of the Group's products. With the improvement of productivity and the quality of the Group's products the management believes that the Group's profit margin will also increased.

Although the chemicals and coals in this review period were decreased slightly, this was set off by the increase of both fuel oil and transportation cost.

With the continuous expansion in the operating scale, the administrative expenses had increased by approximately 60% to that of last corresponding period. Such increase was in line with the expansion in the business operations.

For the finance costs in the 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 chemicals and coals are at a lower level in current year, the gross profit margin of the group's products will be improved.

In order to reduce the cost of production, the Group plans to install an electricity control system, this is to economize the use of electricity on daily production around 10%. The installation of the electricity control system will be completed by end of June.

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 late 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 2006, 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 2006, 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	Number of Ordinary Shares				Total	Percentage of Shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests		
Mr. Chim Kim Kiu, Jacky	Interest of a controlled corporation	—	—	3,000,000,000 (Note 1)	—	3,000,000,000	75%

Note:

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



Long positions in underlying shares of the Company

Name of Grantees (Relations with the Group)	Capacity	Description of equity derivatives (number of underlying shares)
Mr. Ip Kai Cheong (Executive Director)	Beneficial owner	share options to subscribe for shares (108,350,000 shares) (Note)
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 executives of the Company had, as at 31 March 2006, 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 2006, 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:

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 2006, 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 2006	Lapsed during the period under review	Outstanding as at 31 March 2006
<i>Executive directors:</i>						
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 2006.

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 2006 to 31 March 2006 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.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the three months ended 31 March 2006, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for the directors' securities transactions during the three months ended 31 March 2006.

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 2006.

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. The Directors believe that there is a potential risk that the products produced by Riches Good may compete with the Group's products.



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

Under Rule 5.05 of the GEM Listing Rules, the Company is required to have at least three independent non-executive directors, and at least one of them with appropriate professional qualifications or accounting or related financial management expertise, and should appoint an independent non-executive director to meet such requirement within three months after failing to meet such requirements under Rule 5.06 of the GEM Listing Rules. Rule 5.28 of the GEM Listing Rules also provides that the Company must establish an audit committee comprising a minimum of three non-executive directors of the Company, one of whom is the independent non-executive director with the qualifications or expertise as aforesaid, and should appoint appropriate members to the audit committee to meet such requirement within three months after failing to meet such requirement under Rules 5.33 of the GEM Listing Rules.

After the resignation of the Company's former independent non-executive director, Mr. Lau Ka Ho, on 12 December 2005, the Company has failed to appoint at least three independent non-executive director and to establish an audit committee of the Company with at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise within three months from 12 December 2005 until the appointment of Mr. Wan Hon Keung on 12 April 2006. Upon the appointment of Mr. Wan Hon Keung, the Company is complied with the requirements under Rules 5.05, 5.06, 5.28 and 5.33 of the GEM Listing Rules.

Mr. Wan Hon Keung 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 first quarterly report for the three months ended 31 March 2006.

On behalf of the Board
Chim Kim Kiu, Jacky
Chairman

Hong Kong, 12 May 2006

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