



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

Third Quarterly
Report 2006

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

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



HIGHLIGHTS

- Turnover increased by approximately 8% over the corresponding period in last year to approximately HK\$40 million for the nine months ended 30 September 2006.
- Net loss to shareholders for the nine months ended 30 September 2006 amounted to approximately HK\$781,000 whereas the net loss attributable to shareholders of approximately HK\$431,000 was recorded in previous period.
- The Directors do not recommend the payment of any dividend for the nine months ended 30 September 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 and nine months ended 30 September 2006, together with the comparative unaudited figures for the corresponding periods in 2005, as set out below:

UNAUDITED CONSOLIDATED RESULTS

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2006	2005	2006	2005
		HK\$	HK\$	HK\$	HK\$
Turnover	2	12,766,749	15,004,544	39,773,768	36,853,585
Cost of sales		(11,726,494)	(13,927,508)	(35,129,611)	(34,651,119)
Gross profit		1,040,255	1,077,036	4,644,157	2,202,466
Other revenue		27,008	385,935	33,952	565,758
Selling and distribution expenses		(549,756)	(131,915)	(1,271,484)	(759,526)
Administrative expenses		(1,216,517)	(826,473)	(3,247,850)	(2,007,264)
Profit from operations		(699,010)	504,583	158,775	1,434
Finance costs		(359,020)	(157,271)	(939,880)	(432,791)
Profit (loss) before taxation	3	(1,058,030)	347,312	(781,105)	(431,357)
Taxation	4	—	—	—	—
Profit (loss) for the period		(1,058,030)	347,312	(781,105)	(431,357)
Dividend	5	—	—	—	—
Earnings (loss) per share (cent)	6				
— basic		(0.022)	0.009	(0.016)	(0.011)
— diluted		N/A	0.008	N/A	N/A



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
Movements arising from changes in exchange rate	—	—	—	—	149,170	—	149,170
Loss for the period	—	—	—	—	—	(431,357)	(431,357)
At 30 September 2005	<u>8,000,000</u>	<u>35,770,199</u>	<u>985,000</u>	<u>23,509,170</u>	<u>147,074</u>	<u>(13,688,663)</u>	<u>54,722,780</u>
At 1 January 2006	8,000,000	35,770,199	985,000	23,509,170	161,659	(13,154,087)	55,271,941
Issue of 800,000,000 Consideration Shares (Note)	1,600,000	224,000,000	—	—	—	—	225,600,000
Loss for the period	—	—	—	—	—	(781,105)	(781,105)
At 30 September 2006	<u>9,600,000</u>	<u>259,770,199</u>	<u>985,000</u>	<u>23,509,170</u>	<u>161,659</u>	<u>(13,935,192)</u>	<u>(280,090,836)</u>

Note:

As disclosed by the Company in the announcement and circular made in June 2006, the Company entered into an agreement in June 2006 to acquire 20% interest in Polyard International Energy Limited from Mr. Lam Nam. 800,000,000 shares of Consideration Shares were issued by the Company to Silver Star Enterprises Holdings Inc. as nominated by Mr. Lam Nam. The acquisition was completed in mid-September 2006.

*Notes:***1. Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and complied with accounting standards issued by Hong Kong Institute of Certified Public Accountants.

The financial statements are prepared under the historical cost convention and the basis of preparation and accounting policies adopted therein are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2005.

The unaudited condensed consolidated financial statements for the nine months and three months ended 30 September 2006 have not been audited by external auditors, 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 period.

3. Profit (loss) before taxation

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Depreciation of property, plant and equipment	334,980	431,058	1,080,653	1,270,169
Bank interest income	—	—	—	—
Interest on bank borrowings wholly repayable within 5 years	359,020	157,271	939,880	432,791

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 and nine months ended 30 September 2006 (three months and nine months ended 30 September 2005: Nil).

5. Dividend

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2006 (nine months ended 30 September 2005: Nil).

6. Earnings (loss) per share

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
Profit (loss) for the period				
Profit (loss) for calculating basic and diluted earnings (loss) per share	<u>(1,058,350)</u>	<u>347,312</u>	<u>(781,105)</u>	<u>(431,357)</u>
Number of shares				
Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	<u>4,800,000,000</u>	<u>4,000,000,000</u>	<u>4,800,000,000</u>	<u>4,000,000,000</u>
Effect of dilutive potential ordinary share	<u>N/A</u>	<u>182,633,474</u>	<u>N/A</u>	<u>N/A</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>N/A</u>	<u>4,182,633,474</u>	<u>N/A</u>	<u>N/A</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the nine months ended 30 September 2006, the turnover of the Group has increased by 8%, to approximately HK\$40 million (2005: HK\$37 million). However, the turnover of the Group for the three months ended 30 September 2006 has decreased by 15%, to approximately HK\$13 million (2005: HK\$15 million). Due to the abnormal climate and the interruption of water supply in the third quarter of the year, which affected the production. The Group has recorded a net operating loss of approximately HK\$781,000 for the period under review. In last corresponding period, the Group has recorded a net operating loss of approximately HK\$431,000.

The directors of the Company do not recommend the payment of any dividend for the nine months ended 30 September 2006 (2005: nil).

During the reporting period, the Group has placed more resources on the sales network and expanded its products market, the selling and distribution expenses have been increased in the current period. The Group believes such investment will benefit the long term development of the Group.

When compared with the last corresponding period, the finance costs for the three months ended 30 September 2006 increased from approximately HK\$157,000 to HK\$359,000. The bank loan was mainly raised for financing the Group's stock up of raw materials.

Prospects

The Company will continue to enhance in production technologies and production, improve product quality, increase production scale and to achieve continuous growth in economic value. The Group will continue to expand its production capacity and market share in the PRC.



PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 30 September 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 30 September 2006, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to Rules 5.46 of the GEM Listing Rules, relating to the required standard of dealings by directors of listed issuers, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of Ordinary Shares				Percentage of Total Shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests	
Mr. Chim Kim Kiu, Jacky	Interest of a controlled corporation	—	—	2,793,350,000 (Note 1)	— 2,793,350,000	58.19%

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. Sun Tak Keung (Executive Director)	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 executive of the Company had, as at 30 September 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 Rules 5.46 of the GEM Listing Rules.



SUBSTANTIAL SHAREHOLDERS

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

Name	Number of shares held	Approximate percentage of issued shares
Siko Venture Limited	2,793,350,000 (<i>Note 1</i>)	58.19%
Silver Star Enterprises Holdings Inc.	800,000,000 (<i>Note 2</i>)	16.67%

Notes:

1. The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky.
2. The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam.

Save as disclosed above, as at 30 September 2006, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) adopted by the Company on 26 June 2002, certain Directors and participants have been granted options to subscribe for shares at an exercise price of HK\$0.002 per share, details of which are set out as follows:

Name of grantee	Date of grant	Exercise period	Granted	Number of shares options		
				Outstanding as at 1 January 2006	Cancelled during the period	Outstanding as at 30 September 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)	0
		12 January 2003 - 11 January 2008	43,350,000	43,350,000	(43,350,000)	0
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				<u>183,850,000</u>	<u>108,350,000</u>	<u>75,500,000</u>

No share options under the share option scheme (the “Share Option Scheme”) adopted by the Company on 26 June 2002 were granted during the nine months ended 30 September 2006.

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



DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the periods from 1 January 2006 to 30 September 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.

COMPETING INTERESTS

Mr. Chim Kim Kiu, Jacky, the executive Director, is a director of Riches Good Limited ("Riches Good"), the entire issued share capital of which is held by Mr. Chim Kim Kiu, Jacky. In October 2004, Riches Good purchased the assets and production machines from a bankrupted paper manufacturing plant and planed to use one year to restore production. As the products produced by Riches Good are different with that of the Group's products, the Directors consider the impact of such similar business on the Group is minimal.

Save as disclosed above, none of the directors or the shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the nine months ended 30 September 2006, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

RELATED PARTIES TRANSACTIONS

- (a) During the period, Mr. Chim Kim Kiu, Jacky, the director of the Company has given personal guarantees to the extent of HK\$19,500,000 (30 September 2005: HK\$14,500,000) to two banks for granting banking facilities to the Group.
- (b) During the period, a close member of the family of Mr. Sun Tak Keung, the director of the Company has given personal guarantee amounting to HK\$15,000,000 (30 September 2005: HK\$10,000,000) to a bank for granting banking facilities to a subsidiary.

CONTINGENT LIABILITIES

As at 30 September 2006, the Company has given guarantees amounting to HK\$15,000,000 (31 December 2005: HK\$10,000,000) to a bank in respect of general banking facilities granted to a subsidiary. The extent of such facilities utilized by the subsidiary at 30 September 2006 was HK\$12,400,000 (31 December 2005: HK\$7,900,000).

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules on 7 February 2006. The duties of the Audit Committee include: review and monitor the financial reporting procedures and internal control system of the Group. As at 30 September 2006, the Audit Committee comprises three independent non-executive Directors, namely Messrs. Wan Hon Keung, Wang Ai Guo and Chan Chi Hung, Anthony.



The unaudited consolidated results of the Group for the nine months ended 30 September 2006 has been reviewed by the Audit Committee. In the opinion of the Audit Committee, such unaudited results complied with the applicable accounting standards and requirements and has contained adequate disclosures.

The unaudited consolidated results of the Group for the nine months ended 30 September 2006 has not been reviewed by the external auditors of the Company.

On behalf of the Board
Cheng Kwok Hing, Andy
Director

Hong Kong, 10 November 2006

At the date of this report, the Board is comprised of Mr. Chim Kim Kiu, Jacky, Mr. Sun Tak Keung, Mr. Cheng Kwok Hing, Andy and Mr. Kwok Ching Chung are executive directors, Mr. Chan Chi Hung, Anthony, Mr. Wan Hon Keung and Mr. Wang Ai Guo are independent non-executive directors.