

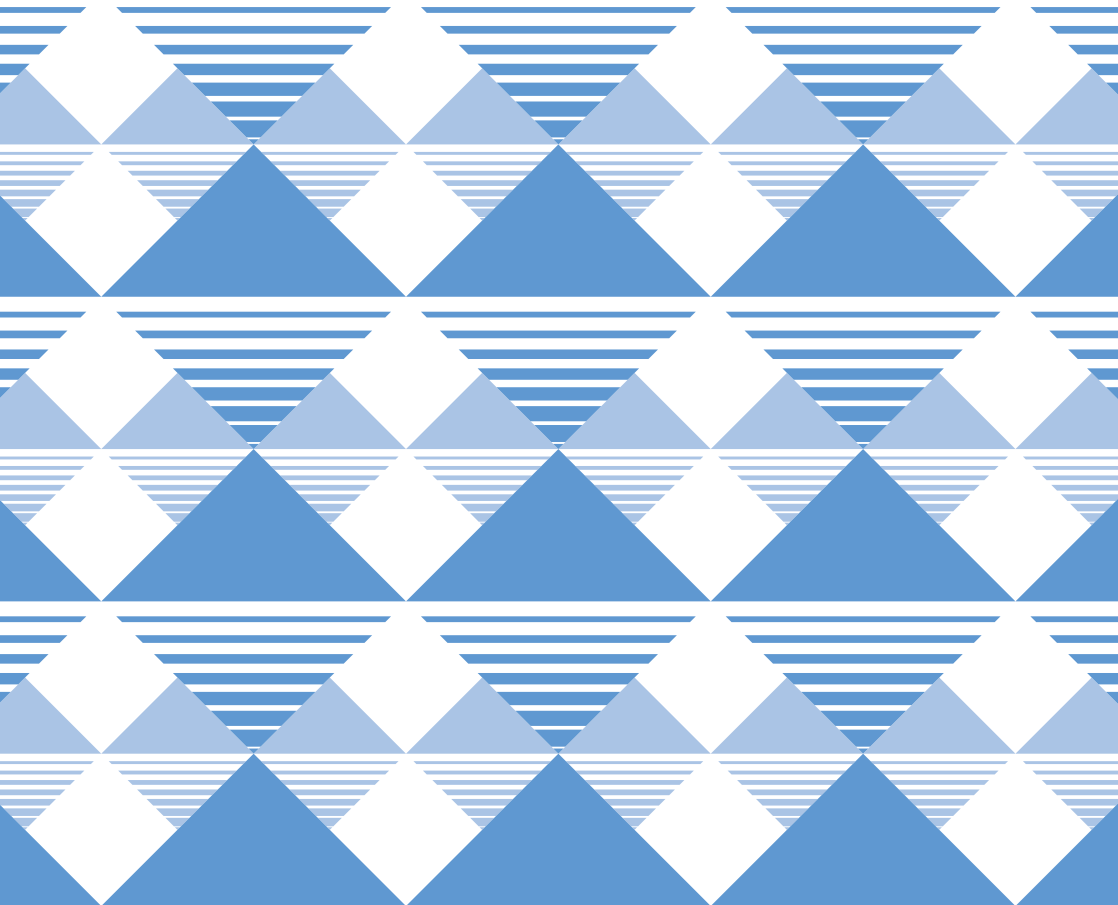


Kanstar Environmental Paper Products Holdings Limited

建星環保紙品控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

Stock Code : 8011



**2007** | FIRST QUARTERLY  
REPORT



## 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 announcements 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 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 (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.*



## 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 2007, together with the comparative unaudited figures for the corresponding period in 2006, as set out below:

## UNAUDITED CONSOLIDATED RESULTS

	Notes	Three months ended 31 March	
		2007 HK\$'000	2006 HK\$'000
Turnover	2	11,464	15,271
Cost of sales		(10,201)	(13,702)
Gross profit		1,263	1,569
Other revenue		613	7
Selling and distribution expenses		(391)	(134)
Administrative and other operating expenses		(2,858)	(965)
Profit/(loss) from operations		(1,373)	477
Finance costs		(459)	(250)
Share of results of associates		(330)	—
Profit/(loss) before tax	3	(2,162)	227
Income tax	4	—	—
Profit/(loss) for the period		(2,162)	227
Dividend	5	—	—
Earnings/(loss) per share	6		
— basic		(0.045 cent)	0.005 cent
— diluted		N/A	0.005 cent



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2006	8,000	35,770	985	23,509	162	(13,154)	55,272
Profit for the period	—	—	—	—	—	227	227
At 31 March 2006	8,000	35,770	985	23,509	162	(12,927)	55,499
At 1 January 2007	9,600	259,770	985	14,508	42	(31,674)	253,231
Loss for the period	—	—	—	—	—	(2,162)	(2,162)
At 31 March 2007	9,600	259,770	985	14,508	42	(33,836)	251,069



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 certain property, plant and equipment.

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2007 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006. The consolidated results are unaudited but have been reviewed by the Company's audit committee.

**2. Turnover**

Turnover represents revenue from the sales of pulp and paper products, net of discounts and returns, during the periods.

**3. Profit/(loss) before tax**

Profit/(loss) before tax has been arrived at after charging:

	For the three months ended 31 March	
	2007 HK\$'000	2006 HK\$'000
Depreciation of property, plant and equipment	349	444
Interest on bank borrowings wholly repayable within 5 years	459	250



#### 4. Income tax

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 People's Republic of China ("PRC"), one of the PRC subsidiaries of the Company is exempted from the PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the consolidated accounts as that PRC subsidiary had no assessable profit during the periods. The other PRC subsidiary was in loss making position for the current and the previous periods and accordingly did not have any assessable profit.

There was no material unprovided deferred tax in respect of the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

#### 5. Dividend

The Board does not recommend the payment of a dividend for the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

#### 6. Earnings/(loss) per share

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

	For the three months ended 31 March	
	2007 HK\$'000	2006 HK\$'000
Profit/(loss) for the period		
Profit/(loss) for calculation of basic and diluted earnings/(loss) per share	(2,162)	227
Number of shares	'000	'000
Weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share	4,800,000	4,000,000
Effect of dilutive potential ordinary shares	75,115	182,800
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,875,115	4,182,800

The diluted loss per share for the period ended 31 March 2007 has not been disclosed as the potential shares arising from the exercise and conversion of the Company's share options would decrease the loss per share of the Group for the period and is regarded as anti-dilutive.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

For the three months ended 31 March 2007, the Group recorded an unaudited turnover of approximately HK\$11.46 million which was decreased by approximately 25% comparing to that of last corresponding period. The unaudited net loss for the period was approximately HK\$2,162,000. In last corresponding period, the Group had recorded an unaudited profit of approximately HK\$227,000.

The directors of the Company do not recommend the payment of an interim dividend for the period (three months ended 31 March 2006: Nil).

In this period, the Group's administrative and other operating expenses amounted to approximately HK\$2,858,000, representing an increase of approximately HK\$1,893,000 comparing with the corresponding period in 2006. The increase was mainly resulted from legal and professional fees, amounted to approximately HK\$2 million, incurred for the proposed further acquisition of 30% equity interest in Polyard Petroleum International Company Limited ("Polyard") and proposed disposal of a wholly-owned subsidiary, Yunnan Changning Kanstar Paper Company Limited ("Yunnan Changning"). Details of the proposed acquisition and disposal were disclosed in an announcement dated 26 January 2007.

The finance costs in the current period were mainly attributable to loans raised to finance the manufacturing of pulp and paper products.

### Prospects

In view of the intense competition and weak operational performance in the pulp and paper products industry, the Company considers it is necessary to streamline the Group's business and redeploy its resources in a more productive manner.

On 8 January 2007, Modern Lucky International Limited ("Modern Lucky"), a wholly-owned subsidiary of the Company, and Mr. Lam Nam ("Mr. Lam") entered into an acquisition agreement, pursuant to which Modern Lucky has conditionally agreed to acquire from Mr. Lam a further 30% equity interest in Polyard. Upon completion of the acquisition agreement, Modern Lucky will, after taking into account the 20% of the capital acquired in the previous acquisition, be beneficially interested in 50% of Polyard and Polyard will become a subsidiary of the Company. The completion of the acquisition is expected to take place on or about 31 July 2007 (or such later date as may be



agreed between both parties). The Company intends to focus its corporate resources on oil business, while retaining the sale of pulp and paper products to maintain the income stream of the Group from such business in the coming years. The Company intends to set up a management team responsible for the oil business, comprising members who possess expertise in oil project to be recruited.

On 8 January 2007, Kanstar Hong Kong Limited (“Kanstar HK”), a wholly-owned subsidiary of the Company, and Sure Carl Investment Limited, a company wholly-owned by Mr. Chim Kim Kiu, Jacky, the chairman and a Director of the Company, entered into a disposal agreement, pursuant to which Kanstar HK has conditionally agreed to dispose of and Sure Carl has conditionally agreed to acquire the entire registered capital of Yunnan Changning and related shareholder's loan at a total consideration comprising HK\$26 million in cash and the undertaking given by Sure Carl in favour of Kanstar HK to pay to Kanstar HK (or as it may direct) the amount due and payable by the Group under the banking facilities as at the date of completion of the disposal agreement. The Board intends to use the net proceeds from the disposal to facilitate the acquisition and strengthen the Company's liquidity (including the funding for exploration of crude oil and natural gas business).

On 26 January 2007, Yunnan Changning as supplier and Yunnan Kanstar High Tech Products Development Company Limited (“Kanstar High Tech”) as customer entered into a supply agreement to ensure consistent supply of pulp and paper products to the Group after the disposal of Yunnan Changning by Kanstar HK. Pursuant to the supply agreement, Kanstar High Tech has agreed to purchase from Yunnan Changning pulp and paper products for the Group's daily operation of the sale of such products. The supply agreement is for a term commencing on the date of completion of the disposal agreement and expiring on 31 December 2009. In this connection, the Board is of the view that there will be no material impact on the business operations of the Group as a result of the disposal.

The Board proposed to change the Company's English name of “Kanstar Environmental Paper Products Holdings Limited” to “Polyard Petroleum International Group Limited” and its Chinese name from “建星環保紙品控股有限公司” to “百田石油國際集團有限公司” in order to better reflect the Group's emphasis on oil project.





## VERY SUBSTANTIAL AND CONNECTED TRANSACTIONS

During this period, the Group entered into different agreements in respect of various transactions, which are subject to the approval by independent shareholders of the Company at an extraordinary meeting to be convened, as follows:

On 8 January 2007, an agreement was entered into for the acquisition of a further 30% equity interest in Polyard from Mr. Lam, the sole owner of Silver Star Enterprises Holding Inc., a substantial shareholder of the Company, at a consideration of HK\$505 million to be paid/satisfied in the following manners:

- (i) HK\$191.88 million by the issue of shares of the Company at an issue price of HK\$0.36 per share;
- (ii) HK\$287.12 million by the issue of convertible bonds, with a conversion price of HK\$0.43 per share of the Company, at an interest rate of 3% per annum for a term of 3 years from the date of issue; and
- (iii) HK\$26 million in cash.

On 8 January 2007, an agreement was entered into for the disposal of Yunnan Changning by Kanstar HK as to the Group's interest in the registered capital and shareholder's loan in Yunnan Changning, to Sure Carl, at a consideration consists of HK\$26 million in cash and an undertaking given by Sure Carl to repay the total principal of approximately HK\$15.6 million under banking facilities due and payable by the Group.

On 26 January 2007, an agreement was entered into for the supply of pulp and paper products by Yunnan Changning, after completion of disposal of Yunnan Changning by the Group to Sure Carl, to the Group at a price not less favourable than purchase from independent third party for a term to be expired on 31 December 2009.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 31 March 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2007, 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	—	—	2,743,350,000 (Note 1)	—	2,743,350,000	57.15%

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 Grantee (Relation 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) (Note 2)

Note 2: For details of the share options granted, please refer to the section headed "Share Option Schemes" below.



Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 2007, 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 2007, 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 Stock 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 (Note 1)	Capacity	Approximate percentage of interest
Siko Venture Limited	2,743,350,000 (Note 2)	Beneficial Owner	57.15%
Mr. Lam Nam	800,000,000 (L) (Note 3)	Interest of a controlled corporation	16.67%
Silver Star Enterprises Holdings Inc. (Note 3)	800,000,000 (L)	Beneficial owner	16.67%

Note 1: The Letter "L" represents the person's interests in shares of the Company.

Note 2: The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky, the chairman and a director of the Company.

Note 3: The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam.

Save as disclosed above, as at 31 March 2007, 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 share options		
				Outstanding as at 1 January 2007	Lapsed/ cancelled during the period under review	Outstanding as at 31 March 2007
<i>Executive director:</i>						
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				75,500,000	—	75,500,000

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 2007.

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 period from 1 January 2007 to 31 March 2007 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 2007, 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 2007.

## 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 2007.

## COMPETING INTERESTS

Mr. Chim Kim Kiu, Jacky, the chairman and a Director of the Company, 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 planned to use one year to restore production. As the products produced by Riches Good are different from 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.

## CODE OF CORPORATE GOVERNANCE PRACTICES

For the three months ended 31 March 2007, 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 PARTY TRANSACTIONS

- (a) During the period, Mr. Chim Kim Kiu, Jacky, the Chairman and a Director of the Company, has given personal guarantees to the extent of HK\$19,500,000 (31 March 2006: HK\$14,500,000) to different banks for granting banking facilities to the Group.



- (b) During the period, a close member of the family of Mr. Sun Tak Keung, a Director of the Company, has given personal guarantees to the extent of HK\$15,000,000 (31 March 2006: HK\$10,000,000) to a bank for granting banking facilities to a subsidiary.

## CONTINGENT LIABILITIES

As at 31 March 2007, the Company has given guarantees amounting to HK\$15,000,000 (31 March 2006: HK\$10,000,000) to a bank in respect of general banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 31 March 2007 was HK\$13,700,000 (31 March 2006: 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. The duties of the Audit Committee include review and monitor the financial reporting procedures and internal control system of the Group. As at 31 March 2007, the Audit Committee comprises three independent non-executive Directors, namely Messrs. Chan Chi Hung, Anthony, Wan Hon Keung and Wang Ai Guo.

The unaudited consolidated results of the Group for the three months ended 31 March 2007 have 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 contained adequate disclosures.

The unaudited consolidated results of the Group for the three months ended 31 March 2007 have not been reviewed by the external auditors of the Company.

On behalf of the Board  
**Cheng Kwok Hing, Andy**  
*Director*

Hong Kong, 14 May 2007

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