



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)

(於開曼群島註冊成立之有限公司)

Stock Code 股份代號 : 8011

Third Quarterly Report
第三季度報告 **2007**

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 (the “Directors”) of Kanstar Environmental Paper Products Holdings Limited (already changed its name to Polyard Petroleum International Group Limited on 12 October 2007 in the Register of the Cayman Islands) (“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

- Unaudited turnover increased to approximately HK\$40.6 million for the nine months ended 30 September 2007, representing an increase of approximately 2% as compared with that of the corresponding period in last year (the “previous period”).
- Unaudited net loss attributable to shareholders for the nine months ended 30 September 2007 amounted to approximately HK\$5,109,000 whereas the unaudited net loss attributable to shareholders of approximately HK\$781,000 was recorded in the previous period.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2007.

QUARTERLY RESULTS

The board of directors (“the Board”) of Kanstar Environmental Paper Products Holdings Limited (already changed its name to Polyard Petroleum International Group Limited on 12 October 2007 in the Register of the Cayman Islands) (“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 2007, together with the comparative unaudited figures for the corresponding periods in 2006, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	3	14,407	12,767	40,564	39,774
Cost of sales		(12,947)	(11,727)	(36,637)	(35,130)
Gross profit		1,460	1,040	3,927	4,644
Other income		476	27	1,735	34
Selling and distribution expenses		(153)	(550)	(815)	(1,271)
Administrative and other operating expenses		(2,733)	(1,216)	(7,089)	(3,248)
Operating (loss)/profit	4	(950)	(699)	(2,242)	159
Finance costs	5	(457)	(359)	(1,221)	(940)
Share of loss of associates		(479)	—	(1,646)	—
Loss before tax		(1,886)	(1,058)	(5,109)	(781)
Income tax	6	—	—	—	—
Loss for the period		(1,886)	(1,058)	(5,109)	(781)
Loss attributable to equity holders of the Company		(1,886)	(1,058)	(5,109)	(781)
Loss per share	8				
— basic (in HK cents)		(0.039)	(0.022)	(0.105)	(0.016)



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Revaluation reserve HK\$'000	Warrant 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
Issue of shares as consideration for acquisition of an associate	1,600	224,000	—	—	—	—	—	225,600
Loss for the period	—	—	—	—	—	—	(781)	(781)
At 30 September 2006	9,600	259,770	985	23,509	—	162	(13,935)	280,091
At 1 January 2007	9,600	259,770	985	14,508	—	42	(31,674)	253,231
Issue of shares on exercise of share options	150	—	—	—	—	—	—	150
Issue of warrants	—	—	—	—	4,422	—	—	4,422
Exchange differences arising from translation of foreign operations	—	—	—	—	—	287	—	287
Loss for the period	—	—	—	—	—	—	(5,109)	(5,109)
At 30 September 2007	9,750	259,770	985	14,508	4,422	329	(36,783)	252,981

Notes:

1. General information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited.

The directors consider the ultimate holding company of the Company at 30 September 2007 to be Siko Venture Limited, a limited company incorporated in the British Virgin Islands.

The unaudited consolidated results are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

2. Basis of preparation and principal accounting policies

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 and nine months ended 30 September 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.

3. Turnover

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

4. Operating (loss)/profit

Operating (loss)/profit is arrived at after charging:

	Three months ended 30 September		Nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Depreciation of property, plant and equipment and amortization of lease payment on land	351	335	1,079	1,081



5. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest on bank and other borrowings wholly repayable within 5 years	457	359	1,221	940

6. Income tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong for the three months and nine months ended 30 September 2007 (three months and nine months ended 30 September 2006: Nil).

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 its 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 unaudited consolidated results 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.

No deferred tax asset has been recognised for the three months and nine months ended 30 September 2007 (three months and nine months ended 30 September 2006: Nil) due to unpredictability of future profit streams.

7. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2007 (nine months ended 30 September 2006: Nil).

8. Loss per share

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

	Three months ended 30 September		Nine months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Unaudited loss attributable to equity holders of the Company	(1,886)	(1,058)	(5,109)	(781)
Number of shares	'000	'000	'000	'000
Issued ordinary shares at beginning of the period	4,875,000	4,800,000	4,800,000	4,800,000
Effect of shares issued during the period	—	—	28,846	—
Weighted average number of ordinary shares used in the calculation of basic loss per share	4,875,000	4,800,000	4,828,846	4,800,000
Effect of dilutive potential ordinary shares	497	75,146	497	75,095
Weighted average number of ordinary shares used in the calculation of diluted loss per share	4,875,497	4,875,146	4,829,343	4,875,095

The diluted loss per share has not been disclosed as the potential shares would decrease the loss per share and therefore regarded as anti-dilutive.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group recorded an unaudited turnover of approximately HK\$40.6 million for the nine months ended 30 September 2007 (the “period”), an increase of approximately 2% comparing with the nine months ended 30 September 2006 (the “previous period”). The unaudited net loss for the period was approximately HK\$5,109,000. In previous period, the Group had recorded an unaudited net loss of approximately HK\$781,000.



The directors of the Company do not recommend the payment of an interim dividend for the period (previous period: Nil).

During the period, the Group's administrative and other operating expenses amounted to approximately HK\$7,089,000, representing an increase of approximately HK\$3,841,000 comparing with that of previous period. The increase was mainly resulted from legal and professional fees amounted to approximately HK\$2.3 million, incurred for the proposed further acquisition of 30% equity interest in Polyard Petroleum International Company Limited ("Polyard") and the proposed disposal of a wholly-owned subsidiary, Yunnan Changning Kanstar Paper Company Limited ("Yunnan Changning").

The finance costs in the period were attributable to interest expenses on loans raised to finance the manufacturing of pulp and paper products.

Prospects

The Group was principally engaged in the research and development of paper filling materials and the manufacture and sale of pulp and paper products in the PRC during the period. The acquisition of Polyard allows the Group to diversify into the oil and gas exploration and extraction business and allows the Group to re-deploy its resources in a more productive manner.

In view of high oil and gas price, the Directors are optimistic about the performance of the Group as the Group's investment in the oil and gas exploration and extraction business is expected to improve the Group's profitability, sustain its growth momentum and broaden the revenue stream of the Group.

Foreseeing the future development, the Group will focus its corporate resources on oil and gas business while the Group will continue to operate its business of the sale of pulp and paper products to maintain income stream to the Group.

The Directors anticipate that the intense competition and weak operational performance in the pulp and paper products industry may continue in the near future, therefore, the Group will continue to implement stringent cost control measures to improve the Group's operating results in the business of sale of pulp and paper products.

Very Substantial and Connected Transactions

During the period, the Group has been undertaking various transactions, which were approved by independent shareholders of the Company at an extraordinary general meeting duly convened on 29 August 2007, as follows:

The acquisition of a further 30% equity interest in Polyard from Mr. Lam Nam, the sole owner of Silver Star Enterprises Holding Inc., a substantial shareholder of the Company, at an adjusted consideration of approximately HK\$468.23 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; and
- (ii) approximately HK\$276.35 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.

The disposal of Yunnan Changning by Kanstar Hong Kong Limited, a wholly-owned subsidiary of the Company, as to the Group's interest in the registered capital and shareholder's loan in Yunnan Changning to Sure Carl Investment Limited ("Sure Carl"), an investment holding company wholly-owned by Mr. Chim Kim Kiu, Jacky, the chairman and a director of the Company, 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.

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

During the period, 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 30 September 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 Rules 5.46 to 5.67 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	The Company/ name of associated corporation	Capacity	Number of shares <i>(Note 1)</i>	Approximate percentage of interests
Mr. Chim Kim Kiu, Jacky	The Company	Interest of a controlled corporation	1,500,000,000 (L) <i>(Note 2)</i>	30.77%
Mr. Sun Tak Keung	The Company	Beneficial owner	47,580,000 (L) <i>(Note 3)</i>	0.98%

Notes:

1. The letter "L" represents the interests in shares or underlying shares of the Directors or chief executives.
2. Mr. Chim Kim Kiu, Jacky is a director and chief executive.
3. Mr. Sun Tak Keung is a director.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 September 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 Rules 5.46 to 5.67 of the GEM Listing Rules.

INTEREST DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2007, so far as known to the Directors, the following persons (not being a director or a chief executive of the Company) had an interests 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 <i>(Note 1)</i>	Capacity	Approximate percentage of interests
Siko Venture Limited <i>(Note 2)</i>	1,500,000,000 (L)	Beneficial owner	30.77%
Lam Nam <i>(Note 3)</i>	800,000,000 (L)	Interest of a controlled corporation	16.41%
	1,175,679,607 (L) <i>(Note 4)</i>	Beneficial owner	24.11%
Silver Star Enterprises Holdings Inc. <i>(Note 3)</i>	800,000,000 (L)	Beneficial owner	16.41%



Name	Number of shares held (Note 1)	Capacity	Approximate percentage of interests
Inwood Support Limited (Note 5)	500,700,000 (L) (Note 6)	Beneficial owner	10.27%
Wu Bo (Note 5)	500,700,000 (L)	Interest of a controlled corporation	10.27%
Lin Xuefang (Note 7)	500,700,000 (L)	Interest of spouse	10.27%
Kingston Finance Limited (Note 8)	280,000,000 (L)	Security interest	5.74%
Chu Yuet Wah (Note 8)	280,000,000 (L)	Interest of a controlled corporation	5.74%
Ma Siu Fong (Note 8)	280,000,000 (L)	Interest of a controlled corporation	5.74%

Notes:

1. The letter "L" represents the person's interests in shares or underlying shares.
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.
3. The entire issued share capital of Silver Star Enterprises Holding Inc. is beneficially owned by Mr. Lam Nam.
4. These shares comprise 533,000,000 consideration shares that are to be allotted and issued and 642,679,607 shares that may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds that are to be created and issued upon completion of the acquisition of a further 30% equity interest in Polyard by the Company.
5. Inwood Support Limited is wholly owned by Wu Bo.

6. These shares represent the shares to be allotted and issued upon exercise in full of the subscription rights attaching to the warrants held by Inwood Support Limited.
7. Lin Xuefang is the spouse of Wu Bo.
8. Kingston Finance Limited is owned as to 51% by Chu Yuet Wah and 49% by Ma Siu Fong.

Save as disclosed above, as at 30 September 2007, the Directors are not aware of any other person or corporation having an interest and/or a short position in the shares and/or 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 were 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	Exercisable period	Granted	Number of share options		
				Outstanding as at 1 January 2007	Exercised during the period under review	Outstanding as at 30 September 2006
Executive director:						
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)	—
Other participants:						
Employees in aggregate	26 June 2002	12 July 2003 — 11 July 2008	48,750,000	500,000	—	500,000
Total				75,500,000	(75,000,000)	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 period.



Details of the Pre-IPO Share Option Scheme and the Share Option Scheme were set out in the Prospectus issued by the Company on 5 July 2002.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the period 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 period, 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 period.

BOARD PRACTICES AND PROCEDURES

The Company had complied with rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the period.

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. 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 management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company had 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, had given personal guarantees to the extent of HK\$19,500,000 (previous period: HK\$19,500,000) 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, had given personal guarantee to the extent of HK\$15,000,000 (previous period: HK\$15,000,000) to a bank for granting banking facilities to a subsidiary.

CONTINGENT LIABILITIES

As at 30 September 2007, the Company had given guarantee to the extent of HK\$15,000,000 (31 December 2006: HK\$15,000,000) to a bank in respect of general banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 30 September 2007 was HK\$12,400,000 (31 December 2006: HK\$13,700,000).

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference according to the GEM Listing Rules. The duties of the Audit Committee include review and monitor the reporting process and internal control systems of the Group. As at 30 September 2007, the Audit Committee comprised three independent non-executive directors, namely Mr. Chan Chi Hung, Anthony, Mr. Wan Hon Keung and Mr. Wang Ai Guo.



Mr. Wang Ai Guo has resigned as an independent non-executive director of the Company and a member of the Audit Committee with effect from 7 November 2007. The Board will announce the appointment of a new independent non-executive director and new member to the Audit Committee as soon as possible and in any event within the time period set forth in Rules 5.06 and 5.33 of the GEM Listing Rules.

The unaudited condensed consolidated results of the Group for the period 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 condensed consolidated results of the Group for the period have not been reviewed by the external auditors of the Company.

On behalf of the Board

Kuai Wei

Director

Hong Kong, 12 November 2007

At the date of this report, the Board comprises four executive directors, namely Mr. Chim Kim Kiu, Jacky, Mr. Sun Tak Keung, Mr. Lin Zhang and Mr. Kuai Wei and two independent non-executive directors, namely Mr. Chan Chi Hung, Anthony and Mr. Wan Hon Keung.



Kanstar Environmental Paper Products Holdings Limited
建星環保紙品控股有限公司