



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 **2005**

** For identification only*

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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 4% over the corresponding period in last year to approximately HK\$37 million for the nine months ended 30 September 2005.
- Net loss to shareholders for the nine months ended 30 September 2005 amounted to approximately HK\$431,000 whereas the net profit attributable to shareholders of approximately HK\$843,000 was recorded in previous period.
- The Directors do not declare any dividend for the nine months ended 30 September 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 and nine months ended 30 September 2005, together with the comparative unaudited figures for the corresponding periods in 2004, as set out below:

UNAUDITED CONSOLIDATED RESULTS

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Turnover	2	15,004,544	12,532,022	36,853,585	35,520,887
Cost of sales		(13,927,508)	(11,948,443)	(34,651,119)	(32,463,866)
Gross profit		1,077,036	583,579	2,202,466	3,057,021
Other revenue		385,935	12,114	565,758	39,585
Selling and distribution expenses		(131,915)	(143,707)	(759,526)	(836,086)
Administrative expenses		(826,473)	(374,480)	(2,007,264)	(1,277,103)
Profit from operations		504,583	77,506	1,434	983,417
Finance costs		(157,271)	(57,174)	(432,791)	(139,937)
Profit (loss) before taxation	3	347,312	20,332	(431,357)	843,480
Taxation	4	—	—	—	—
Profit (loss) for the period		347,312	20,332	(431,357)	843,480
Dividend	5	—	—	—	—
Earnings (loss) per share (cent)	6				
— basic		0.009	0.001	(0.001)	0.021
— diluted		0.008	0.001	N/A	0.020

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 2004	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(14,265,943)	53,996,330
Profit for the period	—	—	—	—	—	843,480	843,480
At 30 September 2004	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(13,422,463)	54,839,810
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	8,000,000	35,770,199	985,000	23,509,170	147,074	(13,688,663)	54,722,780

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 and nine months ended 30 September 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 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	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Depreciation of property, plant and equipment	431,058	412,687	1,270,169	1,259,017
Bank interest income	—	(4,598)	—	(6,224)
Interest on bank borrowings wholly repayable within 5 years	157,271	57,174	432,791	139,937

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 2005 (three months and nine months ended 30 September 2004: Nil).

5. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (nine months ended 30 September 2004: 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	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Profit (loss) for the period				
Profit (loss) for calculating basic and diluted earnings (loss) per share	347,312	20,332	(431,357)	843,480
Number of shares				
Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	4,000,000,000	4,000,000,000	4,000,000,000	4,000,000,000
Effect of dilutive potential ordinary share	182,633,474	182,900,042	N/A	183,769,184
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,182,633,474	4,182,900,042	N/A	4,183,769,184

No diluted loss per share is calculated for the nine months ended 30 September 2005 because the effect of assumed exercise of share options outstanding during the period would result in reduction in loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the nine months ended 30 September 2005, the unaudited turnover of the Group has increased slightly by 4% from last corresponding period's HK\$36 million to around HK\$37 million. With the abnormal dry climate in the second quarter of the year, the Group has recorded an unaudited net operating loss of around HK\$431,000 in the review period. In last corresponding period, the Group has recorded a net operating profit of around HK\$843,000.

The directors of the Company do not recommend the payment of an interim dividend for the period (nine months ended 30 September 2004: nil).

The net operating loss in this review period was mainly contributed by the net operating loss recorded in the second quarter of the year. For the three months ended 30 September 2005, the Group has recorded an unaudited operating profit of nearly HK\$350,000. As stated in the interim report of this year, Yunnan Province has recorded an abnormal dry climate in the second quarter of the year. Production has been affected and the Group used up such period for the annual maintenance works of the machines. However, in such restoration period, the Group still needed to absorb various fixed costs which led to the recording of operating loss in the second quarter.

The Abnormal dry season has come to an end in late June and production of the Group's Yunnan Factory has restored to normal. Turnover in this quarter has increased from 2004 corresponding period's HK\$12.5 million to around HK\$15 million. The increase in turnover was mainly contributed by the increase in the production scale. During this period, the Group produced photo-copying papers, writing papers and cardboard for paper cups.

In order to further improve the management of the Group and to promote the Group's products, the Group has employed more administrative staffs and has intensified its marketing works in promoting Kanstar's products in Yunnan. All these have increased the amount of administrative expenses in current period.

For the amount of finance costs, it has been increased by 2 times to HK\$433,000 compared to that of last corresponding period. The bank loan was mainly raised for financing the Group's reservation of raw materials.

Prospects

In view of the fact that photo-copying papers have the highest profit margin among the Group's products, the Group plans to enlarge the existing production capacity of the photo-copying paper production line in the near future. With the continuous increase in the marketing works in the Yunnan Market, the management of the Group is confident in promoting the Group's enlarged products produced.

As stated in last year's annual report and current year's interim report, the Chairman and the substantial shareholder of the Group, Mr. Chim Kim Kiu, Jacky, ("Mr. Chim") has purchased the assets of another bankrupted paper manufacturing plant 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 plans to acquire all the interests in such manufacturing plant. The management believes that such 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 30 September 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 30 September 2005, 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	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:

- 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 executive of the Company had, as at 30 September 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 Rules 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, 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	3,000,000,000 <i>(Note 1)</i>	75.00%
Mr. Chim Pui Chung	220,000,000 <i>(Note 2)</i>	5.50%

Notes:

1. The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky.
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 30 September 2005, 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 2005	Lapsed during the period under review	Outstanding as at 30 September 2005
<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 nine months ended 30 September 2005.

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 2005 to 30 September 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.

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 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 2005, 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 2005.

COMPLIANCE WITH RULE 5.34 TO 5.45 OF THE GEM LISTING RULES

Up to 30 September 2005, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee, comprising Mr. Lau Ka Ho, Mr. Wang Ai Guo and Mr. Chan Chi Hung, Anthony, all of whom are independent non-executive Directors, with written terms of reference in compliance Rules 5.28 to 5.33 of 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 nine months ended 30 September 2005.

On behalf of the Board
Sun Tak Keung
 Executive Director

Hong Kong, 11 November 2005

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. Lau Ka Ho and Mr. Wong Ai Guo as independent non-executive directors.