Kanstar

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

Annual Report 2005

* *For identification only*

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.

Contents

Corporate Information

EXECUTIVE DIRECTORS

CHIM Kim Kiu, Jacky *(Chairman)*
LI Gang *(Chief Executive Officer)*
IP Kai Cheong
SUN Tak Keung

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Chi Hung, Anthony
WANG Ai Guo

COMPLIANCE OFFICER

IP Kai Cheong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

KWONG Ping Man *MPA, CPA (Aust), CPA, ATIHK, ACS, ACIS*

AUTHORISED REPRESENTATIVES

IP Kai Cheong
SUN Tak Keung

MEMBERS OF THE AUDIT COMMITTEE

CHAN Chi Hung, Anthony *(Chairman)*
WANG Ai Guo

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

LEGAL ADVISER

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 604, Seaview Commercial Building
21-24 Connaught Road West
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Bank of Butterfield International (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 75
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Louis Leung & Partners CPA Limited
Certified Public Accountants
13th Floor, Sun House
181 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS

Bangkok Bank Public Company Limited
28 Des Voeux Road Central
Hong Kong

Liu Chong Hing Bank Limited
Ground Floor, New World Tower II
16-18 Queen's Road Central
Hong Kong

China Construction Bank
Changning Branch
Xing Yu Jie
Changning County
Baoshan City
Yunnan Province
PRC

Chairman's Statement

I am pleased to present to shareholders the annual report of Kanstar Environmental Paper Products Holdings Limited and, its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2005.

2005 is a difficult year for the Group. Firstly, there was a special dry climate in the Yunnan Region which affected both the electricity and water supply for production. Management was forced to early perform the annual restoration for the Group. In late 2005, there was a lack of supply of coals due to the suspension of the coal fields for safety inspection near the Kanstar's factory in Yunnan. In order to stabilize production, the Group tried to purchase the coals at a higher price in other coal fields. Such increase in the purchase costs of coals lead to the reduction of the Group's profitability in current year.

Except for the factors mentioned above, the Group tried its best to expand its productivity. Faced with the unfavorable external environment as described above, the Group still recorded an increase in the audited turnover of 6.7%. Comparing that of 2003, the audited turnover has been increased by around 74%. The Group will continue its policy to expand the production capacity.

Be more responsible to the environment and further reduce the production cost is the never ending tasks of the Group. In the coming year, the Group plans to spend around HK$1 million to HK$1.5 million in the improvement of the Lime Recovery Equipment. Such improvement works will surely reduce the consumption of the lime and thus reduce the unit production cost. It also reduces the wasted water generated from production and thus, is more environmental friendly.

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 production capacity of the existing photo-copying paper production line by around 10% in the 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.

On behalf of the board of Directors, I would like to extend my sincere gratitude to the customers, shareholders and business partners, who have always offered their support and encouragement to the Group. The continuous improvement of the Group was made possible by the dedication and diligence of its management and staff. I strongly believe that with the further expansion in the production scale, specialization of the production lines, continuing improvements in the products' qualities and diversification in customers, the Group will enjoy an even brighter future.

Chim Kim Kiu, Jacky
Chairman

Hong Kong, 27 March 2006

To the management of the Group, 2005 is a challenging year. The business environment in Yunnan was exceptionally unfavorable to production. There were numerous issues in Yunnan which affect the normal production of the Group. With the great efforts of the management, under such unfavorable environment, the audited turnover of the Group still increased slightly by around 6.7% to HK$53.7 million.

BUSINESS OVERVIEW

For the financial year ended 31 December 2005, the Group recorded an audited turnover of approximately HK$53,671,000 which representing a 6.7% increase comparing to that of 2004. However, due to various instances happened in the Yunnan Province as stated below, the Group recorded an audited net profits of HK$103,219 whereas in last year, the Group has recorded an audited profit of HK$1,008,637.

The directors of the Company do not recommend the payment of a final dividend for the year 2005 (2004: nil).

In the middle of the year 2005, Yunnan Province has recorded an abnormal dry weather. The drought has exhausted the reservoirs near the Group's factory which affected both the electricity and water supplies of the whole region. With the lack of these supplies, production was forced to suspense from the middle of May to the end of June. Turnover in that quarter dropped dramatically by around 37%. The absorption of those fixed costs, such as administrative expenses, depreciation charges and finance costs, in such period affects the financial performance of that quarter.

In the fourth quarter of the year, due to the numerous accidents happened in various coal fields over the People's Republic of China, coal fields in the region near the factory has been suspense for safety inspection. Suspension of the coal fields led to both the shortage in the coal supply and the general increase in its prices. Coal is one of the main raw materials for the Group. Thus, the suspension in the coal fields affects the normal production of the Group.

To cope with the above instances, the managements of the Group try their bests to stabilize production. It first shifted the maintenance period, which originally take place in August every year, to the exceptional dry period stated above. For the shortage of coals, the Group tries to use a relatively high price to purchase coals from other coal fields in other regions. Such move led to the increase in the production costs and reduced the Group's profitability temporary. However, it can stabilize production in such period. This explained the reduction of the Gross Profits Ratios from 2004's 8% to 2005's 7.7%.

To further protect the environment, the Group has improved the water treatment machines in the Changning Factory. At the end of 2005, the Group can recycle most of the waste water generated from the manufacturing process and the recycled waste water is more environmental friendly.

The sharp increase in other income was mainly contributed by the appreciation in the value of RMB during the review period. As the Group has transferred most of its financial assets into RMB, the appreciation of RMB will have positive effects to the Group.

In order to further improve the management of the Group and to promote the Group's products in the Yunnan market, 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 2.6 times to HK$594,000 compared to that of last corresponding period. The bank loan was mainly raised for financing the Group's reservation of raw materials.

PROSPECTS

In order to further reduce the production cost and to improve productivity, the Group plans to spend around HK$1 million to HK$1.5 million in the improvement of the Lime Recovery Equipment. It is expected such improvement will take place in the second quarter of 2006 and will last for around one month. After the completion of the works, more lime can be recycled, which will further reduce the production costs and thus improve the Group's profitability.

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 production capacity of the existing photo-copying paper production line by around 10% in the 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 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 production of this paper manufacturing plant and subject to the approval of the shareholders and the approving authorities, the Group may consider 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group has a healthy financial position with net assets amounted to approximately HK$55.3 million. There is a net current liability of around HK$0.9 million with current ratio of approximately 0.96 (2004: 1.24). Such decrease was mainly due to the considerations paid for the acquisition of the land use right during the year. The gearing ratio of the Group, based on the total borrowings to shareholders' equity, was around 20% (2004: 14%).

As at 31 December 2005, guarantee was given by the Company to bank to secure banking facilities made available to a subsidiary amounted to HK$10,000,000 (2004: HK$10,000,000). Except this, the Group did not have any charges on its assets (2004: nil), and did not have other committed banking facilities (2004: nil).

As most of the Group's monetary assets and liabilities are denominated in Renminbi, the exchange rate risks of the Group is considered to be minimal.

EMPLOYEE INFORMATION

The Group had a total staff of approximately 500 (2004: approximately 480 employees). Remuneration packages are reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance. Besides, a share option scheme was adopted by the Company, pursuant to which the Directors may offer to any eligible employees (including executive directors and independent non-executive directors) of the Company and any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, save for the share option granted prior to the listing, no other options have been granted up to 31 December 2005. Staff cost was approximately HK$3.85 million for the year as compared with that of approximately HK$3.6 million in 2004.

INTRODUCTION

Subject to the deviations as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each director had confirmed that during the year ended 31 December 2005, he had fully complied with the required standard of dealings and there was no event of non-compliance.

THE BOARD OF DIRECTORS

Composition

The Board of directors, which currently comprises 6 directors, is responsible for supervising the management of the Group. Details of the Chairman and the other directors of the Group are set in the section "Biographical Details of Directors and Senior Management" of this report. All directors give sufficient time and attention to the affairs of the Group.

In compliance with rule 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive directors up to 12 December 2005, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. In 12 December 2005, one of the independent non-executive directors, Mr. Lau Ka Ho who has the appropriate professional qualifications or accounting or related financial management expertise, has resigned as the Company's independent non-executive director due to his personal reasons. The Company will search and appoint an appropriate candidate to fill Mr. Lau's vacancy as soon as practicable.

The Company has received from each independent non-executive director an annual confirmation of his independence, and the Company considers such directors to be independent in accordance with each and the various guidelines set out in rule 5.09 of the GEM Listing Rules. No independent non-executive director has served the Group for more than four years.

With the various experience of both the executive directors and the non-executive directors and the nature of the Group's business, the Board considered that the directors have a balance of skills and experience for the business of the Group.

BOARD MEETINGS

The full Board regularly meets in person or through other means of electronic communication at least four times every year. At least 14 days notice of all board meetings were given to all directors, who were all given an opportunity to include matters in the agenda for discussion. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed. The finalized agenda and accompanying board papers are then sent to all directors at lest five days prior to the meeting.

In the financial year ended 31 December 2005, four board meetings were held and the following is an attendance record of the meetings by each director:

Attendants	Number of meetings attended/total	Attendance percentage
Executive Directors		
Chim Kim Kiu, Jacky	4/4	100%
Li Gang	4/4	100%
Ip Kai Cheong	4/4	100%
Sun Tak Keung	4/4	100%
Independent Non-Executive Directors		
Chan Chi Hung, Anthony	4/4	100%
Wang Ai Guo	4/4	100%
Lau Ka Ho	3/4	75%

During regular meetings of the Board, the directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual and interim and quarterly results, as well as discuss and decide on other significant matters. Execution of daily operational matters is delegated to management.

The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the board together with concerns raised and dissenting views expressed (if any). Drafts of board minutes are circulated to all directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any director.

All directors have access to relevant and timely information at all times as the Chairman ensures that management will supply the Board and its committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information. They also have unrestricted access to the advice and services of the Company Secretary, who is responsible to the Board of directors for providing directors with board papers and related materials, and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. If considered to be necessary and appropriate by the directors, they may retain independent professional advisors at the Group's expense.

In case where a conflict of interest may arise involving a substantial shareholder or a director, such matter will be discussed through an actual meeting and will not be dealt with by written resolutions. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues.

The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

CHAIRMAN OF THE GROUP

The Chairman of the Group is Mr. Chim Kim Kiu, Jacky and the Chief Executive Officer of the Group is Mr. Li Gang. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to avoid power being concentrated in any one individual. The Chairman of the Group is primarily responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner, whereas the Chief Executive Officer is primarily responsible for the running of the Group's business and implementation of the Group's strategy in achieving the overall commercial objectives.

The Chairman also encourages all directors, including the independent non-executive directors, to actively participate in all board and committee meetings.

REMUNERATION OF DIRECTORS

The remuneration committee was established in 2005. The chairman of the committee is Mr. Chan Chi Hung, Anthony, an independent non-executive Director, and other members include Mr. Ip Kai Cheong and Mr. Wang Ai Guo, the majority being independent non-executive Directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year, a meeting of the remuneration committee was held on 11 November 2005. Details of the attendance of the remuneration committee meeting are as follows:

Members	Attendance
Mr. Chan Chi Hung, Anthony	1/1
Mr. Ip Kai Cheong	1/1
Mr. Wang Ai Guo	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

The nomination committee was established in 2005. The chairman of the committee is Mr. Sun Tak Keung, and other members include Mr. Chan Chi Hung, Anthony and Mr. Wang Ai Guo, both are independent non-executive Directors.

The role and function of the nomination committee included the appointment and removal of Directors.

The nomination committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates of directorship during the year.

During the year 2005, a meeting of the nomination committee was held on 11 November 2005 for nomination of Directors. Details of the attendance of the meeting are as follows:

Members	Attendance
Mr. Sun Tak Keung	1/1
Mr. Chan Chi Hung	1/1
Mr. Wang Ai Guo	1/1

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association (subject to the proposed amendments at the forthcoming annual general meeting), Mr. Chim Kim Kiu, Jacky and Ip Kai Cheong will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provides that no Director holding office as chairman and/or chief executive officer shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Chim Kim Kiu, Jacky, being the chairman of the Company, and Mr. Li Gang, being the chief executive officer, are not subject to retirement by rotation. In order to comply with code provision A.4.2 of the Corporate Governance Practices, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years. As Mr. Chim Kim Kiu, Jacky is the Company's Director since 2002 and Mr. Ip Kai Cheong is the Director who have retired and reappointed at 2003, the nomination committee recommended that Mr. Chim Kim Kiu, Jacky and Mr. Ip Kai Cheong shall be subject to retirement by rotation at the forthcoming annual general meetings.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, except that Mr. Lau Ka Ho, who is the Chairman of the Audit Committee and is the independent non-executive director with appropriate qualifications or accounting and related expertise, has resigned as the independent non-executive director and the Chairman of Audit Committee on 12 December 2005. The Company is searching for candidate with appropriate qualifications or accounting and related expertise to fill Mr. Lau's vacancy.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. At the date of this report, the audit committee comprises two members, Mr. Chan Chi Hung, Anthony and Mr. Wang Ai Guo. Both are independent non-executive Directors. The Chairman of the audit committee from 12 December 2005 is Mr. Chan Chi Hung, Anthony.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Chan Chi Hung, Anthony	4/4
Mr. Wang Ai Guo	4/4
Mr. Lau Ka Ho	3/4

The Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

EXECUTIVE DIRECTORS

Mr. Chim Kim Kiu, Jacky, (詹劍嶠), aged 33, is the founder, Chairman and the managing director of the Company. He was one of the founders of Leewood, the Group's proprietary paper filling material, Mr. Chim is responsible for the Group's strategic development and day-to-day management. Prior to the establishment of the Group's businesses in Yunnan Province, he was a director of Kunming Vintin Property Development Limited, a company primarily engaged in property development and investment in the PRC. He was educated in Canada.

Mr. Ip Kai Cheong, (葉啟昌), aged 46, is responsible for the Group's general management and financial control. Prior to joining the Group in May 1999, Mr. Ip held managerial positions with Chintex Oil and Gas Company Limited, a listed company in Hong Kong, now renamed Grandfield Group Holdings Limited, and with Rightearth Development Limited, which is engaged in property development, and has experience in corporate management and business development. Mr. Ip studied bachelor of business administration course under the Open University of Hong Kong.

Mr. Li Gang, (李剛), aged 52, is responsible for the Group's management and manufacturing operation as well as sales and marketing activities. He is also the general manager of Changning Kanstar. Prior to joining the Group in October 2000, he was the general manager of Deyang Chemical and Construction Material Factory in Sichuan Province, PRC and worked for the PRC Government as an officer representing Deyang City of Sichuan Province in Kunming, Yunnan Province. He has an industrial economics degree from the Sichuan Financial University, PRC.

Mr. Sun Tak Keung, (辛德強), aged 42, is responsible for the Group's paper filling material and paper products marketing activities. Prior to joining the Group in March 2002, he was a manager in Trigold & Co. and had over ten years of marketing and trading experiences in the garment industry and in daily consumable goods in Hong Kong and overseas.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hung, Anthony, (陳志雄), aged 39, is currently serving as a dealer representative for Berich Brokerage Limited, a securities broking firm in Hong Kong. Prior to joining Berich Brokerage Limited in early 2001, he was a partner of Sun Yeung Food (Direct Marketing) Company and engaged in foodstuff trading for $2^1/_2$ years. He was also a manager of Trigold & Co. and was engaged in the sales and marketing of garment products for the overseas market for 3 years to December 1997. He was appointed as an independent non-executive Director in June 2002.

Mr. Wang Ai Guo, (王愛國), aged 36, is a qualified PRC lawyer. He is currently a lawyer of Hu Bei Jia He Law Firm. He was appointed as an independent non-executive Director in July 2004.

SENIOR MANAGEMENT

Mr. Wang Qi Nian,（王啟年）, aged 49, is the assistant general manager of Changning Kanstar responsible for the Group's pulp and paper manufacturing operations as well as sales and marketing activities. Prior to joining the Group in March 2003, he was the assistant general manager of Hubei Jingzhou City Paper Factory（**湖北荊州市造紙廠**）in Hubei province. He was graduated from the Hubei Province Light Industry College（**湖北省輕工業學院**）in pulp and paper manufacturing.

Mr. Zhao Xian Wan,（趙賢萬）, aged 41, is manager responsible for pulp and paper production. Prior to joining the Group in July 2001, he was a manager at Sichuan Province Qingcheng Paper Factory（**四川省青城造紙廠**）in Sichuan province and had over 18 years experience in the production of pulp and papers. He studied pulp and paper manufacturing at the Shensi Xibei Province Light Industry College（**陝西省西北輕工業學院**）in pulp and paper manufacturing.

Mr. Wang De Lin,（王德林）, aged 35, is a manager responsible for general administration works for Changning Kanstar. Prior to joining the Group in May 2001, he was the head of the technical department of the original Changning Paper Factory. He was graduated from the Sichuan Province Light Industry College（**中國四川省輕工業學院**）**.**

Mr. Kwong Ping Man,（鄺炳文）, aged 41, is the qualified accountant and company secretary of the Group. Prior to joining the Group in March 2006, he was the managing director of Fortitude Consulting Limited, engaging corporate advisory services. He was graduated from Curtin University of Technology in Australia with a bachelor's degree in Commerce Accounting. He obtained a master's degree in Professional Accounting from the Hong Kong Polytechnic University in October 2003. He is a Certified Practicing Accountant of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Company Secretaries.

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 30 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the top five suppliers of the Group together accounted for approximately 68.42% of the Group's total purchases of materials, and the largest supplier accounted for approximately 18.09% of the Group's total purchases of materials.

For the year ended 31 December 2005, the Group's five largest customers together accounted for approximately 70.02% of the total sales of the Group, and the largest customer accounted for approximately 27.33% of the Group's total sales.

None of the directors, their respective associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the issued share capital of the Company) had any interests in the Group's five largest suppliers or customers.

RESULTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 23.

The directors do not recommend the payment of any dividend for the year ended 31 December 2005.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years ended 31 December 2005 is set out on page 58 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 30 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital and share options of the Company are set out in notes 22 and 23 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mr. Chim Kim Kiu, Jacky *(Chairman)*
Mr. Ip Kai Cheong
Mr. Li Gang
Mr. Sun Tak Keung

Independent non-executive directors:

Mr. Chan Chi Hung, Anthony
Mr. Wang Ai Guo
Mr. Lau Ka Ho (resigned on 12 December 2005)

In accordance with Clause 108 of the Company's Articles of Association, subject to the proposed amendments at the forthcoming annual general meeting, Mr. Chim Kim Kiu, Jacky and Mr. Ip Kai Cheong retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 1 June 2002. After three years, the contract will renew automatically in every year.

The independent non-executive directors have no set term of office but are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

As at 31 December 2005, the interests or short positions of the Directors and the 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 Rule 5.46 of the GEM Listing Rules, 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	Corporate Interests	Other Interests	Total	Percentage of Shareholding
Mr. Chim Kim Kiu, Jacky	Interest of a controlled corporation	—	—	3,000,000,000	—	3,000,000,000	75%

Note: These shares are beneficially owned by and registered in the name of Siko Venture Limited. Mr. Chim Kim Kiu, Jacky beneficially owns the entire issued share capital of Siko Venture Limited.

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 31 December 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 Rule 5.46 of the GEM Listing Rules.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 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 and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

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 December 2005, 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 and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

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 *(Note)* per share, details of which are set out as follows:

Name of grantee	Date of grant	Exercise period	Granted	Outstanding as at 1 January 2005	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2005
Executive directors						
Mr. Ip Kai Cheong	26 June 2002	12 July 2002 — 11 July 2007	65,000,000 *(Note)*	65,000,000	—	65,000,000
		12 January 2003 — 11 January 2008	43,350,000 *(Note)*	43,350,000	—	43,350,000
Mr. Sun Tak Keung	26 June 2002	12 July 2002 — 11 July 2007	45,000,000 *(Note)*	45,000,000	—	45,000,000
		12 January 2003 — 11 January 2008	30,000,000 *(Note)*	30,000,000	—	30,000,000
Other participants						
Employees in aggregate	26 June 2002	12 July 2003 — 11 July 2008	48,750,000 *(Note)*	500,000	—	500,000
Total				183,850,000 *(Note)*	—	183,850,000

Note: Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 7 October 2003, each of the initial issued and unissued Shares having a par value of HK$0.01 were subdivided into five Subdivided Shares having a par value of HK$0.002 each with effect from 8 October 2003. This share subdivision gave rise to adjustments to both the exercise price and the number of underlying shares granted under the pre-IPO share option scheme, and accordingly every option originally granted was increased to five options.

DIRECTORS' INTERESTS IN CONTRACTS

Other than the personal guarantees given by Mr. Chim Kim Kiu, Jacky and a close family member of Mr. Sun Tak Keung to the Group stated in note 27 to the financial statements, there was no other transaction during the year which need to be disclosed as a connected transaction in accordance with the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"); and

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options as set out in note 23 to the financial statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2005.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-year reports and quarterly reports and to provide advice and comments thereon to the directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises the independent non-executive directors and met four times during the year ended 31 December 2005. At the date of this report, Mr. Chan Chi Hung, Anthony has been appointed as the chairman of the audit committee.

POTENTIAL 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

The accounts for the year ended 31 December 2005 have been audited by Louis Leung & Partners CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Chim Kim Kiu, Jacky
Chairman

Hong Kong, 27 March 2006

TO THE SHAREHOLDERS OF
KANSTAR ENVIRONMENTAL PAPER PRODUCTS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

LOUIS LEUNG & PARTNERS CPA LIMITED
AU YANG SUNG FAT, *Certified Public Accountant*
Practising Certificate Number: P2433

Hong Kong, 27 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	NOTE	2005 HK$	2004 HK$
Turnover	3	**53,671,354**	50,313,475
Cost of sales		**(49,546,544)**	(46,302,009)
Gross profit		**4,124,810**	4,011,466
Other operating income	5	**974,422**	55,787
Selling and distribution expenses		**(1,320,170)**	(797,368)
Administrative expenses		**(3,080,856)**	(2,034,705)
Profit from operations	6	**698,206**	1,235,180
Finance costs	7	**(594,987)**	(226,543)
Profit before taxation		**103,219**	1,008,637
Taxation	9	**—**	—
Profit for the year		**103,219**	1,008,637
Dividend	10	**—**	—
Earnings per share			
— basic	11	**0.0026 cents**	0.03 cents
— diluted		**0.0025 cents**	0.02 cents

Consolidated Balance Sheet

As at 31 December 2005

	NOTE	2005 HK$	2004 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	12	**62,040,491**	59,874,428
Prepaid lease payments	13	**2,299,542**	—
		64,340,033	59,874,428
CURRENT ASSETS			
Inventories	15	**9,611,723**	7,052,789
Trade and other receivables	16	**10,515,988**	7,351,752
Bank balances and cash	17	**863,699**	2,483,791
		20,991,410	16,888,332
CURRENT LIABILITIES			
Bank loan, secured	18	**11,000,000**	7,500,000
Trade and other payables	19	**10,270,088**	5,896,152
Amounts due to directors	20	**638,298**	210,525
		21,908,386	13,606,677
NET CURRENT (LIABILITIES)/ASSETS		**(916,976)**	3,281,655
		63,423,057	63,156,083
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	**(8,151,116)**	(8,151,116)
NET ASSETS		**55,271,941**	55,004,967
CAPITAL AND RESERVES			
Share Capital	22	**8,000,000**	8,000,000
Reserves		**47,271,941**	47,004,967
TOTAL EQUITY		**55,271,941**	55,004,967

The financial statements on pages 23 to 57 were approved and authorized for issue by the Board of Directors on 27 March 2006 and are signed on its behalf by:

Ip Kai Cheong	Sun Tak Keung
Director	*Director*

Balance Sheet

As at 31 December 2005

	NOTE	2005 *HK$*	2004 *HK$*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**68,129**	72,065
Interests in subsidiaries	*14*	**67,568,617**	66,098,679
		67,636,746	66,170,744
CURRENT ASSETS			
Other receivables		**20,184**	—
Bank balances and cash		**337,489**	224,385
		357,673	224,385
CURRENT LIABILITIES			
Amount due to a director		**156,722**	402,584
Other payables		**149,933**	111,771
Bank loan, secured		**3,100,000**	—
		3,406,655	514,355
NET CURRENT LIABILITIES		**(3,048,982)**	(289,970)
NET ASSETS		**64,587,764**	65,880,774
CAPITAL AND RESERVES			
Share Capital	*22*	**8,000,000**	8,000,000
Reserves	*24*	**56,587,764**	57,880,774
TOTAL EQUITY		**64,587,764**	65,880,774

Ip Kai Cheong
Director

Sun Tak Keung
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	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 year	—	—	—	—	—	1,008,637	1,008,637
At 31 December 2004	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(13,257,306)	55,004,967
At 1 January 2005	**8,000,000**	**35,770,199**	**985,000**	**23,509,170**	**(2,096)**	**(13,257,306)**	**55,004,967**
Exchange differences arising on translation of foreign operations	—	—	—	—	163,755	—	163,755
Profit for the year	—	—	—	—	—	103,219	103,219
At 31 December 2005	**8,000,000**	**35,770,199**	**985,000**	**23,509,170**	**161,659**	**(13,154,087)**	**55,271,941**

Special reserve represents the difference between the paid up capital of the previous holding company of the Group acquired and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation for the listing of the Company's shares on the Growth Enterprise Market in 2002.

Consolidated Cash Flow Statement

For the year ended 31 December, 2005

	2005	2004
	HK$	*HK$*
OPERATING ACTIVITIES		
Profit before taxation	**103,219**	1,008,637
Interest income	**(10,446)**	(8,815)
Interest expenses	**594,987**	226,543
Loss on disposal of a motor vehicle	**13,885**	27,924
Depreciation for property, plant and equipment	**1,737,938**	1,951,411
Amortization for prepaid lease payment	**46,929**	—
Operating profit before movements in working capital	**2,486,512**	3,205,700
(Increase)/decrease in inventories	**(2,558,934)**	5,287,757
Increase in trade and other receivables	**(3,164,236)**	(2,800,839)
Increase/(decrease) in trade and other payables	**4,373,936**	(2,478,788)
NET CASH FROM OPERATING ACTIVITIES	**1,137,278**	3,213,830
INVESTING ACTIVITIES		
Interest received from bank deposits	**10,446**	8,815
Proceeds from disposal of a motor vehicle	**—**	20,755
Purchase of property, plant and equipment	**(3,324,091)**	(5,977,702)
Prepaid lease payments on lands	**(2,346,471)**	(—)
NET CASH USED IN INVESTING ACTIVITIES	**(5,660,116)**	(5,948,132)
FINANCING ACTIVITIES		
New revolving bank loans raised	**3,500,000**	7,500,000
Interest expenses paid	**(594,987)**	(226,543)
Advance from/(repayment to) directors	**427,773**	(3,566,568)
NET CASH FROM FINANCING ACTIVITIES	**3,332,786**	3,706,889
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,190,052)**	972,587
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**2,483,791**	1,511,204
Effect of foreign exchange rate changes	**(430,040)**	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**863,699**	2,483,791
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**863,699**	2,483,791

1. CORPORATE INFORMATION

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 ("Siko Venture"), a limited company incorporated in the British Virgin Islands.

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 30.

2.1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new 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 2005. 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.

In particulars, the adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

The major impacts of these changes in accounting policies are discussed below.

Presentation of Financial Statements

HKAS 1 "Presentation of Financial Statements" requires the following new disclosures to be made in these financial statements:

- The Group and the Company is no longer permitted not to disclose comparative information on movements in property, plant and equipment.

  Apart from the above changes, HKAS 1 also requires the disclosure of judgements (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 2.2 to the financial statements.

Employee share option scheme (adoption of HKFRS 2 "Share-based Payment")

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Group. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

2.1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Employee share option scheme (adoption of HKFRS 2 "Share-based Payment") *(Continued)*

With effect from 1 January 2005, the Group has applied HKFRS 2 "Share-based Payment" which requires the fair value of such share options is recognised as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 2.3 to the financial statement.

The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period.

The application of this new accounting policy, which requires retrospective application, has had no material effect on the recognition and measurement of share-based payment of the Group. The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

Accordingly, no adjustment was made to the Group's opening balance of accumulated losses and reserves as at 1 January 2005.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has had no material effect on results for the prior year.

2.1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Related party disclosures

HKAS 24 "Related Party Disclosures" provides additional guidance and clarity to the definition and disclosures of related parties and related party transactions. Upon the adoption of HKAS 24, the related note disclosures are now more extensive than previously required. Further details of the new policy are set out in note 2.3 to the financial statements.

The Group 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 Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economics[4]

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

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

2.2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognized in the financial statements.

2.2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Income taxes

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognized. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all or the deferred tax assets will ultimately be realized, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

Impairment test of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

2.2. SIGNIFICANT ACCOUNTINIG JUDGEMENTS AND ESTIMATES *(Continued)*

Income taxes

The Group reviews the carrying amount of deferred tax assets at each balance sheet date and reduces the amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. This requires an estimation of the future taxable profits. Estimating the future taxable profits requires the Group to make an estimate of the expected future earnings from the Group and also to choose a suitable discount rate in order to calculate the present value of the earnings.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

2.3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of machinery and equipment under property, plant and equipment.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("SEHK") and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:—

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions, balances, income and expenses within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than machinery and equipment are stated at cost less depreciation and accumulated impairment losses.

Machinery and equipment are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of machinery and equipment is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	Over the shorter of the operation period of the relevant company, or 30 years
Machinery and equipment	$3^1/_3$%
Furniture and fixtures	20%
Motor vehicles	20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at costs. Cost comprises direct cost of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to fixed assets when it is completed and ready for its intended use.

Prepaid lease payments

Prepaid lease payments represents the carrying amount of the leasehold interest in land in the People's Republic of China. Such prepaid lease payments on land is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for land use right with finite useful life is provided on a straight-line basis over the lease term of 50 years.

Gain or loss arising from derecognition of the prepaid lease payments on land is measured at the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the income statement when the asset is derecognised.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's subsidiaries in the People's Republic of China (the "PRC") are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity in the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation or subsidiary is disposed of.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in reserves, in which case they are recognised in reserves.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. The carrying amount of deferred tax assets/liabilities is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company and the Group has the legally enforceable right to set off current tax assets against current tax liabilities. The principle of offsetting usually applies to income tax levied by the same tax authority on same taxable entity.

Operating leases

Leases where substantially all the risks and rewards of ownership remains with the lessor are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contributions as required by the MPF Scheme and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Company's employer voluntary contributions, which are refunded to the Company when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Payments to the defined contribution retirement benefit scheme in the PRC and the MPF Scheme are charged as an expense as they fall due.

Certain employees of the subsidiary in the People's Republic of China (the "PRC") are members of a defined contribution retirement benefit scheme operated by the government of the PRC. The subsidiary and the eligible employees are required to contribute a certain percentage of the employees' payroll to that scheme.

Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Employees (including directors) of the Group render services and receive remuneration in the form of share-based payment transactions in exchange for shares or rights over shares ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognized as at the beginning and end of that period.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled transactions *(Continued)*

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilative effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive present obligation arising as a result of a past event, and it is probable that an outflow of economic benefits of the Group will be required to settle that obligation and reliable estimate can be made. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party, which may be individual or corporate entity, is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

  (i) controls, is controlled by, or is under common control with, the Group;

  (ii) has an interest in the Group that gives it significant influence over the Group; or

  (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e): or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash equivalents represents cash on hand and at banks, and assets similar in nature to cash which are not restricted as to use.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

2.3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables are carried at cost, less any provision for identified impairment losses. A provision for impairment loss of trade and other receivables for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate of initial recognition. A provision for impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the cost would have been had the impairment not been recognised.

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade payables and other payables. It is initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in the income statement.

3. TURNOVER

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

4. SEGMENT INFORMATION

No analysis of the Group's turnover by principal activities for the year ended 31 December 2005 and 2004 is presented as over 90% of the Group's turnover was from the sales of pulps and papers and all the turnover were derived in the People's Republic of China in both years.

5. OTHER OPERATING INCOME

Included in other operating income is interest income from bank deposits of HK$10,446 (2004: HK$8,815).

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	2005 *HK$*	2004 *HK$*
Auditors' remuneration		
— provided for in the current year	**119,485**	110,377
— over-provided for in previous year	**(6,000)**	—
	113,485	110,377
Directors' remuneration		
— fees	**—**	—
— other emoluments	**76,540**	77,609
Other staff costs	**3,847,168**	3,508,360
Total staff costs	**3,923,708**	3,585,969
Amortisation for prepaid lease payments on land	**46,929**	—
Depreciation on property, plant and equipment	**1,737,938**	1,951,41
Operating lease payment in respect of rented premises	**62,500**	27,358
Loss on disposal of a motor vehicle	**13,885**	27,924
Gain on exchange difference	**(792,383)**	(19,548)

Contributions to defined contribution retirement benefit scheme included in other staff costs amounted to HK$156,496 (2004: HK$128,460).

7. FINANCE COSTS

	2005 *HK$*	2004 *HK$*
Interest on bank loan, wholly repayable within 1 year	**572,486**	204,340
Interest on other loan, wholly repayable within 1 year	**22,501**	22,203
	594,987	226,543

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

A director

	2005 *HK$*	2004 *HK$*
Fees	—	—
Salaries and other benefits	76,540	77,609
Bonus	—	—
Contributions to retirement benefit scheme	—	—
	76,540	77,609

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Employees

Of the five highest paid individuals of the Group, one was director of the Company in 2005 and 2004. The remuneration of the remaining four individuals in 2005 and 2004 were as follows:—

	2005 *HK$*	2004 *HK$*
Salaries and other benefits	350,262	251,283
Contributions to retirement benefits scheme	29,870	9,470
	380,132	260,753

9. TAXATION

The Group's primary operations are carried out in the PRC. The general tax rate for corporation in the PRC is 33% (2004: 33%). Pursuant to the relevant laws and regulations in the PRC, Yunnan Changning Kanstar Paper Co., Limited ("Yunnan Changning"), one of the PRC subsidiaries is exempted from 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 for the year as Yunnan Changning has available tax losses brought forward from previous years to offset against current year assessable profits (2004: Nil). Yunnan Kanstar High Tech Products Development Company Limited ("Yunnan Kanstar"), the other PRC subsidiary, was in loss making position for the current and the previous years. Accordingly, Yunnan Kanstar did not have any assessable profits and no provision for PRC income tax has been made for the year (2004: Nil).

No provision for Hong Kong profits tax has been made for the year as the Company's Hong Kong subsidiaries had no assessable profits in Hong Kong (2004: Nil).

9. TAXATION *(Continued)*

Reconciliation between tax expense and accounting profit multiplied by the PRC income tax rate is as follows:—

	2005 *HK$*	2004 *HK$*
Profit before taxation	**103,219**	1,008,637
Tax at the PRC income tax rate of 33% (2004: 33%)	**34,062**	332,850
Tax effect of:		
— Income not subject to tax	**(892,366)**	(622,222)
— Expenses not deductible for tax purposes	**874,302**	649,888
— Different tax rates of operation in other jurisdictions	**597,018**	182,270
— Utilization of tax loss not previously recognized	**(613,016)**	(542,786)
Tax expense for the year	**—**	—

10. DIVIDEND

No dividend has been paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

11. EARNINGS PER SHARE

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

	2005 *HK$*	2004 *HK$*
Profit for the year		
Profit for calculating basic and diluted earnings per share	**103,219**	1,008,637
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	**182,655,365**	183,517,337
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**4,182,655,365**	4,183,517,337

11. EARNINGS PER SHARE *(Continued)*

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 7 October 2003, each of the initial issued and unissued shares having a par value of HK$0.01 were subdivided into five subdivided shares having a par value of HK$0.002 each with effect from 8 October 2003. Upon the share subdivision becoming effective on 8 October 2003, the authorised share capital of the Company became HK$20 million divided into 10,000 million subdivided shares, of which 4,000 million subdivided shares are in issue and fully paid. The subdivided shares rank pari passu in all respects with each other and the rights attaching to the subdivided shares are not affected by the share subdivision.

12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Machinery & equipment	Furniture & fixtures	Motor vehicles	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost/valuation						
At 1/1/2004	4,061,179	53,965,061	341,490	680,637	66,129	59,114,496
Additions	—	1,005,933	107,690	38,679	4,825,400	5,977,702
Disposals	—	—	—	(79,802)	—	(79,802)
Transfer	—	922,223	—	—	(922,223)	—
At 31/12/2004	4,061,179	55,893,217	449,180	639,514	3,969,306	65,012,396
Additions	—	739,575	39,563	622,650	1,922,303	3,324,091
Disposals	—	—	—	(18,269)	—	(18,269)
Transfer	—	4,298,957	—	—	(4,298,957)	—
Exchange adjustments	78,100	462,170	6,173	10,654	76,332	633,429
At 31/12/2005	**4,139,279**	**61,393,919**	**494,916**	**1,254,549**	**1,668,984**	**68,951,647**
Comprising:						
At cost	4,061,179	19,743,185	449,180	639,514	3,969,306	28,862,364
At valuation	—	36,150,032	—	—	—	36,150,032
At 31/12/2004	4,061,179	55,893,217	449,180	639,514	3,969,306	65,012,396
Comprising:						
At cost	4,139,279	25,243,887	494,916	1,254,549	1,668,984	32,801,615
At valuation	—	36,150,032	—	—	—	36,150,032
At 31/12/2005	**4,139,279**	**61,393,919**	**494,916**	**1,254,549**	**1,668,984**	**68,951,647**
Depreciation						
At 1/1/2004	401,499	2,436,073	123,359	256,749	—	3,217,680
Eliminated on disposals	—	—	—	(31,123)	—	(31,123)
Provided for the year	121,835	1,618,238	97,925	113,413	—	1,951,411
At 31/12/2004	523,334	4,054,311	221,284	339,039	—	5,137,968
Eliminated on disposals	—	—	—	(4,384)	—	(4,384)
Provided for the year	124,178	1,366,508	89,301	157,951	—	1,737,938
Exchange adjustments	10,065	20,237	3,498	5,834	—	39,634
At 31/12/2005	**657,577**	**5,441,056**	**314,083**	**498,440**	**—**	**6,911,156**
Net book values						
At 31/12/2005	**3,481,702**	**55,952,863**	**180,833**	**756,109**	**1,668,984**	**62,040,491**
At 31/12/2004	3,537,845	51,838,906	227,896	300,475	3,969,306	59,874,428

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Furniture & fixtures *HK$*
Cost	
At 1/1/2004	28,010
Additions	60,620
At 31/12/2004	88,630
Additions	16,351
At 31/12/2005	**104,981**
Depreciation	
At 1/1/2004	1,082
Provided for the year	15,483
At 31/12/2004	16,565
Provided for the year	20,287
At 31/12/2005	**36,852**
Net book values	
At 31/12/2005	**68,129**
At 31/12/2004	72,065

The buildings are situated in the PRC.

In preparing the listing of the Company's shares on GEM, the Group revalued all of the machinery and equipment at 30 April 2002, resulting in a revaluation surplus of HK$31,660,286 which has been credited to the revaluation reserve. The valuation was carried out by Messrs. Sallmanns (Far East) Limited, a firm of professional valuers, on an open market value basis.

The carrying value of these revalued machinery and equipment amounted to approximately HK$31,196,000 at 31 December 2005 (2004: HK$32,457,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation of approximately HK$3,669,000 (2004: HK$3,799,000).

The directors consider the carrying value of machinery and equipment at 31 December 2005 was not significantly different from its fair value at that date.

13. PREPAID LEASE PAYMENTS

	Medium-term leasehold land in the PRC *HK$*
Cost	
Additions during the year and at 31/12/2005	2,346,471
Amortisation	
Provided for the year and at 31/12/2005	46,929
Carrying value	
At 31/12/2005	2,299,542

14. INTERESTS IN SUBSIDIARIES

	2005 *HK$*	2004 *HK$*
Unlisted shares, at cost	**24,894,410**	24,894,410
Amounts due from subsidiaries	**42,674,207**	41,204,269
	67,568,617	66,098,679

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation.

The amounts due from subsidiaries are unsecured and interest free. The Company will not demand the subsidiaries for repayment within the next twelve months from the balance sheet date.

Particulars of the Company's subsidiaries as at 31 December 2005 are set out in note 30.

15. INVENTORIES

	2005	2004
	HK$	*HK$*
Raw materials and consumables	**6,868,784**	5,000,026
Work in progress	**—**	238,821
Finished goods	**2,742,939**	1,813,942
	9,611,723	7,052,789

All the inventories are carried at cost as at 31 December 2005 and 2004.

16. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing average credit period ranging from 2 weeks to one month to its trade customers. In additions, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

An aged analysis of trade receivables is as follows:—

	2005	2004
	HK$	*HK$*
0 — 30 days	**5,321,195**	1,205,983
31 — 60 days	**452,341**	173,942
61 — 90 days	**499,853**	351,087
91 — 120 days	**—**	43,953
Over 120 days	**33,734**	227,392
	6,307,123	2,002,357
Other debtors, deposits and prepayments	**4,208,865**	5,349,395
	10,515,988	7,351,752

17. BANK BALANCES AND CASH

Included in bank balances and cash as at 31 December 2005 was an aggregate amount of approximately HK$506,682 (2004: HK$2,168,000) in Renminbi. Renminbi is generally regarded as a currency that cannot be fully converted to other currencies.

18. BANK LOAN, SECURED

The Group's bank loan amounting to HK$11,000,000 (2004: HK$7,500,000) is a revolving loan repayable not exceeding 90 days at the time of drawing.

19. TRADE AND OTHER PAYABLES

An aged analysis of the trade payables is as follows:—

	2005 HK$	2004 HK$
0 — 30 days	**4,318,890**	1,868,639
31 — 60 days	**806,951**	402,893
61 — 90 days	**517,397**	93,169
91 — 120 days	**300,042**	24,956
Over 120 days	**865,870**	952,292
	6,809,150	3,341,949
Other creditors and accrued charges	**3,460,938**	2,554,203
	10,270,088	5,896,152

20. AMOUNTS DUE TO DIRECTORS

All the amounts due to directors are unsecured, interest-free and have no fixed term of repayment.

21. DEFERRED TAXATION

At 31 December 2005 & 2004, the deferred tax liabilities represented amount recognized in respect of the revaluation surplus on the Group's machinery and equipment.

At the balance sheet date, the Group has unrecognized PRC tax losses of HK$5,266,431 (2004: HK$7,124,055) which will expire at various years up to 2008. No deferred tax has been recognized due to the unpredictability of future profit streams.

The Group has no other significant deferred taxation unrecognized at the balance sheet date (2004: Nil).

22. SHARE CAPITAL

Details of share capital were as follows:

	Number of shares	HK$
Authorised:		
At 31 December 2005 and 2004, ordinary shares of HK$0.002 each	10,000,000,000	20,000,000
Issued & fully paid:		
At 31 December 2005 and 2004, ordinary shares of HK$0.002 each	4,000,000,000	8,000,000

23. SHARE OPTION SCHEMES

The Company adopted two share option schemes (hereinafter refer to the "Pre-IPO Share Option Scheme" and the "Share Option Scheme") on 26 June 2002 for the purpose of providing incentives to the directors and eligible participants, under which the Company may grant options to the directors and employees of the Group and also other eligible participants to subscribe for shares of the Company.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or their associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

A nominal consideration of HK$1 is payable on acceptance of each grant. Options may be exercised at any time during a period which may commence on a day after the date of grant of the share options but shall end at any event not later than ten years from the date of grant of the options. The exercised price is determined by the directors of the Company, and will be at least the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant, and (iii) the nominal value of the shares.

On 26 June 2002, prior to its listing, the Company granted options to certain executive directors and employees of the Group to subscribe for an aggregate of 251,100,000 shares *(note)* in the Company under the Pre-IPO Share Option Scheme. The terms of the Pre-IPO Share Option Scheme different to the terms of the Share Option Scheme as described above except that:

(i) the eligible participants are confined to certain directors, senior management, employees, consultants and advisers of the Group;

(ii) there is no minimum subscription price;

(iii) the general scheme limit, the individual limit applicable to each proposed grantee and the restrictions on grant of options to a connected person do not apply;

(iv) the directors may only grant options under the Pre-IPO Share Option Scheme at any time within a period from 26 June 2002 to 12 July 2002.

23. SHARE OPTION SCHEMES *(Continued)*

Details of share options granted under the Pre-IPO Share Option Scheme to certain directors and employees to subscribe for shares in the Company are as follows:—

	Exercisable period	No of options as at 1 January 2005 *(note)*	Cancelled/ Lapsed during the year *(note)*	No of options as at 31 December 2005 *(note)*
Directors	12 July 2002 — 11 July 2007	110,000,000	—	110,000,000
	12 January 2003 — 11 January 2008	73,350,000	—	73,350,000
Employees	12 July 2003 — 11 July 2008	500,000	—	500,000
		183,850,000	—	183,850,000

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognized in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Note: Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 7 October 2004, each of the initial issued and unissued shares having a par value of HK$0.01 were subdivided into five subdivided shares having a par value of HK$0.002 each with effect from 8 October 2004. This share subdivision gave rise to adjustments to both the exercise price and the number of underlying shares granted under the Pre-IPO Share Option Scheme, and accordingly every option originally granted was increased to five options.

24. RESERVES

	Share premium *HK$*	Accumulated losses *HK$*	Total *HK$*
At 31 December 2003	60,649,609	(1,844,120)	58,805,489
Loss for the year	—	(924,715)	(924,715)
At 31 December 2004	60,649,609	(2,768,835)	57,880,774
Loss for the year	—	(1,293,010)	(1,293,010)
At 31 December 2005	**60,649,609**	**(4,061,845)**	**56,587,764**

24. RESERVES *(Continued)*

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At the balance sheet date, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK$56,587,764 (2004: HK$57,880,774).

25. RETIREMENT BENEFIT SCHEMES

All the staff in Hong Kong of the Group are required to join the Mandatory Provident Fund Scheme. The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the scheme.

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute 22% (2004: 24%) of the stipulated salary set by the Yunnan provincial government to the retirement benefits schemes to fund the retirement benefits of certain Group's employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the scheme. During the year, the Group has contributed HK$126,627 (2004: HK$128,460).

26. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the total future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:—

	2005	2004
	HK$	*HK$*
Within one year	**15,000**	118,845
In the second to fifth year, inclusive	**—**	—
	15,000	118,845

For rented premises, leases are negotiated for an average term of two to five years and rentals are fixed throughout the lease period.

On 22 September 2000, a land use right in PRC was granted by the Land Bureau of Changning in the PRC (the "Land Bureau") to a subsidiary for the period from 1 October 2000 to 1 October 2005 at an annual rental of approximately HK$139,000 with a rental free period from 1 October 2000 to 30 September 2001.

On 4 June 2002, an undertaking was given by the Land Bureau for extending the said land use right to 21 September 2030 at an annual rental of approximately HK$139,000 on which the paper plant situated and operated by a subsidiary of the Company. Pursuant to the undertaking, the rent will be subject to adjustment every five years, provided that the adjusted increment would not exceed 20%.

26. OPERATING LEASE COMMITMENTS *(Continued)*

On 14 November 2002, the Land Bureau has agreed to waive the rental payable by the subsidiary for the period from 1 January 2002 to 30 September 2002 amounted to approximately HK$104,000. As the acquisition of the said land use right is in the final stage, and included in the amounts of other receivable was deposit of approximately HK$1,253,000 as at 31 December 2004 to the Land Bureau for the acquisition, the subsidiary and the Land Bureau have intended and considered the rental would further be waived up to 31 December 2005, and accordingly, no such rental was provided for in the financial statements.

27. RELATED PARTIES TRANSACTIONS

(a) During the year, Mr. Chim Kim Kiu, Jacky, the director of the Company has given personal guarantees to the extent of HK$14,500,000 (2004: HK$10,000,000) to two banks for granting banking facilities to the Group.

(b) During the year, a close member of the family of Mr. Sun Tak Keung, the director of the Company has given personal guarantee amounting to HK$10,000,000 (2004: 10,000,000) to a bank for granting banking facilities to a subsidiary.

(c) Members of key management during the year comprised one executive Director whose remuneration is set out in note 8 to the financial statements.

28. CAPITAL COMMITMENTS

At 31 December 2005, the Group had capital commitments amounting to RMB100,000 in respect of the acquisition of property, plant and equipment contracted but not provided for in the financial statements. (2004: HK$1,414,764 in respect of the acquisition of land use right in PRC and the acquisition of property, plant and equipment.)

29. CONTINGENT LIABILITIES

The Company has given guarantees amounting to HK$10,000,000 (2004: 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 31 December 2005 was HK$7,900,000 (2004: HK$7,500,000).

30. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2005 were as follows:—

Name of subsidiary	Place of incorporation/ establishment	Forms of legal entity	Issued and fully paid share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Kanstar Environmental Technology Group Limited	The British Virgin Island	International Business Company	US$1,000	100%	—	Investment holding
Kanstar Hong Kong Limited	Hong Kong	Limited Liability Company	HK$1,000,000	—	100%	Investment holding and management services
Addata Development Limited	Hong Kong	Limited Liability Company	HK$10,000	—	100%	Holding and administration of intellectual property rights for paper filling materials and "Kanstar" brandname
雲南建星新技術產品開發有限公司 Yunnan Kanstar High Tech Products Development Company Limited	The PRC	Wholly Owned Foreign Enterprise	US$420,000*	—	100%	Research, development, manufacture and sale of paper filling materials
雲南昌寧建星紙業有限公司 Yunnan Changning Kanstar Paper Co., Ltd.	The PRC	Wholly Owned Foreign Enterprise	RMB13,357,659*	—	100%	Development, manufacture and sale of pulp and paper products
Modern Lucky International Limited	Hong Kong	Limited Liability Company	HK$2	—	100%	Dormant

None of the subsidiaries had issued any debt securities at the end of the year.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The board of directors and management meets periodically to analyse and formulate strategies to manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives or other instruments for hedging purposes.

The Group's major financial instruments include cash and bank balances, trade and other receivables, trade and other payables, loans from and to related parties and short-term borrowings. Details of these financial instruments are disclosed in respective notes. The main risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Credit risk

The carrying amount of trade receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to its financial assets. No other financial assets carry a significant exposure to credit risk.

In order to minimise the credit risk, the management of the Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The management has also delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC") with exposure spread over a number of customers.

Currency risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency other than Renminbi. All the Group's cash and cash equivalents are deposits with major banks located in Hong Kong and the PRC.

Certain trade and other receivables and borrowings of the Group are denominated in Renminbi. The Group currently does not have a foreign currency hedging policy. However, the management does closely monitor foreign exchange exposure and will consider undertaking foreign exchange hedging activities to neutralize the impact of foreign exchange rate movements on the Group's operating results.

Liquidity risk

The Group will consistently imply a prudent liquidity risk management and ensure that it maintains sufficient cash and cash equivalents to meet its liquidity requirements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value and cash flow interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to fair value and cash flow interest risks is minimal as the Group has no significant long-term financial assets and liabilities, as such its income and operating cash flows are substantially independent of changes in market interest rates.

Financial Summary

For the year ended 31 December 2005

Result

	For the years ended 31 December				
	2001	2002	2003	2004	**2005**
	HK$	*HK$*	*HK$*	*HK$*	***HK$***
Turnover	2,909,965	14,058,190	30,782,461	50,313,475	**53,671,354**
Cost of sales	(4,902,490)	(16,872,043)	(29,979,122)	(46,302,009)	**(49,546,544)**
Gross (loss)/profit	(1,992,525)	(2,813,853)	803,339	4,011,466	**4,124,810**
Other operating income	55,631	160,014	117,264	55,787	**974,422**
Selling and distribution expenses	(102,643)	(363,159)	(716,127)	(797,368)	**(1,320,170)**
Administrative expenses	(3,405,004)	(2,074,214)	(2,170,616)	(2,034,705)	**(3,080,856)**
(Loss)/profit from operations	(5,444,541)	(5,091,212)	(1,966,140)	1,235,180	**698,206**
Finance costs	(18,462)	—	—	(226,543)	**(594,987)**
(Loss)/profit before taxation	(5,463,003)	(5,091,212)	(1,966,140)	1,008,637	**103,219**
Taxation	—	—	—	—	**—**
(Loss)/profit for the year	(5,463,003)	(5,091,212)	(1,966,140)	1,008,637	**103,219**

Assets and Liabilities

	At 31 December				
	2001	2002	2003	2004	**2005**
	HK$	*HK$*	*HK$*	*HK$*	***HK$***
Total assets	21,043,457	73,434,808	74,299,479	76,762,760	**85,331,443**
Total liabilities	(27,250,646)	(17,472,338)	(20,303,149)	(21,757,793)	**(30,059,502)**
(Deficiency of)/ shareholders' funds	(6,207,189)	55,962,470	53,996,330	55,004,967	**55,271,941**

Notes:

1. The Company was incorporated in Cayman Islands on 6 March 2002 and became the holding company of the Group with effect from 26 June 2002 upon completion of the Group Reorganisation as set out in the Company's prospectus dated 5 July 2002.

2. The results of the Group for the year ended 31 December 2001 and the balance sheet of the Group as at 31 December 2001 have been prepared on a merger basis and are extracted from the Company's prospectus dated 5 July 2002.