



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

2006
Interim Report

Characteristics of the Growth Enterprise Market (“Gem”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement 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.

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This report, for which the directors of Kanstar Environmental Paper Products Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Kanstar Environmental Paper Products Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



Highlights

- Turnover increased by approximately 24% over the corresponding period in the previous year to approximately HK\$27 million for the six months ended 30 June 2006.
- Net operating profit for the six months ended 30 June 2006 amounted to HK\$277,000 whereas the net loss attributable to shareholders of approximately HK\$779,000 was recorded in last corresponding period.
- The Directors do not declare any interim dividend for the six months ended 30 June 2006.

Interim Results

The board of directors (the “Board”) of Kanstar Environmental Paper Products Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 June 2006, together with the comparative unaudited figures for the corresponding periods in 2005, as set out below:

Condensed Consolidated Income Statements

	Notes	(unaudited) Three months ended 30 June		(unaudited) Six months ended 30 June	
		2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Turnover	2&3	11,736,131	9,553,597	27,007,019	21,849,041
Cost of sales		(9,701,614)	(9,677,116)	(23,403,117)	(20,723,611)
Gross profit/(loss)		2,034,517	(123,519)	3,603,902	1,125,430
Other revenue		—	179,823	6,944	179,823
Selling and distribution expenses		(587,859)	(272,869)	(721,728)	(627,611)
Administrative expenses		(1,066,078)	(583,689)	(2,031,333)	(1,180,791)
Profit/(loss) from operations		380,580	(800,254)	857,785	(503,149)
Finance costs		(331,101)	(145,100)	(580,860)	(275,520)
Profit/(loss) before taxation	4	49,479	(945,354)	276,925	(778,669)
Taxation	5	—	—	—	—
Profit/(loss) for the period		49,479	(945,354)	276,925	(778,669)
Dividend	6	—	—	—	—
Earnings/(loss) per share (cents)	7				
— basic		0.001	(0.024)	0.007	(0.019)
— diluted		0.001	N/A	0.007	N/A



Condensed Consolidated Balance Sheet

		At 30 June 2006 (unaudited) HK\$	At 31 December 2005 (Audited) HK\$
	<i>Notes</i>		
Non-current assets			
Lease premium on land		2,276,077	2,299,542
Property, plant and equipment		62,141,210	62,040,491
		64,417,287	64,340,033
Current assets			
Inventories		10,250,006	9,611,723
Trade and other receivables	8	12,466,796	10,515,988
Bank balances and cash		2,940,764	863,699
		25,657,566	20,991,410
Current liabilities			
Bank loan, secured		17,200,000	11,000,000
Trade and other payables	9	8,927,582	10,270,088
Amounts due to directors		247,289	638,298
		26,374,871	21,908,386
Net current liabilities		(717,305)	(916,976)
Total assets less current liabilities		63,699,982	63,423,057
Non-current liability			
Deferred taxation	5	(8,151,116)	(8,151,116)
		55,548,866	55,271,941
Capital and reserves			
Share capital	10	8,000,000	8,000,000
Reserves		47,548,866	47,271,941
		55,548,866	55,271,941



Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Special reserve <i>HK\$</i>	Revaluation reserve <i>HK\$</i>	Exchange reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2005	8,000,000	35,770,199	985,000	23,509,170	(2,096)	(13,257,306)	55,004,967
Exchange difference	—	—	—	—	56,606	—	56,606
Loss for the period	—	—	—	—	—	(778,669)	(778,669)
At 30 June 2005	8,000,000	35,770,199	985,000	23,509,170	54,510	(14,035,975)	54,282,904
At 1 January 2006	8,000,000	35,770,199	985,000	23,509,170	161,659	(13,154,087)	55,271,941
Profit for the period	—	—	—	—	—	276,925	276,925
At 30 June 2006	8,000,000	35,770,199	985,000	23,509,170	161,659	(12,877,162)	55,548,866



Condensed Consolidated Cash Flow Statement (Unaudited)

	For the six month period ended 30 June	
	2006 HK\$	2005 HK\$
Net cash outflow from operating activities	(2,328,139)	(182,997)
Net cash outflow from investing activities	(822,927)	(2,852,475)
Net cash inflow from financing activities	5,228,131	4,624,480
Increase in cash and cash equivalents	2,077,065	1,589,008
Cash and cash equivalent at beginning of period	863,699	2,483,791
Cash and cash equivalent at end of period	2,940,764	4,072,799
Analysis of balances of cash and cash equivalents		
Bank balances and cash	2,940,764	4,072,799



Notes:

1. Basis of presentation and principal accounting policies

This condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The interim financial statements are unaudited but have been reviewed by the audit committee of the Company.

The accounting policies adopted in preparing the condensed consolidated financial statements were in consistent with those applied for the annual financial report for the year ended 31 December 2005.

2. Turnover

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

3. Segment information

For the six months ended 30 June 2006, the Group was principally engaged in the sales of pulps and papers and all the turnover are derived in the People's Republic of China ("PRC"). Accordingly, no business or geographic segment information is presented.

4. Profit/(loss) before taxation

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

	For the three months ended 30 June		For the six months ended 30 June	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Depreciation of property, plant and equipment	301,643	434,441	745,673	839,111
Bank interest income	—	—	—	—
Interest on bank borrowings wholly repayable within 5 years	331,101	145,100	580,860	275,520

5. Taxation

No provision for Hong Kong Profits tax has been made as the Group had no assessable profit in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiary of the Company is exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for the PRC income tax has been made in the consolidated accounts as this company had no assessable profit during the periods. The other PRC subsidiary was in loss making position for the current and the previous years and accordingly did not have any assessable profit.

There was no unprovided deferred tax in respect of the three months and six months ended 30 June 2006 (three months and six months ended 30 June 2005: Nil).

6. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).



7. Earnings/(loss) per share

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

	For the three months ended 30 June		For the six months ended 30 June	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Profit/(loss) for the period				
Profit/(loss) for calculating basic and diluted earnings (loss) per share	49,479	(945,354)	276,925	(778,669)
Number of shares				
Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	4,000,000,000	4,000,000,000	4,000,000,000	4,000,000,000
Effect of dilutive potential ordinary share	182,783,389	N/A	182,792,257	N/A
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,182,783,389	N/A	4,182,792,257	N/A

8. Trade and other receivables

The Group has a policy of allowing average credit periods ranging from 2 weeks to one month to its trade customers. In addition, 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:

	At 30 June 2006 HK\$	At 31 December 2005 HK\$
0 — 30 days	2,981,668	5,321,195
31 — 60 days	957	452,341
61 — 90 days	54,392	499,853
91 — 120 days	—	—
Over 120 days	1,293,275	33,734
	4,330,292	6,307,123
Other debtors, deposits and prepayments	8,136,504	4,208,865
	12,466,796	10,515,988



9. Trade and other payables

An aged analysis of trade payable is as follows:

	At 30 June 2006 HK\$	At 31 December 2005 HK\$
0 — 30 days	3,555,867	4,318,890
31 — 60 days	248,861	806,951
61 — 90	652,555	517,397
91 — 120	148,953	300,042
Over 120	602,758	865,870
	<u>5,208,994</u>	6,809,150
Other creditors and accrued charges	3,718,588	3,460,938
	<u>8,927,582</u>	10,270,088

10. Share capital

Ordinary shares of HK\$0.002 each

	Number of shares	share capital HK\$
Authorised:		
At 31 December 2005 and 30 June 2006	10,000,000,000	20,000,000
Issued and fully paid:		
At 31 December 2005 and 30 June 2006	4,000,000,000	8,000,000

11. Capital commitments

At 30 June 2006, the Group had no capital commitment (31 December 2005: HK\$100,000 in respect of the acquisition of land use right in PRC contracted but not provided for in the financial statements).



Management Discussion and Analysis

Business Review

For the six months ended 30 June 2006, the Group recorded an unaudited net operating profit of about HK\$277,000, whereas an unaudited operating loss of around HK\$779,000 was recorded in the last corresponding period. The Group achieved a turnover of approximately HK\$27 million, representing an increase of 24% when compared with the previous corresponding period. The amount of turnover was mainly the result of the increase in the sales of pulps and papers in PRC and overseas market.

The directors of the Company do not recommend the payment of an interim dividend for the period (six months ended 30 June 2005: nil).

The Group has continued its efforts to expand and strengthen the productivity as well as the quality of the Group's products. With the improvement of productivity and the quality of the products, the management believes that the profit margin of the Group will also be increased.

Prospects

In order to further reduce the production cost and to improve productivity, the installation of the electricity control system and the improvement of Lime Recovery Equipment have respectively been completed and improved at the end of June 2006. The completion and improvement of the above leads to recycling of lime and economic use of electricity on production. This is advantageous to the Group as higher sales per order can be generated and sales costs are consequently lowered.

The management believes that with 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 in the months to come.

Liquidity and Financial Resources

As at 30 June 2006, the Group had a healthy financial position with net assets amounted to approximately HK\$56 million.

As at 30 June 2006, guarantee was given by the Company to bank to secure banking facilities made available to a subsidiary amounted to HK\$15,000,000 (31 December 2005: HK\$10,000,000). Except this, the Group did not have any charges on its assets (31 December 2005: nil), and did not have other committed banking facilities (31 December 2005: 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.

Discloseable Transaction

On 10 June 2006, Modern Lucky International Limited ("Modern Lucky"), a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement pursuant to which Modern Lucky agreed to purchase from Mr. Lam Nam (the "Vendor"), an Independent Third Party, a 20% interest in Polyard International Energy Limited ("Polyard") for a consideration of HK\$225.6 million to be satisfied by the issue of 800 million new Shares at an issue price of HK\$0.282 per share. Polyard has 70% interest in Chinaoil USA (Macao) Company Limited which in turn has a 60% interest in a consortium that was recently awarded by Brunei National Petroleum Company the right to explore an area covering 3,011 square kilometers demarcated as Block M in the western part of Brunei. The completion of the Acquisition is anticipated to take place at the end of August 2006.

The Acquisition constitutes a discloseable transaction of the Company pursuant to Rule 19.06 of the GEM Listing Rules. A circular containing information relating to the Acquisition has been dispatched to the Shareholders on 26 June 2006.

Change in Shareholdings

Set out below is the change of shareholding structure of the Company, so far as the Board is aware, immediately before and after the completion of the Acquisition:

Shareholder	Shareholding as at 30 June 2006		Shareholding after the Acquisition	
	No of Shares	%	No of Shares	%
Siko Venture Limited (<i>Note</i>)	2,993,350,000	74.83	2,993,350,000	62.36
Mr. Lam Nam	—	—	800,000,000	16.67
Public shareholders	1,006,650,000	25.17	1,006,650,000	20.97
	4,000,000,000	100.00	4,800,000,000	100.00

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



Employee Information

At at 30 June 2006, the Group had a total staff of approximately 560 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 30 June 2006. Staff cost was approximately HK\$1,981,400 for the period as compared with that of approximately HK\$1,251,000 for the corresponding period of the previous year.

Purchase, Sale or Redemption of Listed Securities

Up to 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



Directors' and Chief Executives' Interest and Short Positions in Shares, Underlying Shares and Debentures

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

Long positions in the shares of the Company

Name of Director	Capacity	Number of Ordinary Shares				Percentage of Total Shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests	
Mr. Chim Kim Kiu, Jacky	Interest of a controlled corporation	—	—	2,993,350,000 (Note 1)	— 2,993,350,000	74.83%

Note:

1. These shares are beneficially owned and registered in the name of Siko Venture Limited, the entire issued share capital of which is held by Mr. Chim Kim Kiu, Jacky.



Long positions in underlying shares of the Company

Name of Grantees (Relations with the Group)	Capacity	Description of equity derivatives (number of underlying shares)
Mr. Ip Kai Cheong <i>(Executive Director)</i>	Beneficial owner	share options to subscribe for shares (108,350,000 shares) <i>(Note)</i>
Mr. Sun Tak Keung <i>(Executive Director)</i>	Beneficial owner	share options to subscribe for shares (75,000,000 shares) <i>(Note)</i>

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

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30 June 2006, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.



Substantial Shareholders

As at 30 June 2006, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or had otherwise notified to the Company were as follows:

Shareholder	Shareholding as at 30 June 2006		Shareholding after the Acquisition	
	No of Shares	%	No of Shares	%
Siko Venture Limited (Note 1)	2,993,350,000	74.83	2,993,350,000	62.36
Mr. Lam Nam	—	—	800,000,000	16.67
Mr. Chim Pui Chung (Note 2)	220,000,000	5.50	220,000,000	4.58

Notes:

1. The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky.
2. Total interests of Mr. Chim Pui Chung in 220,000,000 ordinary shares of the Company referred above include 170,000,000 ordinary shares held by Golden Mount Ltd. and 50,000,000 ordinary shares held by Gallery Land Ltd. The entire issued share capital of both Golden Mount Ltd. and Gallery Land Ltd. are beneficially owned by Mr. Chim Pui Chung.

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



Share Option Schemes

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

Name of grantee	Date of grant	Exercise period	Granted	Number of shares options		
				Outstanding as at 1 January 2006	Lapsed during the period under review	Outstanding as at 30 June 2006
<i>Executive directors</i>						
Mr. Ip Kai Cheong	26 June 2002	12 July 2002 - 11 July 2007	65,000,000	65,000,000	—	65,000,000
		12 January 2003 - 11 January 2008	43,350,000	43,350,000	—	43,350,000
Mr. Sun Tak Keung	26 June 2002	12 July 2002 - 11 July 2007	45,000,000	45,000,000	—	45,000,000
		12 January 2003 - 11 January 2008	30,000,000	30,000,000	—	30,000,000
<i>Other participants</i>						
Employees in aggregate	26 June 2002	12 July 2003 - 11 July 2008	48,750,000	500,000	—	500,000
Total				183,850,000	—	183,850,000

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

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



Directors' and Chief Executive's Rights to Acquire Shares

Save as disclosed above, at no time during the periods from 1 January 2006 to 30 June 2006 was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors or chief executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

Required Standard of Securities Dealings by Directors

During the six months ended 30 June 2006, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for the directors' securities transactions during the six months ended 30 June 2006.

Board Practices and Procedures

The Company has complied with rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the six months ended 30 June 2006.

Competing Interest

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

Code on Corporate Governance Practices

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



Related Parties Transactions

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

Contingent Liabilities

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

Audit Committee

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

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

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

On behalf of the Board
Sun Tak Keung
Director

Hong Kong, 11 August 2006

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