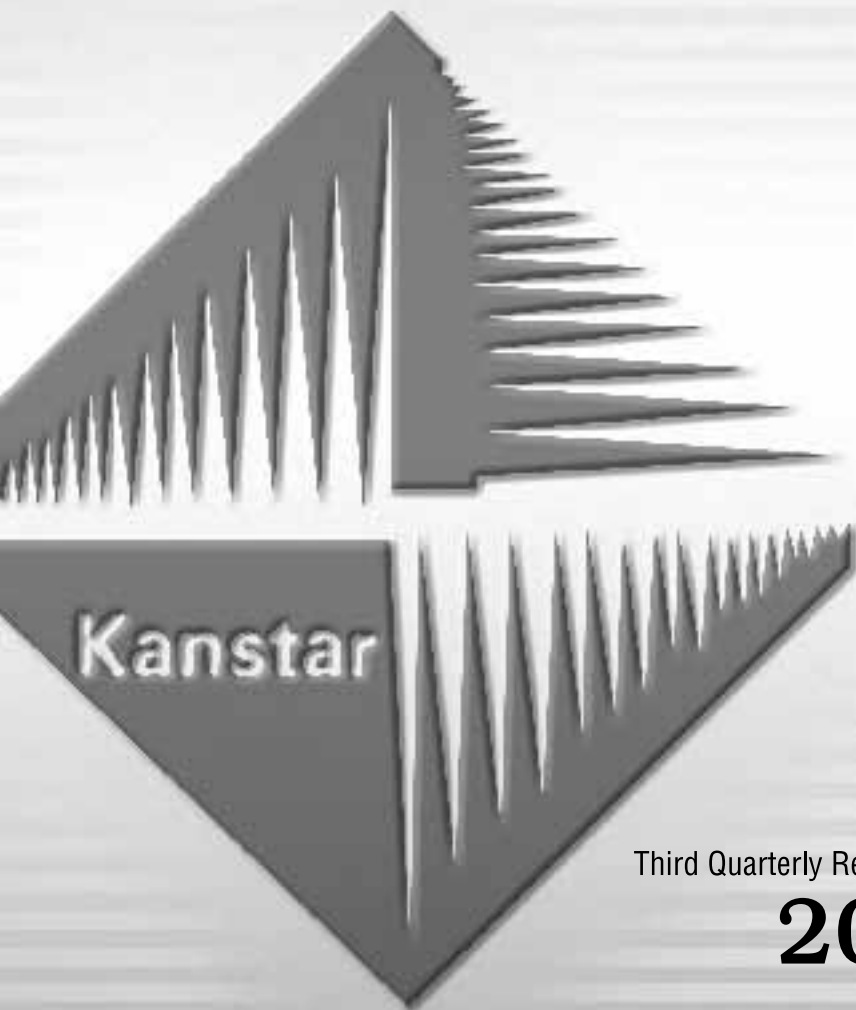




Kanstar Environmental Technology Holdings Limited  
建星環保科技控股有限公司  
*(Incorporated in the Cayman Islands with limited liability)*



Third Quarterly Report

**2002**

## **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 Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover increased by approximately 111 times over the corresponding period in the previous year to approximately HK\$10 million for the nine months ended 30 September 2002.
- Loss attributable to shareholders decreased by approximately 30% compared to the corresponding period in the previous year to approximately HK\$1.7 million for the nine months ended 30 September 2002.
- The Directors do not declare any dividend for the nine months ended 30 September 2002.

## QUARTERLY RESULTS

The board of directors (the "Board") of Kanstar Environmental Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2002, together with the comparative unaudited figures for the corresponding periods in 2001, as set out below:

### UNAUDITED CONSOLIDATED RESULTS

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Turnover	2	<b>3,073,181</b>	-	<b>10,007,753</b>	89,985
Cost of sales		<b>(3,435,806)</b>	-	<b>(10,037,119)</b>	(94,109)
Gross loss		<b>(362,625)</b>	-	<b>(29,366)</b>	(4,124)
Other revenue		<b>21,846</b>	747	<b>33,337</b>	51,822
Selling and distribution expenses		<b>(180,303)</b>	(5,771)	<b>(324,253)</b>	(7,552)
Administrative expenses		<b>(587,923)</b>	(901,005)	<b>(1,398,797)</b>	(2,504,695)
Loss from operations		<b>(1,109,005)</b>	(906,029)	<b>(1,719,079)</b>	(2,464,549)
Finance costs		-	-	-	(18,023)
Loss before taxation	3	<b>(1,109,005)</b>	(906,029)	<b>(1,719,079)</b>	(2,482,572)
Taxation	4	-	-	-	-
Loss for the period		<b>(1,109,005)</b>	(906,029)	<b>(1,719,079)</b>	(2,482,572)
Dividend	5	-	-	-	-
Loss per share – basic (cent)	6	<b>(0.173)</b>	(0.142)	<b>(0.269)</b>	(0.388)

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

	Share capital	Share premium	Merger reserve	Asset revaluation reserve	Exchange reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2001	-	-	-	-	1,274	(1,745,588)	(1,744,314)
Exchange difference on translation of overseas operations	-	-	-	-	128	-	128
Loss for the year	-	-	-	-	-	(5,463,003)	(5,463,003)
At 31 December 2001	-	-	-	-	1,402	(7,208,591)	(7,207,189)
Credited as fully paid from contributed surplus	10,000	-	-	-	-	-	10,000
Issue of shares upon the Group reorganisation	5,000	-	-	-	-	-	5,000
Issue of shares upon capitalisation of shareholder's loan and amount due to a related company	5,000	-	-	-	-	-	5,000
Merger reserve arising on Group reorganisation	-	-	985,000	-	-	-	985,000
Premium arising on capitalisation of shareholder's loan and amount due to a related company	-	18,334,888	-	-	-	-	18,334,888
Revaluation increase arising on revaluation of property, plant and equipment	-	-	-	31,533,102	-	-	31,533,102
Exchange difference on translation of overseas operations	-	-	-	-	(6,045)	-	(6,045)
Loss for the period	-	-	-	-	-	(1,719,079)	(1,719,079)
At 30 September 2002	20,000	18,334,888	985,000	31,533,102	(4,643)	(8,927,670)	41,940,677

The merger reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition under the Group reorganisation as described in notes 1 to the financial statements.

Notes:

### 1. Group reorganisation and basis of preparation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 March 2002. Listing of the shares of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("The Stock Exchange") commenced on 12 July 2002.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM, the Company became the ultimate holding company of the Group on 26 June 2002. Further particulars of the Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix IV to the prospectus of the Company dated 5 July 2002 (the "Prospectus"). The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing Group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated accounts of the Group have been prepared as if the Group for the nine months ended 30 September 2002 and 30 September 2001 had been in existence throughout the periods covered by the report or since their respective dates of incorporation, where this is a shorter period.

All significant transactions and balances between companies now comprising the Group have been eliminated on consolidation. The group's quarterly consolidated accounts have been prepared in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Companies Ordinance of Hong Kong and the GEM Listing Rules.

### 2. Turnover

An analysis of the Group's turnover by type of products sold for Nine-Month Period and the Quarterly Period were as follows:

	<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$</b>	HK\$	<b>HK\$</b>	HK\$
Manufacture and sales of pulps and papers	<b>3,073,181</b>	–	<b>10,007,753</b>	–
Manufacture and sales of paper filling materials	–	–	–	89,985
<b>Total</b>	<b>3,073,181</b>	–	<b>10,007,753</b>	89,985

### 3. Loss before taxation

Loss before taxation has been arrived at after charging (crediting):

	For the three months ended 30 September		For the nine months ended 30 September	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Depreciation of property, plant and equipment	<b>328,256</b>	104,875	<b>703,977</b>	285,518
Bank interest income	<b>(22,255)</b>	(747)	<b>(23,745)</b>	(48,892)
Interest on bank borrowings wholly repayable within 5 years	-	-	-	18,023
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### 4. Taxation

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

Pursuant to the relevant laws and regulations in the PRC, Kunming Kanstar and Changning Kanstar (wholly-owned subsidiaries of the Group) are exempted from the PRC income tax for two years starting from their first profit-marking 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 these two companies had no assessable profit during the periods.

### 5. Dividend

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2002 (nine months ended 30 September 2001: Nil).

### 6. Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders for the three months and nine months ended 30 September 2002 of approximately HK\$1,109,000 and HK\$1,719,000 (2001: HK\$906,000 and HK\$2,483,000) respectively and on the assumption that 640,000,000 shares were deemed to have been issued, comprising 2,000,000 shares in issue as at 30 June 2002 and 638,000,000 shares to be issued pursuant to the capitalisation issue as described in the paragraph headed "Resolutions in writing of the sole shareholders of the Company passed on 26 June 2002" in appendix IV to the Prospectus.

No diluted loss per share for the three months and nine months ended 30 September 2002 has been presented because the effect of exercising the Company's outstanding share options is anti-dilutive.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and financial review

For the nine months ended 30 September 2002, the Group reported an unaudited turnover of approximately HK\$10 million, increased by approximately 111 times over the corresponding period in last year and an unaudited gross loss of approximately HK\$29,000, compared with an unaudited gross loss of around HK\$4,000 for the corresponding period in last year.

In the third quarter of 2002, production has suspended for about 45 days for the improvement of the Group's existing pulp production facilities by installing additional equipment and commencing the expansion works in relation to water and power supply and waste water treatment in preparation for the installation of new wood pulp and paper manufacturing facilities.

The improvement process has lead to the low production level for the three months ended 30 September 2002. As regular fixed overheads, comprising water and electricity charges, labour and transportation, were absorbed in this periods results, a gross loss was therefore recorded in current period.

During the period under review, the amount of depreciation charge increased significantly. With the revaluation increase arising on revaluation of property, plant and equipment amounting to HK\$31.5 million on 30 April 2002, an additional depreciation of HK\$450,000 was charged.

In the corresponding period of the last financial year, the administrative expenses represented the pre-operating expenses. In the current period under review, such pre-operating expenses reduced. Although the listing of the Group on 12 July 2002 has increased some administrative expenses, such as listing expense and sponsorship fee, the amount of administrative expenses still decreased by 44% in the current period.

### Prospect

On 12 July 2002, the Group was successfully listed on GEM by way of placing of 160 million of new shares and 40 million sales shares at the price of HK\$0.2 each. The Group raised approximately HK\$25.3 million through listing.

With the listing proceeds, the Group has spent approximately HK\$1.2 million to acquire and install a new production line in Changning for the expansion of production of paper filling materials from existing 1,000 tonnes to 5,000 tonnes per year. Trial production starts by the end of October 2002. With the increase in the production capacity of paper filling materials, the unit production cost of pulp and paper will surely decrease.

During the period under review, the Group also spent approximately HK\$2 million to acquire new production equipment for the new pulp and paper production line. With the implementation of this new production line, the production capacity will increase from 10,000 tonnes to 20,000 tonnes per year. The trial production of such equipment will probably be started by the early 2003.

The Group has also invested an additional HK\$0.4 million to purchase four spherical evaporators. With these four evaporators, the Group is able to use bagasse as another substitution of wood, which can further reduce the production costs of pulp and paper.



During the period under review, the Group is currently negotiating for the acquisition of the land use right of the site where the Changing paper factory is situated and has earmarked RMB2 million (HK\$1.9 million) for such purpose. The negotiation will probably be completed by the end of 2002.

With the increase in the production capacity of paper filling materials, pulp and paper, the Group plans to set up offices in Kunming and Baoshan by the end of 2002 to explore the possibility of commencing retail sales of the Group's paper products.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Up to 30 September 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES**

As at 30 September 2002, interests of the Directors and chief executives of the Group in the shares of the Company (the "Shares") and in the share capital of any of its associated corporations pursuant to section 29 of the SDI Ordinance were as follows:

<b>Director</b>	<b>Number of Shares</b>				<b>Total interests</b>
	<b>Corporate interests</b>	<b>Personal interests</b>	<b>Family interests</b>	<b>Other interests</b>	
Mr. Chim	600,000,000 (Note)	–	–	–	600,000,000

*Note:* These Shares are registered in the name of Siko Venture, the entire issued share capital of which is held by Mr. Chim.

### **SUBSTANTIAL SHAREHOLDERS**

At 30 September 2002, the following persons were directly or indirectly interested in 10 percent or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of holding</b>
Siko Venture	600,000,000 (Note)	75%
Mr. Chim	600,000,000 (Note)	75%

*Note:* These Shares are registered in the name of Siko Venture, the entire issued share capital of which is held by Mr. Chim.

### Pre-IPO Share Options Scheme

At the date of listing of the Company on 12 July 2002, options comprising a total of 50,220,000 underlying shares were granted to 3 executive directors and 4 employees of the Group. Details of these options were as follows:

Name of grantees (relations with the Group)	Period during which the options remain exercisable	Exercise price per Share	Number of underlying Shares under the options
Mr. Li Gang <i>(Executive Director)</i>	5 years commencing from and including the date falling 12 months from the Listing Date	HK\$0.01	3,800,000
Mr. Ip Kai Cheong <i>(Executive Director)</i>	(i) options to subscribe up to 13,000,000 Shares exercisable within a period of 5 years commencing from the Listing Date	HK\$0.01	21,670,000
	(ii) options to subscribe up to 8,670,000 Shares exercisable within a period of 5 years commencing from and including the date following 6 months from the Listing Date		
Mr. Sun Tak Keung <i>(Executive Director)</i>	(i) options to subscribe up to 9,000,000 Shares exercisable within a period of 5 years commencing from the Listing Date	HK\$0.01	15,000,000
	(ii) option to subscribe up to 6,000,000 Shares exercisable within a period of 5 years commencing from and including the date following 6 months from the Listing Date		
4 employees of the Group	5 years commencing from and including the date falling 12 months from the Listing Date	HK\$0.01	9,750,000
			Total: 50,220,000

No options granted pursuant to the Pre-IPO Share Option Scheme as stated above had been exercised or cancelled during the three months ended 30 September 2002.

### **Share Options Scheme**

No options had been granted to directors or employees of the Group under the Share Options Scheme during the three months ended 30 September 2002.

### **DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES**

Save as disclosed above, at no time during the periods from 1 January 2002 to 30 September 2002 was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors or chief executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

### **COMPETING INTERESTS**

Up to 30 September 2002, 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.

### **INTEREST OF SPONSORS**

As updated and notified by the Company's sponsor, South China Capital Limited ("SCCL"), as at 30 September 2002, neither SCCL nor its directors, employees and their associates had any interest in the shares of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

SCCL and the Company have entered into a sponsor's agreement, pursuant to which, SCCL will receive fee for acting as the Company's sponsor for the period up to 31 December 2004 subject to terms and conditions agreed between the parties thereto.

### **COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES**

Since the date of listing of the Group on 12 July 2002, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

The Company has established an audit committee, comprising Mr. Lau Kwok Wing, Chris and Mr. Chan Chi Hung, Anthony, both of whom are independent non-executive Directors, with written terms of reference in compliance with Rules 5.23, 5.24, and 5.25 of the GEM Listing Rules. Mr. Lau Kwok Wing, Chris has been appointed as the chairman of the audit committee. The primary responsibilities of the audit committee are (i) to review the annual report and accounts, half-yearly report and quarterly reports and provide advice and comments thereon to the Board and (ii) to review and supervise the financial reporting process and internal control system of the Group.

On behalf of the Board  
**Chim Kim Kiu, Jacky**  
*Chairman*

Hong Kong, 8 November 2002