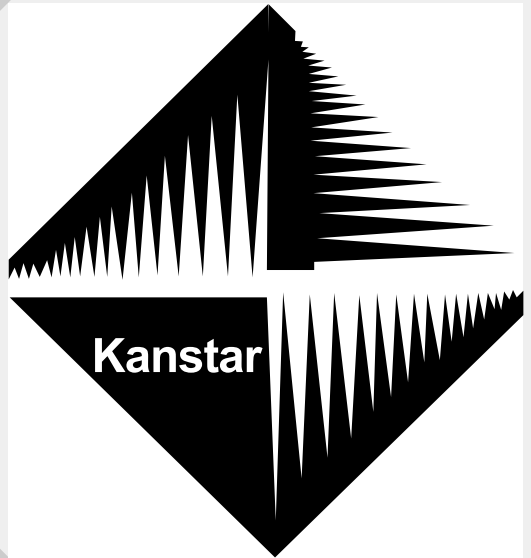




Kanstar Environmental Technology Holdings Limited
建星環保科技控股有限公司
(Incorporated in the Cayman Islands with limited liability)



First Quarterly Report

2003

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.

The Stock Exchange of Hong Kong Limited 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 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 Technology 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 3 times over the corresponding period in the previous year to approximately HK\$5.8 million for the three months ended 31 March 2003.
- Loss attributable to shareholders increased by approximately 2.3 times over the corresponding period in the previous year to approximately HK\$0.95 million for the three months ended 31 March 2003.
- The Directors do not declare any dividend for the three months ended 31 March 2003.

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 ended 31 March 2003, together with the comparative unaudited figures for the corresponding period in 2002, as set out below:

Unaudited Consolidated Results

		Three months ended 31 March	
	<i>Notes</i>	2003 HK\$	2002 HK\$
Turnover	2	5,830,844	1,941,119
Cost of sales		(6,252,063)	(1,831,284)
Gross (loss) profit		(421,219)	109,835
Other revenue		13,054	588
Selling and distribution expenses		(21,467)	(75,456)
Administrative expenses		(519,762)	(438,302)
Loss from operations		(949,394)	(403,335)
Finance costs		–	–
Loss before taxation	3	(949,394)	(403,335)
Taxation	4	–	–
Loss for the period		(949,394)	(403,335)
Dividend	5	–	–
Loss per share – basic (cent)	7	0.12	0.06

Notes:

1. Group Restructuring and Basis of Presentation of Financial Statements

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 incorporate in the British Virgin Islands.

Under a group reorganization scheme to rationalize the structure of the Group in preparation for the listing of the Company's share on GEM (the "Group Reorganisation"), the Company became the holding company of the other companies comprising the Group on 26 June 2002. Details of the reorganization are set out in the prospectus dated 5 July 2002 issued by the Company.

The principal steps of the reorganization, which involved the exchange of shares, were as follows:

- (a) The shares of Kanstar Environmental Technology Group Limited ("KETG") were issued and allotted to the then shareholders of Kanstar Hong Kong Limited ("KHK"), the previous holding company of the Group, in exchange for the shares in KHK; and
- (b) The shares of the Company were then issued and allotted to the then shareholders of KETG in exchange for the shares in KETG.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

2. Turnover

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

3. Loss before taxation

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

	For the three months ended 31 March	
	2003	2002
	HK\$	HK\$
Depreciation of property, plant and equipment	373,724	97,007
Bank interest income	(13,054)	(588)
Interest on bank borrowings wholly repayable within 5 years	—	—

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, both the PRC subsidiaries of the Company are 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 these two companies had no assessable profit during the periods.

5. Dividend

The Board does not recommend the payment of a dividend for the three months ended 31 March 2003 (2002: Nil).

6. Reserves

Other than the net loss for the three months ended 31 March 2003, there were no movements to or from reserves of the Company (2002: Nil).

7. Loss per Share

The calculation of basic loss per share is based on the loss for the three months ended 31 March 2003 of HK\$949,394 (2002: HK\$403,335) and on the weighted average number of 800,000,000 (2002: 640,000,000) ordinary shares in issue during the period.

No diluted loss per share is calculated because the effect of assumed exercise of share options outstanding during the period would result in reduction in loss per share.

The number of shares for the period ended 31 March 2002 of 640,000,000 are deemed to be issued throughout the year, assuming that the Group Reorganisation had been effective on 1 January 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

For the three months ended 31 March 2003, the Group reported an unaudited turnover of HK\$5,830,844 increased by approximately 3 times over the corresponding period in last year and an unaudited operating loss of HK\$949,394 was noted, whereas an operating loss of HK\$403,335 was noted in last corresponding period.

In the first quarter of 2003, production has suspended for about half month in order to upgrade the production capacity of the existing Changning factory. From March 2003 onwards, the production capacity increased from 7,000 tonnes to 10,000 tonnes per year.

This upgraded process was the main reason for the recorded gross loss in this review period as the Group had to absorb those regular fixed overheads, comprising water and electricity charges, labour and transportation cost.

When compared to last period's figure, as a revaluation of property, plant and equipment was carried out on 30 April, 2002, which lead to a revaluation reserve of HK\$31,500,000, the amount of depreciation charge for current period greatly increased.

The Group had signed an agreement with an independent third party in Sichuan who agreed to purchase 8,000 tonnes copying paper from February 2003 onwards from the Group per year at the prevailing market price.

Prospects

Up to the first quarter of 2003, the Group spent about RMB5 million for the purchase and the installation of the new pulp production facilities. With the installation of the new production line in the second quarter of 2003, there are totally three separate production lines in the Changning factory. Each production line will be specialized in the production of pulps, writing papers and copying papers respectively. The production capacity will further increase from currently 10,000 tonnes to 20,000 tonnes per year. The specialization in the production line improves both the efficiency and stability of the machines and reduces the cost incurred for the change of production.

In this quarter, the Group successfully installed four spherical evaporators. Trial production for both the new pulp production facilities and these four spherical evaporators will be started in the early of June 2003. After that, the Group can use a mixture of woods, bamboos, bagasse and paper filling material for the production of paper products.

Also, the Group tries to investigate the possibility of promoting sales in the Guangdong province and intends to set up an office in Guangdong to promote its products.

In the second half of 2003, the Group will investigate the market demand for the paper filling material and intend to invest approximately RMB4 million in a new production line accordingly. On the completion of this line, the production capacity will increase from 5,000 tonnes to 15,000 tonnes per year. Promotion for paper filling material will probably be one of the main tasks in the second half of 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 31 March 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2003, interests of the Directors of the Company 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:

Director	Corporate interests	Number of Shares			Total interests
		Personal interests	Family interests	Other interests	
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 31 March 2003, 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:

Name	Number of shares held	Percentage of holding
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 (Executive Director)	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 (Executive Director)	(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 (Executive Director)	(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 31 March 2003.

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 31 March 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the periods from 1 January 2003 to 31 March 2003 was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors (including their spouses or children under the age of 18) of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

COMPETING INTERESTS

Up to 31 March 2003, 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 31 March 2003, 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

Up to 31 March 2003, 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, 13 May 2003