

**KANSTAR ENVIRONMENTAL TECHNOLOGY HOLDINGS LTD :
WHAT A LOAD OF OLD COBBLERS !**

Now, here's a funny how-de-do: A company, coming to The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd, has determined to employ The Cost Approach in respect of the Valuation Methodology with regard to the company's assets.

The assets, which were valued by Sallmanns (Far East) Ltd, Chartered Surveyors of Plant and Machinery, comprise 9-year-old equipment, located at Gongyu Village, Mangshuixiang, Changning, Baoshan, Yunnan Province, the People's Republic of China (PRC).

The equipment comprises:

Chip Preparation Workshop	2,036,200 renminbi
Pulp Mill	6,240,700 renminbi
Paper Mill	9,540,800 renminbi
Lime Recovery Plant	8,623,200 renminbi
Steam Generation Plant	1,972,700 renminbi
Wastewater Treatment Plant	1,096,000 renminbi
Potable Water Plant	707,400 renminbi
Chlorine Workshop	3,114,700 renminbi
Machine Shop	598,500 renminbi
Electrical Distribution	1,997,000 renminbi
TOTAL	38 MILLION RENMINBI

It is interesting that Sallmanns can make the statement that the above-mentioned, well-used equipment can be worth the same value, or a similar value, to new equipment of the same calibre.

The rationale, used by Sallmanns, is as follows (taken, directly, from Page 120 of the Placing Prospectus of Kanstar Environmental Technology Holdings Ltd, now known as GEM Stock Code Number 8011):

'We have considered and excluded the income approach due to insufficient financial data being available. In the absence of any market information regarding sales and purchases of large industrial facilities similar to the assets appraised, the most reliable approach in arriving at an opinion of value of the machinery and equipment is by using the cost approach.'

'Before arriving at our opinion of value, we have personally conducted an inspection of the machinery and equipment investigated market conditions and interviewed personnel to establish conditions, utility and history of the equipment. We have also given consideration to the cost of replacement new, accrued depreciation, extent, character, utility and continuation of use of the assets in their present location.'

'Cost of Replacement New is the estimated amount of money needed to acquire a similar new item having the nearest equivalent utility as the property being valued taking into consideration current prices of materials and manufactured equipment, shipping and handling, labour, contractor's overhead, design and supervision, profit and fees, and other attendant costs associated with its acquisition.'

'During our inspection, we have been provided with a list of the machinery and equipment, which we have inspected and verified. We have relied considerably on this plus on other information such as maintenance records, equipment specifications and other documents provided to us.

'We have not investigated the title or any liabilities affecting the machinery and equipment appraised. No consideration was made for any outstanding amount owed under financing agreement, if any

*'Premised on the foregoing, we are of the opinion that as at 30 April 2002 the fair market value of the machinery and equipment is fairly represented in the amount of **RMB 38,000,000 (RENMINBI THIRTY EIGHT MILLION)** ... '.*

This is the first time that TARGET has seen this approach, being used in trying to value such old equipment, but this medium does not take issue with it since it must be assumed that such values were arrived at objectively, impartially, and honestly.

However, it seems to fly in the face of what is generally considered The Market Approach to appraising old machinery, an approach, which, generally, relies on prices, recently paid for similar assets in their present state of repair (or disrepair).

TARGET, also, notes that the valuation of 38 million renminbi represents a Surplus of about 33.47 million renminbi of the Book Cost of such old equipment and machinery of about 4.56 million renminbi.

That Surplus is equivalent to about 46 percent of the Adjusted Net Tangible Assets of Kanstar Environmental Technology Holdings Ltd. (Page 80 of the Prospectus)

One might, on a cursory glance at the Prospectus of this Company – which is what most prospective investors do in the Hongkong Special Administrative Region (HKSAR) of the PRC – be mistaken into thinking that Sallmanns's valuation represents the present, actual value of the old machinery and equipment if it were to be sold, either as second-hand machinery or on liquidation of the Company's assets.

Far from it, because it may turn out that the aging machinery and equipment have no, or little, material value, especially in its present location.

This is because it is highly unlikely that there would be a willing buyer for it.

And, especially, at the price that Sallmanns has attested as its '*Fair Market Value*'. (Page 122)

Lastly, on the subject of the valuation of the machinery and equipment, valued by Sallmanns, had that valuator's surplus not been included in the calculation of the Adjusted Net Tangible Assets, then, the Adjusted Net Tangible Assets would have been reduced to about \$HK35.30 million, a drop of about 49 percent, compared with the figure of \$HK68.57 million, as shown at Page 80 of the Prospectus.

What has this to do with the flotation of Kanstar Environmental?

Just about everything, actually, because ... [CLICK TO ORDER FULL ARTICLE](#)

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