



GP NanoTechnology Group Limited

廣平納米科技集團有限公司*

(Incorporated in Bermuda with limited liability)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

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This announcement, for which the directors of GP NanoTechnology Group Limited collectively and individually accept 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 GP NanoTechnology Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Group's turnover was approximately HK\$79 million for the financial year ended 31 December 2001, representing an increase of approximately 18% over the previous year.
- Net profit decreased by approximately 19% to approximately HK\$11 million for the financial year ended 31 December 2001 when compared to the previous year.
- The Board does not recommend the payment of a final dividend by the Company for the financial year ended 31 December 2001.

About GP NanoTechnology Group Limited

GP NanoTechnology Group Limited (the "Company") and together with its subsidiaries (collectively referred to the "Group") is one of the largest manufacturers of PCC nanomaterials in the PRC. It is principally engaged in the manufacture and sale of nanomaterials for use as fillers in different industrial applications such as the manufacturing of plastic and rubber products.

The Group derives its revenues principally from sales of PCC nanomaterials.

The ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") on 17 July 2001.

RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the audited consolidated results of the Group for the financial year ended 31 December 2001, together with the comparative figures for 2000 as follows:

		Year ended	
		31 December	
		2001	2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	79,323	67,290
Cost of sales		<u>(42,944)</u>	<u>(36,382)</u>
Gross profit		36,379	30,908
Other revenue		413	167
Distribution costs		(4,377)	(5,499)
Administrative expenses		<u>(17,438)</u>	<u>(6,811)</u>
Profit from operations		14,977	18,765
Finance costs		<u>(2,041)</u>	<u>(2,778)</u>
Profit before taxation		12,936	15,987
Taxation	4	<u>(1,769)</u>	<u>(2,150)</u>
Profit before minority interests		11,167	13,837
Minority interests		<u>81</u>	<u>—</u>
Profit attributable to shareholders		<u>11,248</u>	<u>13,837</u>
Dividends		<u>Nil</u>	<u>13,000</u>
Earnings per share	5	<u>2.6 cents</u>	<u>3.6 cents</u>

There were no recognised gains or losses other than the profit attributable to shareholders.

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17 July 2000.

The Company is an investment holding company. The principal activities of the Group are manufacture and sale of nanomaterial products.

Pursuant to a series of group reorganisation steps (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the GEM, the Company became the holding company of the Group on 17 April 2001.

The shares of the Company were listed on the GEM on 17 July 2001.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 27 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants.

Details of the Group Reorganisation are set out in the prospectus dated 9 July 2001 issued by the Company. The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with the entire share of Self Made Holdings Limited (“SMH”).

During the financial year ended 31 December 2001, the Company has completed the establishment and incorporation of the following subsidiaries:

- Ever Innovation Limited
- GP Nano Composite Materials Limited (廣平納米複合材料有限公司)
- GP Nano Investments Limited (廣平納米投資有限公司)

The results of these subsidiaries are included from their effective dates of establishment.

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings, and in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances by the Group to outside customers during the year.

3. Segment Information

For the year ended 31 December 2001 and 2000, the Group was engaged in the manufacture and sale of nanomaterial products. All of the Group’s turnover, contribution to operating profit and assets was attributed to this business segment which is located in the People’s Republic of China (the “PRC”).

4. Taxation

	2001 <i>HK\$’000</i>	2000 <i>HK\$’000</i>
The charge comprises:		
PRC enterprise income tax	<u>1,769</u>	<u>2,150</u>

Pursuant to the relevant laws and regulations in the PRC, Guang Ping Chemical Industrial Enterprise Co. Ltd. (“GPCI”), the Company’s PRC subsidiary, is entitled to exemption from PRC enterprise income tax for two years commencing from its first profit-making year of operations, followed by a 50% reduction from PRC enterprise income tax for the next three years. In addition, pursuant to an approval received from local tax authorities on 20 November 2001, GPCI was classified as one of the approved “High Technology Entities”. Accordingly, GPCI is entitled to a preferential PRC income tax rate of 15%.

The Enping tax bureau has confirmed that the year ended 31 December 1998 was the first profit marking year, and accordingly, the year ended 31 December 1999 was the last year that GPCI was entitled to tax exemption, and the year ended 31 December 2000 was the first year that the subsidiary

is entitled to a 50% reduction from PRC enterprise income tax. The charge for the year ended 31 December 2001 represents provision for PRC enterprise income tax at the reduced rate of 7.5% on GPCI's estimated assessable profit.

No provision for Hong Kong Profits Tax has been made in the financial statements as the companies operating in Hong Kong did not have any estimated assessable profit.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of leasehold land and buildings as profits arising on the disposal of those assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

5. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2001 is based on the profit attributable to shareholders of HK\$11,248,000 and on the weighted average number of 440,808,904 shares that would have been in issue throughout the year as if the Company had been the holding company of the Group since the beginning of the year.

The calculation of the basic earnings per share for the year ended 31 December 2000 is based on the profit attributable to shareholders of HK\$13,837,000 and on the 387,000,000 shares in issue immediately preceding the new issue of 113,000,000 shares.

6. Reserves

Movements of reserves during the financial year 2000 and 2001 are as follows:

	Share premium <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits (deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At 1 January 2000	—	—	—	—	31,389	31,389
Profit attributable to shareholders	—	—	—	—	13,837	13,837
Dividends	—	—	—	—	(13,000)	(13,000)
At 31 December 2000	—	—	—	—	32,226	32,226
Special reserve arising on the Group Reorganisation	—	—	—	(7,225)	—	(7,225)
Surplus arising on revaluation	—	17,346	—	—	—	17,346
Premium arising on issue of shares	68,300	—	—	—	—	68,300
Capitalisation for share premium account	(31,475)	—	—	—	—	(31,475)
Expenses incurred in connection with the issue of shares	(14,390)	—	—	—	—	(14,390)
Profit attributable to shareholders	—	—	—	—	11,248	11,248
At 31 December 2001	<u>22,435</u>	<u>17,346</u>	<u>—</u>	<u>(7,225)</u>	<u>43,474</u>	<u>76,030</u>
THE COMPANY						
Contributed surplus arising on the Group Reorganisation	—	—	21,927	—	—	21,927
Premium arising on issue of shares	68,300	—	—	—	—	68,300
Capitalisation of share premium account	(31,475)	—	—	—	—	(31,475)
Expenses incurred in connection with the issue of shares	(14,390)	—	—	—	—	(14,390)
Loss for the year	—	—	—	—	(3,577)	(3,577)
At 31 December 2001	<u>22,435</u>	<u>—</u>	<u>21,927</u>	<u>—</u>	<u>(3,577)</u>	<u>40,785</u>

The special reserve represents the difference between the nominal value of share of SMH acquired and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation.

The contributed surplus represents the difference between the consolidated shareholder's funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31 December 2001 consisted of contributed surplus less deficit totalling HK\$18,350,000.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend by the Company for the financial year ended 31 December 2001. The payment of dividend in 2000 represents dividends paid by a subsidiary of the Company to its then shareholder prior to the Group Reorganisation.

BUSINESS REVIEW AND PROSPECT

Financial Performance

For the financial year ended 31 December 2001, the Group's turnover amounted to approximately HK\$79 million, representing an increase of 18% compared to the financial year of 2000. Such increase in turnover was due primarily to better sales of the Group's core products of PCC nanomaterials.

The Group's gross profit amounted to approximately HK\$36 million, representing an increase of 18% compared to the financial year of 2000. The improvement in gross profit was mainly due to the decrease in the cost of diesel and the installation of new energy saving facilities in the fourth quarter. Profit attributable to shareholders for the financial year ended 31 December 2001 was approximately HK\$11 million and earnings per share was HK\$0.026.

Notwithstanding the improved turnover and gross profit, the Directors are of the opinion that the Group's financial performance could have been better if not for an unexpected combination of unfortunate global and local events, which either dampened product demand or hindered implementation of planned projects.

Business Review

The year under review was a challenging one, and the Group's business was not spared the unexpected adverse effect of the slowdown in the global economy following the September 11 terrorist attack in the United States ("U.S."). As a result, demand for the Group's products in its main market, the PRC, was negatively affected. The prevailing lacklustre economic situation in South East Asia, which was further aggravated by the downturn in the U.S. economy, also hampered the Group's efforts to expand to regional markets.

Unforeseen circumstances leading to unavoidable delay in completion of the Group's joint venture research and development projects in the PRC inevitably resulted in further adverse impact on projected turnover. Furthermore, the implementation of a quality enhancement program for the manufacturing of ceramic fine powder had to be deferred to safeguard product quality.

The Group has also, in the third quarter of 2001, set up GP Nano Investments Limited that own 70% of Ever Innovation Limited, which in turn holds 100% equity of GP Nano Composite Materials Limited, a company involved in the manufacture and sale of PCC nanomaterials-filled PP nanocomposites, a product that can be used by the entire plastic industry.

During the year under review, the Group maintained its main line of business, namely, the manufacture and sale of PCC nanomaterials. As part of the ongoing efforts to expand its products range, the Group has successfully launched a new product line in the PRC market, PCC nanomaterials for the ink and paints industries, which can also be used by other industries. The sale of this new product is expected to make contribution to the Group in 2002.

In anticipation of market demand and as part of product range expansion, the Group has, in 2001, also successfully established a new product line of PCC nanomaterials for use in PP resin to produce high quality plastic household products. This development is ahead of its original schedule as set out in the Business Objective in the Prospectus. The Group is optimistic about this product as it can replace more expensive materials and yet improve product quality, and it will enable the Group to explore the market for manufacturers of high end products. The production facility for this product line has been set up, and the Group expects production to commence in March 2002.

In the production of ceramic fine powder, new equipment for quality enhancement has been successfully installed in the factory plants of Guang Ping Chemical Industrial Enterprise Co. Ltd. However, due to the unforeseen delay in identifying suppliers of the best quality raw materials for ensuring the finished product to be of the highest quality, production of enhanced ceramic fine powder is re-scheduled to around June 2002.

Production samples of the new SnO₂ nanomaterials and one category of natural gas detecting device, developed in collaboration with Xian Kai Yang, have been submitted to the licensing department of Guangdong Province in the PRC since the third quarter of 2001, and the Group expects to obtain the relevant production licences in March 2002. Actual production is expected to commence later in mid 2002. The Group is also currently co-operating with Shanghai Jiao Tong University Nanotechnology Research Institute to develop a new nanomaterials gas detecting device for carbon monoxide, details of which are set out in the section headed "Comparison of Business Objectives with Actual Business Progress" to this announcement.

In 2001, Guang Ping Chemical Industrial Enterprise Co. Ltd. received a research and development ("R&D") fund of RMB1 million from the Finance Department and the Science and Technology Department of Guangdong Province, for the purpose of research and development of the Group's project on SnO₂ nanomaterials gas sensing device.

During the year under review, the Group invested substantially in human resources, especially in personnel training, and office re-engineering with a long-term view to establishing a highly capable, competent and productive workforce operating in an extensively computerised environment. Office re-engineering includes setting up new offices and information system. The Group regards this investment for long-term benefit as essential in order to cope with an increasingly competitive marketplace and to maintain its lead in the industry.

Regarding the application of ISO 9001 for the Group's production facilities, the Hong Kong Productivity Council was appointed as the Group's consultant during the year under review, and the Group expects to receive ISO 9001 certification in mid 2002. The ISO 9001 certification will definitely enhance the Group's marketing efforts in the international arena.

Production

During the year under review, the Group successfully installed a new energy saving equipment for the production of PCC nanomaterials. By using the new energy saving equipment, the Group can use coal, a cost saving fuel, to replace a large quantity of diesel fuel, resulting in significant reduction in overall production costs. The Group has improved the existing PCC nanomaterials production facility, resulting in an increase of approximately 7,000 tonnes to the total annual production capacity. Regarding production of PCC nanomaterials for the ink and paints industries, due to the rather stagnant global economy in 2001, the Group considered it prudent to commit the first production line with an output capacity of 3,500 tonnes. Operation of the other production lines will be deferred until the economy picks up.

For producing SnO₂ nanomaterials and new gas sensing devices, the Group has established a clean room for stabilising materials and a production line which is ready for mass production as soon as the relevant licences are obtained.

In Dongguan, the PRC, the Group is also setting up a new production line for producing PCC nanomaterials-filled PP nanocomposites. Installation of machinery began in stages in December 2001, with a view to an eventual annual production capacity of approximately 10,000 tonnes in 2002.

Research and Development

The Group is currently carrying out research on using ADDP surface treatment method to improve the performance of PCC nanomaterials. The initial co-operation in 2001 with Wuxi University on this research could not be continued due to unforeseen circumstances. Nevertheless this project is ongoing, as the Group's internal R&D section is still working on its own portion of the joint-development project, even as the Group is seeking another party to carry out and complete the external portion of the project (originally undertaken by Wuxi University).

During the year under review, the Group established a co-operation agreement with Hong Kong University of Science and Technology ("HKUST") for the research and development of PCC nanomaterials-filled PP nanocomposites. With the assistance of HKUST, the Group has successfully obtained a patent from the United States Patent and Trademark Office for

PCC nanomaterials-filled PP nanocomposites. The HKUST will continue with further development into the mixing of PCC nanomaterials with other polymers to produce new polymer nanocomposites.

Apart from the main R&D centre located at Enping, Guangdong Province, another smaller R&D centre has also been set up and commissioned in Dongguan, the PRC, as the Group considers Dongguan to be a better and more strategic location. Reflecting existing needs, eight engineers were recruited for the R&D centre in 2001 and additional personnel will be recruited in 2002 to cope with increased activities in the R&D centre. The Group will continue to identify and carry out all relevant R&D activities in order to ensure that all the Group's products maintain the highest quality and competitiveness in the global market.

Marketing and Others

The Group has established a marketing office in Dongguan in mid 2001, and will set up a liaison office in Shanghai in 2002. In the Hong Kong office, three marketing staff were recruited to monitor the Group's sales and marketing efforts in 2001. For the U.S. market, the Group is still identifying the right sales agent, while for the South East Asian market, the Group is negotiating with potential parties to be sales agents.

The Group will continually computerised its information system in order to enhance production efficiency, and the Group's website, www.gpnano.com is being fully utilised.

Liquidity, Financial Resources And Capital Structure

As at 31 December 2001, the Group had net assets of approximately HK\$126 million (2000: approximately HK\$32 million) comprising non-current assets of approximately HK\$95 million (including fixed assets of approximately HK\$81 million (2000: approximately HK\$26 million) and deposit made for acquisition of investments of approximately HK\$14 million (2000: Nil)), current assets of approximately HK\$61 million (2000: approximately HK\$53 million), current liabilities of approximately HK\$25 million (2000: approximately HK\$35 million), long term liabilities of approximately HK\$4 million (2000: approximately HK\$12 million) and minority interests of approximately HK\$1.4 million (2000: Nil). The Group had cash and bank deposit of approximately HK\$15 million in total (2000: approximately HK\$0.3 million), short term borrowings of approximately HK\$9 million (2000: approximately HK\$17 million) and long term borrowings of approximately HK\$4 million (2000: approximately HK\$12 million). The Group's leasehold land and buildings at a net book value of approximately HK\$20 million has been pledged to banks to secure borrowings granted to the Group. The net asset value per share amounted to approximately HK\$0.25.

As at the balance sheet dated 31 December 2001, the Group's gearing ratio, representing total borrowings divided by shareholders' funds, was approximately 10% (2000: approximately 91%). The Group has no material contingent liabilities as at 31 December 2001 and 31 December 2000.

The Group received Renminbi income from sales in the PRC. The Renminbi income is used to meet working capital commitments in the PRC. As the Group believes that Renminbi will remain relatively stable in the foreseeable future, the Group considers that there is no significant exposure to foreign exchange risk.

The Group generally finances its operations with internally generated cashflows and bank facilities and the Group has no specific treasury policies. As at 31 December 2001, the Group had no outstanding foreign exchange contracts, interest on currency swaps or other financial derivatives.

As at 31 December 2001, the Group had capital expenditure commitments of approximately HK\$1.4 million (2000: approximately HK\$1.8 million) relating to the acquisition of property, plant and machinery. In addition, the Group had commitments to pay approximately HK\$1.9 million (2000: approximately HK\$1.6 million) to various universities and research centres for the development of new products.

During the financial year ended 31 December 2001, the Group had no material acquisitions and disposals of subsidiaries and affiliated Companies, and material investment.

Employees and Remuneration Policies

As at 31 December 2001, the Group employed a total of 320 staffs (2000: 313), of which 15 (2000: 12) and 305 (2000: 301) located in Hong Kong and the PRC respectively. They were remunerated in line with market conditions and the employee benefits available for eligible employees included year-end payment, mandatory provident fund and medical insurance scheme.

In order to strengthen the Group's culture and the courtesy level of employees, the Group provided employees with different on-the-job training and seminars. These training and seminars concentrated on employees' management and technical skills.

Prospects

The Directors are optimistic that the continued economic growth of the PRC and its accession into the World Trade Organisation will be beneficial to the Group, as there will be an increasing demand for plastic, paper, rubber, paints and engineering components, all of which are products that require PCC nanomaterials,. Further, the Directors believe that PCC nanomaterials will gradually replace all conventional PCC materials.

Due to the broad commercial applications of nanomaterials, and given the rising standard of living and other lifestyle indicators especially in the PRC market, there is tremendous potential for the Group's nanomaterials. The Group is also excited about PCC nanomaterials-filled PP nanocomposites, as this product can be tailor-made to suit customers' individual requirements. With the assistance of HKUST, the Group is developing new PCC nanomaterials-filled polymer nanocomposites, which eventually, can cover the whole plastic industry. Hence, the Directors remain confident about the Company's prospects, and that the Group is on track to achieve the business objectives as set out in the Company's prospectus.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is the actual progress report made in comparison with the business objectives as set out in the Prospectus of the Company dated 9 July 2001 for the period from 17 July 2001 to 31 December 2001.

A. Product development

- *PCC nanomaterials*

- *Improve the performance of PCC nanomaterials by using the ADDP surface treatment method*

This project began as a co-operative project with Wuxi University, the PRC. However, due to the relocation and transfer of the research scientist to another university, difficulties arose at Wuxi University, which would have resulted in an adverse effect on the objectives of the project. Thus, the Group considered it prudent to terminate the co-operative project with Wuxi University, and is currently seeking another party to continue with and complete the project. Nevertheless this project is ongoing, as the Group's internal R&D section is still working on its own portion of the joint-development project.

- *Launch new PCC nanomaterials for the ink and paints industries in the PRC*

This product line was launched in 2001 and can also be used in other industries such as the adhesives and rubber industry. It is expected to make contribution to the growth of the Group in 2002.

- *Ceramic fine powder*

- *Resumption of commercial production of quality enhanced ceramic fine powder for the automobile industry in the PRC in August 2001*

This is a vertically integrated manufacturing activity, and as product quality is always of paramount importance to meet international standards, the Group had to spend extra time to identify suppliers of the highest quality raw materials. Hence, this activity is being re-scheduled to June 2002 in order to safeguard the quality of the finished product.

- *SnO₂ nanomaterials gas sensing device*

- *Launch new SnO₂ nanomaterials and gas sensing device for detecting natural gas, in the PRC*

Production samples of the SnO₂ nanomaterials natural gas sensing devices, developed in collaboration with Xian Kai Yang since 1999, have been submitted to the licensing department of Guangdong Province in the PRC since the third quarter of 2001. The Group expects to obtain the relevant production licences in March 2002 and actual production is expected to commence later in 2002.

The Group is also currently co-operating with Shanghai Jiao Tong University Nanotechnology Research Institute (the "Institute") to develop a new nanomaterials gas detecting device for carbon monoxide. This new device is expected to be ready in April 2002 for testing. The Group and the Institute will continue to develop other types of gas detecting devices.

B. Expansion of production facilities

- ***PCC nanomaterials***

- *Purchase a reaction facility for producing PCC nanomaterials for the ink and paints industries, with initial annual production capacity at approximately 10,000 tonnes*

We have installed the first production line with a production capacity of 3,500 tonnes. Due to the relatively stagnant global economy in 2001, which has generally dampened product demand, the Group has decided to defer installation of the other lines.

- *Establish a production line for producing ADDP for surface treatment process, with initial production capacity at approximately 400 tonnes*

The production is being deferred as the Group is currently seeking another party to carry out and complete the external portion of the R&D project that was originally undertaken by Wuxi University, and now terminated. (Refer to comment in Section A).

- *Improve the existing production facility so as to increase an additional of approximately 7,000 tonnes to the total annual production capacity*

This has been achieved, and the contribution of the increased output of PCC nanomaterials is reflected in the year 2001 earnings.

According to the Group's original business objectives as mentioned in the Prospectus, the Group intends to set up a production line for PP resin in the first half of 2002. However, anticipating the market demand for PP resin, the Directors were able to successfully establish a new production line for PP resin in 2001, ahead of schedule.

- ***Ceramic fine powder***

- *Improve the existing production line so as to increase the annual production capacity by approximately 100 tonnes*

This was deferred due to extra time required to identify suppliers of high quality raw materials. (Refer to comment in Section A.)

- ***SnO₂ nanomaterials gas sensing device***

- *Establish a production line for producing SnO₂ nanomaterials gas sensing device, with annual production capacity at approximately 2 million pieces*

As the development of the SnO₂ nanomaterials gas sensing device was conducted in the northern part of the PRC, there was an unforeseen hitch when the stability of materials was affected by the different climatic conditions in Guangdong Province (southern PRC). As such, a clean room facility had to be set up to ensure the stability of materials. The Group expects to obtain the relevant production licences in March 2002.

- **Others**

- *Computerise the information system so as to enhance production efficiency*

This has been successfully achieved.

- *Appoint a consultant for the application for ISO 9001 certification for the Group's production facilities in order to promote its corporate image in the market*

This has been successfully carried out. The Group appointed Hong Kong Productivity Council as consultant for ISO 9001 application and expects to receive ISO 9001 certification in mid 2002.

C. Geographical expansion

- *Recruit marketing staff in Hong Kong to monitor the Group's sales and marketing efforts*

This has been achieved.

- *Appoint a sales agent in the U.S. for the Group's expansion in the North American market*

We had identified a suitable party, but since this party wanted exclusive distribution rights, which the Group considered not favourable to its interests, the Group will continue to search for another sales agent.

- *Appoint sales agents in South East Asia for the Group's expansion in the South East Asian market*

Due to the economic slowdown in South East Asia in 2001, the Group is still negotiating with potential parties.

- *Participate in international conferences and trade exhibitions*

Representatives from the Group attended the following events:

1. 4–5 June 2001
Nanocomposites 2001 — The Path to Commercialization Conference & Exhibition in Baltimore, U.S.
2. 3 July 2001
The International Symposium on Application of Nanotechnology and Nanomaterials in Beijing
3. 6–7 September 2001
Asian Plastics Technology Conference in Taiwan.
4. 12–17 October 2001
The Third China Hi-Tech Fair in Shenzhen
5. 14 November 2001

- *Organise seminars and workshops for potential customers*

1. 7 November 2001

Federation of Hong Kong Industries — Seminar on Nanotechnology in Hong Kong

- *Maintain the Group's own website www.gpnano.com to promote the Group's products.*

The website is being fully utilised.

D. Enhancement of research and development capabilities

- ***PCC nanomaterials***

- *Co-operation with Wuxi University, and the development of new PCC nanomaterials produced by ADDP surface treatment method*

Although the co-operation with Wuxi University was terminated, the project is still ongoing as the Group's internal R&D section continues working on its own portion of the joint-development project, while the Group is seeking another party to replace Wuxi University, (Refer to comment in Section A.)

- *To establish co-operation with the Hong Kong University of Science and Technology to develop production techniques to produce PCC nanomaterials to mix with PP resin*

With the assistance of HKUST, the Group has successfully obtained a U.S. patent from the United States Patent and Trademark Office for PCC nanomaterials-filled PP nanocomposites. The HKUST will continue with further development into the mixing of PCC nanomaterials with other polymers to produce new polymer nanocomposites. The Group is currently setting up a factory located in Dongguan, the PRC, for the production of those products developed by HKUST and the Group's own R&D centre.

- ***Ceramic fine powder***

- *Cooperate with ICMCAS to develop plasma production technique*

This project has been deferred to ensure the quality of the finished product. (Refer to comment in Section A.)

- ***SnO₂ nanomaterials***

- *Co-operation with Shanghai Jiao Tong University Nanotechnology Research Institute and Xian Kai Yang to develop new production techniques to produce SnO₂ nanomaterials and new gas sensing devices to detect carbon monoxide, alcoholic gas and smoke.*

Please refer to comment in Section A.

- ***Others***

- *Establish a R&D centre in Hong Kong or Shenzhen to develop new PCC nanomaterials for various industries*

A R&D centre has been successfully set up and commissioned in Dongguan, the PRC, as the Group considers Dongguan to be a better and more strategic location than Hong Kong.

- *Recruit about 8 engineers in the PRC for the R&D centre*

In 2001, as a start, eight engineers were recruited specifically for the R&D centre, based on existing needs and amount of work.

USE OF PROCEEDS

The Group raised net proceeds of HK\$44 million (after deduction of listing expenses) from the placing of Shares and listing of the Shares on GEM on 17 July 2001. From 17 July 2001 to 31 December 2001, the Group had utilised approximately HK\$30.4 million in accordance with the Group's business objectives and strategies set out in the Prospectus, which include product development, production, sales and operations, research and development, and other activities. An analysis of the use of proceeds as at 31 December 2001 is as follows:

	Actual <i>(HK\$ million)</i>	As stated in prospectus up to 31 December 2001 planned <i>(HK\$ million)</i>
<i>Product development and development of production facilities</i>		
For setting up of new production facilities	19.6	15
For upgrading the Group's computer software, hardware and management information system	0.1	1
<i>Enhancement of research and development capabilities</i>		
For research and development of new product	1.2	1
<i>Geographical expansion</i>		
For setting up a sales office in Dongguan and a liaison office in Shanghai	0.4	0.5
<i>Others</i>		
For repayment of bank loans and other loans	<u>9.1</u>	<u>10</u>
	<u><u>30.4</u></u>	<u><u>27.5</u></u>

Use of proceeds is almost the same as the estimation made in the Prospectus dated 9 July 2001. The differences in the actual and planned expenditures are due to the setting up of the production line for PP resin ahead of its original schedule in 2002 and the installation of the larger capacity energy saving facilities.

The remaining net proceeds of approximately HK\$13.6 million have been placed with licensed banks in Hong Kong for future use in accordance with business plans as stated in the Prospectus. The Directors do not envisage any circumstances that may lead to any material alteration in the proposed use of the net proceeds.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2001, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”), the interests of the directors and chief executive of the Company and their associates in shares of the Company were as follows:

Name	Personal Interest	Family Interest (No. of shares)	Corporate Interest	Other Interest
Fung Chiu	—	—	—	Note
Kwong Chun Kau	200,000	—	—	Note

Note: 277,600,000 shares are owned by Modern World Resources Limited and Solidbase Holdings Limited.

Modern World Resources Limited is a company incorporated in the British Virgin Islands (“BVI”) and is beneficially owned as to 68.75% by Ms. Wong Yau Ming, as to 18.75% to Mr. Fung Chiu and as to 12.5% to Mr. Kwong Chun Kau.

Solidbase Holdings Limited is a company incorporated in the BVI and owned as to 99.99% by Modern World Resources Limited and 0.01% by Suez Asia Holdings Pte. Limited (“Suez Asia”) through Full Joy Management Limited.

Save as disclosed above, none of the directors and chief executive of the Company or their associates had any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Under the terms of the Company's share option scheme adopted on 29 June 2001 (“Share Option Scheme”), the directors of the Company may, at their discretion, grant options to directors and employees of the Group to subscribe for shares.

During the period from 29 June 2001 to 31 December 2001, no option was granted by the Company under the Share Option Scheme.

As at 31 December 2001, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any of its subsidiaries, and none of the directors and chief executive of the Company 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10% or more of the issued share capital of the Company:

Name	Number of Shares	Approximate percentage of holding (%)
Modern World Resources Limited (<i>Note 1</i>)	180,850,000	36.17
Solidbase Holdings Limited (<i>Note 2</i>)	96,750,000	19.35
Victory Move Technology Limited (<i>Note 3</i>)	77,400,000	15.48
Suez Asia (<i>Note 2 and 4</i>)	141,750,000	28.35

Notes:

1. Modern World Resources Limited is beneficially owned by Ms. Wong Yau Ming (68.75%), Mr. Fung Chiu (18.75%) and Mr. Kwong Chun Kau (12.5%).
2. Solidbase Holdings Limited is beneficially owned by Full Joy Management Limited. Full Joy Management Limited is a company incorporated in the BVI and owned as to 99.99% by Modern World Resources Limited and 0.01% by Suez Asia.
3. Victory Move Technology Limited is a company incorporated in the BVI and is beneficially owned by Mr. Ng Kwok Kuen and Mr. Chan Tak Shun, Frederick in equal shares. Both of whom are independent third parties and are not connected with any chief executive, director, initial management shareholders, or substantial shareholders or any of their respective associates. Neither of them is involved in the management or the operation of the business of the Group.
4. These represent shares directly held by Suez Asia (9%) together with (as a result of Suez Asia's right to nominate the sole director of Full Joy Management Limited) Suez Asia's deemed interest in the shares held by Solidbase Holdings Limited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

As the Company only became a listed Company on 17 July 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the financial year ended 31 December 2001.

INTEREST OF SPONSOR

Neither Shenyin Wanguo Capital (H.K.) Limited ("Shenyin Wanguo") nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31 December 2001.

Pursuant to the agreement dated 6 July 2001 entered into between the Company and Shenyin Wanguo, Shenyin Wanguo will act as the Company's continuing sponsor for the period of two years commencing from 17 July 2001.

COMPETING INTERESTS

During the period from 17 July 2001 to 31 December 2001, none of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business that competed with or might compete with the business of the Group.

AUDIT COMMITTEE

An audit committee was established on 29 June 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors, namely, Mr. Fong Shi Sheung, Anthony and Mr. Tsun Kok Chun, Richard and the executive director, Mr. Chow Chun Kwong.

Two audit committee meetings were held since its establishment to 31 December 2001. The primarily duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The Group's quarterly results for the three months ended 30 June 2001 and three months ended 30 September 2001 and the audited results for the year ended 31 December 2001 have been reviewed by the committee.

BOARD PRACTICES AND PROCEDURES

Since the date of listing of the Shares on GEM on 17 July 2001 and up to 31 December 2001, the Company was in compliance with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board
Ong Hong Hoon
Chief Executive

Hong Kong, 25 March 2002

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the day of its posting.

** For identification only*