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This announcement, for which the directors (including the independent non-executive directors) of GP NanoTechnology Group Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) of the Stock Exchange 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.



GP NanoTechnology Group Limited

廣平納米科技集團有限公司*

(Incorporated in Bermuda with limited liability)

CLARIFICATION ANNOUNCEMENT

This announcement is made at the request of the Stock Exchange.

The board of Directors (the “**Board**”) of GP NanoTechnology Group Limited (the “**Company**” or the “**Group**”) would like to clarify and provide information to potential investors and shareholders of the Company regarding a complaint against the Company alleging lack of explanation for the progress of an acquisition of investments for which the Company had paid the deposits of RMB15 million (equivalent to approximately HK\$14 million) (the “**Deposits**”) and the loans of approximately HK\$19 million (the “**Loans**”) as recorded in the Company’s annual report for the year ended 31 December, 2001 (the “**Annual Report**”) and the Company’s interim report for the six months ended 30 June, 2002 (the “**Interim Report**”) (collectively, the “**Complaint**”).

In addition, the Board would like to update the potential investors and shareholders of the Company about the use of proceeds raised from the public offering of the Company and the current cash position of the Company.

The Company will make another announcement with further details on the Deposits and Loans as soon as possible.

The Stock Exchange is enquiring into a possible breach of the GEM Listing Rules.

This announcement is made at the request of the Stock Exchange.

The Board of the Company refers to a complaint against the Company alleging lack of explanation for the progress of an acquisition of investments for which the Company had paid the Deposits and the Loans as recorded in the Company's Annual Report and the Company's Interim Report.

In relation to the Complaint, the Board would like to clarify and provide information regarding the Deposits and the Loans to potential investors and shareholders of the Company.

A. THE DEPOSITS

The Deposits amounted to RMB15 million (equivalent to approximately HK\$14 million) in aggregate comprising (1) a deposit of RMB7 million paid pursuant to a letter of intent entered into between the Group and an independent third party and (2) a deposit of RMB8 million paid pursuant to an agency agreement entered into between the Group and an independent third party on 8 October, 2001 and 28 November, 2001 respectively for possible acquisition of certain interests in two nanomaterials production plants established in the People's Republic of China (the "PRC"). Details of which are set out in the follows: -

(1) Deposit for the acquisition of Heilongjiang Plant ("Heilongjiang Project")

On 8 October, 2001, a letter of intent (the "Letter of Intent") was entered into between 黑龍江省百利豪建設發展有限公司 ("Heilongjiang Party"), being the vendor, and Guang Ping Chemical Industrial Enterprise Company Limited ("GPCI"), being the purchaser, an indirect wholly-owned subsidiary of the Company, which is engaged in the manufacture and sale of nanomaterials in the PRC, to acquire a controlling stake in 黑龍江華龍重鈣廠 ("Heilongjiang Plant"). Heilongjiang Plant is solely owned by Heilongjiang Party. Heilongjiang Plant is a nanomaterials factory established in the PRC which is located at Heilongjiang in the PRC and is principally engaged in the manufacture and trading of precipitated calcium carbonate nanomaterials ("PCC nanomaterials") with an annual capacity of approximately 20,000 tonnes. The Heilongjiang Project was introduced by Mr. Kwong Chun Kau ("Mr. Kwong"), an executive Director, who had conducted a site visit in Heilongjiang Plant and had met and negotiated with the management of both the Heilongjiang Party and Heilongjiang Plant. Mr. Kwong had developed a business relationship with Heilongjiang Party through the negotiation of investment projects on behalf of the Company since 1997. The signing of the Letter of Intent was approved by the Board (excluding the independent non-executive Directors) after taking into consideration of details on the Heilongjiang Project provided by the Heilongjiang Party. The independent non-executive Directors consider that they did not participate in the discussion nor the approval of the Heilongjiang Project, while they were notified of the Heilongjiang Project only after the Company received the Complaint. They are unable to form any opinion regarding the fairness and reasonableness of making the deposit for acquisition of Heilongjiang Plant.

Heilongjiang Party is a private company incorporated in the PRC and is principally engaged in trading, property development and consultancy services. Heilongjiang Party is beneficially owned by Ms. Yin Yanhua and both of them are independent third parties not connected with any of the directors, chief executive, initial management shareholders or substantial

shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).

Pursuant to the terms of the Letter of Intent, GPCI was required to make a refundable deposit of RMB7 million to Heilongjiang Party within one month upon signing of the Letter of Intent as an indication of the Group's firm interest in the proposed acquisition of Heilongjiang Plant. According to the commercial negotiation between the Heilongjiang Party and the Group, the Heilongjiang Party refused to include a provision for exclusive right in such preliminary stage. The deposit was then made directly to Heilongjiang Party in October 2001 by cheque pursuant to the Letter of Intent. The amount of deposit was arrived at based on commercial negotiations between the Group and Heilongjiang Party. However, the Heilongjiang Party refused to put the deposit on an escrow account. The Board (excluding the independent non-executive Directors) consider that the terms of the Letter of Intent were beneficial to the future development of the Company and they are of the view that by entering the Letter of Intent, the Company would be able to explore the sales market in Northern part of China. The Board (excluding the independent non-executive Directors) also considers that such arrangement in respect of the proposed acquisition of Heilongjiang Plant is fair and reasonable, and in the interest of the shareholders of the Company as a whole.

The proposed acquisition of Heilongjiang Plant is conditional on the entering into of a formal agreement between the Heilongjiang Party and the Group within a period of twelve months starting from 8 October, 2001 (the "**Negotiation Period**"). In the event that such condition is not fulfilled within the Negotiation Period, the Letter of Intent will automatically be terminated and Heilongjiang Party shall be required to return the deposit of RMB7 million to the Company within 14 days after the expiry of the Negotiation Period.

The Directors consider that the entering into of the Letter of Intent is in line with the Group's development plan for the intention to extend the production capacity of the different kinds of PCC nanomaterials and to develop the sales market in Northern part of the PRC, and are of the view that the principal activities of Heilongjiang Plant are similar to the principal business of the Company and are in line with the statement of business objectives as mentioned in the prospectus of the Company dated 9 July, 2001 (the "**Prospectus**") for continuing to develop new nanomaterials and their applications to capture the potential demand in the PRC nanomaterial market. As such, the Directors consider that the entering into of the Letter of Intent does not constitute any material change to the general character or nature of business of the GEM Listing Rules.

However, the proposed acquisition of Heilongjiang Plant had fallen through as certain major commercial terms (such as total considerations, settlement method and the percentage of equity interests to be invested) could not be reached between the Heilongjiang Party and the Group within the Negotiation Period. Due to the financial difficulty encountered by the Heilongjiang Party, they were unable to make the repayment to the Group in one lump sum, the Group had agreed with the Heilongjiang Party for entering into a cancellation agreement between them to rearrange the original repayment schedule as set out in the Letter of Intent which to be repaid by way of instalments. The Directors were informed by the Heilongjiang Party that the RMB7 million were used to satisfy the Heilongjiang Party's operating expenses. The Group decided not to proceed with a legal action in the PRC against the Heilongjiang Party since it would be both costly and time consuming and not beneficial to the Group. On 8 October, 2002, a cancellation agreement was entered into between Heilongjiang Party and GPCI (the "**Cancellation Agreement**") to terminate the Letter of Intent. In accordance with the Cancellation Agreement, Heilongjiang Party agreed to repay the deposit of RMB7 million by three installments within a period of seven months after the date of the Cancellation

Agreement with the first instalment of RMB2 million due on the first three months, second instalment of RMB2 million due on the next two months and the third instalment of the remaining RMB3 million due on two months thereafter. In the event that if the Heilongjiang Party defer the repayment of the amount of such deposit within the above stated timeframes, the Heilongjiang Party will be subject to a fine of default interest, as quoted from The Bank of China in the PRC from time to time, on the overdue amount. The Company has assigned Mr. Kwong to closely coordinate and monitor Heilongjiang Party's performance of its obligation upon the signing of the Cancellation Agreement.

Pursuant to the Cancellation Agreement, the due date for the first instalment of RMB2 million payable by the Heilongjiang Party should be on 8 January, 2003, however, the Heilongjiang Party failed to repay the first instalment of RMB2 million on 8 January, 2003. The Group has instructed its PRC legal adviser to issue a demand letter to the Heilongjiang Party to demand for repayment of the first instalment together with late chargeable interest within one month hereof, failing which legal proceedings will be instituted against the Heilongjiang Party accordingly. The Directors will closely monitor the progress of the repayment of the Heilongjiang Party and provision on the deposit for acquisition of Heilongjiang Plant will be made if considered necessary. Further announcement will be made by the Company in respect of any development.

The Directors confirm that the deposit in the sum of RMB7 million was made from cash in aggregate of approximately HK\$38.8 million generated from (1) the Group's operations and (2) the repayment of advances by a shareholder of the Company as set out on page 27 of the Annual Report.

(2) Deposit for the acquisition of 恩平市橫坡鎮碳酸鈣廠 (“Enping Project”)

On 28 November, 2001, an agency agreement (the “**Agency Agreement**”) was entered into between 廣東省恩平市經委科技服務中心 (“**Enping Party**”), a Enping government-owned consultancy agent, and GPCI to negotiate on behalf of the Group for the acquisition of a controlling stake in 恩平市橫坡鎮碳酸鈣廠 (“**Enping Plant**”). Under the preliminary stage, no exclusive rights for the proposed acquisition of Enping Plant had been obtained. . Enping Plant is a nanomaterials factory established in the PRC and is located at Enping City in the PRC. Enping Plant is principally engaged in the manufacture and trading of PCC nanomaterials and is independent of and not connected with the Enping Party. Since Enping Plant is one of the major competitors of GPCI, therefore no detailed information was available publicly for the Group. Save for the above mentioned, the Directors have no knowledge about the shareholding structure and the background of the shareholders or beneficial owners of Enping Plant. The proposed acquisition of Enping Project was introduced by Mr. Lian En Sheng (“**Mr. Lian**”), an executive Director. The signing of the Agency Agreement was approved by the Board (excluding the independent non-executive Directors) after taking into consideration of details on Enping Plant as introduced by Enping Party. The independent non-executive Directors consider that they did not participate in the discussion nor the approval of the Enping Project, while they were notified of the Enping Project only after the Company received the Complaint. They are unable to form any opinion regarding the fairness and reasonableness of the Enping Project.

Enping Party is a Enping government-owned enterprise incorporated in PRC with limited liability which has maintained a long-term business relationship with the Group over five years prior to the listing of the Company in assisting GPCI to develop business in Enping and is an independent third party not connected with any of the directors, chief executive, initial

management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Enping Party is principally engaged in the provision of business consultancy services by introducing investors to set up factories and to identify potential investments in Enping City, the PRC.

Pursuant to the terms of the Agency Agreement, GPCI was required to make a refundable deposit of RMB8 million to Enping Party within three days upon signing of the Agency Agreement as an indication of the Group's firm interest for the acquisition of Enping Plant. The deposit was made directly to Enping Party in November 2001 by cheque pursuant to the Agency Agreement. The amount of the deposit was arrived at based on commercial negotiations between the Group and Enping Party. However, the Enping Party refused to put the deposit on an escrow account. Pursuant to the Agency Agreement, if no formal agreement is entered into within the period between 28 November, 2001 and 30 September, 2002 (the **"Effective Period"**), the Agency Agreement will automatically be terminated and Enping Party is required to return the deposit of RMB8 million, after deducting a certain amount of agency fee to be agreed between the parties, to GPCI on or before 3 October, 2002. No amount of agency fee has been agreed and no basis of calculation of such fee has been determined between the parties at the time of this announcement.

The Board consider that the benefits of such arrangement associated with payment of deposit in advance would eventually lower the cost of acquisition and save the time spending on negotiation (for example, the arrangement do not require the Company's management to travel frequently to the PRC or otherwise spend significant time on the proposed acquisition). The Board (excluding the independent non-executive Directors) also considers that such arrangement in respect of the proposed acquisition of Enping Plant is fair and reasonable, and in the interest of the shareholders of the Company as a whole.

The Directors are of the view that the Group's intention to develop the Southern part of the PRC market where a few competitors have already been established is in line with the Group's development plan and that the principal activities of Enping Plant are similar to the principal business of the Company and in line with its statement of business objectives as mentioned in the Prospectus for continuing to develop new nanomaterials and their applications to capture the potential demand in the PRC nanomaterial market. The Directors further consider that the possible acquisition of Enping Plant does not constitute any material change to the general character or nature of business of the Company under rule 17.25 of the GEM Listing Rules.

However, as certain major commercial terms (such as total considerations, settlement method and the percentage of equity interests to be invested) could not be reached between the Enping Party and the Group within the Effective Period. On 30 September, 2002, a supplemental agreement dated 30 September, 2002 was entered into between Enping Party and GPCI (the **"Supplemental Agreement"**) for an extension of the Effective Period to 30 September, 2003. Under the Supplemental Agreement, all the terms and conditions set out in the Agency Agreement would remain effective. As such, the Company will continue to work closely with Enping Party so as to facilitate the negotiation of the terms of the proposed acquisition of Enping Plant. As a result of the execution of the Supplemental Agreement, no provision for the deposit is required at present. Further announcement will be made by the Company in respect of any development.

Since the Enping Party is a state-owned enterprise in the PRC, the Group does not foresee any difficulties of recovery at present. The Group has no knowledge on how the Enping Party has used the RMB8 million. If the Enping Party fails to repay the amount of RMB8 million to the

Group when the proposed acquisition of Enping Plant is unsuccessful, the Group will take legal action in the PRC against the Enping Party for recovery of the RMB8 million.

The Directors confirmed that the deposit in the sum of RMB8 million was made from cash in an aggregate of approximately HK\$38.8 million generated from (1) the Group's operations and (2) the repayment of advances by a shareholder of the Company as set out on page 27 of the Annual Report.

Based on the latest consolidated net tangible assets of approximately HK\$126 million of the Company as at 31 December, 2001, the aggregate amount of the Deposits represent less than 15% of the said net tangible assets and therefore both the Heilongjiang Project and the Enping Project would not constitute discloseable transactions of the Company under the GEM Listing Rules. The Directors confirmed that should the proposed acquisition of Enping Plant be proceeded with, it will be conducted in full compliance with the requirements of the GEM Listing Rules.

B. THE LOANS

The Loans amounted to approximately HK\$19 million in aggregate comprising (1) a total of RMB3.43 million lent to an independent third party pursuant to a loan agreement dated 3 January, 2001; (2) a total of RMB6.61 million lent to an independent third party pursuant to a loan agreement dated 5 April, 2001 and (3) total advances of HK\$9.43 million made to an independent third party pursuant to a consultancy agreement dated 20 July, 2001. All recipients (including their respective beneficial owners) involving in the Loans are independent from each other and the parties (including their respective beneficial owners) in the Deposits. Information regarding the Loans is set out as follows: -

(1) Loan to Honvest (“Honvest Loan”)

GPCI entered into a short-term loan agreement with Honvest Manufacturing Limited (“**Honvest**”) on 3 January, 2001 pursuant to which GPCI agreed to lend an aggregate sum of approximately RMB3.43 million to Honvest. Honvest is a private company incorporated in Hong Kong with limited liability and is principally engaged in investment holding activities. As mentioned in the section headed “History and development” to the Prospectus, Honvest was a former shareholder of GPCI which held 30% of its then registered capital and did not have any shareholding interests in GPCI since October 1996. Honvest is wholly owned by Mr. He Huanchao, an independent third party not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Mr. He Huanchao is not connected with Enping Party and Enping Plant which mentioned in the sub-paragraph headed “Deposit for the acquisition of 恩平市橫坡鎮碳酸鈣廠” to this announcement. Mr. Lian was responsible for the negotiation of the Honvest Loan. The Board confirmed that Mr. Lian did not get any benefits in all forms, directly or indirectly, through the granting of the Honvest Loan. Signing of this short-term loan agreement was approved by the Board (excluding the independent non-executive Directors). The independent non-executive Directors did not participate in the discussion nor the approval of the Honvest Loan. They were notified of the Honvest Loan only after the Company received the Complaint..

Details of the Honvest Loan are set out as follows: -

Date of loan agreement: 3 January, 2001

Lender:	GPCI
Borrower:	Honvest
Aggregate amount of loan:	RMB3,430,000
Interest and maturity:	Non-interest bearing and repayable on demand
Security:	No security has been given pursuant to the short-term loan agreement
Purpose:	For the purpose of facilitating the operation of business and assisting financial difficulty of Honvest

Honvest has extensive business networks and relationships with various governmental authorities and business entities in Enping City, the PRC. The granting of the Honvest Loan could help build up a relationship with Honvest that may be beneficial to the Group's future business development and investment in Enping City. As such, the Board (excluding the independent non-executive Directors) considers that the benefits of such relationship justify the grant of such non-interest bearing, non-secured and payment on demand loan is fair and reasonable and in the interest of the shareholders of the Company as a whole.

The aggregate amount of RMB3.43 million of the Honvest Loan was advanced to Honvest over the period from January 2001 to November 2001 by transfer and was classified as "Short term loans receivable" under the section headed "Consolidated Balance Sheet" in the Annual Report. No provision had been made against the Honvest Loan since all outstanding amounts were fully settled on 25 April, 2002. Therefore, no outstanding balance of such loan had been disclosed in the Interim Report. As at the date of this announcement, Honvest has no amount outstanding due to the Group.

The Directors confirm that the Honvest Loan in the sum of RMB3,430,000 was made from cash in an aggregate amount of approximately HK\$38.8 million generated from (1) the Group's operations and (2) the repayment of advances by a shareholder of the Company as set out on page 27 of the Annual Report..

(2) Loan to Enping Chemical ("Enping Loan")

GPCI entered into a short-term loan agreement with Enping Chemical Industrial Limited (恩平市化工工業公司) ("**Enping Chemical**") on 5 April, 2001 pursuant to which GPCI agreed to lend an aggregate sum of RMB6.61 million to Enping Chemical. Enping Chemical is a state-owned enterprise in the PRC and used to produce grounded calcium carbonate but ceased its production since June 2000. As mentioned in the section headed "History and development" to the Prospectus, Enping Chemical was a former shareholder of GPCI which held 70% of its then registered capital and did not have any shareholding interests in GPCI since October 1996. Enping Chemical is an independent third party not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Enping Chemical is not connected with Enping Party and Enping Plant which mentioned in the sub-paragraph headed "Deposit for the acquisition of 恩平市橫坡鎮碳酸鈣廠" to this announcement. Mr. Lian was responsible for the negotiation of the Enping Loan. The Board

confirmed that Mr. Lian did not get any benefits in all forms, directly or indirectly, through the granting of the Enping Loan. Signing of this short-term loan agreement was approved by the Board (excluding the independent non-executive Directors). The independent non-executive Directors did not participate in the discussion nor the approval of the Enping Loan. They were notified of the Enping Loan only after the Company received the Complaint.

Details of the Enping Loan are set out as follows: -

Date of loan agreement:	5 April, 2001
Lender:	GPCI
Borrower:	Enping Chemical
Aggregate amount of loan:	RMB6,610,000
Interest and maturity:	Non-interest bearing and repayable on demand
Security:	No security has been given pursuant to the short-term loan agreement
Purpose:	For the purpose of facilitating the operation of business and assisting financial difficulty of Enping Chemical

Enping Chemical has good relationship with most chemical companies in Enping City, the PRC. As such, the granting of the Enping Loan to Enping Chemical could help maintain a close relationship with Enping Chemical that may be beneficial to the Group's future business development and investment in Enping City. As such, the Board (excluding the independent non-executive Directors) considers that the benefits of such relationship justify the grant of such non-interest bearing, non-secured and payment on demand loan is fair and reasonable and in the interest of the shareholders of the Company as a whole.

The aggregate amount of RMB6.61 million of the Enping Loan was advanced to Enping Chemical over the period from June 2001 to December 2001 by transfer and was classified as "Short term loans receivable" under the section headed "Consolidated Balance Sheet" in the Annual Report. No provision had been made against the Enping Loan since all outstanding amounts were fully settled on 19 April, 2002. Therefore, no outstanding balance of such loan had been disclosed in the Interim Report. As at the date of this announcement, Enping Chemical has no amount outstanding due to the Group.

The Directors confirm that the Enping Loan in the sum of RMB6,610,000 was made from cash in an aggregate amount of approximately HK\$38.8 million generated from (1) the Group's operations and (2) the repayment of advances by a shareholder of the Company as set out on page 27 of the Annual Report..

(3) Advances to Global Essence

On 20 July, 2001, the Company entered into a consultancy agreement with Global Essence Holdings Limited ("**Global Essence**") pursuant to which Global Essence was appointed as the consultant of the Company to identify acquisition targets for the Company in the PRC.

Under the consultancy agreement, the Company agreed to make advances to Global Essence from time to time to facilitate it to locate different investment opportunities in the PRC on behalf of the Company. All expenses which are incurred by Global Essence in relation to its appointment herein would be borne by itself only. Global Essence has assisted the Group to identify acquisition targets in the PRC by completing two feasibility reports in relation to the investment in two factories engaging in the production of nanomaterials. The aggregate advances of HK\$9.43 million have been made by the Company to Global Essence over the period from March 2001 to December 2001.

Global Essence is a consultancy firm incorporated in Hong Kong with limited liability and engaged in the provision of consultancy services on behalf of clients for seeking potential investment opportunities and handling merger and acquisition projects in the PRC. Global Essence is beneficially owned as to 999,999 shares by Richest Resources Limited (which is 50% jointly owned by Mr. Cheung Long Chung and Mr. Cheung Kin Cho, and the remaining 50% owned by Mr. Li Xiao Wu) and as to 1 share by Mr. Cheung Kin Cho and all of them (including the beneficial owners of Richest Resources Limited) are independent third parties not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Global Essence was introduced by Ms. Wong Yau Ming (“**Ms. Wong**”), the controlling shareholder of the Company, to the Group. Ms. Wong has personally known Mr. Cheung Long Chung, one of the substantial shareholders of Global Essence, for over 10 years. The Board confirmed that Ms. Wong did not get any benefits in all forms, directly or indirectly, through the granting of such advances. Signing of the consultancy agreement was approved by the Board (excluding the independent non-executive Directors). The independent non-executive Directors did not participate in the discussion nor the approval of the execution of such consultancy agreement and they were notified of these advances only after the Company received the Complaint.

Details of these advances are set out as follows: -

Aggregate amount of advances:	HK\$9,431,000
Interest and maturity:	Non-interest bearing and repayable on demand
Security:	No security has been given pursuant to the consultancy agreement

The advances amounted to HK\$9.43 million in aggregate were made to Global Essence over the period from March 2001 to December 2001 by cheques and was classified as “Short term loans receivable” under the section headed “Consolidated Balance Sheet” in the Annual Report. The Company would like to clarify that the outstanding balance of such advances amounted to HK\$964,000 as at 30 June 2002, and was classified as “Other receivables, deposits and prepayments” in the Interim Report.

In addition, no provision had been made against these advances since all outstanding advances were fully settled on 30 September, 2002.

The Directors confirm that the advances in the sum of HK\$9,431,000 were made from cash in an aggregate of approximately HK\$38.8 million generated from (1) the Group’s operations

and (2) the repayment of advances by a shareholder of the Company as set out on page 27 of the Annual Report.

Although it is not common practice to make advances to agents to seek for investment opportunities, the Board (excluding the independent non-executive Directors) considered that it was fair and reasonable and in the interest of the shareholders of the Company as a whole to engage Global Essence to seek for investment opportunities on behalf of the Company because Global Essence is experienced in seeking investment opportunities in the PRC for investors.

C. UPDATE ON USE OF PROCEEDS

Based on the information set out under the paragraph headed “THE DEPOSITS” and “THE LOANS” to this announcement, the Directors would like to confirm that the source of funding regarding (1) the Heilongjiang Project, (2) the Enping Project, (3) the Honvest Loan, (4) the Enping Loan and (5) the advances to Global Essence were financed by the operating cashflow and the repayment of amount due to the Group by a shareholder.

As at the date hereof, utilization of the proceeds raised from the public offering of the Company is substantially the same as scheduled under the business plans stated in the Prospectus. No amount of proceeds from the Company’s public offering in July 2001 was used to finance the Deposits and the Loans as set out above. As at the date of this announcement, the Board does not envisage any circumstances that may lead to any material alteration in the proposed use of proceeds. Details on the use of proceeds were set out in the Annual Report and the Interim Report.

D. CASH POSITION

As at 30 November, 2002, total cash and bank balances of the Group amounted to approximately HK\$1.12 million, representing an decrease of approximately 85.8% of its total cash and bank balances of approximately HK\$7.88 million for the period of six months ended 30 June, 2002.

At the beginning of 2002, the Company was quite optimistic about the sales of the Group’s product and recorded average monthly sales of HK\$6.5 million in the first quarter of 2002. In order to increase the sales of the Company, the Company thereafter adopted a comparatively aggressive approach in credit policy so as to stimulate the sales of its products. However, the aging of the Company’s account receivables increased significantly. As such, the Company started to tighten its credit policy in order to control the Company’s account receivables to an acceptable level. As at 30 September, 2002, the amount of the Company’s account receivables had been decreased from approximately HK\$34 million as at 30 June, 2002 to approximately HK\$21 million.

In order to improve the cash position of the Group, the Directors will continue the implementation of a tight credit control policy. The Directors are of the opinion that the Group has sufficient working capital for its present requirements.

E. STRENGTHENING OF INTERNAL CONTROL

After receiving the Complaint, the Directors have reviewed its internal control procedures for making deposits for investment as well as granting financial assistance to other parties. The Board will adopt the recommendation made by the Company's auditors in relation to the implementation of stringent internal control.

In compliance to rule 5.01 of the GEM Listing Rules, the Directors have evaluated each of the Deposits and Loans, acted honestly and in good faith in the interest of the Company. Each Deposits and Loans were granted with intention to facilitate the future growth and is for the benefits of the Company. There were no actual or potential conflicts of interest arising from each of the Deposits and Loans.

According to the legal opinions given by the Company's Hong Kong legal adviser, Yuen & Partners, and the Company's PRC legal adviser, Guangdong Jing Tian Law Firm, the Loans made by the Company is not in contravention of any laws of Hong Kong and the PRC. In addition, as the Directors consider that money lending or making advances is not the ordinary course of business of the Company, they do not expect the Group to engage in such activities in the future.

The Company will make another announcement with further details on the Deposits and Loans as soon as possible.

The Stock Exchange is enquiring into a possible breach of the GEM Listing Rules.

By Order of the Board
Fung Chiu
Chairman

Hong Kong, 14 January, 2003

This announcement will remain on the page of "Latest Company Announcements" on the GEM website for at least 7 days from the date of its posting and on the Company's website at www.gpnano.com.

** For identification purpose only*