



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 31ST DECEMBER, 2002

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This announcement, for which the directors (the “Directors”) of GP NanoTechnology Group Limited (the “Company”) 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 (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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.

* For identification purpose only

HIGHLIGHTS

- For the year ended 31st December, 2002, the Company accomplished turnover of approximately HK\$72.2 million
- For the year ended 31st December, 2002, loss per share is approximately HK\$1.5 cents
- The Board does not recommend the payment of a final dividend for the year ended 31st December, 2002

About GP NanoTechnology Group Limited

GP NanoTechnology Group Limited (the “Company”) and together with its subsidiaries, the (“Group”) is one of the largest manufacturers of PCC nanomaterials in China. 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 nanomaterial products.

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 (“GEM”) on 17th 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 31st December, 2002, together with the comparative figures for 2001 as follows:

		Year ended 31st December	
	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	3	72,211	79,323
Cost of sales		(42,267)	(42,944)
Gross profit		29,944	36,379
Other revenue		392	413
Distribution costs		(5,469)	(4,377)
Administrative expenses		(30,496)	(17,438)
(Loss)/profit from operations	5	(5,629)	14,977
Finance costs	6	(1,281)	(2,041)
(Loss)/profit before taxation		(6,910)	12,936
Taxation	7	(1,392)	(1,769)
(Loss)/profit before minority interests		(8,302)	11,167
Minority interests		779	81
(Loss)/profit attributable to shareholders		(7,523)	11,248
Dividends		—	—
(Loss)/earnings per share (<i>cents</i>)	8	(1.5)	2.6

Notes:

1. Group reorganisation

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17th 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 GEM, the Company became the holding company of the Group on 17th April, 2001.

The shares of the Company were listed on the GEM of the Stock Exchange on 17th 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 9th 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”).

2. Basis of presentation and principal accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. They have been prepared under the historical cost convention as modified by revaluation of certain investments.

In the current year, the Group adopted the following new or revised SSAPs which became effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statement
SSAP 34	:	Employee benefits

(b) Basis of consolidation

The consolidation financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transaction and balances between group are eliminated on consolidation.

3. Turnover

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

4. Segment information

For the year ended 31st December, 2002 and 2001, the Group was principally 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").

5. (Loss)/profit from operations

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(Loss)/profit from operations has been arrived at after charging:		
Depreciation and amortisation	<u>3,332</u>	<u>2,233</u>

6. Finance costs

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	1,235	2,041
Finance lease	<u>46</u>	<u>-</u>
	<u>1,281</u>	<u>2,041</u>

7. Taxation

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge comprises:		
PRC enterprise income tax	<u>1,392</u>	<u>1,769</u>

Pursuant to the relevant laws and regulations in the PRC, Guang Ping Chemical Industrial Enterprise Co. Ltd. ("GPCI"), one of 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 20th 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 31st December, 1998 was the first profit marking year, and accordingly, the year ended 31st December, 1999 was the last year that GPCI was entitled to tax exemption, and the year ended 31st 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 31st December, 2002 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.

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

8. (Loss)/earnings per share

The calculation of the loss per share for the year ended 31st December, 2002 is based on the loss attributable to shareholders of HK\$7,523,000 and on the 500,000,000 shares that would have been in issue throughout the year.

The calculation of the basic earnings per share for the year ended 31st 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.

9. Reserves

Movements of reserves during the financial year 2002 and 2001 are as follows:

	Share capital HK\$'000	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Special reserve HK\$'000 (Note)	Retained profits HK\$'000	Total HK\$'000
The Group						
At 1st January, 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)	–	–	–	–
Issue of share and credit nil paid shares issued previously in accordance with Group Reorganisation	7,225	–	–	–	–	7,225
Placing of shares to professional and institutional investors	6,800	–	–	–	–	6,800
Exercise of conversion rights of convertible note	4,500	–	–	–	–	4,500
Expenses incurred in connection with the issue of shares	–	(14,390)	–	–	–	(14,390)
Profit attributable to shareholders	–	–	–	–	11,248	11,248
At 31st December, 2001	50,000	22,435	17,346	(7,225)	43,474	126,030
Surplus arising on revaluation	–	–	433	–	–	433
Loss attributable to shareholders	–	–	–	–	(7,523)	(7,523)
At 31st December, 2002	<u>50,000</u>	<u>22,435</u>	<u>17,779</u>	<u>(7,225)</u>	<u>35,951</u>	<u>118,940</u>

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>–</u>	<u>–</u>	<u>(3,577)</u>	<u>(3,577)</u>
At 31st December, 2001	22,435	21,927	(3,577)	40,785
Loss for the year	<u>–</u>	<u>–</u>	<u>(7,214)</u>	<u>(7,214)</u>
At 31st December, 2002	<u>22,435</u>	<u>21,927</u>	<u>(10,791)</u>	<u>33,571</u>

Note:

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:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) 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 the balance sheet date consisted of contributed surplus less deficit totalling HK\$11,136,000 (2001: HK\$18,350,000).

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the financial year ended 31st December, 2002.

BUSINESS REVIEW AND PROSPECT

Financial performance

For the financial year ended 31st December, 2002, the Group's turnover amounted to approximately HK\$72.2 million, representing an decrease of 9.0% compared to the financial year of 2001. Such variation was primary due to the harsh economic environment and fierce competition within market that in turn directly affected the sales of the Group's core products of PCC nanomaterials and other products of the Group.

The Group's gross profit amounted to approximately HK\$29.9 million, representing a decrease of approximately 17.7%, compared to the financial year of 2001. The fluctuation in gross profit was mainly due to the increase in the cost of diesel and substantial capital used for the expansion of new and existing production facilities within the Group. Loss attributable to shareholders for the year amounted to approximately HK\$7.5 million, representing a decrease of approximately 166.9%, compared to the financial year of 2001, with loss per share of approximately HK\$1.5 cents.

The drop in the Group's profit attributable to shareholders for the financial year ended 31st December, 2002 was primary due to the harsh economic environment, tightened credit control strategy and fierce competition within the respective industry. Furthermore, the slow economy recovery pace plus the unprecedented political atmosphere around Middle East has worsened the situation.

Business Review

The year under review was stimulating but disputing. Due to the continuous global economic downturn, many government officials are trying their best to improve their present situation. However, unstable political picture within Middle East adversely affects the recovery pace of world economy. In addition, the increasing competition within South East Asia, especially in China, had also affected the expansion of the Group. Among various industries, the manufacturing industry of China market itself embeds quite a substantial effect on the Group's performance. Conventionally, the PRC market is huge and prosperous. However, the competition is vagrant, especially within the plastics and rubber industry. Therefore, the production of the Group's products has to be launched to the market quickly and precisely.

The Group has to re-engineer their products for competitive advantages against the competitors. The evolution of the Group's products needs more devotion in terms of time and capital. Consequently, while the research and development on advanced model of the Group's products has not been accomplished, the sales on PPC nanomaterials becomes the major contribution to the Group's income. During the year under review, the Group continued to tighten the credit control strategy in order to offset the huge amount of enormous research and development expenses. Therefore, the decrease in sales and the situation on existing customers divert to other suppliers has occurred.

The existing development of nanofilled PP composite materials production lines are targeting in the high quality household products industry. Also, the Group continues to develop the production line of nanofilled SBS composite materials. These products are predominantly used in the shoe, toy and furniture industry. In anticipation of the production of ceramic fine powder, the pace of the Group's expansion is according to the economic situation. Therefore, the Group can penetrate to more different markets that in return can bring vast potential income. In view of the production of SnO₂ nanomaterials and the new gas sensing devices, the Group continues to enhance the quality of the products. Meanwhile, the China government enforces many economy development programs within the North West area of China that the Group portrays as a good opportunity to capture and widen its market share. Therefore, the Group is seeking strong and appropriate entrepreneurs to jointly explore the gas sensors market within North West area of China.

During the year under review, the Group has successfully obtained the ISO 9001 certification on 10th July, 2002. The ISO 9001 certification strengthens the management system during the production process of the Group. In addition, the certification empowers the Groups' team spirit in the pursuit of superb service quality. Furthermore, the certification greatly enhances the Group's corporate image.

Production

During the year under review, the production of PCC nanomaterials was overwhelmingly affected by certain issues resulted from the unstable political atmosphere between the Middle East and the United States. In addition, due to the frequent profit warning on the companies of the United States, most of them will consequentially tighten their respective cost control strategies. Therefore, customers are seeking budget substitutes for PCC nanomaterials. Consequently, the sales of the Group's PCC nanomaterials were seriously affected.

In addition, many customers were reluctant to increase their order or place long-term order due to unstable market demand. Besides, the Group faced strong competition domestically as well as internationally. The Group then further enhanced the product quality by injecting more resources into the existing production facilities and provided comprehensive customer services for competitive advantage.

Meanwhile, the Group also diversified the resources to set up a new production line for another potential nanomaterial products – nanofilled SBS composite materials and the Group expects the nanofilled SBS composite materials will be launched to the market in the coming quarters of 2003.

The Group will continue to put resources to improve the quality of ceramic fine powder. The ceramic fine powder can be used to mix with different metals to form various nano-sized metal composite materials for different industry. In view of the production of SnO₂ nanomaterials and new gas sensing devices, the Group is identifying certain strong and prosperous ventures to jointly develop this huge and potential market. The Group expects upon the full installation and utilization of the enhancement process, the production facilities could then be scaled up for bigger production capacity.

Research and Development

The research and development center of the Group that situated in Dongguan continues to conduct different research activities regarding the modification and development of the nanofilled PP composite materials and the nanofilled SBS composite materials respectively. The main research and development center that situated in Enping also continues to perform enhancement program on the Group's core products, PCC nanomaterials. The cooperation project with Hong Kong University of Science and Technology (the "HKUST") for the research and development of PCC nanomaterials-filled PP composites will continue. In addition, the HKUST will also develop the technical "know-how" for PCC nanomaterials to mix with other different polymers in order to innovate more new potential products.

Marketing and Others

Although the world economy is besieged by glance of "dull" atmosphere, the Group anticipates that the market for nanofilled composite materials is huge and prosperous. The Group is still undergoing the pursuit of location of branches of sales office in Shanghai and the United States. Meanwhile, the Group has already identified a sales agent in the South East region of China and is pursuing the final stage of negotiation for respective sales and marketing functions. The Group anticipates the cooperation will further increase its market share as well as maintaining its competitiveness. Currently, the Group's sales and marketing team visits existing customers and potential customers on periodic or need basis in order to provide "one-stop" technical support service.

Liquidity, Financial Resources and Capital Structure

As at 31st December, 2002, the Company had net assets of approximately HK\$118.9 million (2001: approximately HK\$126.0 million) comprising non-current assets of approximately HK\$105.0 million (2001: approximately HK\$94.8 million), current assets of approximately HK\$46.7 million (2001: HK\$61.3 million), current liabilities of approximately HK\$31.1 million (2001: approximately HK\$25.1 million), long term liabilities of approximately HK\$0.9 million (2001: approximately HK\$3.5 million) and minority interests of approximately HK\$0.6 million (2001: approximately HK\$1.4 million). The Group had cash and bank deposit of approximately HK\$2.0 million in total (2001: approximately HK\$15.2 million), short term borrowings of approximately HK\$13.1 million (2001: approximately HK\$9.3 million) and long term borrowings of approximately HK\$0.9 million (2001: approximately HK\$3.5 million). The Group's leasehold land and buildings at a net book value of approximately HK\$19.3 million (2001: approximately HK\$19.6 million) had been pledged to banks to secure borrowings granted to the Group. The net asset value per share amounted to approximately HK\$0.24 (2001: approximately HK\$0.25).

As at the balance sheet dated 31st December, 2002, the Group's gearing ratio, representing total borrowings divided by shareholder's funds, was approximately 11.7% (2001: approximately 10.2%). The Group has no material contingent liabilities as at 31st December, 2002 and 31st December, 2001.

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 utilities and the Group has no specific treasury policies. As at 31st December, 2002, the Group had no outstanding foreign exchange contracts, interests on currency swaps or other financial derivatives.

As at 31st December, 2002, the Group had capital expenditure commitments of approximately HK\$2.5 million (2001: approximately HK\$1.4 million) relating to the acquisition of property, plant and machinery. In addition, the Group had commitments to pay approximately HK\$1.9 million (2001: approximately HK\$1.9 million) to various universities and research centers for the development of new products.

During the financial year ended 31st December, 2002, the Group did not make any material acquisition or disposals other than those disclosed in the announcement of the Company dated 14th January, 2003 and 5th March, 2003 posted on the GEM website.

Employees and Remuneration Policies

As at 31st December, 2002, the Group employed a total of 340 staff (2001: 320), of which 15 (2001: 15) and 325 (2001: 305) located in Hong Kong and 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.

The Group continues to provide various internal on-job training and workshops to the employees in order to improve their courtesy level. The training and workshops concentrates on improving their technical skills and efficiency.

Prospects

Although the financial year under review is not a prosperous and encouraging year, the Directors are still optimistic with the future development of the Group. The China market itself embeds with huge potential plus the accession into the World Trade Organization, the expectation on demand of its own will be enormous. In addition, customers' demand on product quality is increasing day by day. With the aid of constant improvement and monitoring, the Directors are confident in widening its market share and exploring various potential markets to upgrade its position as well as maintain its competitiveness.

Strategically, the Group continues to cooperate with reputable academic and business institutions to jointly develop more potential projects. The cooperation with HKUST continues to enhance the quality of nanofilled PP composite materials. In addition, the ceramic fine powder will be configured to capture the specialized market. Last but not least, the production of SnO₂ nanomaterials and gas sensing devices embeds with huge potential market within different regions of China. The Board believes that, these innovate products can bring stable and generous income to the Group in the coming quarters of 2003.

Due to the unstable economic situation, fierce competition within the industry plus the depleting resources within Enping of China, the Group anticipates that the logistics of the present calcium carbonate production plant would not be able to cope with the future requirements and geographical expansion of the Group. Therefore, the Group might consider relocating the production “know-how”, the hardware facilities, and the human resources to a more suitable location. This is in line with the Group’s future strategy in order to maximize the competitive advantages.

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 (the “Prospectus”) dated 9th July, 2001 for the period from 1st July, 2002 to 31st December, 2002.

A. Product development

- ***PCC nanomaterials***

- *Continue the development of new PCC nanomaterials for use in PP resin*

The Company has successfully launched the product to the market. In the meantime, the Company is devoted to initiate more application for this product. Also, the Company starts to develop the application of nanofilled SBS composite materials that concentrates on the shoes, toys and furniture industry.

- ***Ceramic fine powder***

- *Launch new ceramic fine powder for making metal composite material*

Due to the complexity of the technical “know-how”, the Group is currently seeking other appropriate chemical additive to overcome the remaining technical production difficulties. Therefore, the Group is expected to dispatch the product to the market on trial basis during the first half of 2003 and launched the actual product to the market during the second half of 2003 eventually.

- ***SnO₂ nanomaterial and gas sensing device***

- *Launch new SnO₂ nanomaterial and gas sensing device for detecting alcoholic gas in the PRC*

In the meantime, the Group is further enhancing the product quality and implement effective marketing strategy to penetrate the market. Consequently, the Group is identifying appropriate market to maximize the impact of launching of the product. Therefore, the Group expected the launching of these products will be deferred until a more appropriate time during 2003.

B. Expansion of production facilities

- ***PCC nanomaterials***

- *Improve the existing production facilities so as to increase the annual production capacity by approximately 5,000 tonnes*

The Group continues to improve the existing production facilities in order to boost up the production efficiency and the product quality. However, the Group decided the second stage of installing production facilities to increase the annual production capacity by approximately 5,000 tonnes is deferred until a more opportune time.

- ***Ceramic fine powder***

- *Monitor development in pervious period*

The Group is currently pushing the respective resources on the development and production of ceramic fine powder for mixing the ceramic fine powder with different metal to form metal composite materials. The Group has kept closely monitoring on the development of this product and the further enhancement of the production facilities is currently undergoing periodic improvement.

- ***SnO₂ nanomaterial gas sensing device***

- *Improve the existing production facilities by purchasing assembly machinery for producing SnO₂ nanomaterials gas sensing device. The annual production capacity would be increased by approximately 2 million pieces*

The Group is currently improving the production facilities to increase the production capacity. However, the Group anticipates that the second stage of purchasing assembly machinery for producing SnO₂ nanomaterials gas sensing device has to be accurate and precise. Therefore, this procurement will be deferred until a more appropriate time.

- ***Others***

- *Obtain ISO 9002 certification*

The Group has successfully obtained the ISO 9001 certification on July 2002. As for the ISO 9002 certification, the Group is further improving the management system, production process manual, and other respective documentation before seeking the authorizing body for approval. The progress is conducting satisfactorily.

C. Geographical expansion

- *Appoint a sales agent in Europe for the Group's expansion in European market*

At the moment, due to the unstable political and economy environment within Europe, the Group has deferred the pace of pursuit of sales agent to expand the European market. Meanwhile, the identification process is undergoing and expected to complete as soon as practicable.

- *Continue to participate in international conferences and trade exhibitions*

Representatives from the Group attended the following events:

1. 18-21/10/2002
11th Hong Kong International Toys and Gifts Exhibition, Hong Kong.
2. 18-21/10/2002
10th Asian Gifts Premium and Household Products Show, Hong Kong.
3. 29/11/2002 – 02/12/2002
China (Shenzhen) Consumer Goods Procurement Fair, China.

- *Continue to organize seminars and workshops for potential customers*

The Group organized several in-house seminars and workshops for potential customers as providing the technical support via the regular customers visits. However, during the year under review, the Group did not engaged in any external seminars or workshops for potential customers.

D. Enhancement of research and development capabilities

- *PCC nanomaterials*
 - *Commence to develop production techniques to produce PCC nanomaterials for paper industry (expected to be completed in 1 year)*

The Group's own research and development team continues to further enhance the product quality. Since the respective market is very competitive, the Group anticipates there might be more time and resources required in order to produce the appropriate PCC nanomaterials for paper industry.

- ***Ceramic fine powder***

- *Continue to develop plasma production*

The cooperation with ICMCAS to develop the plasma production technique is still being deferred because the Group has not clearly ensured whether the quality produced from this production technique is satisfied for the quality that the Group expected. Therefore, the Group anticipates more time to analyze the respective production technique before resumption to produce ceramic fine powder via this production technique.

- ***SnO₂ nanomaterials***

- *Commence to develop production technique to produce (other than SnO₂) nanomaterials for producing gas sensing devices.*

Due to the complexity of production technique resulted from different technical “know-how” and the unexpected market usage, the Group might change the development schedule according to the actual situation. Meanwhile, the Group is analyzing the new production techniques to produce SnO₂ nanomaterials and new gas sensing devices to detect other poisonous gas.

- ***Others***

- *Recruit about 4 engineers in the PRC for research and development centre*

The Group has recruited 4 engineers for the R & D center, based on the appropriate needs.

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 17th July, 2001. From 17th July, 2001 to 31st December, 2002, the Group had fully utilised the proceeds from the listing of the Company's shares 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 31st December, 2002 is as follows:

	Actual <i>(HK\$ million)</i>	Proposed <i>(HK\$ million)</i>
Product development and development of production facilities		
For setting up new production facilities	26.3	24
For the expansion of the Group's existing production facilities	5.7	6
For upgrading the Group's computer software, hardware and management information system	0.1	1
Enhancement of research and development capabilities		
For research and development of new product	2.3	2
Geographical expansion		
For setting up a sales office in Dongguan and liaison office in Shanghai	0.5	1
Others		
For the repayment of bank loans and other loans	9.1	10
	<u>44</u>	<u>44</u>

The actual expenditures are more than the planned expenditures in accordance with the Group's business objectives and strategies set out in the Prospectus. The fully utilization of the proceeds are mainly due to several issues. During the period under review, the Company has to reschedule the use of proceeds according to the actual market situation. The actual market situation involves the increase of customers' demand on product quality plus the fierce competition within the respective industry. Therefore, the Group has no means but enhance the product quality as to maintain competitiveness. In addition, the Group also identified different potential projects and intents to develop new products in order to diversify business direction and capture more market share respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors and their respective associates in the share capital of the Company and its associated corporations as recorded in the register required to be maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	Number of Shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Mr. Fung Chiu	–	–	–	<i>Note</i>
Mr. Kwong Chun Kau	200,000	–	–	<i>Note</i>

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 or their associates had any interests in any securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance show that, the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name	Number of Shares	
	Direct interest	Deemed interest
Modern World Resources Limited (<i>Note 1</i>)	180,850,000	–
Solidbase Holdings Limited (<i>Note 2</i>)	96,750,000	–
Suez Asia (<i>Note 2 and 3</i>)	45,000,000	96,750,000

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 owned as to 99.99% by Modern World Resources Limited and 0.01% by Suez Asia. The sole director of Full Joy Management Limited is nominated by Suez Asia.
3. Sues Asia has right to nominate the sole director of Full Joy Management Limited and accordingly, Suez Asia is deemed to be interested in 96,750,000 shares of the Company held by Solidbase Holdings Limited.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

The Company has terminated its share option scheme adopted on 29th June, 2001 (the "Old Share Option Scheme") and adopted a new share option scheme on 10th May, 2002 (the "New Share Option Scheme"). No option has been granted by the Company consider under the Old Share Option Scheme. The purpose of the New Share Option Scheme is to enable the Company to grant options to selected individuals to subscribe for shares in the Company as incentives or rewards for their contributions to the Group. The Board may, as its discretion, invite any individual being employee, officer or consultant of the Group, including any executive or non-executive director of the Company and its subsidiaries may be granted options to subscribe for the shares of the Company for a consideration of HK\$1 each lot of share option granted.

The total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12 month period up to and including the date of grant of option shall not exceed 1% of the shares in issue. Options granted to substantial shareholders or any of its associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved by the Company's shareholders.

The option offered under the New Share Option Scheme may be exercised from the date of offer of an option is made, but not later than 10 years from the offer date of the option. The subscription price on the exercise of an option shall be at least the highest of (i) the closing price of the Company's shares quoted on the GEM on the date of grant of the option, and (ii) the average closing price of the Company's shares quoted on the GEM for the five business days immediately preceding the date of grant of the relevant option.

No option was granted by the Company under the New Share Option Scheme during the year.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

INTEREST OF SPONSOR

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 31st December, 2002, neither of the Sponsor, nor any of its respective 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 member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the agreement dated 6th July, 2001 entered into between the Company and Sponsor, the Sponsor is entitled to receive the sponsorship fee for acting as the Company's continuing sponsor for the period from 17th July, 2001 to 31st December, 2003.

BOARD PRACTICES AND PROCEDURES

During the year, the Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

COMPETING INTERESTS

As at 31st December, 2002, none of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

AUDIT COMMITTEE

An audit committee was established on 29th 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 of the Company, namely, Mr. Fong Shi Sheung, Anthony and Mr. Choy Man Fai, Melvin and an executive director of the Company, Mr. Chow Chun Kwong.

During the year, the audit committee held three meetings to review and comment on the Company's quarterly and interim report as well as the Company's internal control procedures.

The Group's audited annual results for the year ended 31st December, 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

By Order of the Board

Fung Chiu

Chairman

Hong Kong, 25th March, 2003

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