



GP NanoTechnology Group Limited
廣平納米科技集團有限公司*

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the “Directors”) of GP NanoTechnology Group Limited (the “Company”) 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 (the “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 only

HIGHLIGHTS

- The Group recorded a turnover of HK\$19.58 million for the six months ended 30 June 2003, representing a decrease of 52.8% over the corresponding period of 2002.
- For the six months ended 30 June 2003, (loss) per share is approximately HK9.4 cents.
- The Board does not recommends the payment of an interim dividend of the half-yearly period.

HALF-YEARLY RESULTS

The Board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three and six months ended 30 June 2003, together with the comparative figures for the corresponding periods in 2002 as follows:

Consolidated Income Statement

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	3	9,933	21,983	19,577	41,498
Cost of sales		(8,887)	(11,418)	(15,759)	(21,793)
Gross profit		1,046	10,565	3,818	19,705
Other revenues		41	47	73	80
Distribution costs		(451)	(1,393)	(1,821)	(2,462)
Administrative expenses		(12,251)	(4,502)	(18,833)	(8,777)
Other operating expenses		(25,350)	—	(30,023)	—
(Loss)/Profit from operation		(36,965)	4,717	(46,786)	8,546
Finance costs		(20)	(139)	(428)	(453)
(Loss)/Profit before taxation	5	(36,985)	4,578	(47,214)	8,093
Taxation	6	—	(599)	—	(1,074)
(Loss)/Profit before minority interest		(36,985)	3,979	(47,214)	7,019
Minority interest		294	94	192	134
(Loss)/Profit attributable to shareholders		(36,691)	4,073	(47,022)	7,153
Dividends		—	—	—	—
(Loss)/Earnings per share					
– Basic (cents)	7	(7.34)	0.81	(9.40)	1.43

Consolidated Balance Sheet

	<i>Notes</i>	As at 30 June 2003 (Unaudited) <i>HK\$'000</i>	As at 31 December 2002 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	8	62,091	104,968
Other investment		5,024	–
		67,115	104,968
CURRENT ASSETS			
Inventories	9	2,989	4,988
Trade receivables	10	10,766	15,370
Other receivables, deposits and prepayments		12,063	24,343
Bank balances and cash		943	1,998
		26,761	46,699
CURRENT LIABILITIES			
Trade payables	11	8,164	5,938
Other payables and accrued charges		18,066	10,711
Obligations under finance lease – due within one year		–	629
Amounts due to a director	12	676	–
Taxation		942	955
Bank and other borrowings – due within one year	13	8,720	12,445
Amount due to substantial shareholder		–	470
		36,568	31,148
NET CURRENT (LIABILITIES)/ASSETS		(9,807)	15,551
		57,308	120,519
CAPITAL AND RESERVES			
Share capital	14	50,000	50,000
Reserves		7,321	68,940
		57,321	118,940
MINORITY INTERESTS		(13)	644
NON-CURRENT LIABILITY			
Obligations under finance lease – due after one year		–	935
		57,308	120,519

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June 2003 (unaudited) <i>HK\$'000</i>	For the six months ended 30 June 2002 (unaudited) <i>HK\$'000</i>
Net Cash (Used in) From Operating Activities	4,130	(648)
Net Cash (Used in) Investing Activities	(3,845)	(4,653)
Net Cash (Used in) From Financing Activities	(1,340)	(2,019)
	<hr/>	<hr/>
(Decrease) Increase in Cash And Cash Equivalents	(1,055)	(7,320)
Cash And Cash Equivalents At Beginning Of Period	1,998	15,203
	<hr/>	<hr/>
Cash And Cash Equivalents At End Of Period	<u>943</u>	<u>7,883</u>

Condensed Consolidated Statement of Changes of Equity (Unaudited)

	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Retained profits/ (deficits) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	50,000	22,435	17,346	(7,225)	43,474	126,030
Net profit for the period	—	—	—	—	7,153	7,153
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	<u>50,000</u>	<u>22,435</u>	<u>17,346</u>	<u>(7,225)</u>	<u>50,627</u>	<u>133,183</u>
At 1 January 2003	50,000	22,435	17,779	(7,225)	35,951	118,940
Net loss for the period	—	—	—	—	(47,022)	(47,022)
Deficits arising on revaluation	—	—	(14,597)	—	—	(14,597)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	<u>50,000</u>	<u>22,435</u>	<u>3,182</u>	<u>(7,225)</u>	<u>(11,071)</u>	<u>57,321</u>

Notes To The Consolidated Financial Statements

1. Group reorganization

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 GEM of Stock Exchange, the Company became the holding company of the Group on 17 April 2001.

The shares of the company were listed on the GEM of the Stock Exchange on 17 July 2001.

2. Basis of preparation and significant accounting policies

The unaudited consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Reporting” issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for year ended 31 December 2002.

The accounting polices used in preparing the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2002, except for the changes due to adoption of the new and revised SSAPs which have become effective since 1 January 2003. The adoption of these new and revised SSAPs has no material impact on the Group’s results and net assets.

The consolidated financial statements for the period from 1 April 2003 to 30 June 2003 have been reviewed by the audit committee of the Company.

3. Turnover

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

4. Segment information

For the six months ended 30 June 2003, the Group was engaged in the manufacture and sale of nanomaterial products in the People’s Republic of China (the “PRC”). All of the Group’s turnover, contribution to operating profit and assets was attributed to this business segment, which is located in PRC.

5. (Loss)/Profit from operations

	30 June 2003 (unaudited) <i>HK\$’000</i>	30 June 2002 (unaudited) <i>HK\$’000</i>
(Loss)/Profit from operations has been arrived at after charging:		
Depreciation and amortization	2,844	1,991
Provision for deposit on investment	4,673	–
Impairment loss on plant and machinery	<u>23,668</u>	<u>–</u>

6. Taxation

	30 June 2003 (unaudited) <i>HK\$'000</i>	30 June 2002 (unaudited) <i>HK\$'000</i>
The charge comprises;		
PRC enterprise income tax	<u> -</u>	<u> 1,074</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 six months ended 30 June 2002 represents provision for PRC enterprise income tax at the reduced rate of 7.5% on GPCI’s estimated assessable profit. No provision for income tax has been made for the subsidiary for the six months ended 30 June 2003, as it has no taxable income during the period.

No provision for Hong Kong Profits Tax has been made in the financial statements, as the Group’s operation in Hong Kong did not have any estimated assessable profit.

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

7. (Loss)/Earning per share

The calculation of the (loss) per share for the three months and six months ended 30 June 2003 is based on the unaudited consolidated (loss) attributable to the shareholders of approximately HK\$36.69 million and HK\$47.02 million respectively (three months and six months ended 30 June 2002: profit attributable to the shareholders of approximately HK\$4,073,000 and HK\$7,153,000 respectively) and weighted average number of 500,000,000 shares for the six months ended 30 June 2003, and 2002.

Diluted (loss)/earnings per share is not presented because there is no dilutive potential ordinary shares in existence during the periods.

8. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, amortization and any identified impairment loss. During the period, the Group spent approximately HK\$3.7 million (31 December 2002: HK\$27,095,000) on the acquisition of property, plant and equipment. The leasehold land and buildings and plant and machinery of the Group were revalued as at 30 June 2003 on the open market value basis by an independent firm of professional valuers. The deficits arising on revaluation has been debited to asset revaluation reserve. The impairment loss on plant and machinery arising on revaluation has been charged to the consolidated income statement.

9. Inventories

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Raw materials	532	3,135
Work in progress	–	373
Finished goods	2,457	1,480
	<u>2,989</u>	<u>4,988</u>

10. Trade receivables

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

The following is the aging analysis of trade receivables:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Within 30 days	66	4,800
31–60 days	–	3,168
61–90 days	2,727	2,657
Over 90 days	7,973	4,745
	<u>10,766</u>	<u>15,370</u>

11. Trade payables

The following is the aging analysis of trade payables:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Within 30 days	2,217	1,654
31–60 days	–	1,299
61–90 days	1,483	1,611
Over 90 days	4,464	1,374
	<u>8,164</u>	<u>5,938</u>

12. Amount due to a director

The balance represents a short term advance from a director, which is unsecured, non-interest bearing and repayable on demand.

13. Bank and other borrowings

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Bank loans		
Secured	8,645	8,645
Others loans		
Unsecured	<u>75</u>	<u>3,800</u>
	<u>8,720</u>	<u>12,445</u>
The above amounts are repayable as follows:		
Within one year	<u>8,720</u>	<u>12,445</u>

14. Share capital

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 31 December 2002 and 30 June 2003	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 31 December 2002 and 30 June 2003	<u>500,000,000</u>	<u>50,000</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (six months ended 30 June 2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial performance

For the six months ended 30 June 2003, the Group's turnover amounted to approximately HK\$19.58 million, representing a decrease of 52.8% compared to the same period in 2002. The decrease in turnover for the period was due to the sharp decrease in the sales of PCC products resulting from the devastating shrinkage of PCC products market in the PRC. For the six months ended 30 June 2003, the Group's gross profit amounted to approximately HK\$3.82 million, representing a decrease of 80.62% compared to the same period in 2002.

For the six months ended 30 June 2003, the loss attributable to shareholders amounted to approximately HK\$47.02 million. Gross profit margin represent a decrease from 47.48% to 19.5% as compared to the same period in 2002. The decrease of profit margin during the period was mainly due to the shrinkage of the PCC nanomaterials market and the non-competitive pricing of the Group's product against competitors within the Guangdong province.

During the period under review, the Group has evaluated several proposals and come to a conclusion to streamline the redundant resources in order to streamline the overall operations and maximize the Group's efficiencies. Related measures will be implemented by the end of 30 September 2003. For this purpose, a review has been performed on the carrying values of certain tangible assets acquired by the Group in the preceding financial year and the carrying value of such assets is restated at a reduced amount and even subject to a written off of the entire carrying value in order to reflect the current management's view towards the possible economic benefits brought by such assets. Consequently, adjustments of approximately HK\$14.60 million and HK\$23.67 million were made for leasehold land & buildings and plant and machinery, respectively. Hence, as at 30 June 2003 net loss for the Group increased to approximately HK\$47.02 million. Disregard of these factors, net loss of the Group amounted to HK\$23.35 million only.

Business review

During the period under review, there has been an outbreak of atypical pneumonia ("SARS") in the PRC and the South East Asia. The economic condition around the region was seriously affected. In addition, the business cycle for the PCC nanomaterials within the PRC is undergoing a saturate stage due to fierce competition. Despite of the slow down, the Group maintained its main line of business in the manufacture and sales of PCC nanomaterials and its own research and development is continuing to further enhance the product quality and widen its application scope in order to maintain competitiveness. The Group anticipates a promising future for PCC nanomaterials as more and more customers are looking for substitutes to offload their expensive production cost.

The general market condition of Ceramic fine powder and SnO₂ nanomaterials and gas sensing devices is not as competitive as PCC nanomaterials. The Group is devoted to capturing more market share and aiming to strengthen its position as soon as practicable. Therefore, the Group is continuously conducting enhancement on the product quality in order to ensure the total quality commitment provided to customers. The Group anticipates that these products can contribute substantial potential income in the near future.

Production

The unprecedented outbreak of SARS during the period under review has severely affected the economic condition of the PRC including Hong Kong which in turn affected the Group's turnover. These negative impacts also deteriorate the scheduled production line of PCC nanomaterials. Furthermore, the Group is facing a decline in the production quality of PCC nanomaterials due to limited supply of quality raw materials. The Group is exploring several options in order to enhance the product quality.

In the pursuit of ceramic fine powder, the Group is continuing to perfect the product quality. Therefore, the Group is scheduled to further enhance the production process in order to maximize the quality and efficiency. On the other hand, the development of SnO₂ nanomaterials and gas sensing devices is progressing satisfactorily. However, due to keen competitions within the PRC, the Group expects the increment on production capacity of this products will be resumed only until the market condition improves.

Research and development

During the period under review, the Group's own research and development office in Enping continue to modify and improve the quality of PCC nanomaterials. The Group also input other resources to further enhance the quality of ceramic fine powder and SnO₂ nanomaterials and gas sensing devices in order to widen the scope of application and prepare the framework for future penetration to the market, which has to be accurate and precise in order to maximize turnover.

Pursuant to the co-operation agreement between the Group and The Hong Kong University of Science and Technology ("HKUST") for the research program of nanofilled PP composite materials, research on the enhancement of other nanocomposite materials will continue to be conducted. Meanwhile, the Group and Shanghai Jiao Tong University Nanotechnology Research Institute continue in the joint project of further improvement on the development of other nanomaterials gas-sensing device.

Liquidity, financial resources and capital structure

At 30 June 2003, the Group had net assets of approximately HK\$57.32 million (31 December 2002: approximately HK\$118.9 million) which were financed by current liabilities of approximately HK\$36.57 millions (31 December 2002: approximately HK\$31.1 million), the Group had cash and bank deposit of approximately HK\$1 million in total (31 December 2002: approximately HK\$2 million), and non-current liabilities of approximately HK\$ NIL (31 December 2002: approximately HK\$0.94 million). The net assets value per share amounted to approximately HK\$0.11 (31 December 2002: HK\$0.24)).

As at 30 June 2003, the Group's gearing ratio, representing total borrowings divided by shareholders' funds, was approximately 15.2% (31 December 2002: 11.7%). The Group has no material contingent liabilities as at 30 June 2003.

The Group receive 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 with possibility of appreciation, the Group considers that there is no significant exposure to foreign exchange risk.

The Group generally finance its operations with internally generated cashflows and bank facilities and the Group has no specific treasury policies. As at 30 June 2003, the Group had no outstanding foreign exchange contracts, interests on currency swaps or other financial derivatives.

Prospect

Despite the overall weak economic condition the Directors of the Group maintain the view that the domestic market of the PRC is prosperous and fruitful since the demand is still enormous especially when our product can compete with the overseas business rivals. With the aid of the Group's own research and development team, the Group's products enjoy the following competitive advantages:

1. *Nanocomposite Materials/PCC nanomaterials*

In view of the huge sum of research and development cost lies beneath this line of business (Nanocomposite Materials), plus the fact that its associated income requires a rather long return period, the Group had decided to divert more of its resources on the development and further enhancement of its PCC nanomaterials business. This approach can secure the Group's turnover and profit margin for future expansion. The continuing improvement on the quality of PCC nanomaterials represents advantages such as improved whiteness, better dispersion and higher purity.

2. *Ceramic Fine Powder*

The business of ceramic fine powder is always highly rated as one of the vital elements of the Group's corporate expansion. Therefore, the Group will use its best endeavour to achieve the planned objectives. This product possesses certain charisma that associate to the high-end market niche especially in the metal composites area. The special characteristics of this product include great hardness and high purity. The Group has the special technical "know-how" to compete with other competitors at competitive prices.

3. *SnO₂ Nanomaterials and Gas Sensing Devices*

The Group is currently concentrating on the enhancement of the product quality. In addition, the Group is devoted to speed up the research and development process in the pursuit of different gas sensing devices in relation to different poisonous gas which in turn can target more market segments. The Group takes an optimistic view towards this business line.

REVIEW ON BUSINESS OBJECTIVES

Business Objectives for the period ended 30 June 2003 as stated in the Prospectus dated 9 July 2001

Actual Business Progress

Product Development

- | | |
|--|--|
| 1. Launch new PCC nanomaterials for paper industry in the PRC | 1. The new products of PCC nanomaterials need more time for testing to ensure its quality are up to competitors' standards and customer requirements |
| 2. Continue the development of metal composite materials | 2. The Group continues to enhance the product quality and is locating different technical know-how to achieve this high end market niche |
| 3. Continue the development of SnO ₂ nanomaterials and gas sensing device for detecting alcoholic gas | 3. Further enhancement is being tested to ensure appropriate gas sensing device is constructed |

Expansion of production facilities

- | | |
|--|--|
| 1. Establish a production line for producing PCC nanomaterials for paper industry. The initial annual production capacity for the production line would be approximately 10,000 tons | 1. The Group might consider deferring the establishment of a production line due to poor economic condition and fierce competition. |
| 2. Improve the plasma production line to increase the annual production capacity by approximately 200 tons | 2. The establishment of production line using plasma method to produce metal composite materials with ceramic fine powder is pending for the stabilization of the production of ceramic fine powder |
| 3. Improve the existing production facilities by purchasing assembly machinery for producing SnO ₂ nanomaterial gas sensing device. The annual production capacity would be increased by approximately 2 million pieces | 3. The Group has to ensure the product quality of the SnO ₂ nanomaterial and gas sensing devices before launching the product. Therefore, the procurement for new assembling machinery is deferred. |

Business Objectives for the period ended 30 June 2003 as stated in the Prospectus dated 9 July 2001

Actual Business Progress

Geographical Expansion

- | | |
|---|--|
| 1. Establish a sales office in Shenyang for the Group's expansion in North China market | 1. The Group is still evaluating different location which is more appropriate for the progress and future expansion of the Group |
| 2. Continue to participate in international conferences and trade exhibitions | 2. The Group is planning to participate in several conferences and exhibitions during the second half of year 2003 |
| 3. Continue to organize seminars and workshops for potential customers | 3. The Group continues to organize several internal seminars and workshops for the potential customers |
| 4. Recruit about 5 marketing staff in Shenyang for marketing the Group's products | 4. Postponed as no qualified marketing staff has been identified to conduct the project. Also, pending for the establishment of the sales office in Shenyang |

Enhancement of research & development capabilities

- | | |
|--|---|
| 1. Commence to develop production techniques to produce PCC nanomaterials for medical industry as health supplement (expected to be completed in 1 year) | 1. The research and development on other application of PCC nanomaterials is still being carried out. The Group expects to slowdown this particular development until a more appropriate time |
| 2. Continue to develop Plasma production technique | 2. The development of plasma production technique is still under progress |
| 3. Continue to develop production techniques to produce other nanomaterials for producing gas sensing devices | 3. The Group continues to identify and develop different production technique for different gas sensing devices that is suitable for the market |
| 4. Continue to research on latest development of nanotechnology, nanomaterial applications and production methods | 4. The Group's own research & development team continues to work on the development of other nanomaterials to widen its product scope |

USE OF PROCEEDS

Description	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 the 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 Group had fully utilized all its proceeds in accordance with the Group's business objectives and strategies set out in the Prospectus which include the further enhancement for the existing production line of PCC nanomaterials. The principal divergence between the actual expenditures and the planned expenditures are due to strong competition faced by the Group in the PCC nanomaterials market, ceramic fine powder market and SnO₂ nanomaterials and gas sensing devices market are facing strong competition. Therefore, the Group had to further inject more resources and proceeds to continue to improve or upgrade its own laboratory machines and equipment and products accordingly. Furthermore, there has been an additional spending on the Group's research and development activities for the production of nanocomposite materials.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2003, the interest of the Directors in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

Name of director	Number of shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Fung Chiu	–	–	–	(Note)
Mr. Kwong Chun Kau	200,000	–	–	(Note)

Note:

222,755,000 shares are owned by Modern World Resources Limited and Solidbase Holdings Limited.

Modern World Resources Limited is beneficially owned as to 68.75% by Ms. Wong Yau Ming, as to 18.75% by Mr. Fung Chiu and as to 12.5% by Mr. Kwong Chun Kau.

Solidbase Holdings Limited is 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.

Other than as disclosed above, as at 30 June 2003, none of the Directors and chief executive of the Company or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

The Company has terminated its share option scheme adopted on 29 June 2001 (the “Old Share Option Scheme”) and adopted a new share option scheme on its 2001 annual general meeting on 10 May 2002 (the “New Share Option Scheme”). No option has been granted by the Company pursuant to the Old Share Option Scheme. Pursuant to the New Share Option Scheme, details of which have been set out in a circular of the Company to its shareholders dated 28 March 2002. 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons had an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part VX of the Securities and Future Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of other members of the Group.

Name of shareholder	Number of Shares held	
	Direct interest	Deemed interest
Modern World Resources Limited (<i>Note 1</i>)	126,005,000	–
Solidbase Holdings Limited (<i>Note 2</i>)	96,750,000	–
Suez Asia (<i>Note 2 and 3</i>)	141,750,000	96,750,000

Notes:

1. *Modern World Resources Limited is beneficially owned as to 68.75% by Ms. Wong Yau Ming, as to 18.75% by Mr. Fung Chiu and as to 12.5% by Mr. Kwong Chun Kau.*
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. *Suez 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, there was no person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the Company’s issued share capital as at 30 June 2003.

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, as at 30 June 2003, the following persons are individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of the Company and who are able, as a practicable manner, to direct or influence the management of the Company or considered to be the management shareholder of the Company:

Name of shareholder	Number of Shares held
Modern World Resources Limited (<i>Note 1</i>)	126,005,000
Solidbase Holdings Limited (<i>Note 2</i>)	96,750,000

Notes:

1. *Mr. Fung Chiu and Mr. Kwong Chun Kau, executive Directors of the Company, is the beneficial owner of 18.75% and 12.5% respectively of the issued share capital of Modern World Resources Limited.*
2. *Solidbase Holdings Limited is 100% owned by Full Joy Management Limited who is 99.99% owned by Modern World Resources Limited.*

OUTSTANDING SHARE OPTION

Up to the six months ended 30 June 2003, no option was granted by the Company under the New Share Option Scheme.

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 six months ended 30 June 2003.

INTEREST OF SPONSOR

Pursuant to the sponsor agreement dated 6 July 2001 entered into between the Company and Shenyin Wanguo (the "Sponsor" or "Shenyin Wanguo"), Shenyin Wanguo will act as the Company's continuing sponsor for the period commencing from 17 July 2001 up to 31 December 2003.

None 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 other company in the Group, or any rights to subscribe for, or nominate persons to subscribe for the securities of the Company or any member of the Group. Meanwhile, the Board is considering to appoint a new sponsor for the Company. Upon the signing of a new sponsor's agreement, the Company will make further announcement.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules on GEM since its shares having been listed on GEM.

COMPETING INTERESTS

The Directors believe that none of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has an interest in a business that competes or may 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. Feng Hui Liu, and Mr. Choy Man Fai, Melvin, and an executive Director, Mr. Chow Chun Kwong. The Group's unaudited interim results for the six months ended 30 June 2003 have been reviewed by the audit committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By Order of the Board
Fung Chiu
Chairman

Hong Kong, 13 August 2003

This announcement will remain on the page of "Latest Company Announcement" on the GEM website for at least 7 days from the day of its posting.