



GP Nano Technology Group Limited
(Incorporated in Bermuda with limited liability)

03

Third Quarterly Report

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

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This report, for which the directors (the “Directors”) of GP Nano Technology Group Limited 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 Rule”) 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

QUARTERLY 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 months and nine months ended 30 September 2003, together with the comparative figures for the corresponding periods in 2002 as follows:

Consolidated Income Statement

	<i>Notes</i>	Three months ended 30 September		Nine months ended 30 September	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	2	10,916	16,750	30,493	58,248
Cost of sales		6,338	(9,337)	(22,097)	(31,130)
Gross profit		4,578	7,413	8,396	27,118
Other revenues		-	-	73	80
Distribution costs		(1,067)	(1,288)	(2,888)	(3,750)
Administrative expenses		(4,730)	(4,753)	(23,563)	(13,530)
Other operating expenses		(384)	-	(30,407)	-
(Loss)/Profit from operation		(1,603)	1,372	(48,389)	9,918
Finance costs		(307)	(388)	(735)	(841)
(Loss)/Profit before taxation		(1,910)	984	(49,124)	9,077
Taxation	3	-	(299)	-	(1,373)
(Loss)/Profit before minority interest		(1,910)	685	(49,124)	7,704
Minority interest		-	20	192	154
(Loss)/Profit attributable to shareholders		(1,910)	705	(48,932)	7,858
Dividends		-	-	-	-
(Loss)/Earnings per share					
- Basic (cents)	4	(0.38)	0.14	(9.79)	1.57

Notes:

1. Basis of preparation

The unaudited consolidated financial statements of the Group have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standard issued by the Hong Kong Society of Accountants.

2. Turnover

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, to outside customers during the three months and nine months ended 30 September 2003.

3. Taxation

Pursuant to the relevant laws and regulations in the People's Republic of China (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 nine months ended 30 September 2003 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 nine months ended 30 September 2003, as it has no taxable income during the period.

No provision for Hong Kong Profits Tax has been made for the nine months ended 30 September 2003, as the Group's operation in Hong Kong did not have any estimated assessable profit.

There was no significant unprovided deferred taxation during the nine months ended 30 September 2003.

4. (Loss)/Earning per share

The calculation of the (loss)/earnings per share for the nine months ended 30 September 2003 is based on the unaudited consolidated loss attributable to the shareholders of approximately HK\$48.9 million respectively (nine months ended 30 September 2002: profit attributable to the shareholders of approximately HK\$7.9 million) and the existing issued number of 500,000,000 shares for nine months ended 30 September 2002.

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

5. Reserve

There have been no movements in the reserves of the Group except for the adjustment for approximately HK\$14.6 million debited in assets revaluation reserve and the loss recognized during the periods under review.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2003 (three months and nine months ended 30 September 2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial performance

For the three months ended 30 September 2003, the Group's turnover amounted to approximately HK\$10.9 million, representing stable recovery to pre SARS level compared to the second quarter of 2003 when the Group's turnover recorded HK\$9.9 million. Although the economic influence from SARS becomes less volatile in Guangdong Province, the PCC nanomaterials market are still under severe pressure as most competitors were desperate to grasp market shares to recover their previous loss in business by adopting low-price strategy. The Group had managed to maintain its market share by lowering the selling price which inevitably had an impact on the Group's gross profit margin.

For the three months ended 30 September 2003, the Group had commenced restructuring of its operation by eliminating redundant manpower and improving its operation efficiency in view of the harsh market conditions. The Group recorded a reduced operating loss of approximately HK\$1.9 million for the third quarter of 2003, representing a drop of HK\$34.8 million from HK\$36.7 million when compared to the second quarter of 2003.

Business review

The economic condition had started to resume to the pre SARS level on a progressive basis. Nevertheless, competition within the respective industry continues to pose great pressure on the Group's PCC nanomaterials products. The Group is striving to maintain its market shares by widening the product range and improving the quality of the Group's existing products.

In addition, the Group continued its own research and development activities in order to enhance the quality of PCC nanomaterials and explore new usage of the products by modifying its mechanical, physical or chemical properties. The marketing strategy of the Group has proved to coincide with current market trend, as more and more customers, especially the plastic and rubber industry, are seeking higher quality and more economic substitutes to lower their production cost.

Production

After the outbreak of SARS, the Group piled up a high level of inventory during the second quarter of year 2003. The market is taking more time to digest these existing stocks. Consequentially, as the effect of SARS had diminished, the production schedule of the Group revives and is picking up satisfactorily. The re-engineering program implemented on the operation and production of the PCC nanomaterials had improved the efficiency and utilization rate and in turn had greatly enhance the products' quality and strengthen the Group's reputation.

The production line of Ceramic fine powder and SnO₂ nanomaterials and gas sensing devices are continuing to expand along with the current market demand. Furthermore, the Group enhances the quality of these products and in the consensus of continuing to test the market in order to widen its market acceptance.

Research and development

During the period under review, the Group's own research and development team in Enping continue to modify and improve the quality of PCC nanomaterials products. The Group expects that only durable and quality products can capture the market in long run. Therefore, the Group intends to input more resources to widen the range of PCC nanomaterials products as this is the core products of the Group. In addition, the Group will further enhance the quality of Ceramic fine powder and SnO₂ nanomaterials and gas sensing devices products in order to establish their brand image and capture more market share. Successful introduction of these pilot products will continue to create growth opportunities for the Group.

Prospect

The Directors anticipate that the downward trend on the overall performance of the Group during the first half of year 2003 had been ceased due to the improving economic environment. The Directors also anticipate that with the aid of continuous research and development, the Group's products will become more mature and market driven which in turn will increase the competition advantages of the products. Also, the re-engineering program implemented can downsize the redundant resources of the Group and improve the efficiency of the Group's operation; therefore, the Directors anticipate that the overall performance of the Group during the second half of year 2003 will show signs of improvement.

In addition, the Directors anticipate that in order to improve the Group's overall performance, the Group will consider widening the application scope of its technical "know-how", as this could allow the Group to diversify its operation risk and raise its brand image.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 September 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	Personal Interests	Number of shares held		Other Interests
		Family Interests	Corporate Interests	
Mr. Chiang Chi Kin	-	-	24,340,000	-
Mr. Kwong Chun Kau	200,000	-	-	-

Other than as disclosed above as at 30 September 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 September 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
Suez Asia Holdings (Pte.) Limited (<i>Note 1</i>)	141,750,000

Note:

1. On 26 September 2003, the Company received a copy of written notice from the legal adviser of Suez Asia Holdings (Pte.) Limited ("Suez Asia") notifying that Suez Asia had vested in itself the interest of Full Joy Management Ltd and its wholly owned subsidiary, Solidbase Holdings Ltd ("Solidbase") in relation to the shares of the Company. On 5 November 2003, Solidbase transferred 750,000 shares of the Company to Suez Asia Holdings (H.K.) Limited which also executed a declaration of trust in favour of Solidbase. Therefore, up to the date of this announcement, Suez Asia is directly interested in 141,750,000 shares of the Company.

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 September 2003.

OUTSTANDING SHARE OPTION

Up to nine months ended 30 September 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 nine months ended 30 September 2003.

INTEREST OF SPONSOR

Shenyin Wanguo Capital (HK) Limited resigned as the on-going sponsor to the Company with effect from 12 May 2003. The Directors are pleased to announce that the Company has entered into an agreement with JS Cresvale Capital Limited on 23 August 2003 ("JS Cresvale") for the appointment of JS Cresvale as the on-going sponsor of the Company for the period from 23 August 2003 to 31 December 2003 as required under Rule 6.63 of the GEM Listing Rules.

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.

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. Siu Siu Ling, Robert, Mr. Feng Hui Liu and executive Director, Mr. Chow Chun Kwong. The Group's unaudited third quarterly results for the three months and nine months ended 30 September 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
Executive Director

Hong Kong, 11 March 2004