



interim report
2001

GP NanoTechnology Group Limited

(Incorporated in Bermuda with limited liability)

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 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.

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 six and three months ended 30 June 2001, together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	18,601	16,663	36,156	39,163
Cost of sales		(9,485)	(8,995)	(19,017)	(20,318)
Gross profit		9,116	7,668	17,139	18,845
Other revenues		52	—	52	4
Distribution costs		(1,001)	(1,539)	(1,966)	(2,804)
Administrative expenses		(2,957)	(1,639)	(5,199)	(4,946)
Profit from operation		5,210	4,490	10,026	11,099
Finance costs		(767)	(711)	(1,578)	(1,435)
Profit before taxation		4,443	3,779	8,448	9,664
Taxation	3	(772)	(612)	(1,361)	(1,318)
Profit attributable to shareholders		3,671	3,167	7,087	8,346
Dividends		—	—	—	—
Earnings per share (cents)	4	0.73	0.63	1.42	1.67





Notes:

1. Basis of preparation

The Company was incorporated as a limited company in Bermuda under the Companies Act 1981 of Bermuda on 17 July 2000 with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 17 July 2001.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on GEM, the Company became the ultimate holding company of the Group on 17 April 2001. Details of the Reorganisation are set out in the Prospectus of the Company dated 9 July 2001. The results of the Group comprise the results of all companies now comprising the Group using the merger basis of accounting as if the current group structure had been in existence since 1 January 2000, and where applicable, from their respective dates of incorporation or acquisition by the Group, whichever is later.

All significant intra-group transactions and balances have been eliminated on consolidation.

2. Turnover

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances by the Group to outside customers during the six months ended 30 June 2001.

3. Taxation

Pursuant to the relevant laws and regulations in the People Republic of China (the "PRC"), the Company's subsidiary in PRC is entitled to exemption from PRC enterprise income tax for two years commencing from year ended 31 December 1998, followed by a 50% reduction for the next three years. The charge for the six months ended 30 June 2001 and the six months ended 30 June 2000 represents provision for PRC enterprise income tax at the reduced rate of 12% on the estimated assessable profit of the Company's subsidiary in PRC.

Companies in the Group are not subject to tax in other jurisdictions.

There was no significant unprovided deferred taxation during the six months ended 30 June 2001.

4. Earnings per share

The calculation of the earnings per share for each of the three months ended 30 June 2001 and six months ended 30 June 2001 is based on the respective unaudited consolidated profit attributable to shareholders of HK\$3,671,000 and HK\$7,087,000 (2000: HK\$3,167,000 and HK\$8,346,000) and a total of 500,000,000 shares issued on the establishment of the Company and on the Reorganisation of the Group is deemed to have been in issue since 1 January 2000.

Diluted earnings per share is not presented because there was no dilutive potential ordinary shares in existence during the six months ended 30 June 2001.

5. Movement in reserves

During the six months ended 30 June 2001, the Company has no movement in reserves.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2001 (three months and six months ended 30 June 2001: Nil).

BUSINESS REVIEW AND PROSPECT

Financial performance

For the six months ended 30 June 2001, the Group's turnover amounted to approximately HK\$36,156,000, representing a decrease of 7.7% compared to the same period in 2000. The decrease in turnover for the period was due to the implementation of a quality enhancement program for the manufacturing of ceramic fine powder of which related operations has to be temporary suspended. For the three months ended 30 June 2001, the Group's turnover amounted to approximately HK\$18,601,000, representing an increase of 11.6% compared to the same period in 2000 (no sales from ceramic fine powder were recorded during this period). The increase is mainly due to the increase in sales brought by the Group's PCC nanomaterials.

For the three months ended 30 June 2001, the Group's gross profit amounted to approximately HK\$9,116,000, representing an increase of 18.9% compared to the same period in 2000. Gross profit margin also improved from 46% for the three months ended 30 June 2000 to 49% for the three months ended 30 June 2001. The improvement in gross profit margin and gross profit for the three months ended 30 June 2001 was mainly due to the decrease in the cost of diesel. Profit attributable to shareholders for the three months ended 30 June 2001 also increased by 15.9% compare to the same period in 2000.



Business review

During the six months ended 30 June 2001, the Group continued its main line of business, the manufacture and sale of PCC nanomaterials. Manufacture of ceramic fine powder has been temporary suspended due to the implementation of a quality enhancement program for the production of ceramic fine powder in Guang Ping Chemical Industrial Enterprise Co., Ltd. (the "GPCI"). The directors of the Company (the "Directors") expected that production of quality enhanced ceramic fine powder to be resumed in August 2001.

Production

During the six months ended 30 June 2001, a new production line was established by GPCI for the manufacture of PCC nanomaterials using high gravitational production method with an annual capacity of 3,500 tonnes. The Group has also carried out a quality enhancement program for the production of ceramic fine powder and expected to be completed in August 2001.

Research and development

During the six months ended 30 June 2001, the Group entered into an agreement with Shanghai Jiao Tong University to set up a research centre for the research and development of nanomaterials application and new models of gas sensing devices.

Prospect

The Directors believe that the continuous economic growth in the PRC have led to an increase in the demand for products such as plastic, paper, rubber paints and engineering components. The Directors also believe that PCC nanomaterials will gradually substitute conventional PCC materials and other materials.

Given the broad commercial applications of nanomaterials, the Directors are of a view that there is vast potential for the Group's nanomaterials in the PRC market and are optimistic of the Company's future prospects in achieving its business objective as set out in the Company's prospectus dated 9 July 2001.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2001 and as at the date of this report, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of the directors and chief executive of the Company and their associates in shares of the Company were as follows:

Name	Personal Interest	Family Interest	Corporate Interest (No. of shares)	Other Interest	Total Interest
Fung Chiu	—	—	277,600,000 (Note)	—	277,600,000
Kwong Chun Kau	—	—	277,600,000 (Note)	—	277,600,000

Note: These shares are owned by Modern World Resources Limited and Solidbase Holdings Limited.

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

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

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

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

As at 30 June 2001 and as at the date of this report, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.



SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001 and as at the date of this report, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10% or more of the issued share capital of the Company:

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

Notes:

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

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, the following shareholder is, 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 (as defined in the GEM Listing Rules) of the Company:

Name	Number of Shares	Approximate percentage of holding (%)
Modern World Resources Limited (Note 1)	180,850,000	36.17
Solidbase Holdings Limited (Note 2)	96,750,000	19.35

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. Modern World Resources Limited is deemed to be management shareholder pursuant to the GEM Listing Rules.
2. Solidbase Holdings Limited is 100% owned by Full Joy Management Limited who is 99.99% owned by Modern World Resources Limited, is deemed to be management shareholder pursuant to the GEM Listing Rules.

OUTSTANDING SHARE OPTION

On 29 June 2001, the Company conditionally adopted the Share Option Scheme, the principal terms of which are set out in the Company's prospectus dated 9 July 2001.

During the period from 29 June 2001 to 30 June 2001, no option was granted by the Company under the Share Option Scheme.

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

Since the Company was listed on GEM on 17 July 2001, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities for the six months ended 30 June 2001.



INTEREST OF SPONSOR

The Sponsor of the Company, Shenyin Wanguo Capital (H.K.) Limited, its directors, employees and associates, at 30 June 2001, did not have any interest in the 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.

Shenyin Wanguo Capital (H.K.) Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Shenyin Wanguo Capital (H.K.) Limited will act as the Company's continuing sponsor for the period of two years commencing from 17 July 2001.

COMPETING INTERESTS

During the period from 1 January 2001 to 30 June 2001, none of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business that competed with or might compete with the business of the Group.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

By Order of the Board
Ong Hong Hoon
Chief Executive

Hong Kong, 13 August 2001