



First Quarterly Report 2002

A decorative horizontal band featuring a world map in the background, overlaid with a blue molecular structure and the text "GP NANO" in a large, semi-transparent blue font. The band has a gradient from dark blue to light blue and includes some abstract light effects.

GP NANO

GP NanoTechnology Group Limited

(Incorporated in Bermuda with limited liability)

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 reports 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 report, 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 report.

This report, 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 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 ended 31 March 2002, together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	Notes	For the three months ended	
		2002	2001
		HK\$'000	HK\$'000
Turnover		19,515	17,555
Cost of sales		(10,375)	(9,532)
Gross Profit		9,140	8,023
Other revenues		33	–
Distribution costs		(1,069)	(965)
Administrative expenses		(4,275)	(2,242)
Profit from operation		3,829	4,816
Finance costs		(314)	(811)
Profit before taxation		3,515	4,005
Taxation		(475)	(589)
Profit before minority interests		3,040	3,416
Minority interests		40	–
Profit attributable to shareholders		3,080	3,416
Dividends		–	–
Earnings per share – Basic (<i>cents</i>)		0.62	0.68

Notes:

1. Basis of preparation

The unaudited consolidated results 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 standards 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 by the Group to outside customers during the three months ended 31 March 2002.

3. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong for the three months ended 31 March 2002.

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 Group's subsidiary in the PRC, is entitled to exemption from PRC enterprise income tax for two years commencing from its first profit making year of operations, followed by 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 making 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 three months ended 31 March 2002 represents provision for PRC enterprise income tax at the reduced rate of 7.5% on GPCI's estimated assessable profit.

There was no significant unprovided deferred taxation during the three months ended 31 March 2002.

4. Earnings per share

The calculation of the basic earnings per share for the three months ended 31 March 2002 is based on the unaudited consolidated profit attributable to the shareholders of approximately HK\$3,080,000 (2001: approximately HK\$3,416,000) and a total of 500,000,000 shares issued on the establishment of the Group and on the reorganisation of the Group is deemed to have been in issue since January 2001.

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

5. Movement in reserve

There was no movement in the reserves other than the Group's profit during the periods under review.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2002 (three months ended 31 March 2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial performance

For the first three months ended 31 March 2002, the Group's turnover amounted to approximately HK\$20 million, representing an increase of 11% compared to the corresponding first quarter of 2001. This increase was attributed to increase in sales of PCC products and new markets as a result of enhanced product mix and the launch of a new product line, PCC nanomaterials for the ink and paint industries, in the PRC.

The Group's gross profit amounted to approximately HK\$9 million, representing an increase of 14% compared to the corresponding period in 2001. Profit attributable to shareholders for the first three months ended 31 March 2002 amounted to HK\$3 million.

During the period under review, the slowdown in the global economy in 2001 and the lacklustre economic situation in South East Asia continued to adversely influence overall demand for the company's PCC nanomaterials for applications in the various industries. The Group believes the market for its products would have been better if not for the unfavourable world economic situation. Other projects are still in the development stage, and therefore not contributing to the Group yet. Furthermore, during the period under review, the Group incurred substantial costs arising from investing in new office premises in Hong Kong and recruiting additional staff. Both activities constitute part of company expansion.

Business review

One of the prominent highlights is that the Group has successfully obtained the production licences from the China National Accreditation of Laboratories in the PRC in April 2002, for the new SnO₂ nanomaterials gas detector for methane developed in collaboration with Shanghai Jiao Tong University. Production can now commence in the Group's production facility in Enping, Guangdong Province, the PRC.

Another important highlight is that the Group has won its first order of 80,000 units of gas detector placed by Dignity Engineering & Contracting Limited (Dignity Engineering), a Hong Kong based company founded by a group of experienced architects and engineers. The Group expects to deliver this order around mid-year 2002 and Dignity Engineering is expected to increase its subsequent orders over time.

The Group anticipates an enormous potential market for the product in the PRC where the huge piped gas project to bring natural gas from the western region to the eastern region is being implemented, and individual cities are building piped gas networks to supply gas to households. In Xian, the PRC, for example, the piped natural gas network extends over 1.8 million sqm., reaching 680,000 households at a penetration rate of 92%. All these developments will require gas detectors.

During the period under review, the Group maintained its main line of business in the manufacture and sale of PCC nanomaterials. Sales of new product line of PCC nanomaterials for the ink, paints and other industries launched in 2002 were encouraging. The sales of these new products are expected to contribute to the Group's earnings in 2002.

The Group has also been actively promoting another new product line established in 2001, PCC nanomaterials for use in PP resin to produce high quality plastic household products. The Group is optimistic about this product as it can replace more expensive materials and yet improve product quality, and it will enable the Group to explore the market for manufacturers of high-end products. The production facility for this product line has been set up, and the Group expects production to commence in the 2nd quarter of 2002.

The Group remains on course to receive ISO 9001 certification in mid 2002, and is confident that the certification will enhance the Group's marketing efforts in the international markets. For overseas markets, the Group is still evaluating the right sales agent for the USA and South East Asia markets.

Production

Another significant highlight for the Group in the period under review is that in Dongguan, the PRC, installation of the first phase of production for PCC nanomaterials-filled PP nanocomposites, has been completed. The installation began in December 2001 and continued throughout the first quarter of 2002. This first production line, at an investment of HK\$5 million, extends over an area of 13,000 sq. ft. and is capable of producing 10,000 tonnes of PCC nanomaterials-filled PP nanocomposites. The existing factory premises cover a total gross floor area of over 100,000 sq. ft. The Group can use the remaining portion of the floor area at a monthly rental of HK\$1 per sq. ft. at any time. The Group expects that this production area will extend the annual production capacity to approximately 80,000 tonnes and it needs at least two years to complete the installation of the new machineries.

Production of ceramic fine powder in the factory plants of Guang Ping Chemical Industrial Enterprise Co. Ltd. is expected to commence around June 2002 as the Group wants to ensure the best quality raw materials to achieve a finished product of the highest quality.

Research and development

During the period under review, the Group and Shanghai Jiao Tong University Nanotechnology Research Institute continued the joint project to develop a new generation of nanomaterials gas detecting device for carbon monoxide, expected to be ready for testing in the last quarter of 2002.

Concurrently, under the co-operation agreement between the Group and the Hong Kong University of Science and Technology ("HKUST"), the latter has been working on the research and development of PCC nanomaterials-filled PP nanocomposites, and the mixing of PCC nanomaterials with other polymers to produce new polymer nanocomposites. With the assistance of HKUST, the Group has already obtained a patent from the United States Patent and Trademark Office for PCC nanomaterials-filled PP nanocomposites in 2001.

Prospect

The Directors are optimistic that the PRC market will continue to offer great potential to the Group. Nanomaterials have broad commercial applications, and given the rising standard of living and the continued economic growth in the PRC, which is now a member of the World Trade Organisation, there will be increasing demand for plastic, paper, rubber, paints and engineering components, all of which require PCC nanomaterials. Therefore, the market for the Group's products should continue on an upward trend.

The commencement of production of the gas detector for methane is a very positive development and a significant milestone, as it will bring growth to the Group's revenue for the rest of 2002 and beyond. The Directors are also of the opinion that PP resin prices will rise in the months ahead, and as a cost-saving measure, manufacturers of quality plastic household products will thus be encouraged to utilise PCC nanomaterials for use in PP resin, which the Group produces and markets.

The Group is also currently involved in developing exciting new and innovative products, such as PCC nanomaterials-filled PP nanocomposites, which can be tailor-made to suit customers' individual requirements; and a nanomaterials gas-detecting device for methane and carbon monoxide. When these products come on-stream, they will offer additional growth opportunities for the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 March 2002, the interests of the Directors and chief executive of the Company in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Note:

277,600,000 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.

Save as disclosed above, as at 31 March 2002, none of the Directors and chief executive of the Company or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which required, pursuant to Rules 5.40 to 5.59 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"). 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.

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.

Save as disclosed above, as at 31 March 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors 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

Other than the interest disclosed herein in respect of the Directors and chief executive of the Company or their respective associates, the register of substantial shareholders maintained under the Section 16(1) of the SDI Ordinance shows that as at 31 March 2002, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of shares held	
	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>Notes 2 and 3</i>)	45,000,000	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 the 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 31 March 2002.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, 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>)	180,850,000
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 three months ended 31 March 2002, no option was granted by the Company under the Old Share Option Scheme.

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

As the Company only became a listed Company on 17 July 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2002.

INTEREST OF SPONSOR

As updated and notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor" or "Shenyin Wanguo"), as at 31 March 2002, neither 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 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.

Pursuant to the sponsor agreement dated 6 July 2001 entered into between the Company and Shenyin Wanguo, Shenyin Wanguo will act as the Company's continuing sponsor for the period of two years commencing from 17 July 2001.

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) had an interest in a business that competed with or might 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. Fong Shi Sheung, Anthony and Mr. Tsun Kok Chun, Richard and executive Director, Mr. Chow Chun Kwong. The Group's unaudited quarterly results for the three months ended 31 March 2002 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 May 2002