

Third Quarterly Report
2002



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.

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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 and nine months ended 30 September 2002, together with the comparative figures for the corresponding periods in 2001 as follows:

Consolidated Income Statement

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2002	2001	2002	2001
		(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Turnover	2	16,750	22,058	58,248	58,214
Cost of sales		(9,337)	(12,859)	(31,130)	(31,876)
Gross profit		7,413	9,199	27,118	26,338
Other revenues		–	143	80	195
Distribution costs		(1,288)	(1,203)	(3,750)	(3,169)
Administrative expenses		(4,753)	(3,905)	(13,530)	(9,104)
Profit from operation		1,372	4,234	9,918	14,260
Finance costs		(388)	(452)	(841)	(2,030)
Profit before taxation		984	3,782	9,077	12,230
Taxation	3	(299)	(707)	(1,373)	(2,068)
Profit before minority interest		685	3,075	7,704	10,162
Minority interest		20	–	154	–
Profit attributable to shareholders		705	3,075	7,858	10,162
Dividends		–	–	–	–
Earnings per share					
– Basic (cents)	4	0.14	0.62	1.57	2.03

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 and nine months ended 30 September 2002.

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 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 for the nine months ended 30 September 2002, as the companies 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 2002.

4. Earning per share

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2002 is based on the unaudited consolidated profit attributable to the shareholders of approximately HK\$705,000 and HK\$7,858,000 respectively (three months and nine months ended 30 September 2001: approximately HK\$3,075,000 and HK\$10,162,000 respectively) 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. Reserve

There have been no movement in the reserves of the Group except for the profit recognized during the periods under review.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2002 (three months and nine months ended 30 September 2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial performance

For the nine months ended 30 September 2002, the Group's turnover amounted to approximately HK\$58 million, representing with stable performance compared to the same period in 2001. The slight increase in turnover for the period was due to the increase in continuing sales of PCC products and widens the market scope within China. For the nine months ended 30 September 2002, the Group's gross profit amounted to approximately HK\$27 million, representing a slight increase of 2% compared to the same period in 2001.

For the nine months ended 30 September 2002, the profit attributable to shareholders amounted to approximately HK\$7,858,000, representing an decrease of 4% compared to the same period in 2001. Gross profit margin representing a slight increase of 2% for the nine months ended 30 September 2002. The slight increase in gross profit, and profit margin was mainly due to the existing sales and effective marketing strategy implementation.

Business review

The Group maintained the manufacture and sales of PCC nanomaterials. The product range of PCC nanomaterials for the ink, paints and other industries were still encouraging. The decrease in growing trend in turnover was primary due to the unstable market condition and slower economy recovery cycle. Furthermore, the Group implements strict credit policies in order to shorten the credit period and diminish the chance of bad debts. During the period under review, the Group has successfully launched the nanocomposite materials products to the market, which in turn can bring enormous contribution to the Group's turnover in the coming quarters. Therefore, the Group continue anticipates the nanocomposite materials with enormous market potential.

Likewise the recent economy of Hong Kong and the world comes to an era of structural de-fragmentation. The emphasis of High Technology industry becomes more "skill" and "result" driven. Therefore, the requirement for PCC nanomaterials and the composite materials are more demanding. Since the Company's product can replace traditional environmental unfriendly materials and widen the application scope. The Group anticipates the market of PCC nanomaterials and composite materials are still prosperous and encouraging.

Production

The Group's production line of nanofilled PP composite materials continues to expand. The further expansion can upscale the efficiency and improve the product stability. In addition, the new production line of nanofilled SBS composite materials is also under excellent progress. The products are expected to be ready to launch to the market within the very near future. The nanofilled SBS composite materials can penetrate enormous potential market especially within toys, shoes and furniture industry.

The production line of ceramic fine powder is continuing to expand satisfactorily. In addition, the Group further enhances the quality for bigger market acceptance. As for the development of the production technique on SnO₂ nanomaterials and gas sensing devices for detecting carbon monoxide, alcohol and smoke is progressing satisfactorily.

Research and development

Under the co-operation agreement between the Group and the Hong Kong University of Science and Technology ("HKUST"), the research program on nanofilled PP composite materials is progressing satisfactorily. The latter concentrates on the research of using PCC nanomaterials to produce new polymer nanocomposites. During the period under review, the Group's own research and development office in Dongguan further enhance the development of nanofilled PP composite materials for different industry.

Prospect

The Directors believe that the nanofilled PP composite materials; nanofilled SBS composite materials; Ceramic fine powder; and the SnO₂ nanomaterials and gas sensing devices can improve conventional products and bring potential income to the Group within the near future. In addition, the Directors will put more resources in the research and development of these products. In the pursuit of total quality, the Group commit more time and devotion to customers in terms of value and service.

With the aid of production "know-how" of the Group, the nanocomposite materials provide wider application scope to the market. In addition, the ceramic fine powders focus on the "high-end" market due to its rare product nature as well as the unique production technique. Therefore, the ceramic fine powder is capable to aim for industries such as cutting tools, engineering parts, and components, mechanical seals, and aerospace. The SnO₂ nanomaterials and gas sensing devices possess with high sensitivity and high selectivity. In addition, the SnO₂ nanomaterials and gas sensing devices progress in line with the development of the gas sensing devices expansion program of the China government. Therefore, the Directors anticipate that Group's future development is strong and prosperous.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 September 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 interests	Family interests	Corporate interests	Other interests
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.

Other than as disclosed above, as at 30 September 2002, 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 as defined in the SDI Ordinance on which required, pursuant to Rule 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Other than as disclosed above, as at 30 September 2002, neither the Company nor any of its subsidiaries was 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 30 September 2002, the Company had the following substantial shareholder's interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of Shares	
	Direct interest	Deemed interest
Modern World Resources Limited (Note 1)	180,850,000	–
Solidbase Holdings Limited (Note 2)	96,750,000	–
Suez Asia (Note 2 and 3)	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 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 30 September 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.*

DETAILS OF OPTIONS GRANTED BY THE COMPANY

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 under 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.

Up to nine months ended 30 September 2002, no option was granted by the Company under the New 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 nine months ended 30 September 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 30 September 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.

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. Fong Shi Sheung, Anthony, and Mr. Tsun Kok Chun, Richard and executive Director, Mr. Chow Chun Kwong. The Group's unaudited third quarterly results for the three months and nine months ended 30 September 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, 11 October 2002