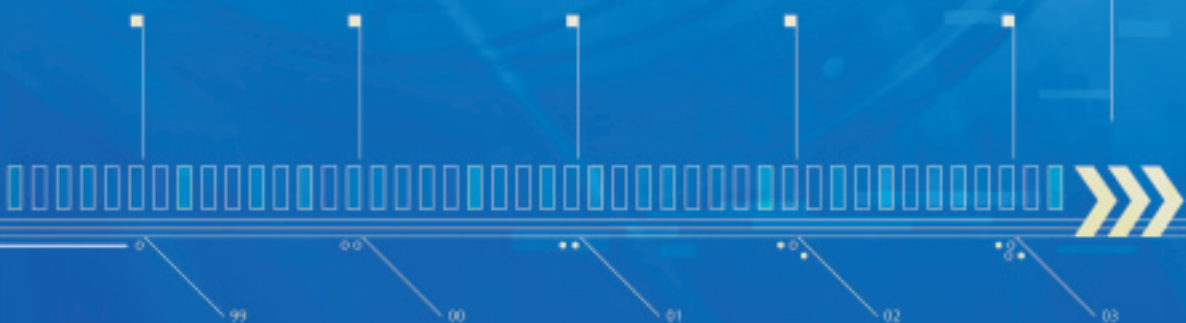


# GP NanoTechnology Group Limited

(Incorporated in Bermuda with limited liability)

# GPNANO



Annual Report 2002

## **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 announcement 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 annual 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 annual report.

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

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### **Executive Directors**

Mr. Fung Chiu (*Chairman*)

Mr. Ong Hong Hoon (*Chief Executive*)

Mr. Lian En Sheng

Mr. Chow Chun Kwong

Mr. Kwong Chun Kau

### **Independent Non-executive Directors**

Mr. Choy Man Fai, Melvin

Mr. Fong Shi Sheung, Anthony

### **Registered Office**

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### **Head Office and Principal Place of Business**

Room 2408 Lippo Centre, Tower 2

89 Queensway

Hong Kong

### **Company Secretary**

Mr. Tso Sze Wai, Jackson

### **Compliance Officer**

Mr. Chow Chun Kwong

### **Qualified Accountant**

Mr. Tso Sze Wai, Jackson

### **Audit Committee**

Mr. Fong Shi Sheung, Anthony (*Chairman*)

Mr. Chow Chun Kwong

Mr. Choy Man Fai, Melvin

### **Technical Advisory Committee**

Mr. Lian En Sheng (*Chairman*)

Dr. Zeng Hanmin

Dr. Chen Jian Feng

### **Authorized Representatives**

Mr. Fung Chiu

Mr. Chow Chun Kwong

### **Bermuda Principle Share Registrar and Transfer Office**

Butterfield Corporate Services Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

### **Hong Kong Branch Share Registrar and Transfer Office**

Standard Registrars Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### **Principal Bankers**

Bank of China (Hong Kong) Limited

Hongkong and Shanghai Banking Corporation Limited

### **GEM Stock Code**

8152

### FINANCIAL PERFORMANCE

For the financial year ended 31st December, 2002, the Group's turnover amounted to approximately HK\$72.2 million, representing a decrease of 9.0% compared to the financial year of 2001. Such variation was primary due to the harsh economic environment and fierce competition within market that in turn directly affected the sales of the Group's core product of PCC nanomaterials and other products of the Group.

The Group's gross profit amounted to approximately HK\$29.9 million, representing a decrease of approximately 17.7%, compared to the financial year of 2001. The fluctuation in gross profit was mainly due to the increase in the cost of diesel and substantial capital used for the expansion of new and existing production facilities within the Group. Loss attributable to shareholders for the year amounted to approximately HK\$7.5 million, representing a decrease of approximately 166.9%, compared to the financial year of 2001, with loss per share of approximately HK\$1.5 cents.

The drop in the Group's profit attributable to shareholders for the financial year ended 31st December, 2002 was primary due to the harsh economic environment, tightened credit control strategy and fierce competition within the respective industry. Furthermore, the slow economy recovery pace plus the unprecedented political atmosphere around Middle East has worsened the situation.

### FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the financial year ended 31st December, 2002.

### BUSINESS REVIEW

The year under review was stimulating but disputing. Due to the continuous global economic downturn, many government officials are trying their best to improve their present situation. However, unstable political picture within Middle East adversely affects the recovery pace of world economy. In addition, the increasing competition within South East Asia, especially in China, had also affected the expansion of the Group. Among various industries, the manufacturing industry of China market itself embeds quite a substantial effect on the Group's performance. Conventionally, the PRC market is huge and prosperous. However, the competition is vagrant, especially within the plastics and rubber industry. Therefore, the production of the Group's products has to be launched to the market quickly and precisely.

The Group has to re-engineer their products for competitive advantages against the competitors. The evolution of the Group's products needs more devotion in terms of time and capital. Consequently, while the research and development on advanced model of the Group's products has not been accomplished, the sales on PPC nanomaterials becomes the major contribution to the Group's income. During the year under review, the Group continued to tighten the credit control strategy in order to offset the huge amount of enormous research and development expenses. Therefore, the decrease in sales and the situation on existing customers divert to other suppliers has occurred.

The existing development of nanofilled PP composite materials production lines is targeting in the high quality household products industry. Also, the Group continues to develop the production line of nanofilled SBS composite materials. These products are predominantly used in the shoe, toy and furniture industry. In anticipation of the production of ceramic fine powder, the pace of the Group's expansion is according to the economic situation. Therefore, the Group can penetrate to more different markets that in return can bring vast potential income. In view of the production of SnO<sub>2</sub> nanomaterials and the new gas sensing devices, the Group continues to enhance the quality of the products. Meanwhile, the China government enforces many economy development programs within the North West area of China that the Group portrays as a good opportunity to capture and widen its market share. Therefore, the Group is seeking strong and appropriate entrepreneurs to jointly explore the gas sensors market within North West area of China.

During the year under review, the Group has successfully obtained the ISO 9001 certification on 10th July, 2002. The ISO 9001 certification strengthens the management system during the production process of the Group. In addition, the certification empowers the Groups' team spirit in the pursuit of superb service quality. Furthermore, the certification greatly enhances the Group's corporate image.

### **PRODUCTION**

During the year under review, the production of PCC nanomaterials was overwhelmingly affected by certain issues resulted from the unstable political atmosphere between the Middle East and the United States. In addition, due to the frequent profit warning on the companies of the United States, most of them will consequentially tighten their respective cost control strategies. Therefore, customers are seeking budget substitutes for PCC nanomaterials. Consequently, the sales of the Group's PCC nanomaterials were seriously affected.

In addition, many customers were reluctant to increase their order or place long-term order due to unstable market demand. Besides, the Group faced strong competition domestically as well as internationally. The Group then further enhanced the product quality by injecting more resources into the existing production facilities and provided comprehensive customer services for competitive advantage.

Meanwhile, the Group also diversified the resources to set up a new production line for another potential nanomaterial products – nanofilled SBS composite materials and the Group expects the nanofilled SBS composite materials will be launched to the market in the coming quarters of 2003.

The Group will continue to put resources to improve the quality of ceramic fine powder. The ceramic fine powder can be used to mix with different metals to form various nano-sized metal composite materials for different industries. In view of the production of SnO<sub>2</sub> nanomaterials and new gas sensing devices, the Group is identifying certain strong and prosperous ventures to jointly develop this huge and potential market. The Group expects upon the full installation and utilization of the enhancement process, the production facilities could then be scaled up for bigger production capacity.

### **RESEARCH AND DEVELOPMENT**

The research and development center of the Group that situated in Dongguan continues to conduct different research activities regarding the modification and development of the nanofilled PP composite materials and the nanofilled SBS composite materials respectively. The main research and development center that situated in Enping also continues to perform enhancement program on the Group's core product, PCC nanomaterials. The cooperation project with Hong Kong University of Science and Technology (the "HKUST") for the research and development of PCC nanomaterials-filled PP composites will continue. In addition, the HKUST will also develop the technical "know-how" for PCC nanomaterials to mix with other different polymers in order to innovate more new potential products.

### **MARKETING AND OTHERS**

Although the world economy is besieged by glance of "dull" atmosphere, the Group anticipates that the market for nanofilled composite materials is huge and prosperous. The Group is still undergoing the pursuit of location of branches of sales office in Shanghai and the United States. Meanwhile, the Group has already identified a sales agent in the South East region of China and is pursuing the final stage of negotiation for respective sales and marketing functions. The Group anticipates the cooperation will further increase its market share as well as maintaining its competitiveness. Currently, the Group's sales and marketing team visits existing customers and potential customers on periodic or need basis in order to provide "one-stop" technical support service.

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31st December, 2002, the Company had net assets of approximately HK\$118.9 million (2001: approximately HK\$126.0 million) comprising non-current assets of approximately HK\$105.0 million (2001: approximately HK\$94.8 million), current assets of approximately HK\$46.7 million (2001: HK\$61.3 million), current liabilities of approximately HK\$31.1 million (2001: approximately HK\$25.1 million), long term liabilities of approximately HK\$0.9 million (2001: approximately HK\$3.5 million) and minority interests of approximately HK\$0.6 million (2001: approximately HK\$1.4 million). The Group had cash and bank deposit of approximately HK\$2.0 million in total (2001: approximately HK\$15.2 million), short term borrowings of approximately HK\$13.1 million (2001: approximately HK\$9.3 million) and long term borrowings of approximately HK\$0.9 million (2001: approximately HK\$3.5 million). The Group's leasehold land and buildings at a net book value of approximately HK\$19.3 million (2001: approximately HK\$19.6 million) had been pledged to banks to secure borrowings granted to the Group. The net asset value per share amounted to approximately HK\$0.24 (2001: approximately HK\$0.25).

As at the balance sheet dated 31st December, 2002, the Group's gearing ratio, representing total borrowings divided by shareholder's funds, was approximately 11.7% (2001: approximately 10.2%). The Group had no material contingent liabilities as at 31st December, 2002 and 31st December, 2001.

The Group received 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, the Group considers that there is no significant exposure to foreign exchange risk.

The Group generally finances its operations with internally generated cashflows and bank utilities and the Group has no specific treasury policies. As at 31st December, 2002, the Group had no outstanding foreign exchange contracts, interests on currency swaps or other financial derivatives.

As at 31st December, 2002, the Group had capital expenditure commitments of approximately HK\$2.5 million (2001: approximately HK\$1.4 million) relating to the acquisition of property, plant and machinery. In addition, the Group had commitments to pay approximately HK\$1.9 million (2001: approximately HK\$1.9 million) to various universities and research centers for the development of new products.

During the financial year ended 31st December, 2002, the Group did not make any material acquisition or disposals other than those disclosed in the announcements of the Company dated 14th January, 2003 and 5th March, 2003 posted on the GEM website.

### USE OF PROCEEDS

The Group raised net proceeds of HK\$44 million (after deduction of listing expenses) from the placing of Shares and listing of the Shares on GEM on 17th July, 2001. From 17th July, 2001 to 31st December, 2002, the Group had fully utilised the proceeds from the listing of the Company's shares in accordance with the Group's business objectives and strategies set out in the Prospectus, which include product development, production, sales and operations, research and development, and other activities. An analysis of the use of proceeds as at 31st December, 2002 is as follows:

	Actual (HK\$ million)	Proposed (HK\$ million)
<b>Product development and development of production facilities</b>		
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
<b>Enhancement of research and development capabilities</b>		
For research and development of new product	2.3	2
<b>Geographical expansion</b>		
For setting up a sales office in Dongguan and liaison office in Shanghai	0.5	1
<b>Others</b>		
For the repayment of bank loans and other loans	9.1	10
	<u>44</u>	<u>44</u>

The actual expenditures are more than the planned expenditures in accordance with the Group's business objectives and strategies set out in the Prospectus. The fully utilization of the proceeds is mainly due to several issues. During the period under review, the Company had to reschedule the use of proceeds according to the actual market situation. The actual market situation involves the increase of customers' demand on product quality plus the fierce competition within the respective industry. Therefore, the Group has no means but enhance the product quality as to maintain competitiveness. In addition, the Group also identified different potential projects and intents to develop new products in order to diversify business direction and capture more market share respectively.



### PROSPECT

Although the financial year under review is not a prosperous and encouraging year, the Directors are still optimistic with the future development of the Group. The China market itself embeds with huge potential plus the accession into the World Trade Organization, the expectation on demand of its own will be enormous. In addition, customers' demand on product quality is increasing day by day. With the aid of constant improvement and monitoring, the Directors are confident in widening its market share and exploring various potential markets to upgrade its position as well as maintain its competitiveness.

Strategically, the Group continues to cooperate with reputable academic and business institutions to jointly develop more potential projects. The cooperation with HKUST continues to enhance the quality of nanofilled PP composite materials. In addition, the ceramic fine powder will be configured to capture the specialized market. Last but not least, the production of SnO<sub>2</sub> nanomaterials and gas sensing devices embeds with huge potential market within different regions of China. The Board believes that, these innovative products can bring stable and generous income to the Group in the coming quarters of 2003.

Due to the unstable economic situation, fierce competition within the industry plus the depleting resources within Enping of China, the Group anticipates that the logistics of the present calcium carbonate production plant would not be able to cope with the future requirements and geographical expansion of the Group. Therefore, the Group might consider relocating the production "know-how", the hardware facilities, and the human resources to a more suitable location. This is in line with the Group's future strategy in order to maximize the competitive advantages.

### APPRECIATION

On behalf of the Board of Directors, I wish to thank all our valued shareholders, customers, business associates, the various government and regulatory authorities, consultants, and advisors for their invaluable assistance, strong support and encouragement.

I would also like to express my thanks and appreciation to my fellow Directors, the management and the staff for their dedication, commitment even though in this harsh economic environment, and the Board of directors anticipates that after this particular moment, the Group can revert back to its competitiveness.

Our valued shareholders can be assured that the Board, the management and the staff will continue to work diligently for the sustained progress of the Group.

**Fung Chiu**

*Chairman*

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is the actual progress report made in comparison with the business objectives as set out in the prospectus of the Company (the "Prospectus") dated 9th July, 2001 for the period from 1st July, 2002 to 31st December, 2002.

### **A. PRODUCT DEVELOPMENT**

#### **PCC nanomaterials**

*Continue the development of new PCC nanomaterials for use in PP resin*

The Company has successfully launched the product to the market. In the meantime, the Company is devoted to initiate more application for this product. Also, the Company starts to develop the application of nanofilled SBS composite materials that concentrates on the shoes, toys and furniture industry.

#### **Ceramic fine powder**

*Launch new ceramic fine powder for making metal composite material*

Due to the complexity of the technical "know-how", the Group is currently seeking other appropriate chemical additives to overcome the remaining technical production difficulties. Therefore, the Group expects to dispatch the product to the market on trial basis during the first half of 2003 and launch the actual product to the market during the second half of 2003 eventually.

#### **SnO<sub>2</sub> nanomaterial and gas sensing device**

*Launch new SnO<sub>2</sub> nanomaterial and gas sensing device for detecting alcoholic gas in the PRC*

In the meantime, the Group is further enhancing the product quality and implement effective marketing strategy to penetrate the market. Consequently, the Group is identifying appropriate market to maximize the impact of launching of the product. Therefore, the Group expects the launching of these products will be deferred until a more appropriate time during 2003.

### **B. EXPANSION OF PRODUCTION FACILITIES**

#### **PCC nanomaterials**

*Improve the existing production facilities so as to increase the annual production capacity by approximately 5,000 tonnes*

The Group continues to improve the existing production facilities in order to boost up the production efficiency and the product quality. However, the Group decided the second stage of installing production facilities to increase the annual production capacity by approximately 5,000 tonnes is deferred until a more opportune time.

#### **Ceramic fine powder**

*Monitor development in previous period*

The Group is currently pushing the respective resources on the development and production of ceramic fine powder for mixing the ceramic fine powder with different metals to form metal composite materials. The Group has kept closely monitoring on the development of this product and the further enhancement of the production facilities is currently undergoing periodic improvement.

#### **SnO<sub>2</sub> nanomaterial gas sensing device**

*Improve the existing production facilities by purchasing assembly machinery for producing SnO<sub>2</sub> nanomaterial gas sensing device. The annual production capacity would be increased by approximately 2 million pieces*

The Group is currently improving the production facilities to increase the production capacity. However, the Group anticipates that the second stage of purchasing assembly machinery for producing SnO<sub>2</sub> nanomaterial gas sensing device has to be accurate and precise. Therefore, this procurement will be deferred until a more appropriate time.

#### **Others**

*Obtain ISO 9002 certification*

The Group has successfully obtained the ISO 9001 certification on July 2002. As for the ISO 9002 certification, the Group is further improving the management system, production process manual, and other respective documentation before seeking the authorizing body for approval. The progress is conducting satisfactorily.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

### C. GEOGRAPHICAL EXPANSION

#### **Appoint a sales agent in Europe for the Group's expansion in European market**

At the moment, due to the unstable political and economy environment within Europe, the Group has deferred the pace of pursuit of sales agent to expand the European market. Meanwhile, the identification process is undergoing and expected to complete as soon as practicable.

#### **Continue to participate in international conferences and trade exhibitions**

Representatives from the Group attended the following events:

1. 18 – 21/10/2002  
11th Hong Kong International Toys and Gifts Exhibition, Hong Kong.
2. 18 – 21/10/2002  
10th Asian Gifts Premium and Household Products Show, Hong Kong.
3. 29/11/2002 – 02/12/2002  
China (Shenzhen) Consumer Goods Procurement Fair, China.

#### **Continue to organize seminars and workshops for potential customers**

The Group organized several in-house seminars and workshops for potential customers as providing the technical support via the regular customers visits. However, during the year under review, the Group did not engage in any external seminars or workshops for potential customers.

### D. ENHANCEMENT OF RESEARCH AND DEVELOPMENT CAPABILITIES

#### **PCC nanomaterials**

*Commence to develop production techniques to produce PCC nanomaterials for paper industry (expected to be completed in 1 year)*

The Group's own research and development team continues to further enhance the product quality. Since the respective market is very competitive, the Group anticipates there might be more time and resources required in order to produce the appropriate PCC nanomaterials for paper industry.

### **Ceramic fine powder**

*Continue to develop plasma production*

The cooperation with ICMCAS to develop the plasma production technique is still being deferred because the Group has not clearly ensured whether the quality produced from this production technique is satisfied for the quality that the Group expected. Therefore, the Group anticipates more time to analyze the respective production technique before resumption to produce ceramic fine powder via this production technique.

### **SnO<sub>2</sub> nanomaterials**

*Commence to develop production technique to produce (other than SnO<sub>2</sub>) nanomaterials for producing gas sensing devices.*

Due to the complexity of production technique resulted from different technical “know-how” and the unexpected market usage, the Group might change the development schedule according to the actual situation. Meanwhile, the Group is analyzing the new production techniques to produce SnO<sub>2</sub> nanomaterials and new gas sensing devices to detect other poisonous gas.

### **Others**

*Recruit about 4 engineers in the PRC for research and development centre*

The Group has recruited 4 engineers for the R & D center, based on the appropriate needs.

### DIRECTORS

#### Executive directors

**Fung Chiu (馮照)**, aged 67, is the Chairman of the Company and is responsible for the strategic planning, corporate policy and overall management of the Group. He has over 25 years of experience in import and export management in the PRC. He also has 16 years of working experience in corporate management within the building materials industry and textile industry. Mr. Fung first joined the GPCI as a director in 1986. He resigned in 1989 to pursue other business interests. However, with ESN's indirect acquisition of GPCI in 1996, he was re-appointed as the director of GPCI in October 1996. He was appointed as a Director in 13 October 2000.

**Ong Hong Hoon (翁宏文)**, aged 53, is the chief executive of the Group and is responsible for the overall daily management of the Group. He has over 25 years of experience in banking industry and is specialized in retail banking, credit analysis, risk management and strategic planning. He was elected as an associate of The Institute of Bankers in London in 1980. He is presently the vice chairman of The Licensed Money Lenders Association Limited of Hong Kong. He was appointed as the chief executive of the Hong Kong office of the Public Bank Berhad of Malaysia in 1990 and was seconded to Winton Holdings (Bermuda) Limited as an executive director in 1995 and later as its chief executive officer. He has been approved by the People's Bank of China to be a chief representative of the Public Bank Berhad of Malaysia in Beijing between 1993 and 1995. He was also a director of JCG Finance Company Limited from 1995 to 1997. Mr. Ong holds a diploma in management from the Malaysian Institute of Management and a master degree in business administration from Golden Gate University in USA. Mr. Ong joined the Group in January 2001. He was appointed as a Director on 12 January 2001.

**Lian En Sheng (練恩生)**, aged 58, is an executive director of the Company and is responsible for the daily operations of GPCI. Mr. Lian started his career as a mechanical engineer in 1964 and specialized in the mechanical aspects of chemical engineering. He has been working in the chemical industry for over 17 years. He joined GPCI as a director in June 1986. He was appointed as a Director on 13 October 2000.

**Kwong Chun Kau (鄺振球)**, aged 52, is an executive director of the Company and is responsible for sales and marketing. He has over 16 years of experience in industrial and trading expertise management in the PRC. He joined the GPCI as a director in October 1996. He was appointed as a Director on 13 October 2000.

**Chow Chun Kwong (周振光)**, aged 44, is the finance director and compliance officer of the Company and is responsible for the overall financial management of the Group. He has worked for reputable accounting firms in Hong Kong for more than 13 years and had been a financial controller of a manufacturing company for 2 years. He holds a Diploma in Accounting from the Hong Kong Shue Yan College and a Bachelor of Commerce (Banking and Finance) from the Curtin University of Technology, Western Australia. Mr. Chow joined the Group in April 2000. He was appointed as a Director on 13 October 2000.

#### Independent non-executive directors

**Fong Shi Sheung, Anthony (方士驥)**, aged 55, is currently an Associate Professor and Director of Electronic Design Automatic Centre in the Electronic Department of City University of Hong Kong. He is also a visiting Professor at the Institute of Electronics, Chinese Academy of Sciences in Beijing and a member of the Microelectronics Advisory panel at the Hong Kong Industrial Technology Centre. He possesses over 19 years of experience in computer, architecture, design and engineering management gained from leading computer manufacturers in the United States. He currently holds 5 patents in computer engineering in the United States and was appointed as an independent non-executive Director of the Company on 13 October 2000.

## DIRECTORS AND SENIOR MANAGEMENT PROFILES

**Choy Man Fai, Melvin (蔡文輝)**, aged 41, was appointed as the independent non-executive director of the Company and a member of the audit committee. He is presently a director of Meridien Studio Channel. Mr. Choy has over 6 years of designing, advertising, marketing and production experience in the design and printing industry. In addition, he has 4 years of management experience for in-house design and advertising in the hotel industry. He joined the Group in February 2003.

### SENIOR MANAGEMENT

**Chan Guo Rong**, aged 42, is the general manager of the Group and a director of GPCI. He is responsible for GPCI's factory management. He has over 15 years of experience in chemical factory management and joined the Group in 1987. He was appointed a director of GPCI since 1996.

**Jiang Zhi Rong**, aged 46, is the assistant general manager of the Group and a director of GPCI. He is responsible for GPCI's sales and marketing. He has over 21 years of experience in sales and marketing and joined the group in 1990. He was appointed a director of GPCI since 1996.

**Keung Sau Tim**, aged 50, is the marketing director of the Group and is responsible for sales and marketing and business development of the Group. He has over 26 years of experience in production planning, inventory control and quality control. He holds a higher diploma in production engineering and a diploma in management studies from the Hong Kong Polytechnic. He is currently a non-executive director of a Hong Kong listed company engaged in the manufacturing of plastic product. He joined the Group in January 2001.

**Tso Sze Wai, Jackson**, aged 32, is the finance manager and company secretary of the Group. He is responsible for the overall accounting function of the Group. Mr. Tso graduated from the University of New South Wales with a Bachelor of Commerce degree and also holds a graduate diploma in Business Computing from the University of Western Sydney. Prior to joining the Group in December 2002, he was an assistant financial controller of a listed company in Hong Kong. He is a member of the Australian Society of Certified Practising Accountants.

**Yeung Tin Yau, Benedict**, aged 29, is the project manager of the Group. He is responsible for the general administration and management of new projects of the group. He received his Master degree of Science (Hons) in Financial Management and a Bachelor degree of Science (Hons) in Business Studies from UK. He has over 3 years of experience in administration and management before he joined the Group in 2000.

**Chan Sau Han, Edith**, aged 26, is the project coordinator of the Group and is in charge of the group's research and development in Dongguan. She received her Master degree of Philosophy (Hons) in Chemistry and a Bachelor degree of Science (Hons) in Chemistry from Chinese University of Hong Kong. She has 2 years of experience as a teaching assistant of Chinese University of Hong Kong. She joined the Group in 2001.

### EMPLOYEES AND REMUNERATION POLICES

As at 31st December, 2002, the Group employed a total of 340 staff (2001: 320), of which 15 (2001: 15) and 325 (2001: 305) located in Hong Kong and PRC respectively. They were remunerated in line with market conditions and the employee benefits available for eligible employees included year-end payment, mandatory provident fund and medical insurance scheme.

The Group continues to provide various internal on-job training and workshops to the employees in order to improve their courtesy level. The training and workshops concentrate on improving their technical skills and efficiency.

The directors of the Company present their annual report and the audited financial statements for the year ended 31st December, 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 27 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 21 of the annual report.

The directors of the Company do not recommend the payment of a dividend.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

The leasehold land and buildings of the Group were revalued on 31st December, 2002. The surplus arising on revaluation of these properties, which amounted to approximately HK\$433,000, had been credited to the asset revaluation reserve.

During the year, the Group spent, in aggregate, approximately HK\$27 million on the acquisition of property, plant and equipment for the purpose of expanding the Group's business.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

### DIRECTORS

The directors of the Company during the year and up to the date of this report were:

#### Executive directors:

Mr. Fung Chiu  
Mr. Ong Hong Hoon  
Mr. Lian En Sheng  
Mr. Kwong Chun Kau  
Mr. Chow Chun Kwong

#### Independent non-executive directors:

Mr. Fong Shi Sheung, Anthony  
Mr. Tsun Kok Chung, Richard (resigned on 15th January, 2003)  
Mr. Choy Man Fai, Melvin (appointed on 24th February, 2003)

In accordance with clauses 86 and 87 of the Company's Bye-law. Messrs. Fung Chiu and Chow Chun Kwong will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.



## DIRECTORS' SERVICE CONTRACTS

The term of office of each director, including the independent non-executive directors, is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

Each of the executive and independent non-executive directors has entered into a service agreement with the Company for an initial term of two years commencing from 1st January, 2001, and continuing until terminated by not less than three months' notice which notice period shall not expire until the end of the two-year period.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share options scheme as disclosed below, at no time during the year was the Company, or any of its subsidiaries 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 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.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors and their respective associates in the share capital of the Company and its associated corporations as recorded in the register required to be maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares held			
	Personal Interests	Family Interests	Corporate Interests	Other Interests
Mr. Fung Chiu	–	–	–	<i>Note</i>
Mr. Kwong Chun Kau	200,000	–	–	<i>Note</i>

*Note:* 277,600,000 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 or their associates had any interests in any securities of the Company or any of its associated corporations.

### DETAILS OF OPTIONS GRANTED BY THE COMPANY

The Company has terminated its share option scheme adopted on 29th June, 2001 (the "Old Share Option Scheme") and adopted a new share option scheme on 10th May, 2002 (the "New Share Option Scheme"). No option has been granted by the Company under the Old Share Option Scheme. The purpose of the New Share Option Scheme is to enable the Company to grant options to selected individuals to subscribe for shares in the Company as incentives or rewards for their contributions to the Group. The Board may, as its discretion, invite 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 for a consideration of HK\$1 each lot of share option granted.

The total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12 month period up to and including the date of grant of option shall not exceed 1% of the shares in issue. Options granted to substantial shareholders or any of its associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved by the Company's shareholders.

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.

No option was granted by the Company under the New Share Option Scheme during the year.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance show that, the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name	Number of Shares	
	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>Note 2 and 3</i> )	45,000,000	96,750,000

#### Notes:

- Modern World Resources Limited is beneficially owned by Ms. Wong Yau Ming (68.75%), Mr. Fung Chiu (18.75%) and Mr. Kwong Chun Kau (12.5%).
- 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.
- Sues 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 31st December, 2002.

### MANAGEMENT SHAREHOLDERS

So far as the directors are aware, other than those disclosed under the sections headed DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES and SUBSTANTIAL SHAREHOLDERS above, there is no other person who is directly or indirectly interested in 5% or more of the share capital of the Company issued and who is able, as a practical matter, to direct or influence the management 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.

### MAJOR CUSTOMER AND SUPPLIERS

During the year, the five largest suppliers of the Group accounted for approximately 48% of the purchases of the Group and the largest supplier accounted for approximately 13% of the Group's total purchases.

Save as disclosed above, none of the directors, their respective associates and shareholders of the Company (which to the knowledge of the directors own more than 5% of the issued capital of the Company) had any interest in any of the five largest suppliers of the Group for the financial year ended 31st December, 2002.

The aggregate sales attributable to the five largest customers contributed less than 30% of the Group's total sales.

### 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 year.

### BOARD PRACTICES AND PROCEDURES

During the year, the Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### AUDIT COMMITTEE

An audit committee was established on 29th 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 of the Company, namely, Mr. Fong Shi Sheung, Anthony and Mr. Choy Man Fai, Melvin and an executive director of the Company, Mr. Chow Chun Kwong.

During the year, the audit committee held three meetings to review and comment on the Company's quarterly and interim report as well as the Company's internal control procedures.

The Group's audited annual results for the year ended 31st December, 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

### COMPETING INTERESTS

As at 31st December, 2002, none of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

### INTEREST OF SPONSOR

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 31st December, 2002, neither of 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 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.

Pursuant to the agreement dated 6th July, 2001 entered into between the Company and Sponsor, the Sponsor is entitled to receive the sponsorship fee for acting as the Company's continuing sponsor for the period from 17th July, 2001 to 31st December, 2003.

### JOINT AUDITORS

The financial statements were audited by Messrs. Deloitte Touche Tohmatsu and KLL Associates CPA Limited (formerly known as K.L. Lee & Partners C.P.A. Limited). A resolution will be submitted to the annual general meeting of the Company to re-appoint them as joint auditors.

On behalf of the Board

**Fung Chiu**

*Chairman*

Hong Kong, 25th March, 2003

# Deloitte Touche Tohmatsu



Certified Public Accountants  
26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

Suite 1303  
Shanghai Industrial Investment Building  
60 Hennessy Road, Wanchai  
Hong Kong

### TO THE MEMBERS OF GP NANOTECHNOLOGY GROUP LIMITED

廣平納米科技集團有限公司

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 21 to 43 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**DELOITTE TOUCHE TOHMATSU**

*Certified Public Accountants*

**KLL ASSOCIATES CPA LIMITED**

**Lee Ka Leung, Daniel**

Practising Certificate Number 1220

Hong Kong, 25th March, 2003

## CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
Turnover		72,211	79,323
Cost of sales		(42,267)	(42,944)
Gross profit		29,944	36,379
Other revenue		392	413
Distribution costs		(5,469)	(4,377)
Administrative expenses		(30,496)	(17,438)
(Loss) profit from operations	5	(5,629)	14,977
Finance costs	6	(1,281)	(2,041)
(Loss) profit before taxation		(6,910)	12,936
Taxation	8	(1,392)	(1,769)
(Loss) profit before minority interests		(8,302)	11,167
Minority interests		779	81
(Loss) profit attributable to shareholders	9	(7,523)	11,248
(Loss) earnings per share	10	(1.5 cents)	2.6 cents

## CONSOLIDATED BALANCE SHEET

At 31st December, 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
<b>Non-Current Assets</b>			
Property, plant and equipment	11	104,968	80,772
Deposits made for acquisition of investments		–	14,019
		<b>104,968</b>	<b>94,791</b>
<b>Current Assets</b>			
Inventories	13	4,988	3,818
Trade receivables	14	15,370	16,345
Other receivables, deposits and prepayments	15	24,343	6,645
Short term loans receivable		–	19,283
Bank balances and cash		1,998	15,203
		<b>46,699</b>	<b>61,294</b>
<b>Current Liabilities</b>			
Trade payables	16	5,938	4,292
Other payables and accrued charges		10,711	7,517
Obligations under finance leases – due within one year	17	629	–
Amount due to a substantial shareholder	18	470	3,225
Taxation		955	746
Bank and other borrowings – due within one year	19	12,445	9,336
		<b>31,148</b>	<b>25,116</b>
<b>Net Current Assets</b>		<b>15,551</b>	<b>36,178</b>
		<b>120,519</b>	<b>130,969</b>
<b>Capital and Reserves</b>			
Share capital	20	50,000	50,000
Reserves		68,940	76,030
		<b>118,940</b>	<b>126,030</b>
<b>Minority interests</b>		<b>644</b>	<b>1,419</b>
<b>Non-Current Liabilities</b>			
Obligations under finance leases – due after one year	17	935	–
Bank and other borrowings – due after one year	19	–	3,520
		<b>935</b>	<b>3,520</b>
		<b>120,519</b>	<b>130,969</b>

The financial statements on pages 21 to 43 were approved and authorised for issue by the Board of Directors on 25th March, 2003 and are signed on its behalf by:

**Fung Chiu**  
DIRECTOR

**Ong Hong Hoon**  
DIRECTOR



## BALANCE SHEET

At 31st December, 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
<b>Non-Current Asset</b>			
Interests in subsidiaries	12	<u>83,794</u>	<u>92,536</u>
<b>Current Assets</b>			
Other receivables, deposits and prepayments		<u>1,002</u>	<u>3,067</u>
Bank balances		<u>8</u>	<u>6,370</u>
		<u>1,010</u>	<u>9,437</u>
<b>Current Liabilities</b>			
Other payables and accrued charges		<u>1,233</u>	<u>308</u>
Amount due to a substantial shareholder	18	<u>-</u>	<u>10,880</u>
		<u>1,233</u>	<u>11,188</u>
<b>Net Current Liabilities</b>		<u>(223)</u>	<u>(1,751)</u>
		<u><b>83,571</b></u>	<u><b>90,785</b></u>
<b>Capital and Reserves</b>			
Share capital	20	<u>50,000</u>	<u>50,000</u>
Reserves	21	<u>33,571</u>	<u>40,785</u>
		<u><b>83,571</b></u>	<u><b>90,785</b></u>

**Fung Chiu**  
DIRECTOR

**Ong Hong Hoon**  
DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2002

	Share capital HK\$'000	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Special reserve HK\$'000 <i>(Note)</i>	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2000	–	–	–	–	32,226	32,226
Special reserve arising on the Group						
Reorganisation	–	–	–	(7,225)	–	(7,225)
Surplus arising on revaluation	–	–	17,346	–	–	17,346
Premium arising on issue of shares	–	68,300	–	–	–	68,300
Capitalisation for share premium account	31,475	(31,475)	–	–	–	–
Issue of shares and credit nil paid shares issued previously in accordance with Group Reorganisation	7,225	–	–	–	–	7,225
Placing of shares to professional and institutional investors	6,800	–	–	–	–	6,800
Exercise of conversion rights of convertible note	4,500	–	–	–	–	4,500
Expenses incurred in connection with the issue of shares	–	(14,390)	–	–	–	(14,390)
Profit attributable to shareholders	–	–	–	–	11,248	11,248
At 31st December, 2001	50,000	22,435	17,346	(7,225)	43,474	126,030
Surplus arising on revaluation	–	–	433	–	–	433
Loss attributable to shareholders	–	–	–	–	(7,523)	(7,523)
At 31st December, 2002	50,000	22,435	17,779	(7,225)	35,951	118,940

*Note:* The special reserve represents the difference between the nominal value of share of Self Made Holdings Limited (“SMH”) acquired and the nominal value of the Company’s shares issued for the acquisition at the time of the Group Reorganisation.

## CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31st December, 2002

	2002 HK\$'000	2001 HK\$'000
<b>OPERATING ACTIVITIES</b>		
(Loss) profit before taxation	(6,910)	12,936
Adjustments for:		
Interest income	(77)	(319)
Interest expense	1,235	2,041
Finance charges on finance leases	46	–
Allowance for bad and doubtful debts	3,315	1,792
Depreciation and amortisation	3,332	2,233
Operating cash flows before working capital changes	941	18,683
(Increase) decrease in inventories	(1,170)	5,817
(Increase) decrease in trade receivables	(2,340)	918
(Increase) decrease in other receivables, deposits and prepayments	(3,679)	1,368
Increase (decrease) in trade payables	1,646	(1,376)
Increase (decrease) in other payables and accrued charges	3,194	(2,624)
Cash (used in) generated from operating activities	(1,408)	22,786
PRC enterprise income tax paid	(1,183)	(3,032)
Interest paid	(1,235)	(2,041)
Finance charges on finance lease paid	(46)	–
Interest received	77	319
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(3,795)</b>	<b>18,032</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of plant, property and equipment	(25,531)	(39,189)
Decrease (increase) in short term loans receivable	19,283	(19,283)
Investment deposits paid	–	(14,019)
Amount repaid from a related company	–	15,982
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(6,248)</b>	<b>(56,509)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	–	54,400
Proceeds from issue of convertible note	–	25,200
New borrowings raised	8,739	6,308
(Repayment to) advance from a substantial shareholder	(2,755)	3,225
Capital contributed from minority shareholders	4	1,500
Repayment of borrowings	(9,150)	(22,869)
Expenses paid in connection with the issue of shares	–	(14,390)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(3,162)</b>	<b>53,374</b>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,205)	14,897
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,203	306
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR,</b> represented by bank balances and cash	<b>1,998</b>	<b>15,203</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17th 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 the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 17th April, 2001.

The shares of the Company were listed on the GEM of the Stock Exchange on 17th July, 2001.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

Details of the Group Reorganisation are set out in the prospectus dated 9th July, 2001 issued by the Company. The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with the entire share of SMH.

### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, and in the adoption of the following new and revised accounting policies.

#### Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

#### Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and taxation, which were previously presented under a separate heading, are now classified as operating cash flows. Cash flows arising from taxes on income are now classified as operating activities, unless they can be separately identified with investing or financing activities.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (continued)

#### Employee benefits

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any impact on the financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold land and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group are eliminated on consolidation.

#### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### Turnover

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

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the land use rights
Buildings	Over the term of the land use rights or 50 years, whichever is shorter
Plant and machinery	10%
Leasehold improvements	10%
Motor vehicles	25%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Construction in progress

Construction in progress is stated at cost, which includes land cost and the related construction and borrowings costs, as appropriate. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life when the project is completed and put into commercial use.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liabilities to the lessor, net of interest charges, are included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

#### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

#### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserves. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Retirement benefits schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the retirement schemes.

### 4. SEGMENT INFORMATION

For the year ended 31st December, 2002 and 2001, the Group was principally engaged in the manufacture and sale of nanomaterial products. All of the Group's turnover, contribution to operating profit and assets was attributed to this business segment which is located in the People's Republic of China (the "PRC").

### 5. (LOSS) PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff costs		
Directors' remuneration ( <i>note 7</i> )	3,093	2,790
Other staff:		
Basic salaries and allowances	8,062	7,103
Retirement benefits scheme contributions	591	385
	<u>11,746</u>	<u>10,278</u>
Auditors' remuneration		
Current year	550	550
Underprovision in previous years	–	333
Allowance for bad and doubtful debts	3,315	1,792
Depreciation and amortisation	3,332	2,233
Research and development costs	647	597
and after crediting:		
Interest income	<u>77</u>	<u>319</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 6. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	1,235	2,041
Finance lease	46	–
	<u>1,281</u>	<u>2,041</u>

### 7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Independent non-executive directors		
Fees	50	300
Executive directors		
Salaries and other benefits	3,007	2,458
Retirement benefits scheme contributions	36	32
	<u>3,043</u>	<u>2,490</u>
Total directors' emoluments	<u>3,093</u>	<u>2,790</u>

For the year ended 31st December, 2002, the executive directors received emoluments of approximately HK\$1,032,000, HK\$836,000, HK\$684,000, HK\$252,000 and HK\$240,000 respectively and the independent non-executive directors received emoluments of approximately HK\$50,000 and nil respectively.

For the year ended 31st December, 2001, the executive directors received emoluments of approximately HK\$948,000, HK\$684,000, HK\$490,000, HK\$200,000 and HK\$168,000 respectively and the independent non-executive directors received emoluments of approximately HK\$150,000 and HK\$150,000 respectively.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (continued)

#### (b) Employees' emoluments

Of the five highest paid individuals in the Group, three (2001: three) were directors of the Company, whose remuneration are set out in (a) above. The emoluments of the remaining two (2001: two) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	840	659
Retirement benefits scheme contributions	23	23
	<u>863</u>	<u>682</u>

The aggregate emoluments of each of the individuals during 2002 and 2001 were below HK\$1,000,000.

During each of the two years ended 31st December, 2002, no emoluments were paid by the Group to the five highest paid individuals, including directors of the Company, as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31st December, 2002, three (2001: four) directors waived emoluments of approximately HK\$378,000 (2001: HK\$492,000).

### 8. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
PRC enterprise income tax	<u>1,392</u>	<u>1,769</u>

Pursuant to the relevant laws and regulations in the PRC, Guang Ping Chemical Industrial Enterprise Co. Ltd. ("GPCI"), one of 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 20th 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 31st December, 1998 was the first profit making year, and accordingly, the year ended 31st December, 1999 was the last year that GPCI was entitled to tax exemption, and the year ended 31st December, 2000 was the first year that the subsidiary is entitle to a 50% reduction from PRC enterprise income tax. The charge for the year ended 31st December, 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 in the financial statements as the companies operating in Hong Kong did not have any estimated assessable profit.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 9. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's (loss) profit attributable to shareholders, a loss of approximately HK\$7,214,000 (2001: loss of approximately HK\$3,577,000) has been dealt with in the financial statements of the Company.

### 10. (LOSS) EARNINGS PER SHARE

The calculation of the loss per share for the year ended 31st December, 2002 is based on the loss attributable to shareholders of HK\$7,523,000 and on the 500,000,000 shares that would have been in issue throughout the year.

The calculation of the basic earnings per share for the year ended 31st December, 2001 is based on the profit attributable to shareholders of HK\$11,248,000 and on the weighted average number of 440,808,904 shares that would have been in issue throughout the year as if the Company had been the holding company of the Group since the beginning of the year.

### 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2002	45,000	27,040	1,550	1,311	28,249	103,150
Additions	–	6,170	2,490	–	18,435	27,095
Transfer	–	42,504	–	–	(42,504)	–
Deficit on revaluation	(600)	–	–	–	–	(600)
At 31st December, 2002	44,400	75,714	4,040	1,311	4,180	129,645
Comprising:						
At cost	–	75,714	4,040	1,311	4,180	85,245
At valuation – 2002	44,400	–	–	–	–	44,400
	44,400	75,714	4,040	1,311	4,180	129,645
DEPRECIATION AND AMORTISATION						
At 1st January, 2002	–	19,835	1,298	1,245	–	22,378
Provided for the year	1,033	2,062	186	51	–	3,332
Eliminated on revaluation	(1,033)	–	–	–	–	(1,033)
At 31st December, 2002	–	21,897	1,484	1,296	–	24,677
NET BOOK VALUES						
At 31st December, 2002	44,400	53,817	2,556	15	4,180	104,968
At 31st December, 2001	45,000	7,205	252	66	28,249	80,772

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 11. PROPERTY, PLANT AND EQUIPMENT (continued)

The leasehold land and buildings of the Company are situated in the PRC and held under long term land use rights.

The leasehold land and buildings of the Group were revalued as at 31st December, 2002 on the open market value basis by BMI Appraisals Limited, an independent firm of professional valuers. The surplus arising on revaluation has been credited to the asset revaluation reserve.

Had leasehold land and buildings been carried at historical cost less accumulated depreciation and amortisation, the carrying value of leasehold land and buildings would have been HK\$27,049,000 (2001: HK\$27,654,000).

### 12. INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	29,152	29,152
Amounts due from subsidiaries	54,642	63,384
	<b>83,794</b>	<b>92,536</b>

The cost of investment in subsidiaries reflects the underlying net asset values of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors of the Company, repayment by the subsidiaries will not be made within the next twelve months from the balance sheet date and are accordingly classified as non-current.

Particulars of the principal subsidiaries of the Company at 31st December, 2002 are set out in note 27.

### 13. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	3,135	1,484
Work in progress	373	165
Finished goods	1,480	2,169
	<b>4,988</b>	<b>3,818</b>

Included above are raw materials of approximately HK\$437,000 and finished goods of approximately HK\$336,000 which are carried at net realisable value.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 14. TRADE RECEIVABLES

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

The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts at the reporting date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	4,800	4,932
31 – 60 days	3,168	3,532
61 – 90 days	2,657	2,476
Over 90 days	4,745	5,405
	<b>15,370</b>	<b>16,345</b>

### 15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Deposits made for acquisition of investment ( <i>note</i> )	14,019	–
Prepayments	7,632	5,033
Deposits	1,260	345
Others receivables	725	534
Advances to staff	579	559
Utilities deposits	128	174
	<b>24,343</b>	<b>6,645</b>

*Note:*

The deposits amounted to RMB15,000,000 (equivalent to approximately HK\$14,019,000) in aggregate comprising:

- deposit of RMB7,000,000 paid pursuant to a letter of intent entered into between GPCI and 黑龍江百利豪建設發展有限公司 (“Heilongjiang Party”) for a acquisition of 黑龍江華龍超細重鈣廠. The proposed acquisition had fallen through as certain major commercial terms could not be reached between the Heilongjiang Party and the Group. The Group had agreed with the Heilongjiang Party for entering into a cancellation agreement dated 8th October, 2002 to terminate the letter of intent and repay the deposit by three installments within a period of seven months after the date of the cancellation agreement with the first installment of RMB2,000,000 due on the first three months, second installment of RMB2,000,000 due on the next two months and the third installment of the remaining RMB3,000,000 due on two months thereafter.

Pursuant to the cancellation agreement, the due date for the first installment of RMB2,000,000 payable by the Heilongjiang Party should be on 8th January, 2003. However, the Heilongjiang Party failed to repay the first installment and the Group instructed its PRC legal adviser to issue a demand note. On 7th February, 2003, the Group received the repayment together with late chargeable interest in the sum of RMB2,020,000 from the Heilongjiang Party.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

- (2) deposit of RMB8,000,000 paid pursuant to an agency agreement entered into between GPCI and 廣東省恩平市經委科技服務中心 (“Enping Party”) for acquisition of 恩平市橫坡鎮碳酸鈣廠. Pursuant to the agency agreement, if no formal agreement is entered into within the period between 28th November, 2001 and 30th September, 2002 (“Effective Period”), the agency agreement will automatically be terminated. On 30th September, 2002, a supplemental agreement was entered into between GPCI and Enping Party for an extension of the Effective Period for negotiation to 30th September, 2003.

### 16. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	1,654	1,392
31 – 60 days	1,299	675
61 – 90 days	1,611	969
Over 90 days	1,374	1,256
	<b>5,938</b>	<b>4,292</b>

### 17. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The obligations under finance leases are repayable as follows:				
Within one year	697	–	629	–
In the second to fifth year	1,040	–	935	–
	<b>1,737</b>	–	<b>1,564</b>	–
Less: future finance charges	(173)	–	N/A	N/A
	<b>1,564</b>	–	<b>1,564</b>	–
Less: Amount due within one year and shown under current liabilities			(629)	–
Amount due after one year			<b>935</b>	–

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 3 years. For the year ended 31st December, 2002, the average effective borrowing rate was 4.4%. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 18. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER

The balance represents the amount due to Modern World Resources Limited which is unsecured, non-interest bearing and repayable on demand.

### 19. BANK AND OTHER BORROWINGS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Secured bank loans	8,645	9,112
Unsecured other loans	3,800	3,744
	<b>12,445</b>	<b>12,856</b>
The above amounts are repayable as follows:		
Within one year	12,445	9,336
Between one and two years	–	3,520
	<b>12,445</b>	<b>12,856</b>
Less: Amount due within one year and shown under current liabilities	12,445	9,336
Amount due after one year	–	3,520

Other loans bear interest at a range from 5% to 15% per annum.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 20. SHARE CAPITAL

	Number of ordinary shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At time of incorporation	1,000,000	100
Increase in authorised share capital	4,999,000,000	499,900
	<u>5,000,000,000</u>	<u>500,000</u>
At 31st December, 2001 and 31st December, 2002		
Issued and fully paid:		
Issue of shares to initial subscribers	1,000,000	–
Issue of shares and credit nil paid shares issued previously in accordance with the Group Reorganisation	71,250,000	7,225
Issue of shares by capitalisation of the share premium account	314,750,000	31,475
Placing of shares to professional and institutional investors	68,000,000	6,800
Exercise of conversion rights of convertible note	45,000,000	4,500
	<u>500,000,000</u>	<u>50,000</u>
At 31st December, 2001 and 31st December, 2002		

The Company was incorporated on 17th July, 2000 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each which were allotted and issued for nil paid to the subscribers on 13th October, 2000.

Pursuant to written resolutions of the then shareholders of the Company passed on 9th April, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of an additional 4,999,000,000 shares of HK\$0.10 each.

On 17th April, 2001, pursuant to the Group Reorganisation, the then shareholders of SMH, the previous holding company of the Group, transferred the entire share capital in SMH to the Company, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 71,250,000 new shares to the then shareholders and (ii) credited as fully paid at par the 1,000,000 allotted and issued nil paid on 13th October, 2000.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 20. SHARE CAPITAL (continued)

Pursuant to written resolutions passed by the then shareholders of the Company on 29th June, 2001:

- (i) the Company issued 68,000,000 new shares of HK\$0.10 each at a price of HK\$0.80 per share on 17th July, 2001 by way of placing of new shares to professional and institutional investors; and
- (ii) an amount of HK\$31,475,000 was capitalized from the share premium account arising from the issue of the 68,000,000 shares as mentioned in (i) above in paying up in full at par 314,750,000 shares of HK\$0.10 each in the Company for allotment and issue to shareholders on the register of members at the close of business on 29th June, 2001 in proportion to their then existing shareholdings.

On 4th May, 2001, the Company issued a convertible note to Suez Asia Holdings Pte. Limited ("Suez Asia") pursuant to a subscription agreement dated 9th April, 2001 and a supplemental deed dated 3rd July, 2001 entered into among other parties, Suez Asia and the Company. Pursuant to the terms of the convertible note, the principal amount of HK\$25.2 million is automatically converted into the Company's shares on the day preceding the date of the listing of the Company on the GEM of the Stock Exchange. On 12th July, 2001, the Company allotted and issued 45,000,000 new shares of HK\$0.10 each, credited as fully paid up, to Suez Asia.

All existing shares issued by the Company during the period rank pari passu in all respects.

### 21. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
Contributed surplus arising on the				
Group Reorganisation	–	21,927	–	21,927
Premium arising on issue of shares	68,300	–	–	68,300
Capitalisation of share premium account	(31,475)	–	–	(31,475)
Expenses incurred in connection with				
the issue of shares	(14,390)	–	–	(14,390)
Loss for the year	–	–	(3,577)	(3,577)
At 31st December, 2001	22,435	21,927	(3,577)	40,785
Loss for the year	–	–	(7,214)	(7,214)
At 31st December, 2002	22,435	21,927	(10,791)	33,571

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 21. RESERVES (continued)

Note:

The contributed surplus represents the difference between the consolidated shareholder's funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at the balance sheet date consisted of contributed surplus less deficit totalling HK\$11,136,000 (2001: HK\$18,350,000).

### 22. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$1,564,000.

### 23. COMMITMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>2,481</u>	<u>1,439</u>

In addition, at 31st December, 2002, the Group had commitments to pay approximately HK\$1,904,000 (2001: HK\$1,904,000) to various universities and research centres in the PRC for the development of new products.

The Company had no capital and other commitments at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 24. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Minimum lease payments paid under operating leases in respect of properties during the year	<u>2,243</u>	<u>2,399</u>

At the balance sheet dates, the Group had commitments for future minimum leases payments under non-cancellable operating leases which fall due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	1,925	1,627
In the second to fifth year inclusive	<u>2,947</u>	<u>4,206</u>
	<u>4,872</u>	<u>5,833</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and factory. Leases are negotiated and rentals are fixed for an average of five years.

The Company had no operating lease commitments at the balance sheet date.

### 25. PLEDGE OF ASSETS

At 31st December, 2002, certain of the Group's leasehold land and buildings amounting to HK\$19,320,000 (2001: HK\$19,600,000) were pledged to a bank to secure banking facilities granted to the Group.

### 26. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

GPCI has, in compliance with the applicable regulations of the PRC, participated in retirement benefits scheme operated by the relevant local government authorities. The Group is required to make contribution on behalf of employees who are registered permanent residents in the PRC.

The total cost charged to the income statement of HK\$627,000 (2001: HK\$417,000) represents contributions payable to the schemes by the Group at rates specified in rules of the schemes.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 27. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Kind of legal entity	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Ever Innovation Limited	Limited company	British Virgin Islands	US\$642,000	–	70%	Investment holding
GP Nano Composite Materials Limited	Limited company	Hong Kong	HK\$5,000,000	–	70%	Manufacture and sale of nano composite materials
GP Nano Specialty Textiles Limited	Limited company	Hong Kong	HK\$10,000	–	60%	Not yet commenced business
GP NanoTechnology Holdings Limited	Limited company	Hong Kong	HK\$100	–	100%	Provision of sales, research and development of nanomaterials
GP Nano (H.K.) Limited	Limited company	Hong Kong	HK\$100	–	100%	Provision of administration and management services to group companies
GP Nano Investments Limited ("GPN")	Limited company	British Virgin Islands	US\$1	100%	–	Investment holding
SMH	Limited company	British Virgin Islands	US\$1	100%	–	Investment holding
GP Nano Industrial Holdings Limited	Limited company	British Virgin Islands	US\$1	100%	–	Investment holdings
廣平化工實業有限公司 Guang Ping Chemical Industrial Enterprise Co. Ltd.	Wholly-owned foreign investment enterprise with limited liability	PRC	US\$5,100,000	–	100%	Manufacture and sale of nanomaterials

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 27. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of company	Kind of legal entity	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
恩平廣科隆特種陶瓷粉體有限公司	Wholly-owned foreign investment enterprise with limited liability	PRC	US\$700,000	-	100% (note i)	Manufacture and sale of ceramic materials
恩平廣洋納米電子實業有限公司	Limited liability cooperative joint venture enterprise	PRC	US\$700,000	-	100% (note ii)	Manufacture and sale of gas sensing device

**Note:**

- (i) 恩平廣科隆特種陶瓷粉體有限公司 was established as a foreign investment enterprise wholly-owned by the Group for a term of 15 years commencing 18th April, 2002. Pursuant to a management agreement entered into between GPNI and 沈陽市科陶超細微粉研究所, 沈陽市科陶超細微粉研究所 is entitled to 20% of the net profit or loss of 恩平廣科隆特種陶瓷粉體有限公司 throughout the entire joint venture period.
- (ii) 恩平廣洋納米電子實業有限公司 was established as a limited liability cooperative joint venture enterprise for a term of 15 years commencing 27th February, 2002. Pursuant to a cooperative joint venture agreement entered into between GPNI and 西安廣洋納米電子實業有限公司, GPNI contributed all of the registered capital of 恩平廣洋納米電子實業有限公司 but 西安開洋納米科技有限責任公司 is entitled to 20% of the net profit or loss of 恩平廣洋納米電子實業有限公司 throughout the entire cooperative joint venture period.

None of the subsidiaries had any debt capital subsisting at the end of the year or at any time during the year.

## FINANCIAL SUMMARY

### RESULTS

	Year ended 31st December,				
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Turnover	48,676	62,793	67,290	79,323	<b>72,211</b>
Cost of sales	<u>(26,236)</u>	<u>(35,004)</u>	<u>(36,382)</u>	<u>(42,944)</u>	<u><b>(42,267)</b></u>
Gross profit	22,440	27,789	30,908	36,379	<b>29,944</b>
Other revenue	3,158	99	167	413	<b>392</b>
Distribution costs	(3,955)	(6,100)	(5,499)	(4,377)	<b>(5,469)</b>
Administrative expenses	<u>(7,353)</u>	<u>(4,802)</u>	<u>(6,811)</u>	<u>(17,438)</u>	<u><b>(30,496)</b></u>
Profit (loss) from operations	14,290	16,986	18,765	14,977	<b>(5,629)</b>
Finance costs	<u>(4,845)</u>	<u>(3,505)</u>	<u>(2,778)</u>	<u>(2,041)</u>	<u><b>(1,281)</b></u>
Profit (loss) before taxation	9,445	13,481	15,987	12,936	<b>(6,910)</b>
Taxation	<u>–</u>	<u>–</u>	<u>(2,150)</u>	<u>(1,769)</u>	<u><b>(1,392)</b></u>
Profit (loss) before minority interests	9,445	13,481	13,837	11,167	<b>(8,302)</b>
Minority interests	<u>–</u>	<u>–</u>	<u>–</u>	<u>81</u>	<u><b>779</b></u>
Profit (loss) attributable to shareholders	<u><u>9,445</u></u>	<u><u>13,481</u></u>	<u><u>13,837</u></u>	<u><u>11,248</u></u>	<u><u><b>(7,523)</b></u></u>

## FINANCIAL SUMMARY

### BALANCE SHEET

	At 31st December,		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Non-current assets	26,470	94,791	104,968
Current assets	52,991	61,294	46,699
Current liabilities	(35,005)	(25,116)	(31,148)
	<u>44,456</u>	<u>130,969</u>	<u>120,519</u>
Share Capital	–	50,000	50,000
Reserves	<u>32,226</u>	<u>76,030</u>	<u>68,940</u>
Shareholders' funds	32,226	126,030	118,940
Minority interests	–	1,419	644
Non-current liabilities	<u>12,230</u>	<u>3,520</u>	<u>935</u>
	<u>44,456</u>	<u>130,969</u>	<u>120,519</u>

*Notes:*

1. The Company was incorporated in Bermuda on 17th July, 2000 and became the holding company of the Group with effect from 17th April, 2001 as a result of a group reorganisation. Accordingly, the only balance sheets for the Group that have been prepared are those set out above.
2. The results of the Group for each of the three years ended 31st December, 2000 presented above have been extracted from the Company's prospectus dated 9th July, 2001 when listing of the Company's shares was sought on the GEM of the Stock Exchange.
3. The results of the Group for each of the two years ended 31st December, 2002 have been extracted from the consolidated income statement as set out on page 21 of the financial statements.

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting (the “Meeting”) of GP NanoTechnology Group Limited (the “Company”) will be held at Room 2408, Lippo Centre, Tower 2, 89 Queensway, Hong Kong on Monday, 12th May, 2003 at 10:00 am for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2002;
2. To re-elect retiring directors and authorize the board of directors (the “Board”) to fix their remuneration;
3. To re-appoint auditors and authorize the Board to fix their remuneration; and

as special business to consider and, if thought fit, to pass with or without modification the following as ordinary resolutions of the Company:

4. **“THAT:**
  - (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
  - (ii) the approval in paragraph (i) of this resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;
  - (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Right Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any ordinary share option scheme adopted by the Company, or (c) any scrip dividend scheme or similar arrangements providing for allotment and issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company in force from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and
  - (iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;



- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Company Act 1981 of Bermuda (as amended) or any applicable laws to be held; and
- (c) the date on which the authority set out for in this resolution is revoked or varied by an ordinary resolution passed by the members of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

5. **“THAT:**

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to repurchase issued securities on GEM or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in accordance with all applicable laws and/or the requirements of the Securities and Futures Commission of Hong Kong, the Rules Governing the Listing of Securities on GEM or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of securities of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (i) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue and the number of the relevant class of other securities of the Company as at the date of the passing of this resolution, and this approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Company Act 1981 of Bermuda (as amended) or any applicable laws to be held; and
- (c) the date on which the authority set out for in this resolution is revoked or varied by an ordinary resolution passed by the members of the Company in general meeting.”

## NOTICE OF ANNUAL GENERAL MEETING

6. “**THAT** conditional upon ordinary resolutions nos. 4 and 5 above being passed, the aggregate nominal amount of securities of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution no. 5 above shall be added to the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to ordinary resolution no. 4 above provided that such amount of securities repurchased by the Company shall not exceed 10% of the aggregate nominal amount of issued share capital as at the date of the passing of this resolution.”

*Head Office and Principal Place of Business:*

Room 2408 Lippo Centre, Tower 2  
89 Queensway  
Hong Kong

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

By Order of the Board

**Fung Chiu**  
*Chairman*

Hong Kong, 25th March, 2003

*Notes:*

- (i) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the meeting or any adjourned meeting.
- (iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) An Explanatory Statement containing further details regarding ordinary resolution no. 5 as required by the Rules Governing the Listing of Securities on GEM will be dispatched to the members of the Company together with the annual report of the Company for the year ended 31st December, 2002.