



GP Nano Technology Group Limited

(Incorporated in Bermuda with limited liability)

First Quarterly Report 2003

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

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This report, for which the directors (the “Directors”) of GP NanoTechnology Group Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “Gem Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

QUARTERLY RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2003, together with the comparative figures for the corresponding period in 2002 as follows:

Consolidated Income Statement

	Note	Three months ended	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	2	9,644	19,515
Cost of sales		(6,872)	10,375
Gross profit		2,772	9,140
Other revenue		32	33
Distribution costs		(1,370)	(1,069)
Administrative expenses		(6,582)	(4,275)
(Loss)/Profit from operation		(5,148)	3,829
Finance costs		(408)	(314)
Provision for deposit on investment		(4,673)	–
(Loss)/Profit before taxation		(10,229)	3,515
Taxation	3	–	(475)
(Loss)/Profit before minority interests		(10,229)	3,040
Minority interest		192	40
(Loss)/Profit attributable to shareholders		(10,037)	3,080
Dividends		–	–
(Loss)/Earnings per share – Basic (<i>cents</i>)	4	(2.01)	0.62

Notes:

1. Basis of preparation

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

The consolidated financial statements for the period from 1 January 2003 to 31 March 2003 are unaudited and have been reviewed by the audit committee of the Company.

2. Turnover

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances by the Group, to outside customers during the three months ended 31 March 2003.

3. Taxation

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), Guang Ping Chemical Industrial Enterprise Co. Ltd ("GPCI"), the Company's PRC subsidiary, is entitled to exemption from PRC enterprise income tax for two years commencing from its first profit-making year of operations, followed by a 50% reduction from PRC enterprise income tax for the next three years. In addition, pursuant to an approval received from local tax authorities on 20 November 2001, GPCI was classified as one of the approved "High Technology Entities". Accordingly, GPCI is entitled to a preferential PRC income tax rate of 15 %.

The Enping tax bureau has confirmed that the year ended 31 December 1998 was the first profit marking year, and accordingly, the year ended 31 December 1999 was the last year that GPCI was entitled to tax exemption, and the year ended 31 December 2000 was the first year that the subsidiary is entitled to a 50% reduction from PRC enterprise income tax. The charge for the three months ended 31 March 2002 represents provision for PRC enterprise income tax at the reduced rate of 7.5% on GPCI's estimated assessable profit. No provision for income tax has been made for the subsidiary for the three months ended 31 March 2003 as it has no taxable income during the period.

No provision for, Hong Kong Profits Tax has been made for the three months ended 31 March 2003, as the companies operation in Hong Kong did not have any estimated assessable profit.

There was no significant unprovided deferred taxation during the three months ended 31 March 2003.

4. (Loss)/Earnings per share

The calculation of the (loss)/earnings per share for the three months ended 31 March 2003 and 2002 were based on the unaudited consolidated loss attributable to the shareholders of approximately HK\$10 million (three months ended 31 March 2002 profit attributable to the shareholders of approximately HK\$3.08 million) and the weighted average number of 500,000,000 shares for the three months ended 31 March 2003 and 2002.

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

5. Reserve

There has been no movement in the reserves of the Group except for the (loss) and profit recognized for the three months ended 31 March 2003 and 2002.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (three months ended 31 March 2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial performance

For the three months ended 31 March 2003, the Group's turnover amounted to approximately HK\$9.64 million, representing with a decrease of 50.58% compared to the same period in 2002. The decrease in turnover for the period was due to the lacklustre in the sales of the Group's products and fierce competition within the same industry. For the three months ended 31 March 2003, the Group's gross profit amounted to approximately HK\$2.77 million, representing a decrease of 69.97% compared to the same period in 2002.

For the three months ended 31 March 2003, the loss attributable to shareholders amounted to approximately HK\$10 million, representing a variance of 425.88% compared to the same period in 2002. Gross profit margin representing a decrease of 18.10% for the three months ended 31 March 2003. The decrease in gross profit, was mainly due to the increasing production cost and fierce competition that indirectly narrows the space of pricing strategy for the Group's products.

Business review

During the period under review, the Group maintained the sales of PCC nanomaterials and the nanofilled PP composite materials. Although, the application scopes of PCC nanomaterials are wide and open, plus the fact that the nanofilled PP composite materials are undergoing the expanding stage of its product cycle, the Group consequentially require more resources to fully explore its respective market share. However, the overall market situation is not prosperous and the economy recovery pace is still static. Therefore, the Group anticipates that the really "kick start" moment of the products will be deferred to the coming quarters of 2003.

Furthermore, the strong competition of respective industry also becomes another major contribution to the Group's loss within the corresponding period. Likewise, the turndown on certain potential projects after careful assessment on the financial return, market acceptance of the product led the Group to further input more resources on the research and development activities of existing products. However, the Group still anticipates the market of PCC nanomaterials and composite materials are still prosperous and encouraging.

Production

The Group's core products on PCC nanomaterials and the nanofilled PP composite materials are undergoing stable market penetration and development. Although the further up-scaling process encountered in the previous quarters brought in positive effects that greatly improve the product quality and the efficiency of the production process. However, the overall market hinders the expansion of the market penetration. Furthermore, the Group is facing strong competition from respective industry. Therefore, the Group devotes more resources on the research and development on the products quality.

The production line of ceramic fine powder is continuing to look for appropriate chemical additives for perfecting the product. In addition, the Group anticipates the further enhancement can improve the quality and aiming for bigger market acceptance. As for the development of the production line of SnO₂ nanomaterials and gas sensing devices for detecting carbon monoxide, alcohol and smoke is still progressing.

Research and development

The co-operation agreement between the Group and the Hong Kong University of Science and Technology ("HKUST"), regarding the research and development of the nanofilled PP composite materials is continuing to progress. In the meantime, the HKUST also concentrates in developing different composing technical "know how" to develop different composite polymers. During the period under review, the Group's own research and development office in Dongguan concentrates on the development of nanofilled SBS composite materials for potential markets.

Prospect

The radical economic atmosphere embeds around the globe that indirectly hampers the emergence and expansion of the Group. The Group now concentrates on the development of the nanofilled PP composite materials and the nanofilled SBS composite materials. This is due to the wide application and huge potential income that can be brought to the Group in long run.

In addition, the pursuit of appropriate chemical additive in relation to the production of ceramic fine powder, is undergoing the final stage of selection and elimination. Therefore, the Group anticipates that the ceramic fine powder will be launched to the market in the near future. Furthermore, the SnO₂ nanomaterials and gas sensing devices are predominately targeted for the household and industrial market due to its high selectivity and sensitivity. In order to fit in line with the China government program for the usage of gas sensing devices, the Group will focus on further enhancing the product quality. Therefore, the Directors anticipate that Group's future development is still strong and prosperous

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 March 2003, the interests of the Directors and chief executive of the Company in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Note:

277,600,000 shares are owned by Modern World Resources Limited and Solidbase Holdings Limited.

Modern World Resources Limited is beneficially owned as to 68.75% by Ms. Wong Yau Ming, as to 18.75% by Mr. Fung Chiu and as to 12.5% by Mr. Kwong Chun Kau.

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

Other than as disclosed above as at 31 March 2003, none of the Directors and chief executive of the Company or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance on which required, pursuant to Rule 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Other than as disclosed above, as at 31 March 2003, neither the Company nor any of its subsidiaries was party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of the Directors and chief executive of the Company or their respective associates, the register of substantial shareholders maintained under the section 16(1) of the SDI Ordinance shows that as at 31 March 2003, the Company had the following substantial shareholder's interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of Shares	
	Direct interest	Deemed interest
Modern World Resources Limited (<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:

1. Modern World Resources Limited is beneficially owned as to 68.75% by Ms. Wong Yau Ming, as to 18.75% by Mr. Fung Chiu and as to 12.5% by Mr. Kwong Chun Kau.
2. Solidbase Holdings Limited is beneficially owned by Full Joy Management Limited. Full Joy Management Limited is owned as to 99.99% by Modern World Resources Limited and 0.01% by Suez Asia. The sole director of Full Joy Management Limited is nominated by Suez Asia.
3. Suez Asia has right to nominate the sole director of Full Joy Management Limited and accordingly, Suez Asia is deemed to be interested in 96,750,000 shares of the Company held by Solidbase Holdings Limited.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 March 2003.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, the following persons, the following persons are individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of the Company and who are able, as a practicable manner, to direct or influence the management of the Company or considered to be the management shareholder of the Company:

Name of shareholder	Number of Shares held
Modern World Resources Limited (<i>Note 1</i>)	180,850,000
Solidbase Holdings Limited (<i>Note 2</i>)	96,750,000

Notes:

1. Mr. Fung Chiu and Mr. Kwong Chun Kau, executive directors of the Company, is the beneficial owner of 18.75% and 12.5% respectively of the issued share capital of Modern World Resources Limited.
2. Solidbase Holdings Limited is 100% owned by Full Joy Management Limited who is 99.99% owned by Modern World Resources Limited.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

The Company has terminated its share option scheme adopted on 29 June 2001 (the "Old Share Option Scheme") and adopted a new share option scheme on its 2001 annual general meeting on 10 May 2002 (the "New Share Option Scheme"). No option has been granted by the Company consider under the Old Share Option Scheme. Pursuant to the New Share Option Scheme, details of which have been set out in a circular of the Company to its shareholders dated 28 March 2002, any individual being employee, officer or consultant of the Group, including any executive or non-executive director of the Company and its subsidiaries may be granted options to subscribe for the shares of the Company.

Up to three months ended 31 March 2003, no option was granted by the Company under the New Share Option Scheme.

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

As the Company only became a listed Company on 17 July 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2003.

INTEREST OF SPONSOR

As notified by the Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (the "Sponsor"), as at 31 March 2003, 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 6 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 17 July 2001 to 31 December 2003.

Shenyin Wanguo Capital (H.K.) Limited (the “Sponsor”) has resigned as the on-going sponsor to the Company with effect from 12 May 2003. The Board will use its best endeavour to appoint a new sponsor for the Company as soon as practicable so as to comply with the Rules 6.63 of the Rules (“GEM Listing Rules”) Governing the Listing of Securities on the Growth Enterprise Market. Upon the signing of a new sponsors agreement, the Company will make a further announcement regarding this issue.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules on GEM since its shares having been listed on GEM.

COMPETING INTERESTS

As at 31 March 2003, 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.

AUDIT COMMITTEE

An audit committee was established on 29 June 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors of the Company, namely, Mr. Feng Hui Liu, and Mr. Choy Man Fai, Melvin and executive Director, Mr. Chow Chun Kwong. The Group’s unaudited first quarterly results for the three months ended 31 March 2003 have been reviewed by the audit committee, who was of the opinion that such results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

By Order of the Board

Fung Chiu

Chairman

Hong Kong, 13 May, 2003