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*This announcement, for which the directors (including the independent non-executive directors) of GP NanoTechnology Group Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) of the Stock Exchange for the purpose of giving information with regard to GP NanoTechnology Group Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## **GP NanoTechnology Group Limited**

**廣平納米科技集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

### **CLARIFICATION ANNOUNCEMENT**

This announcement is made at the request of the Stock Exchange.

Reference is made to the announcement dated 14 January, 2003 issued by GP NanoTechnology Group Limited (the “**Company**” or the “**Group**”), the board of Directors of the Company (the “**Board**”) would like to provide detailed information and update the latest development to potential investors and shareholders of the Company regarding a complaint against the Company alleging lack of explanation for the progress of an acquisition of investments for which the Company had paid the deposits of RMB15 million (equivalent to approximately HK\$14 million) (the “**Deposits**”) and the loans of approximately HK\$19 million (the “**Loans**”) as recorded in the Company’s annual report for the year ended 31 December, 2001 (the “**Annual Report**”) and the Company’s interim report for the six months ended 30 June, 2002 (the “**Interim Report**”) (collectively, the “**Complaint**”).

In addition, the Board would like to update the potential investors and shareholders of the Company about the use of proceeds raised from the public offering of the Company and the current cash position of the Company.

**The Stock Exchange is enquiring into a possible breach of the GEM Listing Rules.**

Reference is made to the announcement dated 14 January, 2003 issued by the Company, the Board would like to provide detailed information and update the latest development to potential investors and shareholders of the Company regarding a complaint against the Company alleging lack of explanation for the progress of an acquisition of investments for which the Company had paid the Deposits and the Loans as recorded in the Company's Annual Report and the Company's Interim Report.

## **A. THE DEPOSITS**

The Deposits amounted to RMB15 million (equivalent to approximately HK\$14 million) in aggregate comprising (1) a deposit of RMB7 million paid pursuant to a letter of intent entered into between the Group and an independent third party and (2) a deposit of RMB8 million paid pursuant to an agency agreement entered into between the Group and an independent third party on 8 October, 2001 and 28 November, 2001 respectively for possible acquisition of certain interests in two nanomaterials production plants established in the People's Republic of China (the "PRC"). Details of which are set out in the follows: -

### **(1) Deposit for the acquisition of Heilongjiang Plant ("Heilongjiang Project")**

On 8 October, 2001, a letter of intent (the "Letter of Intent") was entered into between 黑龍江省百利豪建設發展有限公司 ("Heilongjiang Party"), being the vendor, and Guang Ping Chemical Industrial Enterprise Company Limited ("GPCI"), being the purchaser, an indirect wholly-owned subsidiary of the Company, which is engaged in the manufacture and sale of nanomaterials in the PRC, to acquire more than 50% shareholding interest in 黑龍江華龍重鈣廠 ("Heilongjiang Plant"). Heilongjiang Plant is solely owned by Heilongjiang Party. Heilongjiang Plant is a nanomaterials factory established in the PRC which is located at No.112, Bao Wei Road, Jie Mu Si City, Heilongjiang Province, the PRC and is principally engaged in the manufacture and trading of precipitated calcium carbonate nanomaterials ("PCC nanomaterials") for use as fillers in different industrial applications such as the production of paper, plastics, rubber and paint with an annual capacity of approximately 20,000 tonnes. The Heilongjiang Project was introduced by Mr. Kwong Chun Kau ("Mr. Kwong"), an executive Director, who had conducted a site visit in Heilongjiang Plant and had met and negotiated with the management of both the Heilongjiang Party and Heilongjiang Plant. Mr. Kwong had developed a business relationship with Heilongjiang Party through the negotiation of other investment projects such as property development in the PRC on behalf of the Company prior to October 2001. The terms of the Letter of Intent was discussed by the Board (excluding the independent non-executive Directors) in October 2001 after taking into consideration of details on the Heilongjiang Plant, including its location, gross floor area, annual production capacity, production facilities, and machinery and equipment, provided by the Heilongjiang Party, but not including details on sales, profit and loss, and net tangible asset of Heilongjiang Plant. The Board (excluding the independent non-executive Directors) thereafter convened a meeting on 31 December, 2001 to ratify the deposit of RMB7 million for the proposed acquisition of Heilongjiang Plant. The independent non-executive Directors consider that they did not participate in the discussion nor the approval of the Heilongjiang Project, while they were notified of the Heilongjiang Project only after the Company received the Complaint. They are unable to form any opinion regarding the fairness and reasonableness of making the deposit for acquisition of Heilongjiang Plant.

Heilongjiang Party is a private company incorporated in the PRC and is principally engaged in trading of building materials of steel, property development and consultancy services. Heilongjiang Party is wholly owned by Ms. Yin Yanhua and both of them are independent third parties not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules), and have no other business relationship other than disclosed in this announcement. In addition, the Directors confirmed that no shares of the Company were placed at listing of the Company to the Heilongjiang Party or Ms. Yin Yanhua and there has no any shareholding interests in the Company held by the Heilongjiang Party or Ms. Yin Yanhua since the listing of the Company.

Pursuant to the terms stipulated in the Letter of Intent, GPCI was required to make a refundable deposit of RMB7 million to Heilongjiang Party within one month upon signing of the Letter of Intent as an indication of the Group's firm interest in the proposed acquisition of Heilongjiang Plant. Save for making the aforesaid deposit by the Group to Heilongjiang Party, no other major terms, such as total consideration for the proposed acquisition of Heilongjiang Plant, had been arrived between the Heilongjiang Party and the Group, and included as a term in the Letter of Intent. According to the commercial negotiation between the Heilongjiang Party and the Group, the Heilongjiang Party refused to include a provision for exclusive right for the proposed acquisition of Heilongjiang Plant in the Letter of Intent. The deposit was then made directly to Heilongjiang Party in 30 October, 2001 by cheque pursuant to the Letter of Intent. The amount of deposit was arrived at without any reference and based on commercial negotiations between the Group and Heilongjiang Party. The Heilongjiang Party refused to put the deposit on an escrow account since the same was not a term discussed or negotiated before the signing of the Letter of Intent. The Group also did not consider to put such deposit in an escrow account. According to the knowledge of the Company, it is not the usual practice to put deposit into an escrow account with PRC parties. The Board (excluding the independent non-executive Directors) considered that the terms of the Letter of Intent were beneficial to the future development of the Company. They are of the view that by entering the Letter of Intent, the Company would be able to explore the sales market in Northern part of China, and would expect to increase the aggregate sales volume and generate the growth of income for the Company under the proposed acquisition of Heilongjiang Plant is fair and reasonable, and in the interest of the shareholders of the Company as a whole.

The proposed acquisition of Heilongjiang Plant is conditional as stipulated in the Letter of Intent on the entering into of a formal agreement between the Heilongjiang Party and the Group within a period of twelve months starting from 8 October, 2001 (the "**Negotiation Period**"). In the event that such condition is not fulfilled within the Negotiation Period, the Letter of Intent will automatically be terminated and Heilongjiang Party shall be required to return the deposit of RMB7 million without interest to the Company within 14 days after the expiry of the Negotiation Period.

The Directors consider that the entering into of the Letter of Intent is in line with the Group's development plan for the intention to extend the production capacity of the different kinds of PCC nanomaterials and to develop the sales market in Northern part of the PRC, and are of the view that the principal activities of Heilongjiang Plant are similar to the principal business of the Company and are in line with the statement of business objectives as mentioned in the prospectus of the Company dated 9 July, 2001 (the "**Prospectus**") for continuing to develop new nanomaterials and their applications to capture the potential demand in the PRC nanomaterial market. As such, the Directors consider that the entering into of the Letter of

Intent does not constitute any material change to the general character or nature of business of the Company under rule 17.25 of the GEM Listing Rules.

During the Negotiation Period, about three times of negotiations in relation to the proposed acquisition of Heilongjiang Plant were conducted between the Heilongjiang Party and the Group to discuss, inter alia, the total considerations, settlement method and the percentage of equity interests to be invested. Throughout the course of negotiation between the Heilongjiang Party and the Group, the Heilongjiang Party offered the consideration of not less than RMB15 million together with all liabilities be payable by the Group for acquiring the entire shareholding interests in Heilongjiang Plant.

However, the proposed acquisition of Heilongjiang Plant had fallen through as certain major commercial terms (such as total considerations, settlement method and the percentage of equity interests to be invested) could not be reached between the Heilongjiang Party and the Group within the Negotiation Period due to the the said offer made by the Heilongjiang Party was rejected by the Group and the Group did not make any counterclaim as it did not intend to take up the liabilities of the Heilongjiang Plant. When the Company demanded refund of the deposit of RMB7 million on 8 October, 2002, the Heilongjiang Party was unable to make the repayment to the Group in one lump sum due to the financial difficulty encountered by itself. As such, the Group had agreed with the Heilongjiang Party for entering into a cancellation agreement between them on 8 October, 2002 as approved by the Board (excluding the independent non-executive Directors) on the same date to rearrange the original repayment schedule as set out in the Letter of Intent which to be repaid by way of instalments. The Directors were informed by the Heilongjiang Party that the RMB7 million were used to satisfy the Heilongjiang Party's operating expenses. The Group decided not to proceed with a legal action in the PRC against the Heilongjiang Party since it would be both costly and time consuming and not beneficial to the Group. On 8 October, 2002, a cancellation agreement was entered into between Heilongjiang Party and GPCI (the **"Cancellation Agreement"**) to terminate the Letter of Intent. In accordance with the Cancellation Agreement, Heilongjiang Party agreed to repay the deposit of RMB7 million by three installments within a period of seven months after the date of the Cancellation Agreement with the first instalment of RMB2 million due on the first three months, second instalment of RMB2 million due on the next two months and the third instalment of the remaining RMB3 million due on two months thereafter. In the event that if the Heilongjiang Party defer the repayment of the amount of such deposit within the above stated timeframes, the Heilongjiang Party will be subject to a fine of default interest, as quoted from The Bank of China in the PRC from time to time, on the overdue amount. The Company has assigned Mr. Kwong to closely coordinate and monitor Heilongjiang Party's performance of its obligation upon the signing of the Cancellation Agreement.

Pursuant to the Cancellation Agreement, the due date for the first instalment of RMB2 million payable by the Heilongjiang Party should be on 8 January, 2003, however, the Heilongjiang Party failed to repay the first instalment of RMB2 million on 8 January, 2003. On 9 January, 2003, the Group has instructed its PRC legal adviser, Guangdong Jing Tian Law Firm, to issue a demand letter to the Heilongjiang Party to demand for repayment of the first instalment together with late chargeable interest within one month hereof, failing which legal proceedings will be instituted against the Heilongjiang Party accordingly. On 7 February, 2003, the Group has received the repayment of the first instalment together with late chargeable interest in the sum of RMB2.02 million from Heilongjiang Party. After the first instalment was settled, the outstanding amount of RMB5 million is still owed which to be repayable by the Heilongjiang Party under the agreed repayment schedule. The Directors will closely monitor the progress of the repayment of the Heilongjiang Party and provision on the

deposit for acquisition of Heilongjiang Plant will be made if considered necessary. Further announcement will be made by the Company in respect of any development.

## **(2) Deposit for the acquisition of Enping Plant (“Enping Project”)**

On 28 November, 2001, an agency agreement (the “**Agency Agreement**”) was entered into between 廣東省恩平市經委科技服務中心 (“**Enping Party**”), a Enping government-owned consultancy agent, and GPCI to negotiate on behalf of the Group for the acquisition of a controlling stake in 恩平市橫坡鎮碳酸鈣廠 (“**Enping Plant**”). Under the preliminary stage, no exclusive rights for the proposed acquisition of Enping Plant had been obtained. Enping Plant is a nanomaterials factory established in 1998 in the PRC and is located at Industrial Zone, Wen Bao Chun, Enping City, the PRC. Enping Plant is principally engaged in the manufacture and trading of PCC nanomaterials. Since Enping Plant is one of the major competitors of GPCI, therefore no detailed information was available publicly for the Group. Save for the above mentioned, the Directors have no knowledge about the shareholding structure and the background of the shareholders or beneficial owners of Enping Plant. The proposed acquisition of Enping Project was introduced by Mr. Lian En Sheng (“**Mr. Lian**”), an executive Director. The terms of the Agency Agreement was discussed by the Board (excluding the independent non-executive Directors) in November 2001 after taking into consideration of details on Enping Plant including Enping Plant’s principal engagement as introduced by Enping Party, but not including details on sales, profit and loss, and net tangible asset of Enping Plant. The Board (excluding the independent non-executive Directors) thereafter convened a meeting on 31 December, 2001 to ratify the deposit of RMB8 million for the proposed acquisition of Enping Plant. The independent non-executive Directors consider that they did not participate in the discussion nor the approval of the Enping Project, while they were notified of the Enping Project only after the Company received the Complaint. They are unable to form any opinion regarding the fairness and reasonableness of the Enping Project.

Enping Party is a Enping government-owned enterprise incorporated in PRC on 28 July, 1995 with limited liability and is principally engaged in the provision of business consultancy services by introducing investors to set up factories and to identify potential investments in Enping City, the PRC. Enping Party has maintained a long-term business relationship with the Group over five years prior to the listing of the Company in assisting GPCI to develop sales network in Enping through introduction of local customers. Enping Party is an independent third party not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) and has no other business relationship other than disclosed in this announcement. Enping Party is also independent of and not connected with the Enping Plant. In addition, the Directors confirmed that no shares of the Company were placed at listing of the Company to the Enping Party and there has no any shareholding interests in the Company held by the Enping Party or its beneficiary shareholders since the listing of the Company.

Pursuant to the terms of the Agency Agreement, GPCI was required to make a refundable deposit of RMB8 million to Enping Party within three days upon signing of the Agency Agreement as an indication of the Group’s firm interest for the acquisition of Enping Plant. The deposit was made directly to Enping Party in 30 November 2001 by cheque pursuant to the Agency Agreement. The amount of the deposit was arrived at based on commercial negotiations between the Group and Enping Party. However, the Enping Party refused to put

the deposit on an escrow account. Pursuant to the Agency Agreement, if no formal agreement is entered into within the period between 28 November, 2001 and 30 September, 2002 (the “**Effective Period**”), the Agency Agreement will automatically be terminated and Enping Party is required to return the deposit of RMB8 million, after deducting a certain amount of agency fee to be agreed between the parties but will not exceed RMB2 million, to GPCI on or before 3 October, 2002. No amount of agency fee has been agreed and no basis of calculation of such fee has been determined between the parties at the time of this announcement.

The Board considers that the benefits of such arrangement associated with payment of deposit in advance would eventually lower the cost of acquisition and save the time spending on negotiation (for example, the arrangement do not require the Company’s management to travel frequently to the PRC or otherwise spend significant time on the proposed acquisition). The Board (excluding the independent non-executive Directors) also considers that such arrangement in respect of the proposed acquisition of Enping Plant is fair and reasonable, and in the interest of the shareholders of the Company as a whole.

The Directors are of the view that the Group’s intention to develop the Southern part of the PRC market where a few competitors have already been established is in line with the Group’s development plan and that the principal activities of Enping Plant are similar to the principal business of the Company and in line with its statement of business objectives as mentioned in the Prospectus for continuing to develop new nanomaterials and their applications to capture the potential demand in the PRC nanomaterial market. The Directors further consider that the possible acquisition of Enping Plant does not constitute any material change to the general character or nature of business of the Company under rule 17.25 of the GEM Listing Rules.

However, no commercial terms (such as total considerations, settlement method and the percentage of equity interests to be invested) had been reached between the Enping Party and the Group within the Effective Period. On 30 September, 2002, a supplemental agreement as approved by the Board (excluding the independent non-executive Directors) on the same date was entered into between Enping Party and GPCI (the “**Supplemental Agreement**”) for an extension of the Effective Period to 30 September, 2003. Under the Supplemental Agreement, all the terms and conditions set out in the Agency Agreement would remain effective.

Currently, the Group is making request to review the financial capabilities of Enping Plant and inquire more details on the sales, profit and loss, and net tangible asset of the Enping Plant so that the Group could determine its acquisition strategy. As such, the Company will continue to work closely with Enping Party so as to facilitate the negotiation of the terms of the proposed acquisition of Enping Plant. As a result of the execution of the Supplemental Agreement, no provision for the deposit is required at present. Further announcement will be made by the Company in respect of any development.

Since the Enping Party is a state-owned enterprise in the PRC, the Group does not foresee any difficulties of recovery at present. The Group has made enquiries to Enping Party regarding the use of deposit of RMB8 million, however, the Enping Party did not disclose to the Group how it has used such deposit. Therefore, the Group has no knowledge on how the Enping Party has used the RMB8 million. If the Enping Party fails to repay the amount of RMB8 million to the Group when the proposed acquisition of Enping Plant is unsuccessful, the Group will take legal action in the PRC against the Enping Party for recovery of the RMB8 million.

**Based on the latest consolidated net tangible assets of approximately HK\$126 million of the Company as at 31 December, 2001, the aggregate amount of the Deposits represent less than 15% of the said net tangible assets and therefore both the Heilongjiang Project and the Enping Project would not constitute discloseable transactions of the Company under the GEM Listing Rules. The Directors confirmed that should the proposed acquisition of Enping Plant be proceeded with, it will be conducted in full compliance with the requirements of the GEM Listing Rules.**

## **B. THE LOANS**

The Loans amounted to approximately HK\$19 million in aggregate comprising (1) a total of RMB3.43 million lent to an independent third party pursuant to a loan agreement dated 3 January, 2001; (2) a total of RMB6.61 million lent to an independent third party pursuant to a loan agreement dated 5 April, 2001 and (3) total advances of HK\$9.43 million made to an independent third party pursuant to a consultancy agreement dated 20 July, 2001. All recipients (including their respective beneficial owners) involving in the Loans are independent from each other and the parties (including their respective beneficial owners) in the Deposits. Information regarding the Loans is set out as follows: -

### **(1) Loan to Honvest (“Honvest Loan”)**

GPCI entered into a short-term loan agreement with Honvest Manufacturing Limited (“**Honvest**”) on 3 January, 2001 pursuant to which GPCI agreed to lend an aggregate sum of approximately RMB3.43 million to Honvest. Honvest is a private company incorporated in Hong Kong on 30 August, 1984 with limited liability and is principally engaged in investment holding activities relating to manufacture of electronic products. As mentioned in the section headed “History and development” to the Prospectus, Honvest was a former shareholder of GPCI which held 30% of its then registered capital and did not have any shareholding interests in GPCI since October 1996. Honvest is wholly owned by Mr. He Huanchao, an independent third party not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Mr. He Huanchao is not connected with Enping Party and Enping Plant which mentioned in the sub-paragraph headed “Deposit for the acquisition of Enping Plant” to this announcement and also not connected with Heilongjiang Party and Heilongjiang Plant which mentioned in the sub-paragraph headed “Deposit for the acquisition of Heilongjiang Plant” to this announcement. The Directors confirmed that no shares of the Company were placed at the listing of the Company to the Honvest. In addition, the Directors also confirmed that Honvest or its beneficiary shareholders do not have any shareholding interests in the Company since the listing of the Company.

Under the negotiation of the short-term loan agreement between the Group and the Honvest, Mr. Lian was a responsible person for the negotiation of the Honvest Loan. The Board confirmed that Mr. Lian did not get any benefits in all forms, directly or indirectly, through the granting of the Honvest Loan. Signing of this short-term loan agreement was discussed by the Board (excluding the independent non-executive Directors) in January 2001. The Board (excluding the independent non-executive Directors) thereafter convened a meeting on 31 December, 2001 to ratify the granting of Honvest Loan. The independent non-executive Directors did not participate in the discussion nor the approval of the Honvest Loan. They were notified of the Honvest Loan only after the Company received the Complaint.

Details of the Honvest Loan are set out as follows: -

<b>Date of loan agreement:</b>	3 January, 2001
<b>Lender:</b>	GPCI
<b>Borrower:</b>	Honvest
<b>Aggregate amount of loan:</b>	RMB3,430,000
<b>Interest and maturity:</b>	Non-interest bearing and repayable on demand
<b>Security:</b>	No security has been given pursuant to the short-term loan agreement
<b>Purpose:</b>	For the purpose of facilitating the operation of business and assisting financial difficulty of Honvest

Honvest has extensive business networks and relationships with various governmental authorities and business entities in Enping City, the PRC. The granting of the Honvest Loan could help build up a relationship with Honvest that may be beneficial to the Group's future business development and investment in Enping City. As such, the Board (excluding the independent non-executive Directors) considers that the benefits of such relationship justify the grant of such non-interest bearing, non-secured and payment on demand loan is fair and reasonable and in the interest of the shareholders of the Company as a whole.

The aggregate amount of RMB3.43 million of the Honvest Loan was advanced to Honvest over the period from January 2001 to November 2001 by transfer and was classified as "Short term loans receivable" under the section headed "Consolidated Balance Sheet" in the Annual Report. No provision had been made against the Honvest Loan since all outstanding amounts were fully settled on 25 April, 2002. Therefore, no outstanding balance of such loan had been disclosed in the Interim Report. As at the date of this announcement, Honvest has no amount outstanding due to the Group.

## **(2) Loan to Enping Chemical ("Enping Loan")**

GPCI entered into a short-term loan agreement with Enping Chemical Industrial Limited (恩平市化工工業公司) ("**Enping Chemical**") on 5 April, 2001 pursuant to which GPCI agreed to lend an aggregate sum of RMB6.61 million to Enping Chemical. Enping Chemical is a state-owned enterprise established in July 1984 in the PRC and used to produce grounded calcium carbonate but ceased its production since June 2000. As mentioned in the section headed "History and development" to the Prospectus, Enping Chemical was a former shareholder of GPCI which held 70% of its then registered capital and did not have any shareholding interests in GPCI since October 1996. Enping Chemical is an independent third party not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Enping Chemical is not connected with Enping Party and Enping Plant which mentioned in the sub-paragraph headed "Deposit for the acquisition

of Enping Plant” to this announcement and also not connected with Heilongjiang Party and Heilongjiang Plant which mentioned in the sub-paragraph headed “Deposit for the acquisition of Heilongjiang Plant” to this announcement. In addition, the Directors confirmed that no shares of the Company were placed at listing of the Company to the Enping Chemical and there has no any shareholding interests in the Company held by the Enping Chemical or its beneficiary shareholders since the listing of the Company.

Under the negotiation of the short-term loan agreement between the Group and the Enping Chemical, Mr. Lian was a responsible person for the negotiation of the Enping Loan. The Board confirmed that Mr. Lian did not get any benefits in all forms, directly or indirectly, through the granting of the Enping Loan. Signing of this short-term loan agreement was discussed by the Board (excluding the independent non-executive Directors) in April 2001. The Board (excluding the independent non-executive Directors) thereafter convened a meeting on 31 December, 2001 to ratify the granting of Enping Loan. The independent non-executive Directors did not participate in the discussion nor the approval of the Enping Loan. They were notified of the Enping Loan only after the Company received the Complaint.

Details of the Enping Loan are set out as follows: -

<b>Date of loan agreement:</b>	5 April, 2001
<b>Lender:</b>	GPCI
<b>Borrower:</b>	Enping Chemical
<b>Aggregate amount of loan:</b>	RMB6,610,000
<b>Interest and maturity:</b>	Non-interest bearing and repayable on demand
<b>Security:</b>	No security has been given pursuant to the short-term loan agreement
<b>Purpose:</b>	For the purpose of facilitating the operation of business and assisting financial difficulty of Enping Chemical

Enping Chemical has good relationship with most chemical companies in Enping City, the PRC. As such, the granting of the Enping Loan to Enping Chemical could help maintain a close relationship with Enping Chemical that may be beneficial to the Group’s future business development and investment in Enping City. As such, the Board (excluding the independent non-executive Directors) considers that the benefits of such relationship justify the grant of such non-interest bearing, non-secured and payment on demand loan is fair and reasonable and in the interest of the shareholders of the Company as a whole.

The aggregate amount of RMB6.61 million of the Enping Loan was advanced to Enping Chemical over the period from June 2001 to December 2001 by transfer and was classified as “Short term loans receivable” under the section headed “Consolidated Balance Sheet” in the Annual Report. No provision had been made against the Enping Loan since all outstanding amounts were fully settled on 19 April, 2002. Therefore, no outstanding balance of such loan had been disclosed in the Interim Report. As at the date of this announcement, Enping Chemical has no amount outstanding due to the Group.

### **(3) Advances to Global Essence**

On 20 July, 2001, the Company entered into a consultancy agreement with Global Essence Holdings Limited (“**Global Essence**”) pursuant to which Global Essence was appointed as the consultant of the Company to identify acquisition targets for the Company in the PRC. Under the consultancy agreement, the Company agreed to make advances to Global Essence from time to time to facilitate it to locate different investment opportunities in the PRC on behalf of the Company. All expenses which are incurred by Global Essence in relation to its appointment herein would be borne by itself only. Global Essence has assisted the Group to identify acquisition targets in the PRC by completing two feasibility reports in relation to the investment in two factories engaging in the production of nanomaterials (for application in batteries and nano-magnetic liquids) which presented to the Group in September 2001. The aggregate advances of HK\$9.43 million have been made by the Company to Global Essence starting from March 2001 before the signing of the consultancy agreement with Global Essence. The Board considered that at first the outstanding amounts of the advances to Global Essence were immaterial to the Group, but once substantial subsequent advances were foreseen by the Group, the Group decided to sign a formal agreement as part of its risk management procedure.

Global Essence is a consultancy firm incorporated in Hong Kong on 21 March, 2001 with limited liability and engaged in the provision of consultancy services on behalf of clients for seeking potential investment opportunities and handling merger and acquisition projects in the PRC. Global Essence is beneficially owned as to 999,999 shares by Richest Resources Limited (which is 50% jointly owned by Mr. Cheung Long Chung and Mr. Cheung Kin Cho, and the remaining 50% owned by Mr. Li Xiao Wu) and as to 1 share by Mr. Cheung Kin Cho and all of them (including the beneficial owners of Richest Resources Limited) are independent third parties not connected with any of the directors, chief executive, initial management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). In addition, the Directors confirmed that no shares of the Company were placed at listing of the Company to the Global Essence and there has no any shareholding interests in the Company held by the Global Essence or its beneficiary shareholders since the listing of the Company.

Global Essence was introduced by Ms. Wong Yau Ming (“**Ms. Wong**”), the controlling shareholder of the Company, to the Group. Ms. Wong has personally known Mr. Cheung Long Chung, one of the substantial shareholders of Global Essence, for over 10 years. The Board confirmed that Ms. Wong did not get any benefits in all forms, directly or indirectly, through the granting of such advances. Signing of the consultancy agreement was approved by the Board (excluding the independent non-executive Directors) under its meeting held on 19 July, 2001. The independent non-executive Directors did not participate in the discussion nor the approval of the execution of such consultancy agreement and they were notified of these advances only after the Company received the Complaint.

Details of these advances are set out as follows: -

<b>Aggregate amount of advances:</b>	HK\$9,431,000
<b>Interest and maturity:</b>	Non-interest bearing and repayable on demand

**Security:**

No security has been given pursuant to the consultancy agreement

The advances amounted to HK\$9.43 million in aggregate were made to Global Essence over the period from March 2001 to December 2001 by cheques and was classified as “Short term loans receivable” under the section headed “Consolidated Balance Sheet” in the Annual Report. The Company would like to clarify that the outstanding balance of such advances amounted to HK\$964,000 as at 30 June 2002, and was classified as “Other receivables, deposits and prepayments” in the Interim Report.

In addition, no provision had been made against these advances since all outstanding advances were fully settled on 30 September, 2002.

Although it is not common practice to make advances to agents to seek for investment opportunities, the Board (excluding the independent non-executive Directors) considered that it was fair and reasonable and in the interest of the shareholders of the Company as a whole to engage Global Essence to seek for investment opportunities on behalf of the Company because Global Essence is experienced in seeking investment opportunities in the PRC for investors.

**C. UPDATE ON USE OF PROCEEDS**

Based on the information set out under the paragraph headed “THE DEPOSITS” and “THE LOANS” to this announcement, the Directors would like to confirm that the source of funding regarding (1) the Heilongjiang Project, (2) the Enping Project, (3) the Honvest Loan, (4) the Enping Loan and (5) the advances to Global Essence were financed by the operating cashflow and the repayment of amount due to the Group by a shareholder.

As at the date hereof, utilization of the proceeds raised from the public offering of the Company is substantially the same as scheduled under the business plans stated in the Prospectus. As at the date of this announcement, the Board does not envisage any circumstances that may lead to any material alteration in the proposed use of proceeds. Details on the use of proceeds were set out in the Annual Report and the Interim Report.

**D. CASH POSITION**

As at 31 December, 2002, total cash and bank balances of the Group amounted to approximately HK\$2.0 million, representing an decrease of approximately 74.6% of its total cash and bank balances of approximately HK\$7.88 million for the period of six months ended 30 June, 2002.

At the beginning of 2002, the Company was quite optimistic about the sales of the Group’s product and recorded average monthly sales of HK\$6.5 million in the first quarter of 2002. In order to increase the sales of the Company, the Company thereafter adopted a comparatively aggressive approach in credit policy so as to stimulate the sales of its products. However, the aging of the Company’s account receivables increased significantly. As such, the Company

started to tighten its credit policy in order to control the Company's account receivables to an acceptable level. As at 31 December, 2002, the amount of the Company's account receivables had been decreased from approximately HK\$34 million as at 30 June, 2002 to approximately HK\$15 million.

In order to improve the cash position of the Group, the Directors will continue the implementation of a tight credit control policy. The Directors are of the opinion that the Group has sufficient working capital for its present requirements.

#### **E. STRENGTHENING OF INTERNAL CONTROL**

After receiving the Complaint, the Directors have reviewed its internal control procedures for making deposits for investment as well as granting financial assistance to other parties. The Board will adopt the recommendation made by the Company's auditors in relation to the implementation of stringent internal control.

In compliance to rule 5.01 of the GEM Listing Rules, the Directors have evaluated each of the Deposits and Loans, acted honestly and in good faith in the interest of the Company. Each Deposits and Loans were granted with intention to facilitate the future growth and is for the benefits of the Company. There were no actual or potential conflicts of interest arising from each of the Deposits and Loans.

According to the legal opinions given by the Company's Hong Kong legal adviser, Yuen & Partners, and the Company's PRC legal adviser, Guangdong Jing Tian Law Firm, the Loans made by the Company is not in contravention of any laws of Hong Kong and the PRC. In addition, as the Directors consider that money lending or making advances is not the ordinary course of business of the Company, they do not expect the Group to engage in such activities in the future.

**The Stock Exchange is enquiring into a possible breach of the GEM Listing Rules.**

By Order of the Board  
**Fung Chiu**  
*Chairman*

Hong Kong, 5 March, 2003

*This announcement will remain on the page of "Latest Company Announcements" on the GEM website for at least 7 days from the date of its posting and on the Company's website at [www.gpnano.com](http://www.gpnano.com).*

*\* For identification purpose only*