



THIRD QUARTERLY REPORT 2000

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement 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 announcement.

This announcement, for which the directors of Grandmass Enterprise Solution Limited 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 of Hong Kong Limited for the purpose of giving information with regard to Grandmass Enterprise Solution 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.

THIRD QUARTERLY RESULTS HIGHLIGHTS

- Turnover decreased by HK\$1,134,000 for the nine months ended 30th September, 2000 representing an approximately 10% decrease to the corresponding nine months period ended 30th September 1999.
- Achieved a net loss of approximately HK\$2,782,000 for the nine months ended 30th September 2000.
- The directors (the “Directors”) of Grandmass Enterprise Solution Limited (the “Company”) do not recommend the payment of dividend for the nine months ended 30th September 2000.

RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce their unaudited results of the Company and its subsidiaries (the “Group”) for the nine months ended 30th September 2000 together with the comparative unaudited figures for the corresponding nine months’ period in 1999 as follows:

**Nine months ended
30th September**

	<i>Notes</i>	2000 HK\$'000	1999 HK\$'000
Turnover	2	9,676	10,810
Gross profit		6,416	7,175
Profit/(Loss) from operations		(2,734)	3,141
Finance cost		(48)	(32)
Profit/(Loss) before taxation		(2,782)	3,109
Taxation	3	—	(525)
Profit/(Loss) attributable to shareholders		(2,782)	2,584
Dividend		—	1,200
Earnings/(Loss) per share — Basic (in cents)	4	(0.79)	0.78

Notes:

1. Basis of preparation

The Company was incorporated in Bermuda as an exempted company with limited liability on 19th April 2000. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 14th July 2000.

The consolidated financial results have been prepared using the merger basis of accounting as a result of the Group reorganization completed on 29th June 2000. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the nine months ended 30th September 2000 and 30th September 1999 include the results of the Company and its subsidiaries with effect from 1st January 1999 or since their respective dates of incorporation, whichever is the shorter period. The comparative figures for the corresponding period in 1999 have been prepared as if the reorganization had been completed on 1st January 1999.

2. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts where applicable, and services rendered.

3. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits in Hong Kong for the period. No recognition of the potential deferred taxation asset relating to tax losses has been made as the recoverability of this potential deferred taxation asset is uncertain.

4. Earnings/(Loss) per share

The calculation of basic earnings/(loss) for the period ended 30th September 2000 is based on the profit/(loss) attributable to shareholders of approximately (HK\$2,782,000) [1999: \$2,584,000] and the weighted average of approximately 350,787,000 [1999: 330,850,000] ordinary shares in issue during the periods.

In determining the weighted average number of shares, a total of approximately 1,654,000 shares issued on the establishment of the Company and reorganisation of the Group and a further 329,196,000 shares being the capitalisation issue immediately following the new issue of shares to the public were deemed to have been issued since 1st January 1999.

No diluted loss per share has been presented as the exercise of the Company's outstanding share options would result in a decrease in loss per share.

INTERIM DIVIDEND

The Board does not recommend the payment of dividend for the nine months ended 30th September 2000 (1999: HK\$1,200,000).

The dividend in 1999 of HK\$1,200,000 was paid and declared by a subsidiary of the Company, Grandmass Technology Limited, to its then shareholders in 1999. The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

BUSINESS REVIEW AND PROSPECT

For the nine months ended 30th September 2000, the Group's turnover and profit decreased slightly when compared to the same period last year. This was mainly due to the Group's drive to continue developing its iOMS e-commerce edition and e-supply chain edition for SMEs both in Hong Kong and the PRC, requiring significant expenditure on product research and development. Because of this ongoing effort, the Group's iOMS e-commerce edition was successfully launched in July and the e-supply chain edition will soon be launched at the end of 2000. Both achievements are far ahead of the Group's original target. The Group believes that these two iOMS editions will be well received by the market with sales increasing significantly in the next few months.

During the period under review, the Group's source of revenue came from 5 different sectors. 34% was derived from the sale of proprietary ERP software package; 49.5% from the provision of IT consultancy services; 4.2% from the provision of customized software development services; 8.5% from computer system integration and system development support services and the remaining 3.8% came from the sale of accounting and data application systems.

As at 30th September 2000, the Group had over 285 licensees, representing an increase of 40% over the same period last year. This demonstrates the Group's success in launching its VOMS (Millennium Edition), which expanded the Group's clientele and paves the way for the Group's iOMS product series.

The Grandmass iOMS e-Commerce Edition is a full function web-based Sales and Logistic Control Model from Grandmass VOMS. Since its launch in July this year, the Group has received encouraging feedback from customers, many of whom have now reached the decision-making stage. In view of this purchasing delay on the part of potential customers, the Board is highly optimistic with regard to the sale of this state-of-art web-based technology product in the 4th quarter of 2000. At the same time, service income, such as for training and maintenance will also increase in the coming quarter as the VOMS millennium edition has been sold over one quarter.

Research and development in a diverse range of software that provide solutions to fit in our customers' needs is our ultimate target. The strategic collaboration with the Hong Kong Polytechnic University ("HKPU") has played an important role to strengthen the Group's product research and development ability. Grandmass has been reached a consensus with HKPU to fund innovative projects have market potential instead of providing the fixed sums of HK\$5 million to HK\$10 million per year for the period of three years as originally stated in the prospectus. This initiative will provide flexibility for the Group's future product developments.

Making sure that Grandmass will stand out from the many other software companies in Hong Kong, the Group has worked to develop a standardized ERP system under its reputable brandname "Grandmass OMS", which has been successfully established among users in Hong Kong. To ensure further penetration of the Group's quality and reputable software in the PRC market, the Group announced its dealership agreement with ChinaTone Systems (China) Ltd ("ChinaTone"), a PRC based financial system developer that has a nation-wide distribution network in the PRC on 18th September 2000. In this co-operation, the Group agreed to market ChinaTone's "Financial and Management System" to entrepreneurs in Hong Kong while ChinaTone will further enhance its competitiveness by introducing the Grandmass OMS ERP software to 13 areas in the PRC including the Eastern, North Eastern and Southern parts of the country.

Prospects

Looking ahead, the partnership with ChinaTone is our first step in entering the PRC market. Grandmass believes that with ChinaTone's years of experience in the PRC market, its presence in the PRC market will be significantly increased. With China's imminent entry into the World Trade Organization ("WTO"), companies in the PRC are keen to improve their competitiveness. Grandmass is in the unique position of providing comprehensive and proven ERP software to manufacturers, while at the same time, helping traditional Chinese companies to transit to the new economy and better prepare for competition. For its part, the Group will continue to establish strategic partnerships in the PRC, creating further synergies for the Group and providing total solutions to customers.

The Grandmass iOMS e-Supply Chain Edition will be launched at the end of the year, ahead of original targets as stated in the prospectus. This entire supply chain on an e-commerce website will provide effective and efficient software control systems for users on the Internet, further extending the applications of Grandmass OMS software. The Group has every confidence that the client base for the Grandmass iOMS series of products will grow with the launch of the Grandmass iOMS Site Server Edition and e-Supply Chain Edition in the 4th quarter of the year. Following these activities, the Grandmass Financial Accounting software will also be ready for launch this year, enriching the entire software product portfolio.

The Group will continue to develop and strengthen alliances with the world's leading IT companies, academic institutions and major industrial associations to explore potential markets and to enlarge market share. Starting from the next quarter, the Group will form collaborations with a number of universities in the PRC, in order to co-develop new software and products in the PRC market and to place even greater emphasis on research and development programmes.

Additionally, we are donating Grandmass VOMS and iOMS software and relevant hardware to the Vocational Training Council in the next quarter in order to ensure student familiarity with our ERP software, which will further establish Grandmass OMS ERP software as the standard manufacturing decision support system for manufacturers in Asia, thus facilitating our future expansion.

With these plans in hand, we will aggressively pursue our strategy to be the leading ERP software developer in Asia and to generate satisfactory returns for our shareholders.

Finally, on behalf of the Board, I would like to express our appreciation to all management and staff members for their continued commitment and contribution, and to thank shareholders for their continuing confidence in the Group.

DIRECTORS' INTERESTS IN SHARES

As at 14th July 2000, the date of commencement of dealing in Shares on GEM, the following Directors had or were deemed to have interest in the equity securities of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Name	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. Yue Chung Wing, Patrick ("Mr. Patrick Yue")	—	—	200,010,000 (Note 1)	—
Dr. Cheung Siu Wing	17,040,000	—	— (Note 2)	—
Mr. Yau Chun Fai	12,000,000	—	—	—

Notes:

1. These shares are held by Enterprise Logistics Limited, a company incorporated in British Virgin Islands and wholly owned by Mr. Patrick Yue.
2. Dr. Cheung Siu Wing resigned as non-executive director of the Company on 16th October 2000.

Save as disclosed above, none of the Directors had any personal, family, corporate or other interests in the share capital of the Company as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance as at 14th July 2000, the date of commencement of dealing in Shares on GEM.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Pursuant to the Share Option Scheme (the "Scheme") adopted by the shareholders of the Company on 29th June 2000, the Board of Directors of the Company may for a consideration of HK\$1.00 offer to any full time executive director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company at a price not less than the highest of the nominal value of the Shares, the average closing prices of the Shares as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date on which the relevant option is granted and the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant of the option, subject to a maximum of 30% of the issued share capital of the Company from time to time.

As at 14th July 2000, the date of commencement of dealing in Shares on GEM, no option had been granted or agreed to be granted under the Scheme.

As at 14th July 2000, the date of commencement of dealing in Shares on GEM, none of the directors (including their spouses and children under 18 years of age) had been granted or exercised, any rights to subscribe for the Shares.

During the period from 14th July 2000 (the date of commencement of dealing of the Company's share on GEM) to 30th September 2000, certain options were granted to 14 employees, details of which are set out below:

Date of grant	Exercise price	Number of shares subject to options	Expiration date
15th August, 2000	0.199	4,000,000	14th August, 2005
Less: lapsed options		<u>360,000</u>	
As at 30th September, 2000		3,640,000	

The underlying shares of the outstanding options under the Scheme as at 30th September, 2000 represent approximately 0.9% of the issued capital of the Company.

The highest number of shares underlying the outstanding options granted to employees under the Scheme as at 30th September 2000 was 400,000. None of such options were granted to any director or connected persons (as defined in the GEM listing rule) of the Company.

No options granted pursuant to the Scheme had been exercised as at 30th September, 2000.

SUBSTANTIAL SHAREHOLDER

As at 14th July 2000, the date of commencement of dealing in Shares on GEM, the following entity, not being a director or chief executive of the Company, had or was deemed to have interest of 10% or more in the issued share capital of the Company, as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

Name	Number of issued shares	Percentage of shareholding
Enterprise Logistics Limited (<i>Note</i>)	200,010,000	50.0025%

Note:

Enterprise Logistics Limited is a company incorporated in British Virgin Islands and wholly owned by Mr. Patrick Yue.

MANAGEMENT SHAREHOLDERS

Save for the Directors and the substantial shareholder's interest as disclosed above, the Directors are not aware of any persons who were entitled to exercise or control the exercise of five percent or more of the voting power at the general meeting of the Company and who were able, as a practical matter, to direct or influence the management of the Company as at 14th July 2000, the date of commencement of dealing in Shares on GEM.

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

During the period from 14th July 2000 (date of listing) to 30th September 2000, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

INTERESTS OF THE SPONSOR

Oriental Patron Asia Limited ("Oriental Patron") had entered into a sponsorship agreement with the Company whereby, for a fee, Oriental Patron will act as the Company's continuing sponsor for the purpose of Chapter 6 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the period from 1st July 2000 to 31st December 2002.

None of Oriental Patron, its directors, employees nor associates had any interests in the 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 for the Company or any member of the Group as at 30th September 2000.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competed or might compete with the business of the Group.

YEAR 2000 COMPLIANCE

All the computer system of the Group has passed the millennium date safely. As of the date of this report, the Group has not received any complaint relating to the Year 2000 issue from customers nor has any disruption to the operation of the Group.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference being in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board.

The audit committee comprises two members, namely Dr. Ip Wai Hung and Dr. Lau Wai Shing, Augustine, both being independent non-executive Directors of the Company.

By Order of the Board
Yue Chung Wing, Patrick
Chairman

Hong Kong, 14th November 2000