

## Interim Report 2001



**Grandmass**

Enterprise Solution Limited

盛創企業系統有限公司

*(Incorporated in Bermuda with limited liability)*

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

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*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.*

## 2001 INTERIM RESULTS HIGHLIGHTS

- Turnover decreased by HK\$5,796,000 for the six months ended 30th June 2001 representing an approximately 70% decrease to the corresponding period in 2000.
- Achieved a net loss of approximately HK\$10,034,000 for the six months ended 30th June 2001.
- The Board of Directors (the “Directors”) of Grandmass Enterprise Solution Limited (the “Company”) does not recommend the payment of an interim dividend for the six months ended 30th June 2001.

## 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 six months ended 30th June 2001 together with the comparative figures for the corresponding period ended 30th June 2000 as follows:

	Notes	For the six months ended 30th June	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	2,458	8,254
Cost of sales		(1,517)	(2,319)
Gross profit		941	5,935
Other revenue		627	130
Selling and distribution expenses		(179)	(452)
Administrative expenses		(9,204)	(4,190)
Other operating expenses		(1,840)	—
Profit/(loss) from operating activities		(9,655)	1,423
Finance cost		(57)	(30)
Share of loss of jointly controlled entity	3	(322)	—
Profit/(loss) before tax		(10,034)	1,393
Tax	4	—	(214)
Net profit/(loss) attributable to shareholders		(10,034)	1,179
Dividend		—	—
Earnings/(loss) per share — Basic (in cents)	5	(2.5)	0.4

Notes:

### 1. Basis of presentation

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 include the financial results of the Company and its subsidiaries for the six months ended 30th June 2001. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. The comparative consolidated 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 prior to the date of their acquisition pursuant to the Group reorganization on 29th June 2000. Accordingly, the consolidated results of the Group for the six months ended 30th June 2000 include the results of the Company and its subsidiaries with effect from 1st January 2000 or since their respective dates of incorporation, whichever is the shorter periods, as if the Group structure had been in existence throughout the period ended 30th June 2000.

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

### 2. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts where applicable, and services rendered. The Group's turnover from operating activities for the six months ended 30th June 2001 were all derived in Hong Kong.

### 3. Share of loss of jointly controlled entity

Share of loss of jointly controlled entity is principally come from Thiz Grandmass ERP Systems Limited for the period.

### 4. Tax

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits arising in Hong Kong for the period. In last corresponding period, Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that 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.

## 5. Earnings/(loss) per share

The calculation of basic loss for the six months ended 30th June 2001 is based on the net loss attributable to shareholders of approximately HK\$10,034,000 (2000: net profit attributable to shareholders of HK\$1,179,000) and the weighted average of approximately 400,000,000 (2000: 330,850,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30th June 2001 has not been shown as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period. In prior corresponding period, no share options had been issued and, accordingly, no disclosure of diluted earnings per share is required.

## 6. Movement in reserves

### Group

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated loss) HK\$'000	Total HK\$'000
At 1st January 2000	—	—	72	72
Increase in capital of subsidiaries	—	10,412	—	10,412
Premium arising from issue of new shares to public	27,660	—	—	27,660
Transfer to share capital to pay up nil-paid shares allotted to shareholder	(27,660)	(5,260)	—	(32,920)
Shares issue expenses	—	(4,625)	—	(4,625)
Net loss for the year	—	—	(10,749)	(10,749)
At 31st December 2000 and at 1st January 2001	—	527	(10,677)	(10,150)
Net loss for the six months ended 30th June 2001	—	—	(10,034)	(10,034)
At 30th June 2001	—	527	(20,711)	(20,184)

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2001 (2000: Nil).

## BUSINESS REVIEW AND PROSPECTS

### Business Review

On behalf of the Board, I hereby announce the interim results for Grandmass during the period ended 30th June 2001. The first half of 2001 has been a period of product consolidation for Grandmass. Tremendous effort has been placed in diversifying our product portfolio to keep pace with the rapid changes in information technology.

According to a survey conducted by IDC in April, B2B Internet trading in Asia is booming and is expected to reach US\$61 billion in 2002, compared with US\$12.8 billion last year. This enormous growth in e-Commerce generates a promising opportunity for Grandmass' web-based iOMS software which provides an effective solution for online purchasing as well as resources management. During the period under review, we have received positive feedback from customers and a number of contracts have been signed. We expect that these encouraging results to be reflected in the second half of the year.

On 9th February 2001, Grandmass soft-launched its own ASP programme. A number of customers were willing to experience trial runs and were satisfied with the product. Some were deeply impressed by the advanced and revolutionary design of Grandmass' iOMS system, particular with regard to compatibility. This encouraging feedback proves that we are on the right track and are able to grasp market needs. We expect this cutting-edge programme to be formally launched soon, offering an additional channel for customers to access our software and also providing the Group with a further source of revenue.

Based on the success of the iOMS ERP software, the Group introduced the Site Server Edition — iOMS ePlus+, a one-stop B2B solution in May. Users are able to place orders via the Internet and their sales persons can follow-up requests through e-mail which provides a great step forward from traditional on-site marketing activities. This system not only provides a new channel for users to approach potential customers, but also greatly reduces the cost of effective

marketing. Several seminars have been held during the period under review to arouse customer awareness. These seminars were so effective that many customer inquiries regarding the functions and applications of the system have been resolved.

### **Financial Performance**

The first half of 2001 has been a period of product consolidation for the Group. During the period under review, great emphasis has been placed on developing innovative solutions and incorporating advanced technology with our existing products. After initial trial runs, potential customers were satisfied with the products with some of them agreeing to subscribe and upgrade to our state-of-the-art system. The Group has therefore been in a stage of product adjustment, to satisfy individual customers' different requirements and specific needs.

During this period of transition, the Group recorded a turnover of HK\$2,458,000, representing a decrease of 70% as compared to the figure last year. Loss attributable to shareholders was HK\$10,034,000 compared with the profit attributable to shareholders of HK\$1,179,000 in 2000. The Board of Directors does not recommend payment of an interim dividend for the six months ended 30th June 2001. In view of this period of transition, the Group is confident we will see encouraging business growth in the second half of 2001.

The Group's source of revenue came from 5 different sectors. 45.7% was derived from the sale of proprietary ERP software packages; 3.5% from the provision of IT consultancy services; 2.6% from the provision of customized software development services; 39.2% from computer systems integration and systems development support services and the remaining 9% came from the sale of accounting and data application systems for strategic partners.

### **Prospects**

Penetration into the PRC market and product diversification will be major strategies for Grandmass in the second half of the year. We will continue to capitalize on existing business development, exploring more potential markets and cutting-edge technology. With the launch of our series of new products in the last few months, we are confident that second half of 2001 will provide a period of harvest for Grandmass.

Keeping pace with the huge market development in the PRC market, Grandmass set up an office in Shanghai which commenced pre-operations in March 2001. During this time, our step-by-step strategy is to promote our Grandmass OMS software following by more advanced iOMS solutions when the market becomes more established. With China's imminent entry into WTO, we are planning to extend the number of our offices in the PRC market to cater for the growing market needs for cutting-edge ERP software.

According to our planned schedule as stated in the prospectus, the Linux version will be launched in the second half of 2001. In line with the growing popularity of the Linux platform both in Hong Kong and the PRC markets, the Group is diversifying to provide an alternative customer platform to access our Grandmass software. Further to the Joint Venture established in December 2000 with the existing developer, the Group will provide technical expertise for the development of this product and is expected to receive positive feedback from the market.

Under disciplined cost management, the Group is capable of putting all the expenses under effective control, aiming at streamlining our overall operating efficiency. At the same moment, the Group will actively seek for any investment opportunities that with synergy effect to the company's existing business, to generate additional income and maximize returns for our valuable shareholders.

On behalf of the Board, I would like to express our appreciation to all our management and staff members for their continued commitment and contribution and to thank shareholders for their confidence in the Group. We will continue with our very efforts to fulfill our mission as a leader in the market and to prove to Asian manufacturers that Grandmass OMS is the absolute choice for them, as well as to generate significant returns for shareholders in the Company.

### **Use of Proceeds**

As stated in the prospectus, approximately HK\$7 million of net proceeds would be allocated in which about HK\$4 million for new product development; HK\$1.5 million for developing potential markets and HK\$1.5 million for promoting the products and services of the Group.

As at 30th June 2001, HK\$4.1 million had been used in which approximately HK\$2.4 million was invested in new product development, particularly for the ASP programme and the iOMS Site Server Edition — e-Plus+ software. About HK\$1.5 million has been used in potential market development and HK\$0.2 million was spent on promoting Grandmass' products and services.

This discrepancy between planned and actual use of proceeds was mainly attributable to the proportion of proceeds set aside for HKPU and developing potential market have not been utilized as expected during the year given the unfavorable market sentiment. In the future, the Group will proactively figure out any potential opportunities to further implement the expected plans of development.

The Group will take advantage of burgeoning opportunities arising while at the same time adopting a prudent policy in pursuing profit maximization and ensuring a strong financial position.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

<b>Business Objectives as disclosed in the Prospectus dated 7 July 2000</b>	<b>Actual Business Progress</b>
<b>A. <i>Develop Strategic Alliance</i></b>	
1. Search opportunities to form alliance with IT corporations in HK and other Asian countries	The Group put major emphasis in diversifying the product portfolio during the period under review. With regard to the severe market competition, the Group has pended such alliance with IT corporations, but will actively seek for opportunities for development in the future.
<b>B. <i>Expand Distribution Channel for the OMS and Potential Markets</i></b>	
1. License the iOMS (e-Commerce Edition) to ASPs based in HK and the PRC	Instead of licensing the iOMS to ASPs-based in Hong Kong, the Group has launched its own ASP programme on 9th February 2001 which is an alternative channel to provide Grandmass iOMS software including e-Commerce Edition via Internet.
2. Revenue generated from the sale of VOMS systems through dealers in the PRC will grow to more than 10% of the Group's turnover	The Shanghai office commenced its pre-operations in March 2001. During this time, our step-by-step strategy is to promote our Grandmass OMS software following by more advanced iOMS solutions when the market becomes more established. In this initial stage of development, revenue generated from the PRC is less than 10%. However, with China's imminent entry into WTO, we are planning to extend the number of our offices in the PRC market which is expected to generate additional revenue for the Group.
3. Launch iOMS (e-Supply Chain Edition) through the buy-sell and ASP channel	The iOMS (e-Supply Chain Edition) was launched in the 4th quarter of 2000, which was provided through traditional buy-sell channel as well as its own ASP programme.

### **C. New Product Development**

1. Start to design and develop the OMS Financial Accounting System  
Ahead of the planned schedule, the OMS Financial Accounting System has been launched in the 4th quarter of 2000.
2. Continue research and development work with HKPU  
The Group kept close contacts with academic institutions including Vocational Training Council (VTC) and HKPU, discussing and exploring projects which are of huge market potential. The Group will actively working for any investment opportunities that generate synergy effect with its existing product.

### **D. Enhance the reputation of the Group's products and services**

1. Promote the iOMS (e-Supply Chain Edition) by means of holding seminars and promotion through the press  
The Group held several seminars in February 2001 and participated in the Microsoft Solutions Fair in March 2001, aiming at promoting and marketing Grandmass software to potential customers.
2. Participate in IT exhibitions in the Asian region  
Grandmass took part in the Microsoft Solutions Fair which was held in Hong Kong in March 2001. Participation in IT exhibition enabled us to keep abreast with the industrial development and establish relationship with potential customers.
3. Organize direct mailing to targeted customers and advertisement  
The Group sent newsletters providing latest information of the Group to targeted customers periodically. We also placed advertisements in major financial newspapers to further promote and introduce our new products.

### **E. Others**

1. Launch iOMS (Site Server Edition)  
The Site Server Edition — ePlus+ was introduced to market on 30th May 2001. This Site Server Edition is capable of providing membership control and allowing the users' customers to place orders as well as enquiries about products directly on the system.

## **CAPITAL REDUCTION**

The special resolution approving the reduction of the share capital of the Company whereby the paid up capital to the extent of HK\$0.09 each on the issued shares of HK\$0.10 each is cancelled and the nominal value of all its unissued shares is reduced from HK\$0.10 each to HK\$0.01 each and the authorized share capital of the Company of HK\$200,000,000 is reduced by HK\$180,000,000 to HK\$20,000,000 and the issued share capital of the Company of HK\$40,000,000 is reduced by HK\$36,000,000 to HK\$4,000,000 was approved at the special general meeting held on 13th July 2001.

## DIRECTORS' INTERESTS IN SHARES

As at 30th June 2001, 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			Other interest
	Personal interest	Family interest	Corporate interest	
Mr. Yue Chung Wing, Patrick ("Mr. Patrick Yue")	—	—	140,010,000 (Note 1)	—
Mr. Li Sze Tang	10,000,000	—	—	—

Notes:

- These shares are held by Enterprise Logistics Limited, a company incorporated in British Virgin Islands and wholly owned by Mr. Patrick Yue.

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 30th June 2001.

## 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.

During the period from 14th July 2000 (the date of commencement of dealing of the Company's share on GEM) to 31st March 2001, 4,000,000 and 16,000,000 share options were granted on 15th August 2000 and 4th December 2000 respectively, to certain directors and employees of the Group under the Scheme for the subscription of ordinary shares of the Company at subscription prices ranged from HK\$0.141 to HK\$0.199 per share. At the beginning of the current period, at 1st January 2001, the Company had 19,280,000 outstanding share options as 720,000 shares options had been lapsed in the period ended 31st December 2000. The movement of share options for the six months ended 30th June 2001 is set out as follows:

Date of grant	Number of shares subject to options
At 31st December 2000 and at 1st January 2001	19,280,000
Less: lapsed options	1,426,668
At 30th June 2001	<u>17,853,332</u>

During the six months ended 30th June 2001, as a result of cessation of employment of 3 grantees (employees), 1,426,668 share options granted to them have lapsed. At 30th June 2001, the underlying shares of the outstanding options under the Scheme as at 30th June 2001 represent approximately 4.5% 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 June 2001 was 1,422,221. As at 30th June 2001, the options granted to and held by the Director are as follows:

Name of director	Exercise price HK\$	Number of shares subject to options	Exercisable period
Mr. Yue Chung Wing, Patrick	0.141	1,422,221	4 Mar 01-3 Mar 05

No options granted pursuant to the Scheme had been exercised as at 30th June 2001.



## SUBSTANTIAL SHAREHOLDER

As at 30th June 2001, 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	(Note)	140,010,000	35.0025%

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 30th June 2001.

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

During the period from 14th July 2000 (date of listing) to 30th June 2001, 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 June 2001.

## 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.

## 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.

As at 30th June 2001, the audit committee comprised two members, namely Dr. Ip Wai Hung and Mr. Zhao Ming, both being independent non-executive Directors of the Company.

By Order of the Board  
**Lee Wai Kam, Hyman**  
Company Secretary

Hong Kong, 20th July 2001