

**Third Quarterly Report 2001**



**Grandmass**  
Enterprise Solution Limited

*(Incorporated in Bermuda with limited liability)*

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid report in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, 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 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.*

## 2001 THIRD QUARTERLY RESULTS HIGHLIGHTS

- The Group recorded a turnover of approximately HK\$2,921,000 for the nine months ended 30th September 2001.
- Net loss was approximately HK\$14,696,000 for the nine months ended 30th September 2001.
- The Board of Directors (the “Directors”) of Grandmass Enterprise Solution Limited (the “Company”) does not recommend the payment of dividend for the nine months ended 30th September 2001.
- Formation of a Joint Venture with IFS AB to develop new products and services of the Group.
- Acquisition of Clever Investments Inc. to strength the research & development capabilities of the Group and expand the potential market in the South China Region of the PRC.

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

	Notes	For the nine months ended 30th September	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	2,921	9,676
Cost of sales		(1,778)	(3,260)
Gross profit		1,143	6,416
Other revenue		718	669
Selling and distribution expenses		(507)	(981)
Administrative expenses		(13,141)	(7,817)
Other operating expenses		(2,428)	(1,021)
Loss from operating activities		(14,215)	(2,734)
Finance cost		(63)	(48)
Share of loss of jointly controlled entity	3	(418)	—
Loss before tax		(14,696)	(2,782)
Tax	4	—	—
Net loss attributable to shareholders		(14,696)	(2,782)
Dividend		—	—
Loss per share			
— Basic (in cents)	5	(3.61)	(0.79)

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 nine months ended 30th September 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 nine months ended 30th September 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 September 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 nine months ended 30th September 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 (2000: Nil). 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. Loss per share

The calculation of basic loss for the nine months ended 30th September 2001 is based on the net loss attributable to shareholders of approximately HK\$14,696,000 (2000: net loss attributable to shareholders of HK\$2,782,000) and the weighted average of approximately 407,143,000 (2000: 350,787,000) ordinary shares in issue during the period.

Diluted loss per share for the nine months ended 30th September 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 loss 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)
Transfer from share capital due to capital reduction (note 1)	—	36,000	—	36,000
Premium arising from issue of new shares (note 2)	3,230	—	—	3,230
Net loss for the nine months ended 30th September 2001	—	—	(14,696)	(14,696)
At 30th September 2001	<u>3,230</u>	<u>36,527</u>	<u>(25,373)</u>	<u>14,384</u>

##### Notes:

- As a result of reducing the nominal value of the issued shares in the share capital of the Company from HK\$0.10 to HK\$0.01 per share on 13th July 2001, a credit of HK\$36,000,000 was transferred to the contributed surplus account of the Company.
- The premium arising from the placement of 50,000,000 new shares in the Company to independent investors of HK\$0.08 per share on 23rd August 2001, net of share issuing expenses.

## INTERIM DIVIDEND

The Board does not recommend the payment of dividend for the nine months ended 30th September 2001 (2000: Nil).

## BUSINESS REVIEW

For the nine months ended 30th September 2001, the Group recorded a turnover of approximately HK\$2,921,000. Loss attributable to shareholders was approximately HK\$14,696,000 for the nine month ended 30th September 2001. The Board of Directors does not recommend payment of dividend for the nine months ended 30th September 2001.

The Group's source of revenue came from 5 different sectors. 38.4% was derived from the sale of proprietary ERP software packages; 6.5% from the provision of IT consultancy services; 3.0% from the provision of customized software development services; 41.8% from computer systems integration and systems development support services and the remaining 10.3% came from the sale of accounting and data application systems for strategic partners.

During the period under review, the decrease in turnover was mainly attributable to the ever-changing market conditions. The Group strategically adjusted its marketing strategies and application products, putting great emphasis on developing innovative solutions and incorporating advanced technology with our existing products. Most importantly, owing to the abrupt and sudden downsize in global economy, in particular, in the countries of Asia Pacific region in current quarter, it caused a significant downturn in the Group's performance.

According to our planned schedule as stated in the prospectus, the Linux version OMS will be launched in the second half of 2001. However, owing to the keen competition in the market, the Company would strategically adjust its marketing strategy on development of the product. The Company would closely monitor the development of the product, keeping pace with the rapid change in technology, and the ultimate needs of the customers and the trend of the software industry.

## PROSPECTS

Making sure that Grandmass will stand out from the many other software companies in Hong Kong, the Company has worked hard in the research and development that provides solutions to fit in our customers' needs.

### **A Joint Venture with IFS AB**

A joint venture contract was entered into between the Company and a wholly owned subsidiary of Industrial and Financial Systems, IFS AB, ("IFS AB") on 24th October 2001 (the "Joint Venture"). IFS AB is a top five global business applications supplier, offering applications in ERP, customer relationship management and supply chain management to medium and large enterprise. IFS AB is listed on the Stockholm Stock Exchange in Sweden with revenue of about US\$256.5 million for the year 2000. The Board considers that IFS AB's software and solution will further strengthen the Company's position in the market in providing manufacturing decision support systems and computerization consultation services to customers. As set out in the prospectus of the Company, the Company always works hard to search opportunity to form alliance with IT corporations in Hong Kong and other regions and plans to develop new products and enhance the reputation of the Company's products and services.

### **Acquisition of Clever Investments Inc.**

In addition, Grandmass Enterprise System (China) Limited, the wholly owned subsidiary of the Company, and General Science Inc. entered into an agreement on 22nd October 2001 to acquire 50% of the issued share capital of Clever Investments Inc. 智科資訊(深圳)有限公司, a wholly owned subsidiary of Clever Investments Inc., has substantial experience in the computer software package industry. The Board of the Company considered that the acquisition of Clever Investments Inc. presents an excellent opportunity for the Company to strengthen its research and development capability to complement its existing business. On the other hand, it presents an opportunity to expand distribution channel for the Grandmass' products and the potential markets, as the group of Clever Investments Inc. has strong client base in the south region of the People's Republic of China (the "PRC"), they already have more than 100 potential customers in China.

Apart from the above acquisition transaction and formation of the Joint Venture, the Company will continue to develop and strengthen alliance with the world's leading IT corporations to explore potential markets and to enlarge market share. The acquisition of Clever Investments Inc. should strengthen the research and development capabilities of the Company and expand the Company's market in the South China region of the PRC.

The PRC's entry into the World Trade Organisation will foster the economic growth of all business sectors. There will be an increasing demand from the state-owned enterprises and foreign investment entities for provision of sophisticated manufacturing applications solutions and cutting-edge ERP software in the mainland. The Company forecasts that its new products, enhanced by the advanced technology of IFS AB and strengthened by the research and development capability of Clever Investments Inc., suit the needs and will bring significant growth prospects to the Company in the South China region of the PRC.

### Disciplined Cost Controlling

At the same moment, the Company continues to carry out disciplined cost management, putting all expenses under effective control, aiming at streamlining our overall operating efficiency. On 22nd October 2001, the Company's head office has been moved in order to utilize our resources in a more efficient and effective manner.

### New Board Members & Senior Management

The Board noted and confirmed that since the listing of the Company on GEM on 14th July 2001, all members of the Board and most of the senior management have resigned to date. The Company has appointed six new directors and recruited or internally promoted new members of the senior management of the Company by due and careful processes. The Board is confident that the managerial control and overall governance of the Company can be strengthened by the new members of the Board and the senior management.

## CAPITAL REDUCTION AND PLACING OF NEW SHARES

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 authorised 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.

On 23rd August 2001, the Company has placed 50,000,000 new shares in the Company pursuant to the placing agreement dated 23rd July 2001 entered into between Kingsway SW Securities Limited and the Company at a price of HK\$0.08 per share.

The movement of issued share capital in the Company for the nine months ended 30 September 2001 is set out as follows:

	Number of shares issued '000	Paid-up nominal value HK\$'000
At 31st December 2000 and 1st January 2001	400,000	40,000
Transfer to contributed surplus due to capital reduction	—	(36,000)
Placing of new shares on 23rd August 2001	50,000	500
Share capital as at 30th September 2001	<u>450,000</u>	<u>4,500</u>

## DIRECTORS' INTERESTS IN SHARES

As at 30th September 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			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. Yue Chung Wing, Patrick ("Mr. Patrick Yue") (Note 2)	—	—	40,010,000 (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.
- Mr. Patrick has resigned from the Board with effect from 1st October 2001.

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 September 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 30th September 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 nine months ended 30th September 2001 is set out as follows:

	Number of shares subject to options
At 31st December 2000 and at 1st January 2001	19,280,000
Less: lapsed options	8,600,001
	<hr/>
At 30th September 2001	<u>10,679,999</u>

During the nine months ended 30th September 2001, as a result of cessation of employment of 19 grantees (employees), 8,600,001 share options granted to them have lapsed. At 30th September 2001, the underlying shares of the outstanding options under the Scheme as at 30th September 2001 represent approximately 2.37% 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 2001 was 1,422,221. As at 30th September 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. Patrick Yue ( <i>Note</i> )	0.141	1,422,221	4 Mar 01-3 Mar 05

*Note:*

Mr. Patrick Yue has resigned from the Board with effect from 1st October 2001.

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

## SUBSTANTIAL SHAREHOLDER

As at 30th September 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
Everest International Investments Limited	( <i>Note</i> )	74,900,000	16.64%

*Note:*

Everest International Investments Limited is a company incorporated in Cayman Islands and its shares are listed on the main board of the Stock Exchange of Hong Kong Limited.

## 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 5% 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 September 2001.

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

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



On 21st September 2001, Oriental Patron has entered into an agreement with the Company, whereby, for a fee, Oriental Patron will act as financial adviser relating to the acquisition of Clever Investments Inc. and coordinating the works involved in the transaction.

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 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 September 2001, the audit committee comprised two members, namely Mr. Zhao Ming and Mr. Lau Kwok Kee, both being independent non-executive Directors of the Company.

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

Hong Kong, 14th November 2001