



# Grandmass


Enterprise Solution Limited

盛創企業系統有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

First Quarterly Report 2002



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

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*This report, for which the directors 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.*

## 2002 FIRST QUARTERLY RESULTS HIGHLIGHTS

- The Group recorded a turnover of approximately HK\$434,000 for the three months ended 31st March 2002.
- The net loss for the three months ended 31st March 2002 narrowed to approximately HK\$3,163,000, a 31% improvement from the prior corresponding period.
- Operating costs, like administrative expenses and other operating expenses of the Group for the three months ended 31st March 2002 reduced by approximately 43% compared to last corresponding period.
- The Board of Directors (the "Directors") of Grandmass Enterprise Solution Limited (the "Company") does not recommend the payment of dividend for the three months ended 31st March 2002.
- 960,000,000 Rights Shares of HK\$0.01 each at HK\$0.032 per Rights Share were allotted on 9th April 2002.

## RESULTS

The board of Directors (the "Board") of the Company is pleased to announce their unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31st March 2002 together with the comparative figures for the corresponding period ended 31st March 2001 as follows:

		<b>For the three months ended 31st March</b>	
	<i>Notes</i>	<b>2002 HK\$'000</b>	2001 HK\$'000
Turnover	2	434	1,928
Cost of sales		(288)	(1,232)
Gross profit		146	696
Other revenue		7	386
Distribution costs		(554)	(150)
Administrative expenses		(3,050)	(4,472)
Other operating expenses		(9)	(865)
Loss from operations		(3,460)	(4,405)
Finance costs		(4)	(35)
Share of results of jointly controlled entity	3	–	(160)
Loss before taxation		(3,464)	(4,600)
Taxation	4	–	–
Loss after taxation		(3,464)	(4,600)
Minority interests		301	–
Net loss for the period		<u>(3,163)</u>	<u>(4,600)</u>
Dividend		<u>–</u>	<u>–</u>
Loss per share			
– Basic (in cents)	5	<u>(0.7)</u>	<u>(1.2)</u>

There were no recognised gains or losses other than the net loss for the period. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.



Notes:

## 1. Basis of presentation

The Company was incorporated in Bermuda on 19th April 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. 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 statements of the Group include the financial statements made up to the three months ended 31st March each year of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power, directly, or indirectly, to govern the financial and operating policies of an enterprise so as to benefit from its activities. 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 net income/loss attributable to minority shareholders' interests are shown separately in the income statement.

Intra-group balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intra-group transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

## Basis of preparation

The 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 as modified by the revaluation of long-term investment.

## 2. Turnover

The Group's 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 three months ended 31st March 2002 were all derived in Hong Kong.

## 3. Share of results of jointly controlled entity

The Group's share of losses of jointly controlled entity is principally come from Thiz Grandmass ERP Systems Limited for the last period. Up to 31st December 2001, the share of losses of the jointly controlled entity by the Group had exceeded the Group's investment cost and loan to the jointly controlled entity. In the opinion of the directors, the Group should have no responsibility on the further losses of the jointly controlled entity and hence, would not account for its share of further losses in current period.

## 4. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the three months ended 31st March 2002 (2001: Nil).

Provision for overseas tax has not been made because the overseas subsidiaries did not derive any assessable profit during the current and prior corresponding period. Deferred tax has not been provided as there were no significant timing differences at the period-end date (2001: Nil).

## 5. Loss per share

The calculation of basic loss per share for the three months ended 31st March 2002 is based on the Group's net loss for the period of approximately HK\$3,163,000 (2001: net loss of HK\$4,600,000) and the weighted average of approximately 480,000,000 ordinary shares (2001: 400,000,000 ordinary shares) in issue during the period.

Diluted loss per share for the three months ended 31st March 2002 and 2001 have not been shown as the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share for the periods.

## 6. Movement in reserves

### Group


	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2001	–	527	(10,677)	(10,150)
Transfer from share capital due to capital reduction	–	36,000	–	36,000
Premium arising from issue of new shares	5,630	–	–	5,630
Net loss for the year ended 31st December 2001	–	–	(22,319)	(22,319)
At 31st December 2001 and at 1st January 2002	5,630	36,527	(32,996)	9,161
Net loss for the three months ended 31st March 2002	–	–	(3,163)	(3,163)
At 31st March 2002	<u>5,630</u>	<u>36,527</u>	<u>(36,159)</u>	<u>5,998</u>

## INTERIM DIVIDEND

The Board does not recommend the payment of dividend for the three months ended 31st March 2002 (2001: Nil).

## OVERALL FINANCIAL AND BUSINESS REVIEW

Owing to the gloomy economic conditions worldwide and the keen competition in the ERP market, the Group experienced much pressure on the pricing of its core business and the corporate earnings. In particular, the terrorist attacks in the United States in last year's September deeply shattered consumers' confidence worldwide. The economic environment was looking decidedly grim, corporate earnings plunged and growth forecast were awfully contracting.



As revealed in the annual results announcement of the Company in 2001, the Group might still be impacted by the on-going global economic recession in the short run. The directors believe that the Group will continue to experience pressures on pricing of its products and the corporate earnings before the economy rebounds.

The turnover of the Group for the three months ended 31st March 2002 amounted to approximately HK\$434,000, representing a decrease of 77% over the turnover of the corresponding period in 2001. As mentioned above, the decrease was mainly attributable to the dropping in sales orders from customers and price competition from the market, owing to the global deteriorating economic conditions.

The net loss of the Group for the three months ended 31st March 2002 narrowed to approximately HK\$3,163,000, a 31% improvement from the prior corresponding period. This is because the Company continues to focus on expense control and capital productivity since October 2001. In particular, ongoing cost control initiatives and functional integration strategy reduced the administrative expenses and other operating expenses of the Group for the three months ended 31st March 2002 by 43% compared to the corresponding period in 2001. On the other hand, the Group invested prudently on deploying the necessary corporate resources to integrate and add value to the acquired businesses. For instance, the Group has succeeded in shifting its entire research and development from Hong Kong to the acquired business, Clever-Tech Information System (Shenzhen) Limited, in Shenzhen, PRC. Besides from operating cost of the Group was significantly reduced, it was obvious that the acquired business strengthened the research and development capability of the Group and complemented the Group's existing business.

Reference is made to the announcement of the Company dated 8th April 2002, 960,000,000 new shares of the Company were made under the rights issue on 9th April 2002. The net proceeds of approximately HK\$29 million were raised in the rights issue, providing additional working capital for the Group.

## **PROSPECTS**

In response to the slowdown across different market segments in Hong Kong and worldwide, in particular, after the terrorist attacks in the United States in last year's September, many corporations have been conservative on their budget and capital expenditures. In order to attract more customers in such circumstance, the Group put much emphasis on the quality of the product, especially the product research and development of new technology.

Nonetheless, although the worldwide gloomy economic conditions, the directors foresee that the present and the future look rosy in China. Definitely, the entry into the World Trade Organisation ("WTO") and successful bidding of the Beijing Olympic Games in 2008 will bring positive momentum for the growth of the economy in China in both short and long run.



The directors are confident that China's entry to the WTO will create immense opportunities for the Group as a result. Today, in fact, ERP get more and more attention from different enterprises and industries in China. It is believed that China will be the highest growth ERP market in Asia in future.

In view of changing market conditions, on 15th April 2002, it was announced that the Group had entered into a conditional sales and purchase agreement on 12th April 2002 to exercise the option pursuant to the agreement entered into between the Group and General Science Inc. (the "Vendor") dated 30th November 2001 to acquire from the Vendor the remaining 50% of the issued share capital of Clever Investments Inc. Upon completion of the acquisition, the Company's ultimate respective interests in Clever Investments Inc. and Clever-Tech Information System (Shenzhen) Limited will increase to 100%. The directors consider that the acquisition will further enhance the product research and development capability of the Group and enlarge the Group's customers profile in the prospective China market.


As a leading and advanced software producer, the Group continues to offer premium quality products, with high value-added and high margin, to its customers. The directors always closely monitor the trend of the software industry, it is believed that product diversification and differentiation enables the Group to expand its product variety and manage its business risks effectively. In order to meet the needs of the customers, the Group is undertaking the development of the Human Resource Module which is an enhanced system to handle all data related to personnel and human resource management integrating to the Group's Intuitive Open Manufacturing System.

Besides, a series of events will be launched over Hong Kong and China, in order to draw the attention from the customers. Such campaign will help to raise the brand awareness and goodwill of the Group so as to bolster the Group's sales volume.

In the coming quarter, the Group will continue to carry out cost control measures to increase the operating efficiency and thereby increase the Group's competitiveness in the market. The Group believes that it is currently in the consolidation period. Consolidation measures include research and development of new technology, new product planning and expansion of sales network in both Hong Kong and China. All of these aim to enhance the competitiveness of the Group, as well as generate significant returns for shareholders of the Company in future.

### **DIRECTORS' INTERESTS IN SHARES**

As at 31st March 2002, none of the Directors or chief executive of the Company had any interests in the equity or debt securities of the Company or any of its associated corporation which were required to be notified to the Company and the Stock Exchange



pursuant to section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transaction by directors, to be notified to the Company and the Stock Exchange.

As at 31st March 2002, none of the Directors or their associates had any personal, family corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

As at 31st March 2002, none of the Directors had any direct or indirect interest in any assets which acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.


As at 31st March 2002, none of the Directors were materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries and which is significant in relation to the business of the Group.

### **SHARE OPTION SCHEME**

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 employee, including full time executive director of the Company or any of its subsidiaries to subscribe for shares of the Company. The subscription price will be determined by the Board, but may not be less than the highest of the nominal value of the shares of the Company, the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant options is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.





The Scheme became effective for a period of 10 years commencing 14th July 2000 (the date of commencement of dealing of the Company's share on GEM of the Stock Exchange). During the period from 14th July 2000 to 31st March 2002, 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. These share options are exercisable during the period from 4th March 2001 to 14th August 2005.

As at 31st March 2002, the following options to subscribe for shares were outstanding under the Scheme:

Date of options granted	Number of options outstanding at beginning of the period	Options lapsed during the period	Number of options outstanding end of the period	Subscription Price	Exercisable period
15th August 2000	360,000	–	360,000	HK\$0.199	15th Aug 01 to 14th Aug 05
4th December 2000	6,755,556	3,911,109	2,844,447	HK\$0.141	4th Mar 01 to 3rd Mar 05
	<u>7,115,556</u>	<u>3,911,109</u>	<u>3,204,447</u>		

The underlying shares of the outstanding options under the Scheme as at 31st December 2001 represented approximately 0.67% of the issued capital of the Company. The highest number of shares underlying the outstanding options granted to employees under the Scheme as at 31st March 2002 was 711,111.

No options granted pursuant to the Scheme had been exercised up to 31st March 2002.

It was announced on 6th May 2002 in the Circular of the Company (the "Circular") that the Company proposed a new share option scheme to be adopted at the special general meeting to be convened on 24th May 2002, the details of which were set out in the Circular.

## **DIRECTORS' RIGHTS TO ACQUIRE SECURITIES**

Other than the share option scheme adopted by the Company on 29th June 2000, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 31st March 2002, none of the Directors or chief executive of the Company had any share options under the Scheme.



## SUBSTANTIAL SHAREHOLDER

As at 31st March 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>		<b>Number of shares held</b>	<b>Approximate shareholding</b>
Everest International Investments Limited	<i>(Note)</i>	74,900,000	15.60%

*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.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

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


During the period from 14th July 2000 (date of listing) to 31st March 2002, 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

As confirmed by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), as at 31st March 2002 and date of this report, respectively, none of Oriental Patron and its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM listing Rules) had or may have any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) and any competing interest with the business of the Group. Oriental Patron has entered into a sponsor 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 GEM Listing Rules up to 31st December 2002.

## 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.



## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39, if relevant, of the GEM Listing Rules during the period.

## **COMPLIANCE WITH RULES 17.15 TO 17.21 OF THE GEM LISTING RULES**

The Directors have confirmed that, as at 31st March 2002, the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## **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. As at 31st March 2002, the audit committee comprised two members, namely Mr. Zhao Ming and Mr. Lau Kwok Kee, both being independent non-executive Directors of the Company.

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. During the three months ended 31st March 2002 and up to the date of this report, the audit committee has met 5 times reviewing the Group's quarterly report, financial statements and providing advices and recommendations to the Board. The Group's financial statements for the three months ended 31st March 2002 have been reviewed by the members of the audit committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

By Order of the Board  
**Ng Ming Wah**  
*Chairman*

Hong Kong, 10th May 2002