



# 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)

**Interim Report 2002**

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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 INTERIM RESULTS HIGHLIGHTS

- The Group recorded a turnover of approximately HK\$1,363,000 for the six months ended 30th June 2002.
- The net loss for the six months ended 30th June 2002 narrowed to approximately HK\$6,136,000, a 39% improvement from the prior corresponding period.
- Operating costs, including distribution costs, administrative expenses and other operating expenses of the Group for the six months ended 30th June 2002 reduced by approximately 35% compared to last corresponding period.
- The Board of Directors (the "Board") of Grandmass Enterprise Solution Limited (the "Company") does not recommend the payment of dividend for the six months ended 30th June 2002.
- 960,000,000 Rights Shares of HK\$0.01 each at HK\$0.032 per Rights Share were allotted on 9th April 2002.


The Directors of the Company is pleased to announce the unaudited results, including the consolidated income statements of the Group for the six months ended 30th June 2002 and the consolidated balance sheets of the Group as at 30th June 2002, together with the comparative figures for the corresponding period and relevant date in 2001, and the consolidated cashflow statements of the Group for the six months ended 30th June 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the period under review, the retail, industrial and manufacturing sectors in Hong Kong continued to be shrouded by sluggish economic activities. In response to the gloomy outlook, businesses have been tightening their consumption and purchasing budgets. Although the entry into the World Trade Organisation of China will bring positive momentum for the growth of the economy in China, including Hong Kong and surrounding Asia-Pacific countries, in both short and long run, many businesses and customers have become more price-sensitive and cautious in choosing quality brands and among the different channels and software products.

As mentioned in the annual results announcement of the Company in 2001 and the first quarterly results announcement of the Company in 2002, the Board believes that the Group will be impacted by the on-going economic recession in the short run. It is expected that the Group will continue to experience pressure on pricing of its products and sales volume before the economy rebounds.




For the six months ended 30th June 2002, the Group's turnover amounted to approximately HK\$1,363,000. As mentioned before, the decline in turnover compared with corresponding period in previous year was mainly attributable to the overall unsatisfactory performance of the Hong Kong consumer goods and manufacturing industries. In addition, many top global business applications suppliers also reduced the price of their products under the current difficult market condition. It further strengthened the competition in the ERP market, in particular of the customers among the small to medium size enterprises. Owing to above factors, the revenue of the Group decreased by 45% compared with corresponding period in last year.

The loss from operations before the amortisation of Goodwill was approximately HK\$6,002,000, representing a 38% improvement over the corresponding figure of approximately HK\$9,655,000 in 2001.

The Group continued to exercise prudent measures on cost control policies and decreased its operating expenditures, including distribution costs, administrative expenses and other operating expenses, to approximately HK\$3,613,000 for the three months ended 31st March 2002, a 34% decrease from HK\$5,487,000 for the same period of previous year, and to approximately HK\$3,685,000 for the three months ended 30th June 2002, representing 36% decrease from HK\$5,736,000 for the same period in 2001. With the implementation of the cost control policies and shifting of the Group's research and development team and part of the sales and after-sales maintenance operations to China, the Board anticipates that it will further improve the overall performance of the Group as the Group shifts to a high volume and low cost distribution model.

In view of the expanding customers' demand in the PRC market and the cost control and resources optimization strategies, the Group entered into a 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 the completion of this further acquisition on 9th May 2002, the Company's ultimate respective interests in Clever Investments Inc. and Clever-Tech Information System (Shenzhen) Limited was increased to 100%. The Board considered that the acquisition would further enhance the product research and development capability of the Group. In addition, it would enlarge the Group's customers profile in the prospective China market and shift the Group's operations in a more cost efficient and effective manner.



Of the Group's total operating expenditure, staff costs continued to represent the largest component of the total expenditure. Total staff costs, including staff salaries, allowances and directors' emoluments, amounted to approximately HK\$4,579,000, a 33% decrease from approximately HK\$6,872,000 for the corresponding period in 2001. As at 30th June 2002, the Group employed a total of 46 employees, of which 23 and 23 were located in Hong Kong and Shenzhen, PRC respectively. In order to cope with the ever-changing operating environment, the Board continues to streamline the work force of the Group and maintain a efficient infrastructure. Employees of the Company were remunerated comparable to market with employee benefits of medical insurance, mandatory provident fund and employee share option scheme.

In April 2002, the Company completed a rights issue of 960,000,000 new shares in the Company, approximately HK\$29,081,000 after expenses was raised from the exercise. Of this proceed, HK\$7.7 million was used in the acquisition of Clever Investments Inc. in May 2002 as mentioned above.

As at 30th June 2002, cash and bank balances of the Group was approximately HK\$8,653,000 and had time deposits with original maturity of less than three months of approximately HK\$13,012,000. There were no bank borrowings of the Group as at 30th June 2002. Taking into consideration of the existing financial resources available to the Group, it is anticipated that the Group have sufficient financial resources to meet its ongoing operating and development requirements.

The Group did not have any long-term debts as of 30th June 2002 and its total assets amount to approximately HK\$39,695,000. In this regard, the Group's gearing ratio, expressed as a percentage of long-term liabilities over total assets, was zero as of 30th June 2002.

Since the functional currencies of the Group's operations are Hong Kong dollars and Renminbi, the Board considers that the potential exchange rate risk of the Group is minimal.

As at 30th June 2002, the Group had not pledged any of its assets to secure any banking facilities nor has it any material contingent liabilities to be disclosed at that date.

In view of the capital structure of the Group, as aforesaid, the Group allotted and issued 960,000,000 new ordinary shares by way of rights issue of par value of HK\$0.01 each on 9th April 2002. After the rights issue and as at the date of this announcement, the total number of issued shares of the Company was 1,440,000,000. Besides, pursuant to the ordinary resolution adopted by the shareholders of the Company on 4th March 2002, the authorised share capital of the Company was increased from HK\$20,000,000 to HK\$100,000,000 by the creation of 8,000,000,000 new shares of par value of HK\$0.01 each.



## **Business Review**

### *Key Business Developments*

During the period under review, the Group was principally focused in the sales and marketing, research and development of the products in order to gain increasing recognition of our products and services and further enhance the quality of our products.

### *Strategic Developments and Business Acquisition*

During the period under review as stated in the announcement of the Company dated 15th April 2002, (the "Announcement") the Group further acquired 50% interests in Clever Investments Inc. from General Science Inc. It further strengthens the research and development capabilities of the Group and enhances the entry to the potential market of the southern region of the People's Republic of China. The Group strongly believes that sound research and development capabilities are important to guarantee the continued success of the Group and are fully committed to developing pioneering software products.

### *Key Product Developments and Integration*

The Group succeeded in launching the Human Resources System (Client Server Edition) during the period under review. The product has attracted encouraging feedbacks from the market.

In addition, the Japanese version of iOMS (iOMS-J) has been launched to further expand the market into the Japanese enterprises in the regions including Hong Kong, Mainland China, Macau and south-east asia countries.

### *Sales and Marketing Activities*

During the period under review, the Group has participated in a technological seminar held in Shunde and a hi-tech exhibition held in Dongguan which these activities serve as a promotional function which we believe would further enhance the brand image of our Group's products.

### *Prospects*

In order to target and tailor made to the potential customers in the ERP market, the iOMS version 2.0 will be further developed to the version which specifically suits an industry's needs, the prospective industries are electronics, furniture, toys and printing business. It is expected the version would be launched later this year.

Upon launching of the iOMS-J version, the Group has entered into a long term strategic partnership with NTT Data HK which the company will act as the distributorship of the products and the market is focusing on the Japanese enterprises in Hong Kong, Mainland China, Macau and the south- east asia countries.



A series of events in Pearl Delta region and Guangdong Province will continue to organise in third and fourth quarters of 2002. The Group will also participate in the largest hi-technology exhibition in southern China, the Shenzhen Hi-Tech Fair in October 2002. The prime objective is brand-building and capitalise the Group's sale network so as to bolster the Group's sales volume.

On 17th July 2002, the Group at a consideration of HK\$5.5 million acquired 33% interests in Signking Science Limited which the acquired group is principally engaged in software development, sales of software products and system integration, its customers mainly represent Shanghai local government entities and private enterprises. The acquisition represents a good opportunity for the Group to expand its software business which has a recognised brand name and image, an existing infrastructure with necessary human resources and an established customer base in the northern region of the People's Republic of China. Further, the Group is able to take advantage of the synergy between the Group and the investment. The Board believes that the acquisition can further expand the existing operations of the Group to provide a full range of software products and related services to its customers.

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 Board always closely monitors 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 enhancement of the existing version of i-Accounts version 1.0 (include the Japanese version) and development of the internet based Human Resource Module, which is an enhanced system to handle all data related to personnel and human resource management integrating to the Group's iOMS product suite. It is expected the enhanced version would be released later this year.

However, in the short run, the Group's business might be impacted by the on-going economic recession. The Board believes that the Group will continue to take every measure to increase its operating efficiency, organizing more seminars sale activities in order to attach more potential customers and reducing its operating and fixed overhead costs so as to enhance its competitiveness.

In the long run, the Group will continue to look for potential investments and business opportunities in the software industry which enable to enhance the distribution, market opportunities and revenue of the Group.

The Board believes that all above strategies aiming to enhance the competitiveness of the Group, as well as generate significant returns for shareholders of the Company in future.

## Consolidated Income Statements

	Notes	For the six months ended 30th June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	2	1,363	2,458
Cost of sales		<u>(689)</u>	<u>(1,517)</u>
Gross profit		674	941
Other revenue		47	627
Distribution costs		(1,132)	(179)
Administrative expenses		(5,777)	(9,204)
Other operating expenses		<u>(389)</u>	<u>(1,840)</u>
Loss from operations		(6,577)	(9,655)
Finance costs		(7)	(57)
Share of results of jointly controlled entity	3	<u>–</u>	<u>(322)</u>
Loss before taxation		(6,584)	(10,034)
Taxation	4	<u>–</u>	<u>–</u>
Loss after taxation		(6,584)	(10,034)
Minority interests		<u>448</u>	<u>–</u>
Net loss for the period		<u><u>(6,136)</u></u>	<u><u>(10,034)</u></u>
Dividend		<u><u>–</u></u>	<u><u>–</u></u>
Loss per share			
– Basic (in cents)	5	<u><u>(0.6)</u></u>	<u><u>(2.3)</u></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.



## Consolidated Balance Sheets

	Notes	As at	
		30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		1,525	2,066
Goodwill		14,071	6,386
		<u>15,596</u>	<u>8,452</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	6	1,357	744
Prepayments and deposits		514	691
Prepaid tax		563	563
Time deposits		13,012	–
Cash and bank balances		8,653	5,440
		<u>24,099</u>	<u>7,438</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	1,533	942
Deferred income		906	389
Deposits received		239	304
Obligations under finance leases			
– due within one year		–	174
Warranty provision		80	80
		<u>2,758</u>	<u>1,889</u>
<b>NET CURRENT ASSETS</b>		<u>21,341</u>	<u>5,549</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>36,937</b>	14,001
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases			
– due after one year		–	121
<b>MINORITY INTERESTS</b>		<b>31</b>	(81)
		<u>36,906</u>	<u>13,961</u>
<b>CAPITAL AND RESERVES</b>			
Issued share capital		14,400	4,800
Reserves	8	22,506	9,161
		<u>36,906</u>	<u>13,961</u>



## Consolidated Cash Flow Statement

For the six  
months ended  
30th June 2002  
(Unaudited)  
HK\$'000

NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<u>(5,113)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	
Interest income	41
Interest element on finance leases	<u>(7)</u>
Net cash inflow from returns on investments and servicing of finance	<u>34</u>
TAXATION	
Hong Kong profits tax paid	—
INVESTING ACTIVITIES	
Acquisition of remaining interest of a subsidiary	(7,700)
Purchases of fixed assets	(104)
Proceeds on disposals of fixed assets	<u>322</u>
Net cash outflow from investing activities	<u>(7,482)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	<u>(12,561)</u>
FINANCING ACTIVITIES	
Proceeds from issue of new shares from placing	30,720
Expenses paid in connection with shares issued	(1,639)
Repayment of capital element of finance leases	<u>(295)</u>
Net cash inflow from financing activities	<u>28,786</u>
INCREASE IN CASH AND CASH EQUIVALENTS	16,225
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>5,440</u>
CASH AND CASH EQUIVALENTS AT END OF the YEAR	<u><u>21,665</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	8,653
Time deposits with original maturity of less than three months	<u>13,012</u>
	<u><u>21,665</u></u>



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 six months ended 30th June 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, the disclosure requirements of the Hong Kong Companies Ordinance and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The principal accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31st December 2001.

## 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 six months ended 30th June 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, beginning of current period under review, 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 under review.

After the due and careful consideration of the severe technology changes and lack of customers' need in Linux ERP market, the Group determined to terminate the development of the OMS Linux product. On 6th May 2002, the Group disposed of the interests in the jointly controlled entity (including the investment cost and the loan advanced to the jointly controlled entity) to Thiz.Com Inc., which is the fellow subsidiary of another shareholder of Thiz Grandmass ERP Systems Limited, by the consideration of HK\$220,000 in aggregate, which was included in the other operating expenses of the Group for the six months ended 30th June 2002.

#### 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 six months ended 30th June 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 six months ended 30th June 2002 is based on the Group's net loss for the period of approximately HK\$6,136,000 (2001: net loss of HK\$10,034,000) and the weighted average of approximately 945,953,000 ordinary shares (2001: 439,604,000 ordinary shares) in issue during the period after adjusting the effects of the rights issue of shares on 9th April 2002. The basic loss per share for 2001 has been adjusted accordingly.

Diluted loss per share for the six months ended 30th June 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. Trade and other receivables

	<b>As at</b>	
	<b>30th June 2002 (Unaudited) HK\$'000</b>	31st December 2001 (Audited) HK\$'000
Trade receivable	284	90
Other receivables	1,073	654
	<u>1,357</u>	<u>744</u>

The following is an aged analysis of trade receivable at the balance sheet date:

	<b>2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2001 (Audited) HK\$'000
0-60 days	<b>196</b>	–
61-90 days	–	–
>90 days	<b>88</b>	90
	<u><b>284</b></u>	<u>90</u>

Payment to the Group is principally by way of cash on delivery.

## 7. Trade and other payables

	<b>As at</b>	
	<b>30th June</b> <b>2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31st December 2001 (Audited) HK\$'000
Trade payable	<b>127</b>	148
Other payables	<b>1,406</b>	794
	<u><b>1,533</b></u>	<u>942</u>

The following is an aged analysis of trade payable at the balance sheet date:

	<b>2002</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2001 (Audited) HK\$'000
0-60 days	<b>121</b>	45
60-90 days	–	–
>90 days	<b>6</b>	103
	<u><b>127</b></u>	<u>148</u>



## 8. Movement in reserves

### Group

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
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)
	<u>–</u>	<u>–</u>	<u>(22,319)</u>	<u>(22,319)</u>
At 31st December 2001 and at 1st January 2002	5,630	36,527	(32,996)	9,161
Premium arising from a rights issue of 960,000,000 new shares	21,120	–	–	21,120
Shares issue expenses in respect of the rights issue	(1,639)	–	–	(1,639)
Net loss for the six months ended 30th June 2002	–	–	(6,136)	(6,136)
	<u>–</u>	<u>–</u>	<u>(6,136)</u>	<u>(6,136)</u>
<b>At 30th June 2002</b>	<b><u>25,111</u></b>	<b><u>36,527</u></b>	<b><u>(39,132)</u></b>	<b><u>22,506</u></b>

## 9. Segment information

The Group operates within one geographical segment because its revenue is principally generated in Hong Kong. Accordingly, no geographical segment data is presented. An analysis of the Group's income and results for the six months ended 30th June 2002 and 2001, and certain asset and liability information regarding business segments at 30th June 2002 and 31st December 2001 are as follows:

### Business segments

The Group is primarily engaged in the sales of software licence and its related services and the provision of maintenance services. The software licence and related services business mainly refers to consultation, implementation, installation and hardware advisory services, which provided before or upon delivery of the software product. The maintenance services business mainly refers to after-sale maintenance and support services, including support enquiry service and ad-hoc emergency service.

	Sales of software licence and related services		Provision of maintenance services		Total	
	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
REVENUE						
External revenue	959	1,985	404	473	1,363	2,458
RESULTS						
Segment results	(4,575)	(8,658)	(1,660)	(1,440)	(6,235)	(10,098)
Unallocated corporate revenue					6	188
Unallocated corporate expenses					(389)	(184)
Operating loss excluding interest income/expenses					(6,618)	(10,094)
Interest income					41	439
Interest expenses					(7)	(57)
Share of results of jointly controlled entity					-	(322)
Loss before taxation					(6,584)	(10,034)
Taxation					-	-
Loss after taxation					(6,584)	(10,034)
Minority interests					448	-
Net loss for the period					(6,136)	(10,034)

	Sales of software licence and related services		Provision of maintenance services		Total	
	At 30th June 2000 HK\$'000 (Unaudited)	At 31st December 2001 HK\$'000 (Audited)	At 30th June 2002 HK\$'000 (Unaudited)	At 31st December 2001 HK\$'000 (Audited)	At 30th June 2002 HK\$'000 (Unaudited)	At 31st December 2001 HK\$'000 (Audited)
ASSETS						
Segment assets	1,933	2,156	30	24	1,963	2,180
Unallocated corporate assets					37,732	13,710
Consolidated total assets					39,695	15,890
LIABILITIES						
Segment liabilities	513	448	453	325	966	773
Unallocated corporate liabilities					1,823	1,156
Consolidated total liabilities					2,789	1,929
Consolidated net assets					36,906	13,961
OTHER INFORMATION (Unaudited six months figures)						
Capital expenditures	104	848	-	-	104	848
Depreciation	347	706	-	-	347	706
Non-cash expenses other than depreciation	-	48	-	-	-	48



## INTERIM DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 30th June 2002 (2001: Nil).

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS FOR THE SIX MONTHS ENDED 30TH JUNE 2002

### **Business Objectives as stated in the prospectus dated 7th July 2000**

### **Actual Business Progress**

#### *A. Develop strategic alliance*

Search opportunities to form alliance with IT corporations in HK and other Asian countries

For the period ended 30th June 2002, the Group further acquired the remaining 50% interests in Clever Investments Inc., in order to further enhance the research and development capability of the Group and the customer base of the Group in the southern part of the People's Republic of China.

Subsequent to the period under review, the Group acquired 33% interests in Signking Science Limited. The acquired group is principally engage in software development, sales of software products and system integration. The acquisition effectively opened the market of the Group in the northern region of the People's Republic of China through a quality brand name, established customer base and an existing well developed infrastructure.

It is believed that the acquisitions of these IT corporations can enhance the marketing, licencing, distribution and sales activities for the Group's products.





*B. Expand distribution channel for the OMS and potential markets*

Engage more dealers and ASPs in Hong Kong and other Asian countries to distribute the Group's products

During the period under review, the Group succeeded in forming a long term strategic partnership with NTT Data HK to market the Group's product. Their distribution areas mainly cover Hong Kong, China, Macau and south-east asia countries. The alliance would further enhance the sales and marketing network of the Company.

On the other hand, due to immaturity and lack of demand of the ASP market at present, the Group has determined to concentrate its distribution channel in buy-and-sell channel.

*C. New product development*

Commence to design and develop the OMS Maintenance Management System which is a mission critical system for preventive maintenance scheduling and monitoring

Due to lack of market demand in OMS Maintenance Management System, the design and development of the product has been delayed.



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

Participate in IT exhibitions in the Asian region and organise direct mailing to targeted customers and advertisement and conduct seminars to promote the products and services of the Group

The Group continued to endeavor to expand its customer base and market awareness by participation of sizeable IT exhibitions, like the exhibition held in Dongguan in June 2002, and the seminar held in Shunde in April 2002. In addition, the Group planned to participate in one of the largest IT exhibitions in China, the 2002 China Hi-Tech Fair to be held in Shenzhen in October 2002. Participation in the exhibitions enabled the Group to keep abreast with the industrial development and establish relationship with potential customers.


The Group continued to send Company and product brochure to potential customers and place advertisements in major newspaper and other medias to further promote and introduce the Group's products.

### **USE OF PROCEEDS**

As stated in the prospectus of the Company dated 7th July 2000, approximately HK\$4.5 million of the net proceeds of the issue of the new shares under the initial public offer would be allocated as to approximately HK\$3.5 million for new product development; HK\$0.5 million for developing potential markets and HK\$0.5 million for promoting the products and service of the Group.

For the six months ended 30th June 2002, HK\$1.1 million had been used in which approximately HK\$0.3 million was invested in new product development, about HK\$0.7 million has been used in potential market development and approximately HK\$0.1 million was spent on promoting the Group's products and revenue.

The discrepancies between planned and actual use of proceeds was mainly attributable to the proportion of proceeds that using for the new product development work was less than planned. This is because the time used for the product development was much shorter than planned. In addition, due to unfavourable market sentiment, participation in IT exhibition was less than planned. In stead, the Group adopted a cost efficient and effective measure to promote the product and services of the Group during the period by way of direct mailing and conducting seminars.



Furthermore, as mentioned above, the Group further acquired the remaining 50% interests in Clever Investments Inc., in order to further enhance the research and development capability in producing quality products of the Group and enlarge the customer base of the Group in the southern region of the People's Republic of China, by a consideration of approximately HK\$7.7 million by payment in cash financed by the proceeds of the rights issue of the Company as stated in the Announcement.

## **DIRECTORS' INTERESTS IN SHARES**


As at 30th June 2002, none of the Directors or chief executive of the Company had any personal, family, corporate or other interests in the shares 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 Securities (Disclosure of Interests) 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 30th June 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 acquired or disposed of by , or leased to, the Company or any of its subsidiaries.

As at 30th June 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 new share option scheme adopted by the shareholders of the Company on 24th May 2002 (the "New Share Option Scheme"), the Board of the Company may for a consideration of HK\$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6th May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price 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 option 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 New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The New Share Option Scheme became effective for a period of 10 years commencing 24th May 2002 (the date on which the New Share Option Scheme was adopted).

The details and major provisions of the New Share Option Scheme were set out in the circular of the Company dated 6th May 2002.

No options under the New Share Option Scheme had been granted to any persons during the period under review and up to the date of this announcement.

In compliance with the amended Chapter 23 of the GEM Listing Rules, the New Share Option Scheme supersedes the previous share option scheme adopted by the shareholders of the Company on 29th June 2000 (the "Previous Share Option Scheme"). The Previous Share Option Scheme was terminated on 24th May 2002 accordingly. However, notwithstanding the termination of the Previous Share Option Scheme, the outstanding options previously granted under the Previous Share Option Scheme shall remain valid and exercisable in accordance with the provisions of the Previous Share Option Scheme.

As at 30th June 2002, the outstanding options previously granted under the Previous Share Option Scheme were set out as follows:

<b>Date of options granted</b>	<b>Number of options outstanding at beginning of the period</b>	<b>Options cancelled during the period</b>	<b>Number of options outstanding at end of the period</b>	<b>Subscription Price</b>	<b>Exercisable period</b>
15th August 2000	360,000	180,000	180,000	HK\$0.199	15th Aug 01 to 14th Aug 05
4th December 2000	6,755,556	4,622,221	2,133,335	HK\$0.141	4th Mar 01 to 3rd Mar 05
	<u>7,115,556</u>	<u>4,802,221</u>	<u>2,313,335</u>		

The underlying shares of the outstanding options under the Previous Share Option Scheme as at 30th June 2002 represented approximately 0.16% of the issued shares of the Company. The highest number of shares underlying the outstanding options granted to employees under the Previous Share Option Scheme as at 30th June 2002 was 711,111.

No options granted pursuant to the Previous Share Option Scheme had been exercised up to 30th June 2002.



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

Other than the New Share Option Scheme adopted by the Company on 24th May 2002, 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 30th June 2002, none of the Directors or chief executive of the Company had any options under any share option schemes of the Company.

## **SUBSTANTIAL SHAREHOLDER**

As at 30th June 2002 and up to the date of this announcement, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance did not show that the Company had been notified of any interest of 10% or more of the Company's issued share capital.

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

For the six months ended 30th June 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 30th June 2002 and date of this announcement, 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 30th June 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 30th June 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 six months ended 30th June 2002 and up to the date of this announcement, the audit committee has met 6 times reviewing the Group's quarterly report, financial statements and providing advices and recommendations to the Board. The Group's financial statements for the six months ended 30th June 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, 9th August 2002