



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

2003

Quarterly ended
30th June 2003

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

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

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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.

The Directors of the Company is pleased to announce their unaudited results, including the consolidated income statement of the Group for the six months ended 30 June 2003 and the consolidated balance sheet of the Group as at 30 June 2003, together with the comparative figures for the corresponding period and relevant date in 2002, and the consolidated cashflow statement of the Group for the six months ended 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2003, the Group's turnover amounted to approximately HK\$1,207,000. On March 2003, the Group has entered into a share subscription agreement with an independent investor to invest into the Group's business. And the aforesaid arrangement would greatly reduce the cash outflows for the entire group. The business results of the partially disposed subsidiaries from March 2003 forward were recorded as the share of the results of the associates to comply with the HKGAAP requirement .

The net loss attributable to the shareholders was approximately HK\$2,048,000, representing a decline of approximately 67% over the corresponding period. The significant improvement was resulted as much of the operating costs were borne by the new investor of those partially disposed operating subsidiaries.

Under the period under review, the amortization of goodwill amounts to approximately HK\$492,000, where it amounts to approximately HK\$134,000 in 2002. The increase is due to the acquisition of an interest in an associate in 2002 which is engaging in software development and related services business.

The management team has implemented on-going measures to improve the financial position of the Group and revive the business operations through streamlining the operations and improving the operating efficiency of the Group.

Liquidity and financial resources

The Group financed its operations primarily with internally generated cash flows. Overall, the Group has adhered to a prudent financial management policy.

As at 30 June 2003, the Group had cash and cash equivalents of approximately HK\$5,096,000.

As at 30 June 2003, the Group had no bank borrowings. 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.

Gearing ratio

The Group did not have any long-term debts as of 30 June 2003. In this regard, the Group's gearing ratio, expressed as a percentage of long-term liabilities over total assets, was zero as of 30 June 2003.

Material acquisitions/disposal and significant investments

During the period under review, as disclosed in the Annual Report 2002, the Group has entered into a share subscription agreement with an independent investor to invest into the Group's business. And the aforesaid arrangement would greatly reduce the cash outflows for the entire group. The gain on the partial disposal of the subsidiaries does not have cashflow impact on the Group but will improve the financial position of the Group.

There were no material acquisitions or investments during the period under review. Moreover, as disclosed in the Announcement dated 7 July 2003, the Group is negotiating with an independent third party of a possible acquisition in a IT-related business and timely public announcement will be made in due course.

Employee information and Remuneration policy

The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund and provide similar schemes for its employees in the Mainland.

The Group established a Share Option Scheme to reward its employees for their individual performance. During the period under review, no share option had been granted nor exercised.

Exposure to fluctuation in exchange rates

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.

Charges on group assets

As at 30 June 2003, none of the Group's assets were pledged to secure any banking facilities.

Contingent liabilities

As at 30 June 2003, the Group and the Company had no significant contingent liabilities to be disclosed.

Business Review and Prospects

During the period under review, the Group remained its core business, and was principally engaged in the sales of self-developed software license and related services, provision of maintenance services. The Group also continues involve in the research and development of its software products.

In order to expand the distribution network and implementing cost-reduction measures with an objective to improve our cost-effectiveness, and hence increasing our competitiveness and profitability in the market, under the period under review, the Group had induced a new investor to invest in the major operating subsidiaries which was seen to offer synergy to the existing business.

The management are optimistic at the ERP business and will continue to form strategic business partnership with potential partners to strengthen and improve the present product and launch out projects on related research and development to capitalize the changing customer's requirement and expand its business network in the Mainland China.

Also, the Company will actively exploring new investment opportunities in IT related businesses with high growth potential in the future periods.

The SARS outbreak and the decline of the Hong Kong economy have created additional challenge to the Group. Fortunately, it is temporary in nature and the management is confident with the ERP business prospects. In addition, the management will review periodically on the global ERP business for formulating appropriate strategies to cope with the rapid changing market.

RESULTS

Consolidated Income Statement (Unaudited)

	Notes	For the three months ended		For the six months ended	
		30 June 2003	30 June 2002	30 June 2003	30 June 2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	—	929	1,207	1,363
Cost of sales		—	(401)	(289)	(689)
Gross profit		—	528	918	674
Other revenue		10	40	95	47
Distribution costs		(2)	(578)	(838)	(1,132)
Administrative expenses		(859)	(2,727)	(2,048)	(5,777)
Other operating expenses		(487)	(380)	(492)	(389)
Loss from operations		(1,338)	(3,117)	(2,365)	(6,577)
Finance costs		(3)	(3)	(8)	(7)
Gain on disposal of a subsidiary		—	—	216	—
Gain on partial disposal of interest in an associate		153	—	153	—
Share of results of associates		(43)	—	(44)	—
Loss before tax		(1,231)	(3,120)	(2,048)	(6,584)
Tax	3	—	—	—	—
Loss after tax		(1,231)	(3,120)	(2,048)	(6,584)
Minority interests		—	147	—	448
Net loss attributable to shareholders		(1,231)	(2,973)	(2,048)	(6,136)
Dividend		—	—	—	—
Loss per share					
— Basic (in cents)	4	(0.08)	(0.2)	(0.14)	(0.6)

Consolidated Balance Sheet

	<i>Note</i>	2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Fixed assets		602	1,065
Goodwill		1,946	2,096
Interest in an associate		6,603	5,156
Long term investments		3,616	3,616
		<u>12,767</u>	<u>11,933</u>
CURRENT ASSETS			
Trade and other receivables	5	172	864
Prepayments and deposits		159	502
Prepaid tax		563	563
Time deposits		—	5,017
Cash and bank balances		5,096	3,301
		<u>5,990</u>	<u>10,247</u>
CURRENT LIABILITIES			
Trade and other payables	6	600	938
Deferred income		—	284
Deposits received		—	675
Warranty provision		—	65
		<u>600</u>	<u>1,962</u>
NET CURRENT ASSETS		<u>5,390</u>	<u>8,285</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		18,157	20,218
MINORITY INTERESTS		—	13
		<u>18,157</u>	<u>20,205</u>
CAPITAL AND RESERVES			
Issued share capital		14,400	14,400
Reserves		3,757	5,805
		<u>18,157</u>	<u>20,205</u>

Consolidated Summary Statement of Changes in Equity (Unaudited)*For the six months ended 30 June 2003*

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
TOTAL EQUITY			
At 1 January		20,205	13,961
Rights issue of shares, net of expenses		—	29,081
Issue of shares, net of expenses		—	—
Net loss for the period attributable to the shareholders		<u>(2,048)</u>	<u>(6,136)</u>
At 30 June		<u>18,157</u>	<u>36,906</u>

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended
30 June 30 June
2003 2002
HK\$'000 *HK\$'000*

NET CASH OUTFLOWS FROM OPERATING ACTIVITIES	(1,609)	(5,113)
Net cash inflow from returns on investments and servicing of finance	3	34
Taxation	—	—
Net cash outflow from investing activities	<u>(79)</u>	<u>(7,482)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(1,685)	(12,561)
Net cash (outflow)/inflow from financing activities	<u>(1,537)</u>	<u>28,786</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,222)	16,225
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>8,318</u>	<u>5,440</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>5,096</u>	<u>21,665</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	5,096	8,653
Time deposits with original maturity of less than three months	<u>—</u>	<u>13,012</u>
	<u>5,096</u>	<u>21,665</u>

1. **Basis of presentation**

The Company was incorporated in Bermuda on 19 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 14 July 2000.

The consolidated financial statements of the Group include the financial statements made up to the six months ended 30 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 31 December 2002.

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 30 June 2003 were all derived in Hong Kong.

3. **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 30 June 2003 (2002: 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 (2002: Nil).

4. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2003 is based on the Group's net loss for the period of approximately HK\$2,048,000 (2002: net loss of HK\$6,136,000) and the weighted average of approximately 1,440,000,000 ordinary shares (2002: 945,953,000 ordinary shares) in issue during the period.

Diluted loss per share for the six months ended 30 June 2003 and 2002 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.

5. Trade and other receivables

	As at	
	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Trade receivables	68	741
Other receivables	104	123
	<u>172</u>	<u>864</u>

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

	2003 (Unaudited) HK\$'000	2002 (Audited) HK\$'000
0 — 60 days	—	175
61 — 90 days	—	235
91 — 180 days	—	207
>180 days	68	124
	<u>68</u>	<u>741</u>

All sales and services rendered by the Group are due and payable upon presentation of invoices.

6. Trade and other payables

	As at	
	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Trade payables	—	119
Other payables	600	819
	<u>600</u>	<u>938</u>

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

	2003 (Unaudited) HK\$'000	2002 (Audited) HK\$'000
0 — 60 days	—	19
61— 90 days	—	83
91 — 180 days	—	12
>180 days	—	5
	<u>—</u>	<u>119</u>
	<u>—</u>	<u>119</u>

7. 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 30 June 2003 and 2002, and certain asset and liability information regarding business segments at 30 June 2003 and 2002 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	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
REVENUE						
External revenue	<u>1,066</u>	<u>959</u>	<u>141</u>	<u>404</u>	<u>1,207</u>	<u>1,363</u>
RESULTS						
Segment results	(1,758)	(4,575)	(233)	(1,660)	(1,991)	(6,235)
Unallocated corporate revenue					464	6
Unallocated corporate expenses					<u>(535)</u>	<u>(389)</u>
Operating loss excluding interest income/expenses					(2,062)	(6,618)
Interest income					14	41
Interest expenses					<u>—</u>	<u>(7)</u>
Loss before taxation					(2,048)	(6,584)
Taxation					<u>—</u>	<u>—</u>
Loss after taxation					(2,048)	(6,584)
Minority interests					<u>—</u>	<u>448</u>
Net loss for the period					<u>(2,048)</u>	<u>(6,136)</u>

	Sales of software licence and related services		Provision of maintenance services		Total	
	At 30	At 31	At 30	At 31	At 30	At 31
	June 2003	December 2002	June 2003	December 2002	June 2003	December 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
ASSETS						
Segment assets	532	1,944	70	3	602	1,947
Interest in an associate					6,603	5,156
Unallocated corporate assets					11,552	15,077
Consolidated total assets					<u>18,757</u>	<u>22,180</u>
LIABILITIES						
Segment liabilities					—	1,137
Unallocated corporate liabilities					600	825
Consolidated total liabilities					<u>600</u>	<u>1,962</u>
OTHER INFORMATION						
(Unaudited for the six months ended 30 June)						
Capital expenditures	79	104	—	—	79	104
Depreciation	89	347	—	—	89	347

8. Post balance sheet event

On 4 August 2003, the Company has disposed the entire interests in the equity securities listed in Hong Kong. The transaction results in a realized loss on disposal of approximately HK\$1,966,000.

INTERIM DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 30 June 2003 (2002: Nil).

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (THE “SFO”)

Directors, supervisors and chief executive of the Company

As at 30 June 2003, none of the Directors, supervisors or chief executive of the Company had any interest and short position in shares, debentures or underlying shares of the Company and its associated corporation (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.49 to the GEM Listing Rules.

Substantial shareholder of the Company

Saved as disclosed below, as at 30 June 2003, the Directors are not aware of any other interests and short positions in shares and underlying shares of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Long positions in the shares

Name of shareholder	Capacity	Type of interest	Number of shares held	Approximate percentage of interest
Friedmann Pacific Greater China Investments Limited (<i>Note</i>)	Beneficial owner	Corporate	263,100,000	18.27%

Note:

Friedmann Pacific Greater China 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.

SHARE OPTION SCHEME

On 24 May 2002, a new share option scheme (“New Scheme”) was approved pursuant to the resolution of the shareholders of the Company. The principal terms of which are set out in note 24 of the financial statements as included in the annual report of the Company for the year ended 31 December 2002. However, notwithstanding the termination of the previous share option scheme (“Previous Scheme”), the outstanding options previously granted under the Previous Scheme shall remain valid and exercisable in accordance with the provision of the Previous Scheme. During the period under review, no options were granted. The share option schemes which were all made to selected employees and the options outstanding as at 30 June 2003 were as follows:

Date of share options granted	Number of options outstanding at beginning and ending of the period	Subscription price	Exercisable period
15 August 2000	180,000	HK\$0.199	15 August 2001 to 14 August 2005
4 December 2000	2,133,335	HK\$0.141	4 March 2001 to 3 March 2005
	<hr/> <hr/> 2,313,335		

The underlying shares of the outstanding options under the schemes as at 30 June 2003 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 Scheme as at 30 June 2003 was 711,111.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Other than the new share option scheme adopted by the Company on 24 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 30 June 2003, none of the Directors or chief executive of the Company had any options under any share option schemes of the Company.

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

For the six months ended 30 June 2003, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

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 30 June 2003, 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 30 June 2003, 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 30 June 2003 and up to the date of this report, the audit committee has met and reviewed the Group's interim report, financial statements and providing advices and recommendations to the Board. The Group's financial statements for the six months ended 30 June 2003 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, 13 August 2003