



**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)

**(Stock code: 8108)**

**Interim Report**  
**2004**

For the six months ended  
30th June 2004

**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 board of directors (the “Board”) of Grandmass Enterprise Solution Limited (the “Company”) presents the unaudited consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30th June 2004 together with the comparative figures.

## RESULTS

### Consolidated Income Statement (Unaudited)

For the three months and six months ended 30th June 2004

	Notes	Three months ended		Six months ended	
		30th June 2004 HK\$'000	30th June 2003 HK\$'000	30th June 2004 HK\$'000	30th June 2003 HK\$'000
Turnover	2	-	-	-	1,207
Cost of sales		-	-	-	(289)
Gross profit		-	-	-	918
Other revenue		44	10	64	95
Distribution costs		-	(2)	-	(838)
Administrative expenses		(1,570)	(859)	(2,359)	(2,048)
Other operating expenses		(94)	(487)	(265)	(492)
Loss from operations		(1,620)	(1,338)	(2,560)	(2,365)
Finance costs		(1)	(3)	(2)	(8)
Gain on disposal of a subsidiary		-	-	-	216
Gain on partial disposal of interest in an associate		-	153	135	153
Share of results of associates		(173)	(43)	(265)	(44)
Loss before tax		(1,794)	(1,231)	(2,692)	(2,048)
Tax	3	-	-	-	-
Net loss attributable to shareholders		<u>(1,794)</u>	<u>(1,231)</u>	<u>(2,692)</u>	<u>(2,048)</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share – basic	5	<u>(0.08)</u>	<u>(0.08)</u>	<u>(0.12)</u>	<u>(0.14)</u>

## Consolidated Balance Sheet

		<b>30th June 2004</b>	31st December 2003
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>191</b>	304
Interest in an associate		<b>3,965</b>	4,335
Long term investments		<b>200</b>	–
		<b><u>4,356</u></b>	<b><u>4,639</u></b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	6	<b>45</b>	45
Loan receivable		<b>424</b>	1,212
Prepayments and deposit		<b>442</b>	139
Prepaid tax		<b>563</b>	563
Cash and bank balances		<b>7,549</b>	9,618
		<b><u>9,023</u></b>	<b><u>11,577</u></b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	<b>700</b>	840
Amount due to an associate		<b>2</b>	2
Obligations under finance lease-due within one year		<b>11</b>	11
		<b><u>713</u></b>	<b><u>853</u></b>
<b>NET CURRENT ASSETS</b>		<b><u>8,310</u></b>	<b><u>10,724</u></b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>12,666</b>	15,363
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance lease-due after one year		<b>45</b>	50
<b>NET ASSETS</b>		<b><u>12,621</u></b>	<b><u>15,313</u></b>
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>21,600</b>	21,600
Reserves		<b>(8,979)</b>	(6,287)
		<b><u>12,621</u></b>	<b><u>15,313</u></b>

### **Condensed Consolidated Statement of Changes in Equity (Unaudited)**

*For the six months ended 30th June 2004*

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total equity at 1st January	<b>15,313</b>	20,205
Net loss for the period attributable to the shareholders	<u><b>(2,692)</b></u>	<u>(2,048)</u>
Total equity at 30th June	<u><b>12,621</b></u>	<u>18,157</u>

## Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30th June 2004

	For the six months ended	
	30th June	30th June
	2004	2003
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(2,674)	(1,606)
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	610	(79)
NET CASH OUTFLOWS FROM FINANCING ACTIVITIES	<u>(5)</u>	<u>(1,537)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,069)	(3,222)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>9,618</u>	<u>8,318</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>7,549</u></u>	<u><u>5,096</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>7,549</u></u>	<u><u>5,096</u></u>

## **Notes to the Condensed Interim Financial Statements (Unaudited)**

### **1. Basis of Preparation**

The condensed interim financial statements are unaudited but have been reviewed by the Audit Committee.

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The condensed interim accounts should be read in conjunction with the annual audited financial statements for the year ended 31st December 2003.

The principal accounting policies adopted in the condensed interim financial statements are consistent with those followed in the annual accounts for the year ended 31st December 2003.

### **2. Turnover**

No turnover was recorded by the Group for the six months ended 30th June 2004 as compared with approximately HK\$1,207,000 for the corresponding period in 2003.

### **3. Tax**

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

The Group recognised deferred tax assets to the extent of its deferred tax liabilities arising from any taxable temporary differences in the same period. Accordingly, there is no deferred taxation effect on the results of the Group for the current and price periods.

### **4. Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

### **5. Loss per share**

The calculation of basic loss per share for the six months ended 30th June 2004 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$2,692,000 (six months ended 30th June 2003: HK\$2,048,000) and 2,160,000,000 ordinary shares of the company (six months ended 30th June 2003: 1,440,000,000 ordinary shares) in issue during the period.

Diluted loss per share is not presented as there has no dilutive potential ordinary shares in during the period.

**6. Trade and other receivables**

	As at	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Trade receivables	45	45
Other receivables	—	—
	<u>45</u>	<u>45</u>

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

	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000
0 – 60 days	—	—
61 – 90 days	—	—
91 – 180 days	—	—
>180 days	45	45
	<u>45</u>	<u>45</u>

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

**7. Trade and other payables**

	As at	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Trade payable	—	—
Other payable	700	840
	<u>700</u>	<u>840</u>

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

	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000
0 – 60 days	—	—
61 – 90 days	—	—
91 – 180 days	—	—
>180 days	—	—
	<u>—</u>	<u>—</u>



## 8. 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 2004 and 2003 are as follows:

### *Business segments*

The Group is primarily engaged in the sales of software license and its related services and the provision of maintenance services. The software license 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	
	2004 HK\$'000 unaudited	2003 HK\$'000 (unaudited)	2004 HK\$'000 unaudited	2003 HK\$'000 (unaudited)	2004 HK\$'000 unaudited	2003 HK\$'000 (unaudited)
REVENUE						
External revenue	-	1,066	-	141	-	1,207
RESULTS						
Segment results	-	(1,758)	-	(233)	-	(1,991)
Unallocated corporate revenue					-	464
Unallocated corporate expenses					-	(535)
Operating loss excluding interest income/expenses					(2,753)	(2,062)
Interest income					63	14
Interest expenses					(2)	-
Loss before taxation					(2,692)	(2,048)
Taxation					-	-
Loss after taxation					(2,692)	(2,048)
Minority interests					-	-
Net loss for the period					<u>(2,692)</u>	<u>(2,048)</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business Review**

In light of the Group's deteriorated operational condition, the Board has been formulating proposals to rationalize the operations of the Group, by divesting the loss-making businesses and hunting for the strong and revenue-generating operations.

### **Significant investment, material acquisitions and disposal of subsidiaries and affiliated Companies**

On 23rd March 2004, the Group has entered into a sale and purchase agreement (the "Agreement") to acquire from an independent third party the entire issued share capital of Lucky Force Development Limited which will prior to completion of the Agreement become a holding company of a telephone set manufacturing enterprise in the People's Republic of China (the "Acquisition").

### **Financial Review**

No turnover was recorded by the Company for the six months ended 30th June 2004 as the Group is under restructuring during this period. For the six months ended 30th June 2004, the Group incurred a net loss attributable to the shareholders of approximately HK\$2,692,000 as compared to a net loss of approximately HK\$2,048,000 for the corresponding period in 2003.

#### *Liquidity and Financial Resources*

All the Group's funding and treasury activities are currently managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 30th June 2004, cash and bank balances of the Group was approximately HK\$7,549,000. The Group has no bank borrowings.

#### *Capital Structure*

There has been no change in the capital structure of the Company during the period under review. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

#### *Charges on Group Assets*

Total borrowing of the Group amounted to approximately HK\$56,000, representing obligation under a finance lease contract with an interest rate of approximately 4.5% per annum and average lease term of approximately five years. Except for the finance lease contract for the Group's office equipment, the Group did not have any mortgage or charge on assets as at 30th June, 2004.

### *Gearing Ratio*

As at 30th June, 2004, the Group's gearing ratio was 0.34% (30th June 2003: Nil) representing a percentage of long term liabilities over total assets.

### *Exposure to fluctuation in exchange rates*

Since the functional currencies of the Group's operations are HK Dollars and Renminbi, the Board considers that the exchange rate risk of the Group is minimal.

### *Contingent Liabilities*

As at 30th June 2004, the Group has the following contingent liabilities:

- (a) A wholly-owned subsidiary of the Company, Sun-iOMS Limited, was a defendant of a legal action brought by its customer. The directors consider that, after obtaining legal advice, the aforesaid subsidiary has a strong case in the aforesaid action. In addition, an ex-director of the Company, Mr. Yue Chung Wing, Patrick, has indemnified the Group in respect of all liabilities that may arise out of or in connection with any of the claims and legal costs that may be payable to the plaintiff and any legal cost to be incurred in respect of the abovementioned claim. In view of the above, the directors are of the opinion that the above legal action would not have any significant impact on the financial position of the Group, hence, no provision is considered necessary by the directors at 30th June 2004.
- (b) On 2nd March 2000, an independent third party executed a Deed of Guarantee in favour of a wholly-owned subsidiary, Sun-iOMS Maintenance Limited, guaranteeing that the income accrued to the wholly-owned subsidiary arising from the sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK\$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, the wholly-owned subsidiary and the Company took legal action against the abovementioned independent third party and two executive directors resigned in 2001 in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. The directors are of the opinion that the above legal action would not have any significant impact on the financial position of the Group, hence, no provision for legal costs are considered necessary by the directors at the balance sheet date.

Save as disclosed above, the Company had no other contingent liabilities as at 30th June, 2004.

### *Employees Information*

During the period, the Group had an average number of employees of 7 (Six months ended 30th June 2003: 24). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes.

### **PROSPECTS**

The Board is actively exploring ways to diversify its investments and broaden its revenue base. The Board considers that the Acquisition will strengthen the Group's earning base and generates steady revenue inflow to the Group. The Board also believes that it can capitalize on the Group's senior management experience and business network in the area of telecommunication to penetrate into new markets and increase market share in its existing markets.

### **INTEREST DISCLOSURE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

#### **(a) Directors' and chief executives interests and short positions in shares, underlying shares and debentures**

As at the 30th June, 2004, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

**(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares**

As at 30th June, 2004, (other than a Director or chief executive of the Company,) the following persons had interests or short position in the Shares or underlying Shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long position in the Shares*

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholdings (Note 2)
Garron International Limited (Note 1)	Beneficial owner	553,430,238	25.62%

*Notes:*

1. Garron International Limited (formerly known as Friedmann Pacific Greater China Investments Limited) is a company incorporated in the Cayman Islands and its shares are listed on the main board of the Stock Exchange.
2. The percentage is calculated by dividing the number of Shares interested or deemed to be interested by the existing 2,160,000,000 issued Shares as at 30th June 2004.

Save as disclosed above, as at the 30th June 2004, (other than a Director or chief executive of the Company,) no persons had interests or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

**(c) Directors' interest in contracts**

During the period under review, the Group had incurred legal fee approximately HK\$332,000 to Lau Lin & Co (formerly known as K. K. Lau & Co.) for legal services rendered. An independent non-executive director, Mr. Lau Kwok Kee, is one of the principal partners of Lau Lin & Co. The transactions were carried out in the normal course of the Group's business and at arm's length basis.

Apart from above, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries was a party during the period.

## **COMPETING INTEREST**

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group.

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

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 2004, 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 30th June 2004, there were no purchases, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45, of the GEM Listing Rules at any time during the six months ended 30th June 2004.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30th June 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## AUDIT COMMITTEE

The Company set up an Audit Committee (the “Committee”) on 7th July 2000 with written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. As at 30th June 2004, the Committee comprised two members, namely Mr. Chen Pei and Mr. Lau Kwok Kee, both being independent non-executive Directors of the Company. The primary duties of the 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. The Group’s unaudited financial statements for the six months ended 30th June 2004 have been reviewed by the members of the Committee.

By Order of the Board  
**Grandmass Enterprise Solution Limited**  
**Kwong Wai Man, Karina**  
*Executive Director*

As at the date of this report, the Board of the Company comprises:

Ms. Kwong Wai Man, Karina	(Executive Director)
Mr. Zhao Ming	(Executive Director)
Mr. Ng Ming Wah	(Non-executive Director)
Mr. Lau Kwok Kee	(Independent non-executive Director)
Mr. Chen Pei	(Independent non-executive Director)

Hong Kong, 13th August 2004