



## **Third Quarterly Report 2004**

Quarterly ended  
30th September 2004

\* For identification purposes only

## **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.*

## RESULTS

The Board of Directors (the “Board”) of Grandmass Enterprise Solution Limited (“the Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and the nine months ended 30 September 2004 together with the comparative unaudited figures for the corresponding periods ended 30 September 2003 as follows:

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

*For the three months and the nine months ended 30 September 2004*

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	912	–	912	1,207
Cost of sales		(451)	–	(451)	(289)
Gross profit		461	–	461	918
Other revenue		2	2	66	97
Distribution costs		–	–	–	(838)
Administrative expenses		(1,119)	(653)	(3,478)	(2,701)
Other operating expenses		(209)	(2,212)	(474)	(2,704)
Loss from operations		(865)	(2,863)	(3,425)	(5,228)
Finance costs		(1)	–	(3)	(8)
Gain on disposal of a subsidiary		–	–	–	216
Gain on partial disposal of interest in an associate		–	–	135	153
Share of results of associates		(10)	–	(275)	(44)
Loss before taxation		(876)	(2,863)	(3,568)	(4,911)
Taxation	3	–	–	–	–
Loss after taxation		(876)	(2,863)	(3,568)	(4,911)
Minority interests		(171)	–	(171)	–
Net loss attributable to shareholders		<u>(1,047)</u>	<u>(2,863)</u>	<u>(3,739)</u>	<u>(4,911)</u>
Dividend	4	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss per share – Basic (in cents)	5	<u>(0.05)</u>	<u>(0.2)</u>	<u>(0.17)</u>	<u>(0.34)</u>

Notes:

## **1. Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), 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 third quarterly financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2003.

## **2. Turnover**

The Group’s turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, valued added tax and other taxes related to sales where applicable, and telecommunication products subcontracting services rendered. The Group’s turnover from operating activities for the nine months ended 30 September 2004 was mainly derived in People’s Republic of China (the “PRC”).

## **3. Taxation**

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong for the nine months ended 30 September 2004 (2003: Nil).

No provision for the company’s PRC subsidiary tax had been made because it did not derive any assessable profit during the current and prior corresponding period. Deferred tax had not been provided as there were no significant timing differences at the period-end date (2003: Nil).

## **4. Dividend**

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2004 (three months ended 30 September 2003: nil).

## **5. Loss per share**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the three and nine months ended 30 September 2004 of approximately HK\$1,047,000 and approximately HK\$3,739,000 respectively, and the weighted average of 2,207,706,522 and 2,176,018,248 ordinary shares respectively in issue during the three months and nine months ended 30 September 2004.

The calculation of basic loss per share for the three months and nine months ended 30 September 2003 is based on the net loss from ordinary activities attributable to shareholders of approximately HK\$2,863,000 and approximately HK\$4,911,000 respectively and 1,440,000,000 and 1,440,000,000, ordinary shares respectively in issue during the periods.

No diluted loss per share is presented as no outstanding employee share options are in effect for the nine months ended 30 September 2004.

## 6. Movement in reserves

Movements in reserves of the Group during the nine months ended 30 September 2004 were as follows:

	<b>Share premium</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2003	25,111	36,527	(55,833)	5,805
Loss for the period	<u>–</u>	<u>–</u>	<u>(4,911)</u>	<u>(4,911)</u>
At 30 September 2003	<u>25,111</u>	<u>36,527</u>	<u>(60,744)</u>	<u>894</u>
At 1 January 2004	22,859	36,527	(65,673)	(6,287)
Loss for the period	<u>–</u>	<u>–</u>	<u>(3,739)</u>	<u>(3,739)</u>
At 30 September 2004	<u>22,859</u>	<u>36,527</u>	<u>(69,412)</u>	<u>(10,026)</u>

## 7. Segment information

The turnover of the Group was mainly derived from the PRC subsidiary, it was engaged in the business of manufacturing and distribution of household and commercial telephone sets, and all of its turnover and operating results were derived from the PRC, and accordingly, no segment information is presented.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overall Financial and Business Review**

For the nine months ended 30 September 2004, the Group's turnover amounted to approximately HK\$912,000. The net loss attributable to the shareholders for the nine months ended 30 September 2004 narrowed to HK\$3,739,000, a 24% improvement from the corresponding period in 2003. The improvement was mainly attributed to the acquisition of the phone sets manufacturing business in PRC and the restructuring activities implemented by the Group.

The acquisition of the entire interest of Lucky Force Development Limited had been completed in August 2004.

Pursuant to resolution passed on the special general meeting held on 14 June, 2004, the Company allotted and issued of 209,000,000 ordinary shares of HK\$0.01 each in the capital of the Company at the issue price of HK\$0.01 to Favourite Success Trading Limited as the Consideration Shares in partial settlement of the acquisition of 100 shares of US\$1.00 each in the Capital of Lucky Force Development Limited on 10 September 2004.

### **PROSPECTS**

With the diversification of business scope in telecommunication products, there was an improvement in financial performance of the Group for the Third Quarterly Results 2004. The Board expects the Group's loss to further narrow and believes that it is the right direction to improve the prospect of the Group. Meanwhile, to enhance the competitiveness of the Group, the management will continue to exercise stringent cost control and to utilize the Group's internal resources in a more efficient manner.

### **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 30 September 2004, none of the Directors or chief executive of the Company had any options under any share options schemes of the Company.

## INTEREST DISCLOSURE UNDER THE SECURITIES FUTURES ORDINANCE (“the SFO”) AND SUBSTANTIAL SHAREHOLDERS

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

As at the 30th September, 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 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 September, 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 positions in the shares

Name	Nature and Capacity of interest	Number of shares held	Approximate percentage of interest (Note 3)
Garron International Limited (Note 1)	Beneficial owner	553,430,238	23.36%
Favourite Success Trading Limited	Beneficial owner	209,000,000	8.82%
Mr. Wei Xiping (Note 2)	Interest of controlled corporation	209,000,000	8.82%

Note:

- (1) Garron International 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.
- (2) Mr. Wei Xiping is interested by virtue of his beneficial interest in Favourite Success Trading Limited which will hold 209,000,000 Shares after Completion.

- (3) The percentage is calculated by dividing the number of Shares interested or deemed to be interested by the existing 2,369,000,000 issued shares as at 30 September 2004.

Save as disclosed above, as at the 30 September 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 contacts**

During the period under review, the Group had incurred legal fee approximately HK\$414,700 to Lau Lin & Co (formerly known as K. K. Lau & Co. ) for legal services rendered. An independent non-executive director, Mr. Lau Kwok Kee who has resigned on 30 September 2004, 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.

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

For the nine months ended 30 September 2004, there was 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.

### **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45, if relevant, of the GEM Listing Rules throughout the nine months ended 30 September 2004.

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

During the nine months ended 30 September 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.



## CHANGES IN DIRECTORATE

The following changes occurred during the period under review and up to the date of this announcement:

1. Mr. Peng Feng has been appointed as an independent non-executive director and a member of the audit committee of the Company with effect from 11 November 2004;
2. Mr. Lau Kwok Kee has been resigned as independent non-executive director and a member of audit committee of the Company with effect from 30 September 2004; and
3. Ms. Ma Lee has been appointed as an independent non-executive director and the chairman of the audit committee of the Company with effect from 20 September 2004.

## AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. As at 30 September 2004, the audit committee comprised three members, namely Ms. Ma Lee, Mr. Chen Pei and Mr. Peng Feng, being independent non-executive directors of the Company.

Pursuant to the announcement dated 11 November 2004 of the Company, Mr. Peng Feng was appointed as independent non-executive director and member of the audit committee of the Company to replace the position of Mr. Lau Kwok Kee who resigned on 30 September 2004.

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 nine months ended 30 September 2004, the audit committee has reviewed the Group's quarterly report, financial statements and providing advice and recommendations to the Board. After the review of the financial statements, 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  
**Grandmass Enterprise Solution Limited**  
**Kwong Wai Man, Karina**  
*Executive Director*

*As at the date of this report, the board of directors of the Company comprises: Ms. Kwong Wai Man, Karina and Mr. Zhao Ming (Executive Directors) and Mr. Ng Ming Wah (Non-executive Director) and Ms. Ma Lee, Mr. Chen Pei and Mr. Peng Feng (Independent non-executive Directors)*

Hong Kong, 12 November 2004