

**Annual  
Report  
2000  
年報**



**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)*

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

### **香港聯合交易所有限公司(「聯交所」)創業板(「創業板」)之特色**

創業板乃為帶有高投資風險的公司提供一個上市的市場。尤其在創業板上市的公司毋須有過往溢利紀錄，亦毋須預測未來溢利。此外，在創業板上市的公司可因其新興性質及該等公司經營業務的行業或國家而帶有風險。有意投資的人士應了解投資於該等公司的潛在風險，並應經過審慎周詳的考慮後方作出投資決定。創業板的較高風險及其他特色表示創業板較適合專業及其他資深投資者。

由於創業板上市公司新興的性質使然，在創業板買賣的證券可能會較於主板買賣的證券承受較大的市場波動風險，同時無法保證在創業板買賣的證券會有高流通量的市場。

創業板發佈資料的主要方法為透過聯交所操作的互聯網網頁刊登，上市公司一般毋須在憲報指定的報章刊登付款公佈。因此，有意投資的人士應注意彼等須瀏覽創業板網頁，以便取得創業板上市發行人的最新資料。

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# CORPORATE INFORMATION

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## EXECUTIVE DIRECTORS

Mr. Yue Chung Wing, Patrick (*Chairman*)

Ms. Choi Siu Man, Julia

Mr. Yau Chun Fai

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ip Wai Hung

Dr. Lau Wai Shing, Augustine

## REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

19th Floor, Tower 5

China Hong Kong City

China Ferry Terminal

33 Canton Road

Tsimshatsui

Kowloon

Hong Kong

## COMPANY HOMEPAGE/WEBSITE

<http://www.grandmass.com.hk>

## QUALIFIED ACCOUNTANT

Mr. Lee Wai Kam, Hyman ACCA, AHKSA

## COMPLIANCE OFFICER

Mr. Yau Chun Fai

## AUTHORISED REPRESENTATIVES

Mr. Yue Chung Wing, Patrick

Mr. Yau Chun Fai

## COMPANY SECRETARY

Mr. Lee Wai Kam, Hyman ACCA, AHKSA

## PRINCIPAL BANKERS

Citibank N.A.

30th Floor, Tower One, The Gateway

25 Canton Road

Tsimshatsui

Kowloon

Hong Kong

Hang Seng Bank Limited

618 Nathan Road

Kowloon

Hong Kong

## AUDITORS

Ernst & Young

*Certified Public Accountants*

15th Floor

Hutchison House

10 Harcourt Road

Central

Hong Kong

**LEGAL ADVISERS**

*as to Hong Kong law*

Cheung, Tong & Rosa  
Rooms 1621-33, 16th Floor  
Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

*as to Bermuda law*

Conyers Dill & Pearman  
3408, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE**

The Bank of Bermuda Limited  
6 Front Street  
Hamilton HM 11  
Bermuda

**HONG KONG BRANCH SHARE REGISTRAR  
AND TRANSFER OFFICE**

Tengis Limited  
4th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

**SPONSOR**

Oriental Patron Asia Limited  
42nd Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

# CHAIRMAN'S STATEMENT

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### BUSINESS REVIEW

On behalf of the Board, I am pleased to present the first annual results for the Group since our listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 14 July 2000. The Group achieved a major milestone with the successful issue of 69,150,000 new shares raising the net amount of HK\$29.9 million to fund the future expansion of the Group.

The Group's vision is to establish Grandmass OMS software as the standard manufacturing decision support system for manufacturers in Asia. Leveraging our on-going efforts in the past, our desired objectives were accomplished by implementing focused strategies, which established concrete foundations for our future development and paved the way for us to become the leading e-solutions provider in the Asian market.

Conforming to our mission to bridge the old and new economies, the Group aims to provide more innovative and market-oriented products, enabling clients to enjoy a smooth transition to the e-commerce era. In July, the Group succeeded in launching our iOMS (e-Commerce Edition) with encouraging responses by bringing potential customers to decision-making stage. Our e-Supply Chain Edition and Financial Accounting Software were also introduced at the end of 2000, well ahead of our planned schedules as stated in the prospectus. These successes were attributable to our on-going efforts in product research and development, further enriching the product portfolio under the Grandmass iOMS umbrella.

As at 31 December 2000, the Group had obtained approximately 300 licensees, representing the substantial increase of almost 40% more than the previous year, proving that products under the "Grandmass OMS" brand name are highly successful and extremely well received in the market. We are optimistic with regard to the sales of our product in 2001 and confident that we will see year-on-year growth in the number of our clients.

The Group successfully developed strategic alliances with leading IT corporations, academic institutions and major industrial associations, aiming to enhance the quality and innovation of our products and services. In April, we participated in the "Digital Enterprise Generalization Program" hosted by 6 industrial associations and co-hosted by a further 30 industrial associations, which offers Grandmass VOMS software to SMEs at a concessionary price. This participation brought about 50 new licensees to the Group, not only contributing to the expansion of our customer base, but also strengthening our position as a major applications and technology provider among manufacturers in the region.

Keeping abreast of the latest technological developments, we increased our investment in Research and Development, aiming to develop more innovative and cutting-edge technologies for clients. In April 2000, the Group entered a memorandum of understanding with the Hong Kong Polytechnic University, establishing a strategic collaboration to research and develop new technologies and products. Additionally, the Group entered a collaboration with the Vocational Training Council (VTC) on 9 January 2001, donating computer hardware and software packages valued at over HK\$10 million to students of the Hong Kong Institute of Vocational Education (IVE). By equipping students with the knowledge and skills for e-Commerce, this initiative not only assists local businesses to become familiar with our best Enterprise Solutions, but also contributes to establishing Grandmass iOMS software as the standard for e-Commerce solutions in Asia.

Taking advantage of the expanding economy and vast growth in the PRC market, Grandmass will capitalize on the brand name to expand into this market which has such huge potential. In September, the Group entered a win-win dealership agreement with ChinaTone Systems (China) Ltd., a leading Financial Systems Provider in the PRC, marking a significant milestone in our expansion into the PRC market. Under this cooperation, Grandmass agrees to introduce ChinaTone's "Financial and Management System" to entrepreneurs in Hong Kong while ChinaTone will promote the Grandmass "Open Manufacturing System" in the PRC. This dealership also paves the way for the Group's future development in the country, especially after China's entry into WTO, which is expected to generate keen competition in the business and commercial sector.

## **FINANCIAL PERFORMANCE**

2000 has been a period of investment for Grandmass. The Group expended tremendous effort in developing new products and services both in Hong Kong and the PRC, requiring significant expenditure on product research and development. Grandmass believes that strong R&D capabilities are important to guarantee our continued success and is fully committed to develop pioneering software products. However, with the restrained business environment in the latter half of 2000, potential customers have been cautious with regard to committing to long-term investment on ERP applications and have also been careful, choosing among the different channels ranging from the traditional decision to buy their own systems, the Internet or ASP modules. This purchasing delay and the substantial R&D expenditure caused a downturn in the Group's performance. For the 12 months ended 31 December 2000, the Group recorded a turnover of HK\$11.624 million, representing a slight decrease of 4.7% compared with the corresponding period last year. Loss attributable to shareholders was HK\$10.749 million. The Board of Directors does not recommend the payment of an annual dividend for the 12 months ended 31 December 2000.

## CHAIRMAN'S STATEMENT

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During the period under review, the Group's source of revenue came from varying sectors. 31% was derived from the sale of proprietary ERP software packages, 51% from the provision of IT consultancy services, 4% from the provision of customized software development services, 10% from computer systems integration and systems development support services and the remaining 4% came from the sale of accounting and data application systems.

In addition to the Group's investment commitment in 2000, we placed tremendous effort on developing and diversifying our business model, encompassing an expanding product portfolio, preparing our entry into the PRC market and providing our own ASP services. Building on the solid foundations established, we have every confidence in the rapid improvement of our overall financial results.

### PROSPECTS

Looking ahead, expanding into the PRC market will be one of the major strategies for the Group. The boom in the PRC's economy is generating strong demand for standardized ERP solutions among the manufacturing enterprises in order to be competitive. In 1999, the ERP market sales reached RMB449 million. This remarkable surge of 66.3% over 1998 further shows that the PRC market is of huge market potential and room for development. Our sophisticated and comprehensive Grandmass OMS solutions together with their advantageous pricing policies are the perfect choice. From March 2001, the Shanghai office commenced its pre-operations, acting as a stepping stone for the Group's penetration into this vast potential market. Our step-by-step strategy is to provide VOMS in traditional buy and own models to enterprises, followed by extensions into other advanced web-based applications.

Taking heed of the ever-changing business environment, we are restructuring our product portfolio, increasing the variety and versatility of products under Grandmass iOMS umbrella. More specific and target-oriented products will be restructured, ranging from eBase, eSales, ePurchase, iTrade, iMerchant, iOrder, iFactory, iManufacturing to iAccount. This product restructure will further enrich the Group's overall product portfolio and better suit the needs of our customers.

In view of the popularity of ASP today, our own ASP programme was launched on 9 February 2001 after the seminar. This not only creates a new source of revenue for the Group, but also provides a new channel to distribute software and facilitates SME access to software. With all the technical support and infrastructure fully in place, our marketing team has been active in attracting potential clients for initial trials, heightening their confidence towards using this state-of-the-art technology. In the initial stages, iOMS software will be distributed over the web via the ASP platform, and will be further extending to other applications and technology when the system is more established in the market. Additionally, the Group will stop licensing the VOMS system to the "Intelligent Enterprises" package provided by Pacific Century Cyberworks as we aim to streamline our existing operations and provide flexibility for our future business development.



In the development of more cutting-edge applications and technology, we plan to invest more resources in product research and development. We will continue to explore strategic partnerships with leading academic institutions and IT companies, jointly develop innovative technologies and spearhead ERP development in the industry.

Benefiting from our on-going efforts in previous year, coupled with the above strategies, the Group expects to enjoy a fruitful period in the coming year and have bountiful results. Looking ahead, we are confident that our on-going efforts will be reflected in 2001.

#### **APPRECIATION**

On behalf of the Board, I would like to express our appreciation to all management and staff members for their continued commitment and contribution, and to thank shareholders for their continuing confidence in the Group. We will make every endeavor to explore potential opportunities for our business growth, creating a promising future for the Group as well as our valuable shareholders.

#### **USE OF PROCEEDS**

In July 2000, The Group achieved a major milestone with the successful issue of 69,150,000 new shares raising the net amount of HK\$29.9 million to fund its future expansion. From the prospectus, about HK\$18 million will be applied for the new product development; about HK\$3.5 million will be applied for the development of potential markets such as the PRC and other Asian countries; about HK\$3.5 million for the promotion of the products and services of the Group; about HK\$3 million for the acquisition of office equipment and renovation of new office; and the balance of about HK\$1.9 million will become the additional working capital for the Group.

As at 31 December 2000, HK\$5 million has been invested in research and product development, particularly in the iOMS (e-Commerce Edition), iOMS (e-Supply Chain Edition), iAccount and Internet education portal. HK\$0.7 million was spent on exploring potential markets in the PRC. Additionally, HK\$1 million has been used for promoting the products and services of the Group while the remaining HK\$3.3 million has been used on acquisition of office equipment and renovation of new office.

Cash and bank balances as at 31 December 2000 totaled HK\$24 million, acting as a fund for future business plans in the development of new products and ASP programmes, expansion into the PRC market as well as research and development.

In view of improvements in the overall financial environment coupled with our penetration into China's market, Grandmass will enter a fruitful period in the coming year, maximizing profits and ensuring a strong financial position.

**Yue Chung Wing, Patrick**

*Chairman*

# COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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## Business Objectives as disclosed in the Prospectus dated 7 July 2000

## Actual Business Progress

### A. Develop strategic alliance

- |   |   |
|---|---|
| 1. Form a joint venture with Internet service providers to facilitate the offer of iOMS (E-Commerce Edition) through ASP services       | As the Group and the Internet service providers could not reach a consensus on certain issues, the Group decided not to form the joint ventures and launched its own ASP programme on 9 February 2001. It enables the Group to offer its iOMS software via Internet applications.                     |
| 2. Promote the iOMS (e-Commerce Edition) via alliance with industrial associations in Hong Kong   | In April 2000, the Group participated in the "Digital Enterprise Generalization Program" hosted by 6 industrial associations and co-hosted by a further 30 industrial associations, where the Group's VOMS software was offered to SMEs at a concessionary price, bringing in about 50 new licensees. |
| 3. Intend to enter into a binding agreement with Asia Online and license the Group's software to Asia Online                            | As the Group and Asia Online could not reach a consensus on certain issues, the Group decided not to continue this plan and launched its own ASP programme on 9 February 2001. It enables the Group to offer its iOMS software via Internet applications.   |
| 4. Establish strategic collaboration with Hong Kong Polytechnic University to research and develop innovative technologies and products | The Group established strategic collaboration with Hong Kong Polytechnic University in April 2000 to research and develop innovative technologies as well as products by funding projects with market potential.  |

**Business Objectives as disclosed in the Prospectus dated 7 July 2000**

**Actual Business Progress**

- |    |   |   |
|----|---|---|
| 5. | Intend to enter into a binding agreement with Huanan Information System Integration Ltd. to establish a Sino-foreign equity joint venture | As the Group and Huanan Information System Integration Ltd. could not reach a consensus on certain issues regarding the collaboration, the Group decided not to continue this plan. Instead, the Group entered a dealership agreement with ChinaTone Systems (China) Limited (“ChinaTone”) on 18 September 2000. The Group agreed to market ChinaTone’s “Financial and Management System” to entrepreneurs in Hong Kong while ChinaTone will introduce the Group’s OMS ERP software in the PRC. |
| 6. | Jointly develop Internet portals with six major industrial associations in Hong Kong  | Due to rapid technology development, the six major industrial associations withdrew their plans to jointly develop Internet portals with the Group. Rather, the Group developed a sophisticated education portal with a leading retail customer in Hong Kong.   |

**B. Expand distribution channel for the Open Manufacturing System and potential markets**

- |    |  |  |
|----|--|--|
| 1. | Sales of Internet leased line service of Asia Online together with VOMS (Millennium Version) are expected to generate significant portion of the Group’s revenue | For the reason as stated in A3, the sales of Internet leased line service of Asia Online together with VOMS (Millennium Version) did not generate significant portion of the Group’s revenue.                                  |
| 2. | Launch VOMS products in the PRC via the traditional buy-sell channel   | The sales office in Shanghai commenced its pre-operations in March 2001, in an effort to penetrate into the PRC market. VOMS product will be introduced to the PRC market followed by more advanced iOMS application services. |

# COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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## Business Objectives as disclosed in the Prospectus dated 7 July 2000

## Actual Business Progress

- |   |  |
|---|--|
| <p>3. Revenue generated from customers in the PRC will contribute approximately 3% of the Group's turnover</p>        | <p>With regard to the failure in reaching consensus and entering into a binding agreement with Huanan Information System Integration Ltd., the Group did not generate significant revenue from customers in the PRC.</p> |
| <p>4. Licensing of the (E-Commerce Edition) via its alliance with ASPs is expected to generate additional revenue</p> | <p>For the reason as stated in A1, the Group launched its ASP programme on 9 February 2001, and therefore licensing of the (E-Commerce Edition) via its alliance with ASPs did not generate additional revenue.</p>      |

### C. New product development

1. Launch iOMS (Site Server Edition)

The Group plans to launch the Site Server Edition in the 4th quarter of 2000, providing membership control and allowing users to place orders and inquire the products directly through the system.

As more effort was invested in the more popular web application, including iAccount and E-Supply Chain Edition, the Site Server Edition has been rescheduled to launch in the early 2nd quarter of 2001.

2. Launch iOMS (e-Supply Chain Edition)

The Group expects to launch e-Supply Chain Edition in the 1st quarter of 2001, providing a control system to the entire supply chain of an e-commerce web site.

The product was launched in 4th quarter of 2000, 3 months ahead of planned schedule, and the Group has signed several sales contracts with potential clients.

**Business Objectives as disclosed in the Prospectus dated 7 July 2000**

**Actual Business Progress**

3. Launch OMS Financial Accounting System

The Financial Accounting System is a web-based accounting software that can fully run on Internet. It will be introduced to the market in 2nd quarter of 2001.

Ahead of the planned schedule, the Financial Accounting System was launched in 4th quarter of 2000. Sales contracts have been signed with potential clients.

4. Commence its collaboration with Hong Kong Polytechnic University in April 2000

In April 2000, the Group entered into a memorandum of understanding with the Hong Kong Polytechnic University, establishing a strategic collaboration to research and develop new technologies and products.

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

1. Offer the iOMS (E-Commerce Edition) through "Digital Enterprise Generalization Program"

In April 2000, the Group participated in the "Digital Enterprise Generalization Program" hosted by 6 industrial associations and co-hosted by a further 30 industrial associations, where the Group's VOMS software was offered to SMEs at a concessionary price.

2. Participate in major IT exhibitions

The Group participated in major IT exhibitions to enhance its market presence. In May 2000, the Group joined the E-Commerce Exhibition while participated in the IT Expo Exhibition in November 2000.

# DIRECTORS, SENIOR MANAGEMENT AND STAFF

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## DIRECTORS

### Executive Directors

**Mr. Yue Chung Wing, Patrick**, aged 37, is a founder and the Chairman of the Group. He is responsible for the formulation of corporate strategy and overall steering of the Group's management. Mr. Patrick Yue has over 15 years of experience in manufacturing management and information system control development. In 1999, Mr. Patrick Yue was awarded the honour of "Ten Outstanding Young Digi Persons" under the "Digital 21 Power For Youth" program organized by HK Productivity Council, HK Junior Chamber and Ming Pao. He is a Honorary Consultant of Hong Kong Plastic Technology Centre Limited. He was also a member of the Department Advisory Committee of HKPU. He graduated with Associateship in Production and Industrial Engineering from HKPU (formerly known as the Hong Kong Polytechnic). He is a Chartered Engineer, member of The Institution of Electrical Engineers (United Kingdom), member of Electronics and Electrical Engineers (U.S.), member of The Hong Kong Computer Society and member of The Hong Kong Institution of Engineers.

**Ms Choi Siu Man, Julia**, aged 36, is an executive Director and a founder of the Group. She is responsible for sales and marketing and is involved in the formulation of corporate strategy and future business direction of the Group. She was previously a manager of an international company. She has over 15 years of experience in sales and marketing in hardware and application software system. She is the wife of Mr. Patrick Yue.

**Mr. Yau Chun Fai**, aged 37, is an executive Director. He is responsible for overseeing the finance, corporate planning and administration of the Group. He was previously a chief accountant of a Hong Kong listed company. He has over 15 years of experience in accounting, manufacturing, finance management and general administration development. He joined the Group in October 1999.

### Independent non-executive Directors

**Dr. Ip Wai Hung**, aged 44, was appointed non-executive Director in June 2000. He is an associate professor in the manufacturing engineering department of HKPU. Dr. Ip has over 20 years of experience in industry research, education and consulting. He received his Ph.D. degree from Loughborough University in the United Kingdom. Dr. Ip also holds MBA, M.Sc. and LL.B. (Honours) degrees. He is a member of the Hong Kong Institution of Engineers, member of the Institution of Electrical Engineers in United Kingdom, member of the Institution of Mechanical Engineers in United Kingdom and fellow member of the Hong Kong Quality Management Association. Dr. Ip has published over 100 international journals and conference articles in the area of operation management, ERP/MRP and logistics.

**Dr. Lau Wai Shing**, Augustine, aged 57, was appointed non-executive Director in June 2000. He is the Principal of the Hong Kong Institute of Vocational Education (Chai Wan). Dr. Lau has over 20 years of experience in teaching, research and consulting. He received his Ph. D. Degree in Engineering and Master Degree in Mechanical Engineering from the University of Manchester Institute of Science and Technology, the United Kingdom. He is an Active Member of the CIRP (International Institution for Production Engineering Research) and Senior Member of the Chinese Society of Mechanical Engineers in China. He is also Fellow of the Institution of Electrical Engineers in the United Kingdom, Fellow of the Institution of Mechanical Engineers in the United Kingdom and Fellow of the Hong Kong Institution of Engineers. He is also appointed as Honorary Professor of the Nanjing University of Aeronautics and Astronautics, the University of Warwick in the United Kingdom and HKPU. Dr. Lau has published over 100 papers in international conference and journals in the area of mechanical/manufacturing engineering.

### AUDIT COMMITTEE

The Company will establish an audit committee upon listing with its written terms of reference being in compliance with Rules 5.23 and 5.25 of the GEM Listing Rules. 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 of Directors.

The audit committee will have 2 members, namely Dr. Ip Wai Hung and Dr. Lau Wai Shing, Augustine, both being independent non-executive Directors.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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#### SENIOR MANAGEMENT

**Mr. Lee Man Yung**, aged 46, is the Vice President - Operation of the Group responsible for management of the Group's operation function. He has over 20 years of experience in manufacturing and management information technology. He was previously an information system manager of a toy manufacturing company. He joined the Group in October 1999.

**Mr. Lee Wai Kam, Hyman**, aged 27, is the Finance Manager responsible for the financial functions of the Group. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy. He is also an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group in 2000, he worked for an international accountancy firm and a multi-national company.

**Mr. Ho Yat Hung, Louis**, aged 30, is the Product Development Manager responsible for the Group's product research and development. Mr. Ho joined the Group in 1995 and has over 5 years of experience in software application provider. He graduated with a Bachelor of Engineering degree in Manufacturing Engineering from the City University of Hong Kong.

**Mr. Wong Ning**, aged 28, is the Product Development Manager responsible for the Group's product research and development. Mr. Wong joined the Group in 1994 and has over 6 years of experience in software application provider mainly on Internet platform. He graduated with a Bachelor of Science degree in Computing studies from Hong Kong Baptist University.

**Mr. Weson Wong**, aged 34, is the Professional Service Manager responsible for the Group's product services and supports. Mr. Wong joined the Group in 1998. He has over 13 years of experience in software application development, over 7 years of which was in implementing manufacturing application system. He was previously an information technology manager of a Hong Kong listed company.



# REPORT OF THE DIRECTORS

The Directors herein present their first annual report and the audited financial statements of the Company for the period from 19 April 2000 (date of incorporation) to 31 December 2000 and of the Group for the year ended 31 December 2000.

## GROUP REORGANISATION

The Company was incorporated in Bermuda on 19 April 2000 as an exempted company with limited liability under the Companies Act 1981 of the Bermuda. Pursuant to a reorganisation scheme to rationalise the Group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 29 June 2000 (the "Reorganisation"). Further details of the Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 14 and 19 to the financial statements and in the Company's prospectus dated 7 July 2000.

The shares of the Company began trading on the GEM of the Stock Exchange on 14 July 2000.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## SEGMENTAL INFORMATION

The Group's turnover and contribution to loss from operating activities for the year ended 31 December 2000 were all derived from Hong Kong. An analysis of the Group's turnover and contribution to loss from operating activities by principal activity for the year ended 31 December 2000 is as follows:

	2000	
	Turnover	Contribution to loss from operating activities
	HK\$'000	HK\$'000
By principal activity:		
Sale of proprietary ERP software package	3,590	(5,534)
Provision of IT consultancy services	5,932	(3,147)
Provision of customised software development services	444	(817)
Provision of computer system integration and system deployment support services	1,143	(1,034)
Sale of accounting and data application systems	515	(115)
	11,624	(10,647)

# REPORT OF THE DIRECTORS

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### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2000 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 26 to 29.

The directors do not recommend the payment of any dividends in respect of the year ended 31 December 2000.

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined results of the Group for the last three financial years prepared on the basis set out in note 1 below.

	Year ended 31 December		
	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000
TURNOVER	11,624	12,199	8,814
PROFIT/(LOSS) BEFORE TAX	(10,779)	3,239	282
Tax	30	(585)	(60)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(10,749)	2,654	222

#### Notes:

1. The summary of the combined results for the two years ended 31 December 1999 has been extracted from the Company's prospectus dated 7 July 2000. This summary was prepared from the audited financial statements of the companies now comprising the Group as if the structure of the Group had been in existence throughout these financial years, and is presented on the basis set out in note 3 to the financial statements. The results of the Group for the year ended 31 December 2000 are those set out on page 26 of the financial statements.
2. To date, the only published audited consolidated balance sheet of the Group is that set out on page 27 of the financial statements.

### FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

**SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

**BORROWINGS**

Details of the borrowings of the Group are set out in note 18 to the financial statements.

**SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital during the period from 19 April 2000 (date of incorporation) to 31 December 2000, together with the reasons therefor, and details of the Company's share option scheme are set out in note 19 to the financial statements.

**RESERVES**

Details of movements in the reserves of the Company during the period and of the Group during the year are set out in note 20 to the financial statements.

**DISTRIBUTABLE RESERVES**

At 31 December 2000, the Company's reserves available for distribution represents the contributed surplus account of HK\$2,118,000. In accordance with the Companies Act 1981 of Bermuda, the contributed surplus may be distributed in certain circumstances.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

**CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions of approximately HK\$222,000.

**PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Other than in connection with the Company's initial public offering by way of placement, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

# REPORT OF THE DIRECTORS

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## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 65% of the total sales for the year and sales to the largest customer included therein amounted to 30%. Purchases from the Group's five largest suppliers accounted for 93% of the total purchases for the year and purchases from the largest supplier included therein amounted to 53%.

To the best of the directors' knowledge, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

## DIRECTORS

The directors of the Company since 19 April 2000 (date of incorporation) and at the date of this annual report were as follows:

Mr. Yue Chung Wing, Patrick	(appointed on 19 April 2000)
Ms. Choi Siu Man, Julia	(appointed on 19 April 2000)
Mr. Yau Chun Fai	(appointed on 19 April 2000)
Dr. Cheung Siu Wing *	(appointed on 12 June 2000 and resigned on 16 October 2000)
Dr. Ip Wai Hung **	(appointed on 12 June 2000)
Dr. Lau Wai Shing, Augustine **	(appointed on 12 June 2000)

\* *non-executive director*

\*\* *independent non-executive directors*

In accordance with clause 87 of the Company's bye-laws, Ms. Choi Siu Man, Julia and Mr. Yau Chun Fai will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

## DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 12 to 14 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

Each of the three executive directors has entered into a service contract with the Company for an initial term of two years commencing from 1 June 2000 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

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.

### DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	—	—
Non-executive director	—	—
Independent non-executive directors	—	—
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	3,461	590
Contributions to provident fund	3	—
Other emoluments of a non-executive director:		
Basic salaries, other allowances and benefits in kind	36	—
Other emoluments of independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	140	—
	<b>3,640</b>	590

## REPORT OF THE DIRECTORS

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### DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS *(continued)*

The three executive directors received individual emoluments of approximately HK\$1,666,000 (1999: HK\$336,000), HK\$1,140,000 (1999: HK\$185,000) and HK\$658,000 (1999: HK\$69,000), respectively for the year ended 31 December 2000. The non-executive director received emoluments of HK\$36,000 (1999: Nil) for the year ended 31 December 2000. Each of the two independent non-executive directors received emoluments of HK\$70,000 (1999: Nil) for the year ended 31 December 2000.

Share options to subscribe for 4,266,663 shares in the Company were granted to the executive directors of the Company during the period. In the absence of a readily available market value for options on the shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no value was included in directors' remuneration in respect of share options granted.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

The five highest paid individuals included 3 directors (1999: 1) during the year, whose remuneration are set out above.

The emoluments and designated band of the remaining 2 (1999: 4) highest paid, non-director individuals during the year are as follows:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	<b>899</b>	1,556
Contributions to provident fund	<b>2</b>	—

The remuneration of all non-director, highest paid employees during the year fell within the range of Nil to HK\$1,000,000.

Share options to subscribe for 2,137,777 shares in the Company were granted to these employees during the period. In the absence of a readily available market value for options on the shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no value was included in the highest paid individuals in respect of share options granted.

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2000.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2000, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interests				Total
	Personal	Family	Corporate	Other	
Mr. Yue Chung Wing, Patrick ( <i>note</i> )	—	—	200,010,000	—	200,010,000
Mr. Yau Chun Fai	12,000,000	—	—	—	12,000,000

*Note:* These shares are held by Enterprise Logistics Limited, a company wholly owned by Mr. Yue Chung Wing, Patrick.

Save as disclosed above, at 31 December 2000, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to a share option scheme (the "Scheme") adopted by the Company on 29 June 2000, the Company has granted options to certain directors to subscribe for shares in the Company. As at 31 December 2000, the Company had the following outstanding share options granted to the directors:

Name of director	Date of grant	Number of share options granted during the period and balance at 31 December 2000
Mr. Yue Chung Wing, Patrick	4 December 2000	1,422,221
Ms. Choi Siu Man, Julia	4 December 2000	1,422,221
Mr. Yau Chun Fai	4 December 2000	1,422,221
		4,266,663

# REPORT OF THE DIRECTORS

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## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES** *(continued)*

All the above share options are exercisable during the period from 4 March 2001 to 3 March 2005 at an exercise price of HK\$0.141 per share. Under the terms of the Scheme, the board of directors is authorised, at its absolute discretion, to grant options to employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company. Further details of the share option scheme are set out in note 19 to the financial statements. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 14 July 2000.

Apart from the foregoing, and other than in connection with the Reorganisation in preparation for the Company's initial public offering by way of placement, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2000, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of share holding</b>
Enterprise Logistics Limited	200,010,000	50.0025%

*Note:* Enterprise Logistics Limited is wholly owned by Mr. Yue Chung Wing, Patrick.

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

## **SPONSOR'S INTEREST**

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited ("OP"), as at 31 December 2000 and 21 March 2001, respectively, neither OP nor its directors nor its employees, had any interest in the share capital of the Company. Pursuant to the agreement dated 29 June 2000 entered into with the Company, OP received, and will receive, a fee for acting as the Company's retained sponsor for the period from 30 June 2000 to 31 December 2002.



**AUDIT COMMITTEE**

The Company set up an Audit Committee (the "Committee") on 7 July 2000 with written terms of reference for the purpose of reviewing and supervising the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors and had held meeting for three times since its formation. The Group's financial statements for the year ended 31 December 2000 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

**AUDITORS**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Mr. Yue Chung Wing, Patrick**

*Chairman*

Hong Kong

21 March 2001

# REPORT OF THE AUDITORS

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**To the members**

**Grandmass Enterprise Solution Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 26 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

21 March 2001

# [ CONSOLIDATED PROFIT AND LOSS ACCOUNT ]

Year ended 31 December 2000

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	Notes	2000 HK\$'000	1999 HK\$'000
TURNOVER	5	11,624	12,199
Cost of sales		<u>(4,378)</u>	<u>(5,000)</u>
Gross profit		7,246	7,199
Other revenue		1,175	47
Selling and distribution expenses		(2,638)	(243)
Administrative expenses		(11,957)	(3,464)
Other operating expenses		<u>(4,473)</u>	<u>(261)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	(10,647)	3,278
Finance costs	7	<u>(132)</u>	<u>(39)</u>
PROFIT/(LOSS) BEFORE TAX		(10,779)	3,239
Tax	9	<u>30</u>	<u>(585)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u><u>(10,749)</u></u>	<u><u>2,654</u></u>
EARNINGS/(LOSS) PER SHARE — Basic	12	<u><u>(3.0) cents</u></u>	<u><u>0.8 cent</u></u>

Other than the net loss from ordinary activities attributable to shareholders for the year, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

# [ CONSOLIDATED BALANCE SHEET ]

31 December 2000

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	Notes	2000 HK\$'000	1999 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	4,507	714
Long term investment	15	1,500	—
		<u>6,007</u>	<u>714</u>
<b>CURRENT ASSETS</b>			
Amount due from a related company	16	—	17
Amount due from a director	17	—	715
Prepayments, deposits and other receivables		2,564	365
Prepaid tax		422	—
Accounts receivable		1,769	397
Pledged time deposits	22	5,034	—
Time deposits		15,121	—
Cash and bank balances		3,999	283
		<u>28,909</u>	<u>1,777</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		89	333
Tax payable		—	683
Deferred income		564	246
Accrued expenses		2,638	483
Deposits received		368	250
Current portion of finance lease payables	18	579	144
		<u>4,238</u>	<u>2,139</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>24,671</u>	<u>(362)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>30,678</u>	<u>352</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term portion of finance lease payables	18	828	115
		<u>29,850</u>	<u>237</u>
<b>CAPITAL AND RESERVES</b>			
Issued share capital	19	40,000	165
Reserves	20	(10,150)	72
		<u>29,850</u>	<u>237</u>

**Mr. Yue Chung Wing, Patrick**  
Director

**Ms. Choi Siu Man, Julia**  
Director

# [ CONSOLIDATED CASH FLOW STATEMENT ]

Year ended 31 December 2000

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	Notes	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	21(a)	(10,941)	2,784
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		973	47
Interest paid		(3)	1
Interest element on finance leases		(129)	(38)
Dividends paid		—	(3,000)
Net cash inflow/(outflow) from returns on investments and servicing of finance		841	(2,990)
TAX			
Hong Kong profits tax paid		(1,075)	—
INVESTING ACTIVITIES			
Time deposits pledged		(5,034)	—
Purchases of fixed assets		(3,564)	(484)
Acquisition of long term investment		(1,500)	—
Net cash outflow from investing activities		(10,098)	(484)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(21,273)	(690)
FINANCING ACTIVITIES	21(b)		
Increase in capital of subsidiaries		10,412	—
Proceeds from issue of new shares to public		34,575	—
Expenses paid in connection with shares issued		(4,625)	—
Repayment of capital element of finance leases		(252)	(148)
Net cash inflow/(outflow) from financing activities		40,110	(148)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		18,837	(838)
Cash and cash equivalents at beginning of year		283	1,121
CASH AND CASH EQUIVALENTS AT END OF YEAR		19,120	283
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		3,999	283
Time deposits with original maturity of less than three months		15,121	—
		19,120	283

# [ BALANCE SHEET ]

31 December 2000

	Notes	HK\$'000
<b>NON-CURRENT ASSETS</b>		
Interests in subsidiaries	14	<u>24,645</u>
<b>CURRENT ASSETS</b>		
Prepayments		202
Time deposits		5,120
Bank balances		<u>1</u>
		5,323
<b>CURRENT LIABILITIES</b>		
Accrued liabilities and other payables		<u>118</u>
<b>NET CURRENT ASSETS</b>		
		<u>5,205</u>
		<u>29,850</u>
<b>CAPITAL AND RESERVES</b>		
Issued share capital	19	40,000
Reserves	20	<u>(10,150)</u>
		<u>29,850</u>

**Mr. Yue Chung Wing, Patrick**  
Director

**Ms. Choi Siu Man, Julia**  
Director

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 1. GROUP REORGANISATION

The Company was incorporated in Bermuda on 19 April 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of its shares on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2000 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group (as detailed in note 14) on 29 June 2000. This was accomplished by acquiring the entire issued share capital of Grandmass Holdings Limited in consideration of and in exchange for the Company's allotted and issued share capital. Further details of the Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 19 and 14 to the financial statements, respectively, and in the Company's prospectus dated 7 July 2000.

## 2. CORPORATE INFORMATION

During the year, the Group was involved in the provision of manufacturing decision support system and computerisation consultation services to manufacturers and traders in Hong Kong. It also engaged in the provision of IT consultancy services, customised software development services, computer system integration and system deployment support services and the sale by way of licensing of accounting and data application systems.

## 3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

### Basis of consolidation

The consolidated financial statements have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition on 29 June 2000. Accordingly, the consolidated results of the Group for the years ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation or registration, where this is a shorter period. The consolidated balance sheet as at 31 December 1999 has been prepared on the basis that the existing Group structure had been in place at that date.



# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

## 3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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*(continued)*

### **Basis of consolidation** *(continued)*

In the opinion of the directors, the consolidated financial statements prepared on the above basis presents more fairly the results and state of affairs of the Group as a whole.

The Company was incorporated on 19 April 2000, accordingly, no comparative amounts have been presented for the Company's balance sheet.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) revenue from customer use of software in co-location centre facilities is recognised ratably over the terms of the agreement;
- (c) installation, system development and system design service income, when the relevant services have been rendered;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) maintenance fee income, on a time proportion basis over the maintenance period.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Furniture and fixtures	20%
Office and computer equipment	30%
Motor vehicles	30%

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

## 3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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*(continued)*

### Long term investments

Long term investments in unlisted equity securities, which are intended to be held on a continuing basis, and which are held for identified long term purposes documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose, are stated at cost less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors, on an individual investment basis. Any reduction in carrying amounts is charged to the profit and loss account.

Where the circumstances and events which led to the write-downs or write-offs of long term investments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### **Deferred income**

Maintenance fees received in respect of services which have not been completed on or before the balance sheet date are shown in the balance sheet as deferred income.

### **Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

### **Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

### **Cash equivalents**

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 4. RELATED PARTY TRANSACTION

The Group had the following material transaction with a related party during the year:

Name of related party	Nature of transaction	2000 HK\$'000	1999 HK\$'000
System Intelligent Limited	Payment for assignment of intellectual property right	<u>600</u>	<u>—</u>

Mr. Yue Chun Wing, Patrick, a director of the Company, is a director and shareholder of System Intelligent Limited. The transaction was related to a deed of assignment dated 31 March 2000 entered into between System Intelligent Limited as assignor and Grandmass Technology Limited, a wholly-owned subsidiary of the Company, as assignee relating to the assignment of all the intellectual property rights for a consideration of HK\$600,000.

## 5. TURNOVER

The Group's turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts where applicable, and services rendered. All significant intra-Group transactions have been eliminated on consolidation. An analysis of turnover is as follows:

	2000 HK\$'000	1999 HK\$'000
Sales of goods	<u>4,105</u>	<u>9,395</u>
Rendering of services	<u>7,519</u>	<u>2,804</u>
Turnover	<u>11,624</u>	<u>12,199</u>

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	2000 HK\$'000	1999 HK\$'000
Cost of services provided	4,378	5,000
Auditors' remuneration	630	100
Depreciation:		
Owned fixed assets	810	600
Leased fixed assets	361	172
	<u>1,171</u>	<u>772</u>
Operating lease rentals in respect of land and buildings	1,133	834
Staff costs, including directors' emoluments ( <i>note 8</i> )	10,120	3,829
Contributions to mandatory provident fund	30	—
Research and development costs	2,959	172
Exchange loss, net	—	1
and after crediting:		
Interest income	<u>973</u>	<u>47</u>

Cost of services provided includes HK\$2,708,000 (1999: HK\$2,648,000) relating to staff costs, which are also included in the total amount disclosed separately above.

## 7. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on bank overdrafts	3	1
Interest on finance leases	129	38
	<u>132</u>	<u>39</u>
Total finance costs	<u>132</u>	<u>39</u>

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance is as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	—	—
Other emoluments for executive directors:		
Basic salaries, other allowances and benefits in kind	3,461	590
Contributions to provident fund	3	—
	<u>3,464</u>	<u>590</u>
Other emoluments for non-executive and independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	176	—
	<u>3,640</u>	<u>590</u>

## 9. TAX

The tax charge in the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
Hong Kong:		
Current year	—	585
Overprovision in prior year	(30)	—
Tax charge/(credit) for the year	<u>(30)</u>	<u>585</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. In last year, Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that year.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 9. TAX (continued)

Provision for overseas tax has not been made because the overseas subsidiaries did not derive any assessable profit during the year.

Deferred tax has not been provided as there were no significant timing differences at the balance sheet date.

## 10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 19 April 2000 (date of incorporation) to 31 December 2000 was HK\$12,268,000.

## 11. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

	2000 HK\$'000	1999 HK\$'000
Dividends paid by a subsidiary of the Company to its then shareholders prior to the listing of the Company	<u>—</u>	<u>3,000</u>

## 12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$10,749,000 (1999: net profit of HK\$2,654,000) and the weighted average of 363,158,000 ordinary shares (1999: pro forma number of 330,850,000 ordinary shares deemed to issue as further described in note 19) in issue during the year.

Diluted loss per share for the year ended 31 December 2000 has not been shown as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year. In last year, no share options had been issued and, accordingly, no disclosure of diluted earnings per share is required.



# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 13. FIXED ASSETS

### Group

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office and computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At beginning of year	597	330	768	574	2,269
Additions	<u>2,406</u>	<u>401</u>	<u>650</u>	<u>1,507</u>	<u>4,964</u>
At 31 December 2000	<u>3,003</u>	<u>731</u>	<u>1,418</u>	<u>2,081</u>	<u>7,233</u>
Accumulated depreciation:					
At beginning of year	309	216	686	344	1,555
Provided during the year	<u>559</u>	<u>104</u>	<u>147</u>	<u>361</u>	<u>1,171</u>
At 31 December 2000	<u>868</u>	<u>320</u>	<u>833</u>	<u>705</u>	<u>2,726</u>
Net book value:					
At 31 December 2000	<u><u>2,135</u></u>	<u><u>411</u></u>	<u><u>585</u></u>	<u><u>1,376</u></u>	<u><u>4,507</u></u>
At 31 December 1999	<u><u>288</u></u>	<u><u>114</u></u>	<u><u>82</u></u>	<u><u>230</u></u>	<u><u>714</u></u>

The net book value of the fixed assets of the Group held under finance leases at 31 December 2000 amounted to HK\$1,377,000 (1999: HK\$230,000).

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 14. INTERESTS IN SUBSIDIARIES

	<b>Company 2000 HK\$'000</b>
Unlisted shares, at cost	<b>12,168</b>
Due from subsidiaries	<b>24,407</b>
Less: Provision for amounts due from subsidiaries	<b>(11,930)</b>
	<b>24,645</b>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

<b>Company</b>	<b>Place of incorporation/ registration and operations</b>	<b>Issued and fully paid-up capital/ registered share capital</b>	<b>Percentage of equity attributable to the Group</b>	<b>Principal activities</b>
Grandmass Holdings Limited	British Virgin Islands	US\$33,085	100%	Investment holding
Grandmass Technology Limited	Hong Kong	HK\$80,000	100%	Provision of computer consultancy services, software development and trading of computer hardware and software

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Issued and fully paid-up capital/ registered share capital	Percentage of equity attributable to the Group	Principal activities
Grandmass Cyber Factory Limited	Hong Kong	HK\$2	100%	Provision of sales and marketing services
Grandmass Cyber Factory (China) Limited	Hong Kong	HK\$2	100%	Investment holding
Grandmass Development Limited	British Virgin Islands	US\$1	100%	Dormant
Grandmass Enterprise System (Shanghai) Limited *	The People's Republic of China ("PRC")	HK\$900,000	100%	Dormant

Other than Grandmass Holdings Limited, all subsidiaries are indirectly held by the Company.

\* A translation of the official Chinese name.

## 15. LONG TERM INVESTMENT

The long term investment represented the 5% shareholding of an unlisted equity investment and is stated at cost.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 16. AMOUNT DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company disclosed pursuant to Section 161B of Hong Kong Companies Ordinance are as follows:

### Group

	<b>31 December 2000</b>	<b>Maximum amount outstanding during the year</b>	<b>1 January 2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Grandmass System Limited	<u>—</u>	<u>17</u>	<u>17</u>

A director and shareholder of the Company is also a director and shareholder of Grandmass System Limited.

The amount due from a related company was unsecured, interest-free and was repaid during the year.

## 17. AMOUNT DUE FROM A DIRECTOR

Particulars of the amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

### Group

	<b>31 December 2000</b>	<b>Maximum amount outstanding during the year</b>	<b>1 January 2000</b>
<b>Name</b>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ms. Choi Siu Man, Julia	<u>—</u>	<u>715</u>	<u>715</u>

The amount due from a director was unsecured, interest-free and was repaid during the year.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 18. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	696	187
In the second year	541	155
In the third year	361	—
	<hr/>	<hr/>
Total minimum finance lease payments	1,598	342
Future finance charges	(191)	(83)
	<hr/>	<hr/>
Total net finance lease payables	1,407	259
Portion classified as current liabilities	(579)	(144)
	<hr/>	<hr/>
Long term portion of finance lease payables	828	115
	<hr/> <hr/>	<hr/> <hr/>

## 19. SHARE CAPITAL

### Shares

	2000
	HK\$'000
Authorised:	
2,000,000,000 shares of HK\$0.10 each	200,000
	<hr/> <hr/>
Issued and fully paid:	
400,000,000 shares of HK\$0.10 each	40,000
	<hr/> <hr/>

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 19. SHARE CAPITAL (continued)

### Shares (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 19 April 2000 (date of incorporation) to 31 December 2000:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted nil paid on incorporation.
- (b) On 29 June 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 shares of HK\$0.10 each ranking pari passu in all respects with the existing share capital of the Company.
- (c) On 29 June 2000, as part of the Reorganisation described in note 1, the Company (i) allotted and issued an aggregate of 654,250 new shares of HK\$0.10 each credited as fully paid at par and (ii) credited as fully paid at par an aggregate of the 1,000,000 shares allotted and issued at nil paid as set out in (a) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Grandmass Holdings Limited. The excess of the fair value of the shares of Grandmass Holdings Limited, determined on the basis of the consolidated net assets of Grandmass Holdings Limited at that date, over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$12,103,000, was credited to the Company's contributed surplus account as detailed in note 20 to the financial statements.
- (d) On 29 June 2000, a total of 329,195,750 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that date by way of capitalisation of the sum of HK\$5,259,575 of the Company's contributed surplus and HK\$27,660,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new share issue by way of placement on 12 July 2000.
- (e) On 14 July 2000, 69,150,000 shares of HK\$0.10 each were issued at HK\$0.50 each to the public by way of placement for a total cash consideration, before expenses of HK\$34,575,000.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

## 19. SHARE CAPITAL (continued)

### Shares (continued)

A summary of the above movements in the issued share capital of the Company is as follows:

	Number of shares issued '000	Paid-up nominal value HK\$'000
Shares issued and allocated at nil paid on incorporation	1,000	—
Shares issued as consideration for the acquisition of the entire share capital of subsidiaries	654	65
Application of contribution surplus to pay up nil-paid shares	—	100
Capitalisation issue credited as fully paid on the contributed surplus and conditional on the share premium account of the Company being credited as a result of public share issue	<u>329,196</u>	<u>—</u>
Pro forma share capital at 31 December 1999	330,850	165
New issue to public by way of placement	69,150	6,915
Capitalisation of share premium account as set out above	<u>—</u>	<u>32,920</u>
Share capital as at 31 December 2000	<u><u>400,000</u></u>	<u><u>40,000</u></u>

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 19. SHARE CAPITAL *(continued)*

### Share options

Under the terms of the share option scheme (the "Scheme") adopted by the Company on 29 June 2000, conditional upon the listing of the Company's shares, the directors of the Company are authorised at their absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares of the Company. The subscription price will be determined by the directors, but may not be less than the highest of the nominal value of the shares, the average closing prices of the shares as stated in the GEM of the Stock Exchange for the five trading days immediately preceding the date on which the relevant option is granted to the employee and the closing price of the shares as stated in the Stock Exchange on the date on which the relevant option is granted.

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

The Scheme became effective for a period of 10 years commencing 14 July 2000. Further details of the Scheme are noted in the Company's prospectus dated 7 July 2000.

During the period, 4,000,000 and 16,000,000 share options were granted on 15 August 2000 and 4 December 2000, respectively, to certain directors and employees of the Group under the Scheme for the subscription of ordinary shares of the Company at subscription prices ranged from HK\$0.141 to HK\$0.199 per share. These share options are exercisable during the period from 4 March 2001 to 14 August 2005. At the balance sheet date, the Company had 19,280,000 outstanding share options as 720,000 share options were cancelled subsequently. The exercise in full of such share options, would, under the present capital structure of the Company, result in the issue of 19,280,000 additional ordinary shares.



# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 20. RESERVES

### Group

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	—	—	418	418
Net profit for the year	—	—	2,654	2,654
Dividends	—	—	(3,000)	(3,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999 and at 1 January 2000	—	—	72	72
Increase in capital of subsidiaries	—	10,412	—	10,412
Premium arising from issue of new shares to public ( <i>note 19</i> )	27,660	—	—	27,660
Transfer to share capital to pay up nil-paid shares allotted to shareholders ( <i>note 19</i> )	(27,660)	(5,260)	—	(32,920)
Shares issue expenses	—	(4,625)	—	(4,625)
Net loss for the year	—	—	(10,749)	(10,749)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>—</u>	<u>527</u>	<u>(10,677)</u>	<u>(10,150)</u>

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 20. RESERVES (continued)

### Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
Arising on issue of shares for the acquisition of the entire issued share capital of Grandmass Holdings Limited (note 19)	—	12,103	—	12,103
Transfer to share capital to pay up nil-paid shares allotted on incorporation (note 19)	—	(100)	—	(100)
Premium arising from issue of new shares to the public (note 19)	27,660	—	—	27,660
Transfer to share capital to pay up nil-paid shares allotted to shareholders (note 19)	(27,660)	(5,260)	—	(32,920)
Shares issue expenses	—	(4,625)	—	(4,625)
Net loss for the period	—	—	(12,268)	(12,268)
At 31 December 2000	<u>—</u>	<u>2,118</u>	<u>(12,268)</u>	<u>(10,150)</u>

- (a) The contributed surplus of the Group represents the excess of the nominal value of shares of the subsidiaries acquired pursuant to the Group reorganisation on 29 June 2000, set out in note 1 to the financial statements, over the nominal value of the shares in the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired over the aggregate of the nominal value of the Company's shares issued in exchange therefor.

- (b) Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of its contributed surplus in certain circumstances.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit/(loss) from operating activities	(10,647)	3,278
Interest income	(973)	(47)
Depreciation	1,171	772
Decrease/(increase) in amount due from a related company	17	(4)
Decrease in amount due from a director	715	789
Increase in prepayments, deposits and other receivables	(2,199)	(181)
Increase in accounts receivable	(1,372)	(91)
Increase/(decrease) in accounts payable	(244)	144
Increase in deferred income	318	245
Increase/(decrease) in accrued expenses	2,155	(1,115)
Increase/(decrease) in deposits received	118	(1,006)
Net cash inflow/(outflow) from operating activities	<u>(10,941)</u>	<u>2,784</u>

### (b) Analysis of changes in financing during the years

	Share capital, contributed surplus and share premium HK\$'000	Obligations under finance leases HK\$'000
At 1 January 1999	165	407
Repayment during the year	<u>—</u>	<u>(148)</u>
At 31 December 1999 and at 1 January 2000	165	259
Net cash inflow/(outflow) from financing	40,362	(252)
Inception of finance leases	<u>—</u>	<u>1,400</u>
At 31 December 2000	<u>40,527</u>	<u>1,407</u>

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### (c) Major non-cash transactions

- (i) The reorganisation of the Group involved the acquisition of subsidiaries by the issue of shares, further details of which are set out in notes 1 and 19 to the financial statements.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,400,000 (1999: Nil).

## 22. BANKING FACILITY

As at 31 December 2000, the total banking facility of the Group amounted to approximately HK\$5,000,000, of which none was utilised. This banking facility was secured by a pledge of the Group's time deposit of HK\$5,034,000.

## 23. COMMITMENTS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	—	535
In the second to fifth years, inclusive	<u>2,268</u>	<u>—</u>
	<u>2,268</u>	<u>535</u>
Capital commitments contracted for in respect of:		
Capital contribution to a subsidiary established in the PRC	<u>2,100</u>	—
Capital contribution to an associate to be established in Hong Kong	<u>50</u>	—
	<u>2,150</u>	—
	<u><b>4,418</b></u>	<u><b>535</b></u>

The Company did not have any significant commitments at the balance sheet date.

# [ NOTES TO FINANCIAL STATEMENTS ]

31 December 2000

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## 24. CONTINGENT LIABILITIES

As at the balance sheet date, a wholly-owned subsidiary of the Company, Grandmass Technology Limited, was the subject of two legal actions brought by its customers. The Company has received a legal opinion stating that the likelihood of the relevant customers succeeding in the claims is remote. In addition, a 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 claims.

Apart from above, the Group and the Company did not have any significant contingent liabilities as at 31 December 2000.

## 25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 21 March 2001.

# NOTICE OF ANNUAL GENERAL MEETING

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**NOTICE IS HEREBY GIVEN** that the First Annual General Meeting (“Meeting”) of Grandmass Enterprise Solution Limited (the “Company”) will be held at Chater Room IV, The Ritz Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 27 April 2001 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2000;
2. To re-elect retiring directors and to authorise the board of directors to fix the directors’ fees;
3. To re-appoint the auditors and to authorise the board of directors to fix their remuneration; and
4. As special business, to consider and, if thought fit, pass the following resolutions (“Resolutions”) which will be proposed as ordinary resolutions:

## ORDINARY RESOLUTIONS

(1) **“THAT:**

- (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal value of the share capital allotted or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares upon the

exercise of subscription rights attaching to any existing warrants issued by the Company; or (iii) an issue of shares in the Company upon the exercise of options which may be granted under Share Option Scheme (as approved by an Ordinary Resolution passed on 29 June 2000) or any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the Company; or (iv) any scrip dividend scheme or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company; or (v) a specific authority granted by the shareholders of the Company in general meeting, shall not exceed 20 per cent. of the nominal value of the share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
- (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this Resolution; and

“Rights Issue” means an offer of shares of the Company or issue of options, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of shareholders of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate, such other securities), (subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

# NOTICE OF ANNUAL GENERAL MEETING

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(2) "THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company, including to determine the manner of repurchase, to repurchase shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or requirements of the GEM Listing Rules (as defined in Resolution No.(1) set out in item 4 of the notice of this meeting) or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal value of the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the nominal value of the share capital of the Company in issue at the date of the passing of this Resolution and the authority granted pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
  - (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the directors of the Company by this Resolution."



- (3) “**THAT** conditional upon the Resolutions Nos.(1) and (2) set out in item 4 of the notice of this meeting being passed, the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Resolution No.(1) set out in item 4 of the notice of this meeting be and is hereby extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No.(2) set out in item 4 of the notice of this meeting, provided that such extended amount shall not exceed 10 per cent. of the nominal value of the share capital of the Company in issue at the date of the passing of this Resolution.”

By order of the Board  
**Yue Chung Wing, Patrick**  
*Chairman*

Hong Kong, 29 March, 2001

*Principal place of business:*

19th Floor, Tower 5  
China Hong Kong City  
China Ferry Terminal  
33 Canton Road  
Kowloon, Hong Kong

# NOTICE OF ANNUAL GENERAL MEETING

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*Notes:*

1. In order to qualify for attending the forthcoming Meeting of the Company, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the appointed time for holding the Meeting.
2. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
4. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the Meeting if the shareholder so desires.
5. An explanatory statement containing further details regarding Ordinary Resolution No.(2) set out in item 4 of the notice of this Meeting as required by the GEM Listing Rules will be dispatched to the shareholders of the Company together with the 2000 annual report.