2001

annual report

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)

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EXECUTIVE DIRECTORS

Mr. Ng Ming Wah *(Chairman)*
Mr. Taminsyah Abdy Broto
(Chief Executive Officer)
Mr. Li Sze Tang

NON-EXECUTIVE DIRECTOR

Ms. Pan Shu Wen

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Kwok Kee
Mr. Zhao Ming

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COMPANY HOMEPAGE/WEBSITE

http://www.grandmass.com.hk and
http://www.ioms.cc

QUALIFIED ACCOUNTANT

Mr. Lee Wai Kam, Hyman *ACCA, AHKSA*

COMPLIANCE OFFICER

Mr. Ng Ming Wah

AUTHORISED REPRESENTATIVES

Mr. Ng Ming Wah
Mr. Taminsyah Abdy Broto

COMPANY SECRETARY

Mr. Lee Wai Kam, Hyman *ACCA, AHKSA*

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SPONSOR

Oriental Patron Asia Limited
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183 Queen's Road Central
Hong Kong

CHAIRMAN'S STATEMENT

In 2001, despite the challenging global economic environment, the Group made significant and further progress toward its objective of becoming a leading ERP developer in the Asia market. Throughout the year, the Group executed acquisition, rationalization and integration strategies to secure and enhance its significant position in the software developing industry.

During the year, a new joint venture was formed between the Group and IFS AB, the fifth largest ERP vendor in the world. The joint venture has effectively stretched the medium-to-large enterprise market for the Group, covering nearly every industry and business aspects.

In addition, the Group successfully expanded its access to the southern China by acquisition of Clever Investments Inc., and succeeded in reinforcing the research and development capabilities of the Group.

The Group has also consolidated its entire product line into one sophisticated and versatile product suite – a full function and state-of-the-art web-based technology intuitive business application system named Intuitive Open Manufacturing System (iOMS). The new version iOMS 2.0 has been successfully launched at the end of 2001 and received encouraging feedback from the market.

Meanwhile, the Group continued to focus on expense control and capital productivity.

During the year, there was a change in management with the resignation of five directors and the subsequent appointment of six directors. The newly composed Board would like to establish a new identity and direction for the Group.

With regard to the entry into the WTO for China, the Group is optimistic about its future growth. The Group is enthusiastic about expanding its interests in the software market and is exploring the possibility of expanding its activities in other regions within Asia.

On behalf of the Board, I would like to extend a few words of gratitude to our employees for their diligent efforts during the past years, my fellow directors, our shareholders and business associates for their continuing support and dedication throughout 2001.

Ng Ming Wah
Chairman

Hong Kong, 26 March 2002

FINANCIAL REVIEW

In 2001, the Group exerted tremendous efforts in developing new products, businesses, partners and investments both in Hong Kong and China, requiring significant capital on the corresponding development.

However, with the sluggish business environment in 2001, in particular, in the countries of Asia-Pacific region in the second half of 2001, the Group's performance was significantly affected. In addition, due to keen competition in the ERP market, the Group faced much pressure on pricing of its products. Particularly, the revenue & results of the software licencing business of the Group was significantly affected compared to last year. For the twelve months ended 31 December 2001, the Group recorded a turnover of approximately HK$3,300,000.

During the year under review, the net loss attributable to shareholders was approximately HK$22,319,000. The Group was hard hit by the corporate failure of its unlisted equity investment, Renew Logistics (HK) Limited. The Group had made a provision of approximately HK$1,524,000 during the year against its doubtful debt and diminution in value of investment which were respectively, included in the distribution costs and other operating expenses of the Group. Further, the Group incurred operating loss arising from its operation in Shanghai office, during the start-up stage, of approximately HK$1,592,000. After full and careful consideration of the geographical development within the PRC market, the Group has strategically adjusted its marketing strategies, putting more emphasis on the southern region of the PRC market. In any event, the Group would continue to closely monitor the development of different regions of the PRC market, keeping pace with the rapid change in technology and the ultimate needs of the customers.

Under the difficult operating and business environment, especially in the second half of 2001, the Group had implemented various cost control measures. For example, the Company's head office was relocated in October 2001 in order to utilise the Group's resources in a more efficient and effective manner. The monthly rental for the new head office was decreased by approximately 82% as compared to previous office rental. The Group incurred one-off moving cost and write-off of fixed assets of approximately HK$1,975,000 as a result of the head office relocation, which were included in the other operating expenses of the Group.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2001.

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Resources

As at 31 December 2001, cash and bank balances of the Group was approximately HK$5,440,000. Total borrowing of the Group amounted to approximately HK$295,000, representing obligation under a finance lease contract with an average interest rate of approximately 6% per annum and an average lease term of approximately three years. Except for the hire purchase contract for a motor vehicle of the Company, the Company did not have any mortgage or charge on their assets as at 31 December 2001.

As at 31 December 2001, the Group's gearing ratio was 0.76% representing a percentage of long term liabilities over total assets.

As a majority of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, the exchange rate risk of the Group are considered to be minimal.

BUSINESS REVIEW

Key Business Developments

During the year under review, the Group has taken following major initiatives:

(i) to implement aggressive cost control measures;

(ii) to re-align its products and market development strategy according to its vision; and

(iii) to strengthen its management team and enhance its internal human resources development programmes.

Strategic Developments & Business Acquisition

In October 2001, a new joint venture, IFS Grandmass Limited, was formed with IFS AB, the fifth largest ERP vendor in the world. The joint venture has effectively opened up the medium-to-large enterprise market for the Group, covering nearly every industry and business aspect, including manufacturing, engineering, distribution, human resources, finance, CRM, maintenance and e-business.

BUSINESS REVIEW *(continued)*

Strategic Developments & Business Acquisition (continued)

In addition, the Group has acquired 50% interests in Clever Investments Inc. from General Science Inc. strengthening the research and development capabilities of the Group and expanding its access in the potential market of the southern region of the People's Republic of China ("PRC"). The Company believes that strong research and development capabilities are important to guarantee the continued success of the Group and are fully committed to developing pioneering software products.

Cost Control Measure

Over the forth quarter of 2001, the Group has implemented effective measures on cost control and resource optimization. In November 2001, the Group has acquired 50% interest in Clever Investments Inc. from General Science Inc., Clever Investments Inc. is the holding company of a 100% interest in Clever-Tech Information System (Shenzhen) Limited which is principally engaged in the provision of the consultancy services and technical development of the ERP software packages. Through its acquisition of 50% interest in Clever Investments Inc., the Group has succeeded in shifting its entire research and development from Hong Kong to Shenzhen, PRC. The Group's vision is to be the leading ERP provider and developer in Asia.

Key Product Developments & Integration

The Group has consolidated its entire OMS product line, which originally consists of vOMS, iOMS, iAccount and iLink, into one product suite – a fully integrated, pre-packaged, web-based, intuitive business application named Intuitive Open Manufacturing System (iOMS). In November 2001, the Group succeeded in launching the new iOMS version 2.0. The new, intuitive design of iOMS version 2.0 has attracted encouraging feedbacks from the market. iOMS 2.0 fully integrates with Microsoft technologies, Windows 98/Me/NT/2002/XP, IIS, MTS, SQL Server, and Seagate Crystal Reports tool. Making iOMS 2.0 the best priced ERP for SMEs.

BUSINESS REVIEW *(continued)*

Key Product Developments & Integration (continued)

The directors are of the view that: iOMS 2.0 surpasses our competitors in the following aspects:

1. Advance technology: iOMS 2.0 is real N-tier architecture with clean separation of front-ends, business logics and database. It's a 100% web-based multi-languages ERP system;

2. System integrity: iOMS 2.0 is a complete ERP solution for Business Process (Inventory, Purchasing and Sales Management) and Manufacturing Control (MPS, MRP, Subcontract);

3. System extensibility: iOMS 2.0 is designed base on open system integration. There are full sets of adaptors for Finance management system, HRMS and CRM; and

4. Multi-Industries applicability: iOMS 2.0 is applicable in Electronics, Pharmaceutical, Petrochemical, Toys, Furniture Manufacturing, Plastics, Printing and Trading industries.

In less than one month, the Group succeeded in bringing a few customers.

While iOMS targets small OMEs (Owner Managed Enterprises), the Group also actively sought to form strategic partnership with the world's leading ERP vendors to cater for the medium to large size enterprises in Hong Kong and southern China.

In addition, in the forth quarter of 2001, the Group has signed a number of agreements with IT companies in both Hong Kong and the PRC to form alliances for marketing, licensing, distribution and sales of the Company's products. The alliances should bring the much-needed network, presence, coverage and product delivery capacity to the Group in the future.

BUSINESS REVIEW *(continued)*

Staff

Of the Group's total operating expenditure, staff costs continued to represent the largest component of the total expenditure. Total staff costs amounted to approximately HK$12,171,000, a 20% increase from previous year. The number of headcount reached its peak of 41 employees (including directors and employees) for the Hong Kong head office in January 2001. However, to cope with the changing operating environment, the Board streamlined the work force of the Group, cutting the headcount to 27 employees (excluded the headcount of the newly acquired investment, Clever Investments Inc. and its subsidiary) at the end of 2001 to create a more efficient infrastructure. Employees of the Company were remunerated comparable to market with employee benefits of medical insurance, mandatory provident fund and employee share option scheme.

In terms of management and internal resource development, the Group has kicked off aggressive internal management development programme, which includes the implementation of competency-based human resources development and recruitment programme.

The Group expects to attract many top talents from the industry in years to come.

PROSPECTS

In 2002, the Group will continue to put much emphasis on human resources, management, product research and development, market development and execution.

The entry into WTO for the PRC will undoubtedly bring much positive impact on the Group's business in the long run. ERP has developed more than a decade in China. Since Year 2001, ERP in China has really speeded up. The main contributing factors include:

1. The ERP market has matured;

2. Chinese enterprises have learnt advance management concepts from those foreign enterprises;

3. Entering into WTO push Chinese enterprises to add more competitive edges;

4. PRC government has deepen the policies to improve enterprises quality and information management; and

5. The burst of .COM bubble.

PROSPECTS *(continued)*

Today, ERP gets more and more attentions from different enterprises. According to Centre of Computer and Microelectronics Industry Development (CCID), the overall China ERP software market is estimated to reach RMB0.57 billion in 2002, and 0.64 billion in 2003. The compound annual growth rate (CAGR) is 10.8%. PRC has been the highest growth market in Asia and after joining WTO, the growing trend will continue.

Since large enterprises have already deployed some form of ERP system in earlier stage, the medium-sized enterprises will be segment with the greatest potential. This implies enormous need for proven product using advance technology with reasonable pricing in the next few years.

However, in the short term, the Group's business might be still impacted by the current, on-going global recession. In the first quarter of 2002, the directors believe that the Group will continue to experience the pressure on pricing of its products before the economy rebounces. In view of this, the Group will continue to take every measure to increase its operating efficiency and to reduce its operating costs so as to increase its competitiveness. The Group has planned to broaden its customer base, exploring new business potentials. The new iOMS will be launched to the medium-to-large OMEs, in a bid to expand its distribution network and raise its market exposure.

At presents, the Group has several hundreds potential clients over Hong Kong and the PRC markets. To effectively promote iOMS 2.0 in the huge market of southern China, we will take more direct and effective approach to build up the relationship with potential markets. A series of events in Pearl Delta region and Guangdong Province will be organised in Q2, Q3 of 2002. For example, several ERP seminars will be co-organised with local industry associations and universities. We will also participate in the biggest hi-technology exhibition in southern China, the China Hi-Teach Fair 2002 in October. The purpose is brand-building and market awareness for local customers.

After the solid foundations established, encompassing the clear and fresh business model, the ever-increasing demand for ERP solutions and the huge PRC market potential, the directors have every confidence in the prospect of the Group's operation.

PROSPECTS *(continued)*

On 4 March 2002, at the special general meeting of the Company, the ordinary resolution in connection with the rights issue of 960,000,000 rights shares of HK$0.01 each at HK$0.032 per rights share on the basis of two rights shares for every one share held by existing shareholders (the "Rights Issue") of the Company was duly approved. The Board is of the opinion that, upon completion of the Rights Issue, having regard to the expected cash flows, the estimated net proceeds from the Rights Issue and the bank and other facilities available to the Group, the Group will have sufficient working capital for its present requirements. The estimated net proceeds of the Rights Issue are approximately HK$29 million.

The Group will continue to look for potential investments in the computer software industry which enhance the distribution and market opportunities and revenue of the Group. A portion of the net proceeds of the Rights Issue will be applied for acquisition of the potential investments. However, the Group does not have any target companies at present.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2001

Business Objectives as stated in the prospectus dated 7 July 2000	Actual Business Progress
A. Develop strategic alliance	
Search opportunities to form alliance with IT corporations in HK and other Asian countries	In current year, the Group succeeded in form a joint venture with IFS AB, the fifth largest ERP vendor in the world. It effectively opened up the medium-to-large enterprise market for the Group. The Group also formed alliances with about 4 IT companies in both Hong Kong and PRC up to latest date of this report, striving to promoting and enhancing the marketing, licencing, distribution and sales activities for the Company's products.
B. Expand distribution channel for the OMS and potential markets	
1. Launch OMS Financial Accounting System through the buy-sell and ASP channel	Ahead of the planned schedule by 6 months, the OMS Financial Accounting System was launched in the fourth quarter of 2000. Sales contract under buy-sell model has been made with client. Further enhancement is developed in progress, it is expected that the new enhanced version will be launched in the first-half of 2002.
2. Licence the OMS (E-Commerce Edition) to ASPs based in Hong Kong and the PRC	Due to immaturity and lack of demand of the ASP market, the Group has refocused its distribution channel from the ASP to the buy-sell channel.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2001

Business Objectives as stated in the prospectus dated 7 July 2000	Actual Business Progress
3. Revenue generated from the sale of vOMS systems through dealers in the PRC will grow to more than 10% of the Group's turnover	Through the acquisition of Clever Investments Inc., the Group has expanded their market and network in the PRC. However, as the Group's expansion in the PRC market is still in the initial stage, no substantial revenue has been generated from the PRC market. With regard to China's entry into WTO, the Group is expected to generate additional revenue and grow over 10% of the Group's revenue in 2002.
4. Launch iOMS (e-Supply Chain Edition) through the buy-sell and ASP channel	The iOMS (e-Supply Chain Edition) was launched in the forth quarter of 2000, which was provided through traditional buy-sell channel as well as its own ASP programme. However, with the rapid change in demand in software industry, the Group has strategically changed its strategy to consolidate such product into a fully integrated intuitive business application named Intuitive Open Manufacturing System. It has attracted encouraging feedback from the market.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2001

Business Objectives as stated in the prospectus dated 7 July 2000	Actual Business Progress
C. New product development	
1. Plan to design and develop the OMS Linux edition for the PRC market	Ahead of planned schedule, the Group has formed a joint venture with existing developer using Linux platform and one of Linux examination centers in Hong Kong in the forth quarter of 2000. However, with the severe market competition of Linux, the Group has strategically adjusted its development of the product. The Company has suspended the development of the product and would continue to closely monitor the development of the market, keeping pace with the rapid change in technology, and the ultimate needs of the customers and the trend of the software industry.
2. Continue research and development work with HKPU	The Group kept close contacts with academic institutions including Vocational Training Council and HKPU. The Group entered collaboration with VTC and donated hardware and software packages valued at over HK$10 million on 9 January 2001. The Group actively sought to discuss and exploring projects which are of huge market potential. The Group will actively works for any investment opportunities that generate synergy effect with its existing product.
3. Start to design and develop the OMS Financial Accounting System	The OMS Financial Accounting System had been successfully developed and launched in the fourth quarter of 2000.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS FOR THE YEAR ENDED 31 DECEMBER 2001

Business Objectives as stated in the prospectus dated 7 July 2000	Actual Business Progress
D. Enhance the reputation of the Group's products and services	
1. Promote the products by means of holding seminars and promotion through the press	The Group regularly held seminars throughout the year and participated in the Microsoft Solutions Fair in the first quarter of 2001, aiming at promoting and marketing the Group's products to potential customers.
2. Participated in IT exhibitions in the Asian region	The Group took part in the Microsoft Solutions Fair held in the first quarter 2001 and a large IT exhibition in Dongguan, PRC, in the third quarter of 2001. Participation in the exhibitions enabled the Group to keep abreast with the industrial development and establish relationship with potential customers.
3. Organise direct mailing to targeted customers and advertisement	The Group sent newsletters providing latest information of the Group to targeted customers and the product brochures to potential customers periodically. The Group also placed advertisements in major newspaper and other media to further promote and introduce the Group's new products.

USE OF PROCEEDS

As stated in the prospectus of the Company dated 7 July 2000, for the year ended 31 December 2001, approximately HK$12 million of the net proceeds of the issue of the new shares under the initial public offer would be allocated as to approximately HK$8 million for new product development; HK$2 million for developing potential markets and HK$2 million for promoting the products and service of the Group.

For the year ended 31 December 2001, about HK$5.4 million had been used in which approximately HK$3.2 million was invested in new product development, particularly for the OMS Linux edition and the fully integrated iOMS edition. About HK$1.6 million has been used in potential market development and approximately HK$0.6 million was spent on promoting the Group's products and revenue. The discrepancies between planned and actual use of proceeds was mainly attributable to the proportion of proceeds set aside for the new product development work with HKPU. In addition, due to unfavourable market sentiment, participation in IT exhibition was less than planned. The Group adopted a more cost efficient and effective measure to promote the product and services of the Group during the year by way of direct mailing and conducting seminars.

As stated in the circular of the Company dated 16 August 2001, 50,000,000 new shares of the Company had been placed in August 2001, net proceeds of approximately HK$3.7 million were raised and intended to be used as the Group's additional general working capital.

EXECUTIVE DIRECTORS

Mr. Ng Ming Wah, age 49, was appointed executive director and Chairman of the Company in June 2001 and October 2001 respectively. Mr. Ng is responsible for formulation of corporate strategy and overall steering of the Group's management. He is an executive director of a Hong Kong listed company, Sunlord Chemical Group Limited. He has extensive experience in sales co-ordination and general management. His sales and marketing network is far-reaching especially in China. Before joining the Company, he had held various senior management positions in various business sectors including transportation, trading, telecommunication, software development in Hong Kong and China and responsible for strategic planning, logistics, sales and marketing as well as general operational control. Mr. Ng is committed to allocate sufficient time to carry out his duties as executive directors of the Company.

Mr. Taminsyah Abdy Broto, age 39, was appointed executive director of the Company in September 2001. Mr. Taminsyah is responsible for the Group's ERP business and the Group's overall sales and marketing functions and formulates future business direction and market strategic planning. Prior to joining the Company, he has been the president and Chief Executive Officer of the IFS Indonesia PT since 1997, and Enterprise Resource Planning ("ERP") software and services provider in Indonesia and Asia Pacific region. In 2000, Mr. Taminsyah also involved in the development of ERP business in China, Taiwan and Korea as Senior Vice President of IFS Solutions Asia Pacific Pte Limited of Singapore. In the past 10 years, Mr. Taminsyah worked as senior management positions in major software development and IT companies in Indonesia, U.S.A. and Singapore. During this period, he led significant IT and software development and implementation projects in different areas. He graduated from the University of Southern California receiving a Bachelor's Degree in Electrical Engineering in 1983 and a Master's Degree in Computer Engineering in 1985. Mr. Taminsyah also received various academic honours and professional recognitions in Indonesia and in the U.S.A.

Mr. Li Sze Tang, aged 43, was appointed executive director of the Company in April 2001. Mr. Li is responsible for the corporate and strategic planning of the Group. He is an executive director of a Hong Kong listed company, Thiz Technology Group Limited. Mr. Li has 18 years of experience in various aspects of finance, investment and computer industries. Mr. Li holds a Master's Degree in Science from the Imperial College of Science, Technology and Medicine, University of London and a Master's Degree in Economic Law from Zhongshan University, the PRC. He is also a Fellow Member of Chartered Institute of Management Accountants, the United Kingdom and the Hong Kong Society of Accountants.

NON-EXECUTIVE DIRECTOR

Ms. Pan Shu Wen, aged 27, was appointed non-executive director of the Company in May 2001. Ms. Pan graduated from Polytechnic of Dongguan, PRC, in Foreign Language Faculty. She is the co-founder and marketing manager of two largest kindergartens in Dongguan. She is also the Chief Marketing Officer of Dongguan Science Technology Limited. She has over five years experience in System and Education and has very strong client network in Dongguan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Ming, aged 44, was appointed independent non-executive director of the Company in April 2001. Mr. Zhao has worked in various enterprises for over 20 years in Hong Kong and the PRC and has extensive experience in business administration and general management. He has served as a general manager of Beijing Marrison World Business Information Systems Company Limited, a telecommunication and network company in the PRC. Mr. Zhao has extensive experience in the management of IT companies.

Mr. Lau Kwok Kee, age 42, was appointed independent non-executive director of the Company in September 2001. Mr. Lau is a solicitor practicing in Hong Kong since 1989 and a principal of a law firm in Hong Kong. He graduated from the University of Hong Kong in 1982 and received a Bachelor's Degree in Laws from the University of London in 1985 and a Diploma in Chinese Law in 1989.

SENIOR MANAGEMENT

Mr. Huang Kong, aged 28, is Vice President – Operation of the Group responsible for management of the Group's operation function. He has over 6 years of experience in telecommunication and internet technology, of which 4 years as team leader. Prior to joining the Group in April 2001, he was previously a senior consultant at one leading IT consulting firm. He graduated with Bachelor of Engineering degree in Information Engineering (with first class honours) from the Chinese University of Hong Kong.

Mr. Lee Wai Kam, Hyman, aged 28, is Finance Manager responsible for the financial function of the Group. He was appointed qualified accountant and company secretary of the Company in February 2001. He graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy in 1995 and received a Diploma in Legal Studies from the University of Hong Kong in 2001. 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 October 2000, he had worked for an international accountancy firm and a multi-national company.

Mr. Yip Hing Shun, aged 36, is Consulting Manager responsible for the Group's product services and supports. Mr. Yip has 8 years of experience in ERP/MRP system implementation and support, over 5 years of which as team leader. Prior to joining the Group in August 2001, he was previously a senior consultant of a global consultant group based in Singapore. He graduated with a Bachelor of Business major in Information System.

Mr. Chung Hang Ngai, aged 31, is Senior Sales Manager responsible for sales function. Mr. Chung joined the Group in April 2001 and was promoted to Senior Sales Manager in September 2001. Mr. Chung has 8 years of experience as sales supervisor in a major manufacturer in Hong Kong. He has extensive experience in managing sales team and sales activities. He graduated with a Bachelor of Science degree, with a major in Chemistry and minor in Computer Science, from the Chinese University of Hong Kong.

The directors herein present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2001.

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 15 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year are set out in note 5 to the financial statements.

No geographical segment information is presented, as during the twelve months ended 31 December 2001 and 2000, all segment revenue and segment results were derived from activities conducted in Hong Kong.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 33 to 36.

The directors do not recommend the payment of any dividends in respect of the year ended 31 December 2001.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results of the Group for the last four financial years and of the assets and liabilities of the Group for the last three financial years, respectively, prepared on the basis set out in notes 1 and 2 below.

	Year ended 31 December			
RESULTS	**2001**	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**3,300**	11,624	12,199	8,814
PROFIT/(LOSS) BEFORE TAXATION	**(22,496)**	(10,779)	3,239	282
Taxation	**–**	30	(585)	(60)
PROFIT/(LOSS) AFTER TAXATION	**(22,496)**	(10,749)	2,654	222
MINORITY INTERESTS	**177**	–	–	–
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	**(22,319)**	(10,749)	2,654	222

	As at 31 December		
ASSETS AND LIABILITIES	**2001**	2000	1999
	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**8,452**	6,007	714
NET CURRENT ASSETS/(LIABILITIES)	**5,549**	24,671	(362)
NON-CURRENT LIABILITIES	**(40)**	(828)	(115)
NET ASSETS	**13,961**	29,850	237

SUMMARY FINANCIAL INFORMATION *(continued)*

Notes:

1. The summary of the combined results for the years ended 31 December 1999 and 1998 have been extracted from the Company's annual report for the year ended 31 December 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 years ended 31 December 2001 and 2000 are those set out on page 33 of the financial statements.

2. The only published assets and liabilities of the Group are those as set out on page 34 of the financial statements and those extracted from the Company's annual report for the year ended 31 December 2000.

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 15 to the financial statements.

BORROWINGS

Details of the borrowings of the Group are set out in note 20 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and details of the share option scheme are set out in note 21 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves available for distribution represents the contributed surplus account of approximately HK$36,527,000. 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 43% of the total sales for the year and sales to the largest customer included therein amounted to 15%. Purchases from the Group's five largest suppliers accounted for 88% of the total purchases for the year and purchases from the largest supplier included therein amounted to 32%.

To the best of the directors' knowledge, save as the related party transactions as set out in note 25 to the financial statements, 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 during the year and up to the date of this report were:

Executive directors:

Mr. Li Sze Tang	(appointed on 23 April 2001)
Mr. Ng Ming Wah	(appointed on 7 June 2001)
Mr. Taminsyah Abdy Broto	(appointed on 10 September 2001)
Mr. Yau Chun Fai	(resigned on 15 June 2001)
Ms. Choi Siu Man, Julia	(resigned on 29 June 2001)
Mr. Yue Chung Wing, Patrick	(resigned on 1 October 2001)

Non-executive director:

Ms. Pan Shu Wen	(appointed on 2 May 2001)

DIRECTORS *(continued)*

Independent non-executive directors:

Mr. Zhao Ming	(appointed on 12 April 2001)
Mr. Lau Kwok Kee	(appointed on 7 September 2001)
Dr. Lau Wai Shing, Augustine	(resigned on 3 April 2001)
Dr. Ip Wai Hung	(resigned on 17 August 2001)

In accordance with clause 86(2) of the Company's bye-laws, all directors as at the date of this report will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 18 to 20 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Taminsyah Abdy Broto, being an executive director and the chief executive office of the Company, has entered into a service contract with the Company for an initial term of two years commencing from 1 October 2001. The service contract shall continue thereafter until terminated by either party giving the other not less than three months' notice after the expiration of the said initial fixed term.

Save for Mr. Taminsyah Abdy Broto, no director proposed for re-election at the forthcoming annual general meeting has a service contract, other than ordinary employment letters with no specified term, with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year under review, the Group purchased computer hardware of approximately HK$236,000 from Thiz.com (Hong Kong) Limited of which Mr. Li Sze Tang, being also a director and a shareholder of its ultimate holding company. The transaction was carried out at market prices.

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

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments during the year are as follows:

	2001 **HK$'000**	2000 HK$'000
Fees:		
Executive directors	**–**	–
Non-executive director	**–**	–
Independent non-executive directors	**–**	–
Other emoluments of existing executive directors:		
Basic salaries, other allowances and benefits in kind	**1,096**	–
Contributions to provident fund	**16**	–
Other emoluments of executive directors resigned during the year:		
Basic salaries, other allowances and benefits in kind	**2,699**	3,461
Contributions to provident fund	**26**	3
Other emoluments of a non-executive director:		
Basic salaries, other allowances and benefits in kind	**64**	36
Other emoluments of existing independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	**124**	–
Other emoluments of independent non-executive directors resigned during the year:		
Basic salaries, other allowances and benefits in kind	**104**	140
	4,129	3,640

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

The three executive directors at the date of this report received individual emoluments of approximately HK$759,000, HK$210,000 and HK$143,000, respectively for the year ended 31 December 2001. The three executive directors resigned during the year received individual emoluments of approximately HK$1,291,000 (2000: HK$1,666,000), HK$889,000 (2000: HK$1,140,000) and HK$545,000 (2000: HK$658,000), respectively for the year ended 31 December 2001. The non-executive director received emoluments of approximately HK$64,000 (2000: HK$36,000) for the year ended 31 December 2001. The two independent non-executive directors at the date of this report received individual emoluments of approximately HK$86,000 & HK$38,000, respectively for the year ended 31 December 2001. The two independent non-executive directors resigned during the year received individual emoluments of approximately HK$75,000 (2000: HK$70,000) and HK$29,000 (2000: HK$70,000), respectively for the year ended 31 December 2001.

Share options to subscribe for 4,266,663 shares in the Company had been granted to the three resigned executive directors of the Company in 2000. Pursuant to the share option scheme adopted by the Company on 29 June 2000, if a holder of an option retires or terminates his employment, the holder may exercise the option within three months thereafter or at the expiration of the relevant option period, whichever is the earlier, failing which the option will lapse. 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. As at 31 December 2001, none of the existing directors or chief executive of the Company had any share options under the share option scheme.

During the year, Mr. Yue Chung Wing, Patrick, Ms. Choi Siu Man, Julia and Mr. Yau Chun Fai resigned as directors of the Company. Each of them had entered into a service contract with the Company for an initial term of two years commencing from 1 June 2000. Both the Company and these three directors agreed to waive all their respective rights in respect of the early termination of the service contracts.

Apart from the foregoing, 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 1 director at 31 December 2001 and 3 directors resigned during the year (2000: 3), whose remuneration are set out above.

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

The emoluments of the remaining 1 (2000: 2) highest paid, non-director individual during the year are as follows:

	2001 HK$'000	2000 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**560**	899
Contributions to provident fund	**12**	2

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 2001.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2001, 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:

	Number of issued ordinary shares of HK$0.01 each in the Company held and nature of interests				
Name	**Personal**	**Family**	**Corporate**	**Other**	**Total**
Mr. Li Sze Tang	5,000,000	–	–	–	5,000,000

Save as disclosed above, at 31 December 2001 and up to the date of this report, 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.

Up to the date of this report, 5,000,000 shares held by Mr. Li Sze Tang had been disposed of.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme (the "Scheme") adopted by the Company on 29 June 2000 (note 21 to the financial statements), at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 31 December 2001, none of the directors or chief executive of the Company at the date of this report had any share options under the Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, 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:

Name	Number of shares held	Percentage of share holding
Everest International Investments Limited	74,900,000	15.60%

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 2001 and 26 March 2002, 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules during the year.

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, namely Mr. Zhao Ming (appointed on 12 April 2001) and Mr. Lau Kwok Kee (appointed on 7 September 2001), and had held meeting for eight times during the year. The Group's financial statements for the year ended 31 December 2001 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.

Dr. Lau Wai Shing and Dr. Ip Wai Hung resigned as independent non-executive directors and members of the audit committee during the year, respectively on 3 April 2001 and 17 August 2001.

AUDITORS

During the year, Messrs. Ernst & Young were removed as auditors of the Company and Messrs. RSM Nelson Wheeler were appointed by the shareholders of the Company at the special general meeting on 31 December 2001. A resolution for the reappointment of Messrs. RSM Nelson Wheeler as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Mr. Ng Ming Wah
Chairman

Hong Kong
26 March 2002

RSM Nelson Wheeler
Certified Public Accountants
羅 申 美 會 計 師 行

To the members of
Grandmass Enterprise Solution Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 33 to 70 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 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 at 31 December 2001 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.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
26 March 2002

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
TURNOVER	4	**3,300**	11,624
Cost of sales		**(2,314)**	(4,378)
Gross profit		**986**	7,246
Other revenue		**768**	1,175
Distribution costs		**(1,355)**	(2,638)
Administrative expenses		**(16,313)**	(11,957)
Other operating expenses		**(6,096)**	(4,473)
LOSS FROM OPERATIONS	6	**(22,010)**	(10,647)
Finance costs	7	**(68)**	(132)
Share of results of jointly controlled entity		**(418)**	–
LOSS BEFORE TAXATION		**(22,496)**	(10,779)
Taxation	9	**–**	30
LOSS AFTER TAXATION		**(22,496)**	(10,749)
MINORITY INTERESTS		**177**	–
NET LOSS FOR THE YEAR	10	**(22,319)**	(10,749)
LOSS PER SHARE – Basic	12	**(5.3) cents**	(3.0) cents

There were no recognised gains or losses other than the net loss for the year. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT ASSETS			
Fixed assets	*13*	**2,066**	4,507
Goodwill	*14*	**6,386**	–
Interest in a jointly controlled entity	*16*	–	–
Long term investment	*17*	–	1,500
		8,452	6,007
CURRENT ASSETS			
Trade and other receivables	*18*	**744**	1,769
Prepayments and deposits		**691**	2,564
Prepaid tax		**563**	422
Pledged time deposits		–	5,034
Time deposits		–	15,121
Cash and bank balances		**5,440**	3,999
		7,438	28,909
CURRENT LIABILITIES			
Trade and other payables	*19*	**942**	2,727
Deferred income		**389**	564
Deposits received		**304**	368
Obligations under finance leases			
– due within one year	*20*	**174**	579
Warranty provision		**80**	–
		1,889	4,238
NET CURRENT ASSETS		**5,549**	24,671
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,001**	30,678
NON-CURRENT LIABILITIES			
Obligations under finance leases			
– due after one year	*20*	**121**	828
MINORITY INTERESTS		**(81)**	–
		13,961	29,850
CAPITAL AND RESERVES			
Issued share capital	21	**4,800**	40,000
Reserves	22	**9,161**	(10,150)
		13,961	29,850

Ng Ming Wah
Director

Taminsyah Abdy Broto
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23(a)	**(16,191)**	(10,941)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest income		**553**	973
Interest paid		–	(3)
Interest element on finance leases		**(68)**	(129)
Net cash inflow from returns on investments and servicing of finance		**485**	841
TAXATION			
Hong Kong profits tax paid		**(141)**	(1,075)
INVESTING ACTIVITIES			
Acquisition of a subsidiary	23(c)	**(4,545)**	–
Interest in a jointly controlled entity		**(418)**	–
Time deposits pledged		**5,034**	(5,034)
Purchases of fixed assets		**(1,502)**	(3,564)
Acquisition of long term investment		–	(1,500)
Proceeds on disposals of fixed assets		**780**	–
Net cash outflow from investing activities		**(651)**	(10,098)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(16,498)**	(21,273)
FINANCING ACTIVITIES	23(b)		
Increase in capital of subsidiaries		–	10,412
Proceeds from issue of new shares to public		–	34,575
Proceeds from issue of new shares from placing		**4,000**	–
Expenses paid in connection with shares issued		**(270)**	(4,625)
Capital contributed by a minority shareholder of a subsidiary		**200**	–
Repayment of capital element of finance leases		**(1,112)**	(252)
Net cash inflow from financing activities		**2,818**	40,110
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(13,680)**	18,837
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**19,120**	283
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**5,440**	19,120
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**5,440**	3,999
Time deposits with original maturity of less than three months		–	15,121
		5,440	19,120

BALANCE SHEET

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**200**	–
Interests in subsidiaries	15	**13,153**	24,645
		13,353	24,645
CURRENT ASSETS			
Prepayments		**258**	202
Time deposits		**–**	5,120
Bank balances		**701**	1
		959	5,323
CURRENT LIABILITIES			
Amount due to a subsidiary		**30**	–
Other payables	19	**321**	118
		351	118
NET CURRENT ASSETS		**608**	5,205
		13,961	29,850
CAPITAL AND RESERVES			
Issued share capital	21	**4,800**	40,000
Reserves	22	**9,161**	(10,150)
		13,961	29,850

Ng Ming Wah
Director

Taminsyah Abdy Broto
Director

1. CORPORATE INFORMATION

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES

During the year, the Group adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants as follows:

(a)	SSAP 9 (revised)	Events after the balance sheet date
(b)	SSAP 11 (revised)	Foreign currency translation
(c)	SSAP 14 (revised)	Leases
(d)	SSAP 17 (revised)	Property, plant and equipment
(e)	SSAP 21 (revised)	Accounting for interests in joint ventures
(f)	SSAP 26 (revised)	Segment reporting
(g)	SSAP 28	Provisions, contingent liabilities and contingent assets
(h)	SSAP 30	Business combinations
(i)	SSAP 31	Impairment of assets
(j)	SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

Adoption of these Standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. These changes do not have any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required. In addition, the new and revised Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Certain comparative amounts for the prior year have been restated to conform to the new policies.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention as modified by the revaluation of long term investment.

Basis of consolidation

The Company was incorporated in Bermuda on 19 April 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. On 29 June 2000, the Company became the holding company of other companies comprising the Group pursuant to a group reorganisation ("the Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results of the Group for the year ended 31 December 2000 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation or registration, where this is a shorter period, as if the current group structure had been in place at that date.

Apart from the Reorganisation, the consolidated financial statements of the Group include the financial statements made up to 31 December each year of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Intra-group balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intra-group transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

In the Company's financial statements, the interests in subsidiaries are stated at cost less accumulated impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

The excess of the cost of an acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the financial statements. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life of eight years. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

Jointly controlled entity

A joint venture is a contractual arrangement whereby the venturers undertake an economic activity which is subject to joint control and where none of the participating parties has unilateral control over the economic activity. Joint venture arrangement which involves the establishment of a separate entity in which each venturer has an interest is referred to as a jointly controlled entity. The Group reports its interest in a jointly controlled entity using the equity method of accounting. The carrying amount of such interest is reduced to recognise any identified impairment loss.

Long term investment

Long term investment in unlisted equity securities, which is intended to be held on a continuing basis, and which is held for identified long term purposes documented at the time of acquisition or change of purpose and is clearly identifiable for the documented purpose, is stated at cost less any impairment loss recognised to reflect irrecoverable amount, on an individual investment basis. Any reduction in carrying amount is charged to the income instatement.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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) sales 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) maintenance fee income, on a time proportion basis over the maintenance period; and

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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 income statement in the period in which it is incurred. In situation 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.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

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 risks and rewards 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 income statement so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases but are depreciated over their estimated useful lives.

Impairment of assets

At each balance sheet date, fixed assets, goodwill, interests in subsidiaries and a jointly controlled entity and long term investment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

The provision for warranty is recognised based on the management's best estimate of the Group's liability under 12 month warranties granted for enquiry and support services on software products based on prior experience.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

Taxation

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 risks and rewards 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 income statement on the straight-line basis over the lease terms.

Retirement benefits scheme

The Group's contributions to the mandatory provident fund ("MPF") scheme and state-managed retirement benefit scheme are expensed as incurred.

Research and development costs

All research costs are charged to the income statement 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 income statement.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses, and corporate revenue.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Events after the balance sheet date

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

4. 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. An analysis of turnover is as follows:

	2001	2000
	HK$'000	HK$'000
Sales of goods	**1,518**	4,105
Rendering of services	**1,782**	7,519
Turnover	**3,300**	11,624

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 Segment Reporting. Segment disclosures for the year ended 31 December 2000 have been restated so that they are presented on a consistent basis.

The Group operates within one geographical segment because its revenue are solely generated in Hong Kong. Accordingly, no geographical segment data is presented. An analysis of the Group's income and results for the years ended 31 December 2001 and 2000, and certain asset and liability information regarding business segments at 31 December 2001 and 2000 are as follows:

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments

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

	Sales of software licence and related services		Provision of maintenance services		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
REVENUE						
External revenue	**2,401**	10,894	**899**	730	**3,300**	11,624
RESULTS						
Segment results	**(17,072)**	(10,873)	**(4,119)**	(949)	**(21,191)**	(11,822)
Unallocated corporate revenue					**215**	202
Unallocated corporate expenses					**(1,587)**	–
Operating loss excluding interest income/expenses					**(22,563)**	(11,620)
Interest income					**553**	973
Interest expenses					**(68)**	(132)
Share of results of jointly controlled entity					**(418)**	–
Loss before taxation					**(22,496)**	(10,779)
Taxation					**–**	30
Loss after taxation					**(22,496)**	(10,749)
Minority interests					**177**	–
Net loss for the year					**(22,319)**	(10,749)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

	Sales of software licence and related services		Provision of maintenance services		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS						
Segment assets	**2,156**	6,277	**24**	24	**2,180**	6,301
Unallocated corporate assets					**13,710**	28,615
Consolidated total assets					**15,890**	34,916
LIABILITIES						
Segment liabilities	**448**	475	**325**	458	**773**	933
Unallocated corporate liabilities					**1,156**	4,133
Consolidated total liabilities					**1,929**	5,066
OTHER INFORMATION						
Capital expenditure	**1,502**	4,964	**–**	–	**1,502**	4,964
Depreciation	**1,195**	1,171	**–**	–	**1,195**	1,171
Non-cash expenses other than depreciation	**2,311**	–	**–**	–	**2,311**	–

6. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging (crediting):

	2001 HK$'000	2000 HK$'000
Depreciation:		
Owned fixed assets	**880**	810
Leased fixed assets	**315**	361
Amortisation of goodwill (included in other operating expenses)	**67**	–
Total depreciation and amortisation	**1,262**	1,171
Loss on disposals of fixed assets	**204**	–
Fixed assets written off	**2,107**	–
Impairment of assets:		
Long term investment	**1,500**	–
Auditors' remuneration	**220**	630
Operating lease rentals in respect of land and buildings	**1,711**	1,133
Bad debts written off	**30**	–
Staff costs, including directors' emoluments *(note 8)*	**12,171**	10,150
Research and development costs (approximately HK$2,198,000 is included in staff costs)	**2,240**	2,959
Interest income	**(553)**	(973)

Included in staff costs above are contributions to mandatory provident fund of approximately HK$295,000 (2000: HK$30,000).

7. FINANCE COSTS

	2001 HK$'000	2000 HK$'000
Interest on bank overdrafts	–	3
Interest on finance leases	68	129
Total finance costs	68	132

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 HK$'000	2000 HK$'000
Fees	–	–
Other emoluments for executive directors:		
Basic salaries, other allowances and benefits in kind	3,795	3,461
Contributions to provident fund	42	3
	3,837	3,464
Other emoluments for non-executive and independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	292	176
	4,129	3,640

Share options to subscribe for 4,266,663 shares in the Company has been granted to three resigned executive directors of the Company in 2000. No value is included in the directors' remuneration in respect of these share options granted during the years ended 31 December 2001 and 2000, because in the absence of a readily available market value for options on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted.

9. TAXATION

The tax charge/(credit) represents:

	2001 HK$'000	2000 HK$'000
Hong Kong:		
Current year	–	–
Overprovision in prior year	–	(30)
Tax charge/(credit) for the year	–	(30)

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.

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 (2000: Nil).

10. NET LOSS FOR THE YEAR

For the year ended 31 December 2001, net loss of approximately HK$22,319,000 (2000: HK$12,268,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2001 (2000: Nil).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss for the year of approximately HK$22,319,000 (2000: net loss of HK$10,749,000) and the weighted average of approximately 420,575,000 ordinary shares (2000: 363,158,000 ordinary shares) in issue during the year.

Diluted loss per share for the years ended 31 December 2001 and 2000 have not been shown as the share options outstanding during the years had an anti-dilutive effect on the basic loss per share for the years.

13. FIXED ASSETS

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Motor vehicles HK$'000	Group Total HK$'000
Cost:					
At 1 January 2001	3,003	731	1,418	2,081	7,233
Additions	349	150	1,003	–	1,502
Acquired on acquisition of a subsidiary	57	45	267	–	369
Disposals/Write off	(3,221)	(645)	(839)	(1,548)	(6,253)
At 31 December 2001	188	281	1,849	533	2,851
Accumulated depreciation:					
At 1 January 2001	868	320	833	705	2,726
Charge for the year	376	104	400	315	1,195
Additions from acquisition of a subsidiary	3	3	20	–	26
Disposals/Write off	(1,238)	(365)	(766)	(793)	(3,162)
At 31 December 2001	9	62	487	227	785
Net book value:					
At 31 December 2001	179	219	1,362	306	2,066
At 31 December 2000	2,135	411	585	1,376	4,507

The net book value of the fixed assets of the Group held under finance lease at 31 December 2001 amounted to approximately HK$306,000 (2000: HK$1,376,000).

13. FIXED ASSETS *(continued)*

	Company Office and computer equipment HK$'000
Cost:	
At 1 January 2001	–
Additions	200
At 31 December 2001	200
Accumulated depreciation:	
At 1 January 2001	–
Charge for the year	–
At 31 December 2001	–
Net book value:	
At 31 December 2001	200
At 31 December 2000	–

14. GOODWILL

	Group HK$'000
Cost:	
At 1 January 2001	–
Arising on acquisition of a subsidiary	**6,453**
At 31 December 2001	**6,453**
Amortisation:	
At 1 January 2001	–
Charge for the year	**67**
At 31 December 2001	**67**
Net book value:	
At 31 December 2001	**6,386**
At 31 December 2000	–

The goodwill arose from the excess of acquisition cost over the Company's equity interest in the fair value of net identifiable assets of its subsidiary, Clever Investments Inc. at the date of acquisition on 30 November 2001.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK$'000	2000 HK$'000
Unlisted shares, at cost	**12,168**	12,168
Due from subsidiaries	**31,568**	24,407
Less: Provision for amounts due from subsidiaries	**(30,583)**	(11,930)
	13,153	24,645

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

15. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Issued and fully paid-up capital/registered share capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities
Grandmass ERP Limited (formerly known as Grandmass Holdings Limited)	British Virgin Islands	US$33,085	100%	100%	Investment holding
Grandmass Global Investment Limited	British Virgin Islands	US$1	100%	100%	Dormant
Grandmass Technology Limited	Hong Kong	HK$80,000	100%	100%	Provision of computer consultancy services, software development and trading of computer software and related services
iOMS Grandmass Limited (formerly known as Grandmass Cyber Factory Limited)	Hong Kong	HK$2	100%	100%	Provision of sales and marketing services
Grandmass Cyber Factory (China) Limited	Hong Kong	HK$2	100%	100%	Investment holding
Grandmass Development Limited	British Virgin Islands	US$1	100%	100%	Dormant
Grandmass Enterprise System (Shanghai) Limited*	The People's Republic of China	HK$900,000	100%	100%	Provision of computer consultancy services, software development and trading of software

15. 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	Percentage of voting power held	Principal activities
IFS Grandmass Limited	Hong Kong	HK$2,000,000	90%	75%	Marketing, sales, implementation and support of industrial and financial system software and solutions
ASPER Solutions Limited	Hong Kong	HK$2	100%	100%	Dormant
Grandmass Enterprise System (China) Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Clever Investments Inc.	British Virgin Islands	US$50,000	50%	100%	Investment holding
Clever-Tech Information System (Shenzhen) Limited*	The People's Republic of China	HK$1,000,000	50%	100%	Provision of consultancy services and technical development in computer software packages

Other than Grandmass ERP Limited and Grandmass Global Investment Limited, all subsidiaries are indirectly held by the Company.

* *A translation of the official Chinese name.*

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group 2001 HK$'000	2000 HK$'000
Share of net liabilities of a jointly controlled entity	–	–

At 31 December 2001, the Group had an interest in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation	Principal place of operations	Class of share held	Proportion of nominal value of issued capital held by the Group	Nature of business
Thiz Grandmass ERP Systems Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	50%	Software development

During the year ended 31 December 2001, the Group invested HK$50,000 in and made a loan of HK$368,000 to the jointly controlled entity. Up to 31 December 2001, the share of losses of the jointly controlled entity by the Group had exceeded the Group's investment cost and loan to the jointly controlled entity. In the opinion of the directors, the Group should have no responsibility on the further losses of the jointly controlled entity and hence, would not account for its share of further losses. Accordingly, the investment is reported at nil.

17. LONG TERM INVESTMENT

	Group 2001 HK$'000	2000 HK$'000
Unlisted shares at cost	**1,500**	1,500
Less: Impairment loss	**(1,500)**	–
	–	1,500

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivable	**90**	1,769	–	–
Other receivables	**654**	–	–	–
	744	1,769	–	–

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

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 60 days	–	1,123	–	–
61 – 90 days	–	6	–	–
> 90 days	**90**	640	–	–
	90	1,769	–	–

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

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payable	**148**	89	–	–
Other payables	**794**	2,638	**321**	118
	942	2,727	**321**	118

19. TRADE AND OTHER PAYABLES *(continued)*

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

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 60 days	**45**	84	**–**	–
61 – 90 days	**–**	5	**–**	–
> 90 days	**103**	–	**–**	–
	148	89	**–**	–

20. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**186**	696	**174**	579
In the second year	**124**	541	**121**	481
In the third to fifth years inclusive	**–**	361	**–**	347
After five years	**–**	–	**–**	–
	310	1,598	**295**	1,407
Less: Future finance charges	**(15)**	(191)	**N/A**	N/A
Present value of lease obligations	**295**	1,407	**295**	1,407
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(174)**	(579)
Amount due for settlement after 12 months			**121**	828

20. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

It is the Group's policy to lease certain of its fixed assets under finance leases. The average lease term is 3 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligation under finance lease is secured by the lessor's charge over the leased asset.

21. SHARE CAPITAL

Shares

	Number of shares '000	**Share capital** HK$'000
Authorised:		
On incorporation, ordinary shares of HK$0.1 each	**1,000**	100
Increase in authorised share capital	**1,999,000**	199,900
At 31 December 2000 and 1 January 2001, ordinary shares of HK$0.1 each	**2,000,000**	200,000
Capital reduction, ordinary shares reduced from HK$0.1 to HK$0.01 each	–	(180,000)
At 31 December 2001, ordinary shares of HK$0.01 each	**2,000,000**	20,000

21. SHARE CAPITAL *(continued)*

Shares *(continued)*

	Number of shares '000	Paid-up nominal value HK$'000
Issued and fully paid:		
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	**329,196**	–
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	–	32,920
At 31 December 2000 and 1 January 2001, ordinary shares of HK$0.1 each	**400,000**	40,000
Transfer to contributed surplus due to capital reduction *(note (a))*	–	(36,000)
Placing of new shares *(note (b))*	**50,000**	500
Issue of shares *(note (c))*	**30,000**	300
At 31 December 2001, ordinary shares of HK$0.01 each	**480,000**	4,800

21. SHARE CAPITAL *(continued)*

Shares *(continued)*

(a) Pursuant to a special resolution passed at the special general meeting held on 13 July 2001, the nominal value of the Company's issued and authorised ordinary share capital were reduced from HK$0.1 each to HK$0.01 each. Accordingly, the authorised share capital of the Company of HK$200,000,000 is reduced by HK$180,000,000 to HK$20,000,000 and the issued share capital of the Company of HK$40,000,000 is reduced by HK$36,000,000 to HK$4,000,000. The credit amount of HK$36,000,000 arising from the cancellation of an amount of HK$0.09 per share on the 400,000,000 ordinary shares was transferred to the contributed surplus account of the Company.

(b) On 23 July 2001, the Company and Kingsway SW Securities Limited entered into a placing agreement for the placement of 50,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company to a number of independent investors at a price of HK$0.08 per share representing a discount of approximately 11.11% to the closing price of the share of the Company on 20 July 2001. The new ordinary shares rank pari passu with the existing shares in issue in all aspects. The net proceeds of the placement of approximately HK$3,730,000 were used for general working capital purpose.

(c) Pursuant to a sale and purchase agreement dated 22 October 2001, the Company issued 30,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company to General Science Inc. at a price of HK$0.09 per share representing a discount of approximately 10% to the closing price of the share of the Company on 22 October 2001 as partial consideration for acquisition of the subsidiary, Clever Investments Inc.. These new ordinary shares were issued under the general mandate granted to the directors at a special general meeting held on 13 July 2001 and rank pari passu with other shares in issue in all aspects.

21. SHARE CAPITAL *(continued)*

Share options

Pursuant to the Share Option Scheme ("Scheme") adopted by the shareholders of the Company on 29 June 2000, the board of directors of the Company may for a consideration of HK$1 offer to any employee, including any full time executive director of the Company or any of its subsidiaries options to subscribe for shares of the Company. The subscription price will be determined by the board of 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 Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the 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. During the period from 14 July 2000 (the date of commencement of dealing of the Company's share on GEM) to 31 December 2001, 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 31 December 2001, the following options to subscribe for shares were outstanding under the Scheme:

Resigned executive directors	Date of share option granted	Number of options outstanding at beginning of the year	Option lapsed during the year	Number of options outstanding at end of the year	Subscription price	Exercisable period
Mr. Yue Chung Wing, Patrick	4 December 2000	1,422,221	–	1,422,221	HK$0.141	4 March 2001 to 3 March 2005
Ms. Choi Siu Man, Julia	4 December 2000	1,422,221	–	1,422,221	HK$0.141	4 March 2001 to 3 March 2005
Mr. Yau Chun Fai	4 December 2000	1,422,221	1,422,221	–	HK$0.141	4 March 2001 to 3 March 2005
Continuous contract employees	15 August 2000	3,280,000	2,920,000	360,000	HK$0.199	15 August 2001 to 14 August 2005
	4 December 2000	11,733,337	7,822,223	3,911,114	HK$0.141	4 March 2001 to 3 March 2005
		19,280,000	12,164,444	7,115,556		

22. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Retained profits/ (Accumulated losses) HK$'000	Group Total HK$'000
At 1 January 2000	–	–	72	72
Increase in capital of subsidiaries	–	10,412	–	10,412
Premium arising from issue of new shares to public	27,660	–	–	27,660
Transfer to share capital to pay up nil-paid shares allotted to shareholders	(27,660)	(5,260)	–	(32,920)
Shares issue expenses	–	(4,625)	–	(4,625)
Net loss for the year	–	–	(10,749)	(10,749)
At 31 December 2000 and 1 January 2001	–	527	(10,677)	(10,150)
Transfer from share capital due to capital reduction *(note (b))*	–	36,000	–	36,000
Premium arising from issue of new shares from placing *(note (c))*	3,230	–	–	3,230
Premium arising from issue of new shares for acquisition *(note (d))*	2,400	–	–	2,400
Net loss for the year	–	–	(22,319)	(22,319)
At 31 December 2001	5,630	36,527	(32,996)	9,161

(a) The accumulated losses of the Group include approximately HK$418,000 (2000: Nil), being the accumulated losses attributable to its jointly controlled entity.

(b) The contributed surplus of the Group represents the excess of the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation on 29 June 2000, set out in note 3 to the financial statements, over the nominal value of the shares in the Company issued in exchange therefor. The movement thereon is the result of capital reduction as disclosed in note 21(a).

22. RESERVES *(continued)*

(c) The premium arising from the placement of 50,000,000 new shares in the Company to a number of independent investors at a price of HK$0.08 per share on 23 August 2001, is net of share issuing expenses.

(d) The premium represents the allotment of 30,000,000 new shares in the Company to General Science Inc. at a price of HK$0.09 per share on 30 November 2001.

(e) Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of its contributed surplus in certain circumstances which the Company is currently unable to meet.

				Company
	Share premium HK$'000	**Contributed surplus** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
Arising on issue of shares for the acquisition of the entire issued share capital of Grandmass ERP Limited (formerly known as Grandmass Holdings Limited)	–	12,103	–	12,103
Transfer to share capital to pay up nil-paid shares allotted on incorporation	–	(100)	–	(100)
Premium arising from issue of new shares to public	27,660	–	–	27,660
Transfer to share capital to pay up nil-paid shares allotted to shareholders	(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 and 1 January 2001	–	2,118	(12,268)	(10,150)
Transfer from share capital due to capital reduction *(note (f))*	–	36,000	–	36,000
Premium arising from issue of new shares from placing *(note (g))*	3,230	–	–	3,230
Premium arising from issue of new shares for acquisition *(note (h))*	2,400	–	–	2,400
Net loss for the year	–	–	(22,319)	(22,319)
At 31 December 2001	5,630	38,118	(34,587)	9,161

22. RESERVES *(continued)*

(f) The contributed surplus of the Company arose as a result of the same 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. The movement thereon is the result of capital reduction as disclosed in note 21(a).

(g) The premium arising from the placement of 50,000,000 new shares in the Company to a number of independent investors at a price of HK$0.08 per share on 23 August 2001, is net of share issuing expenses.

(h) The premium represents the allotment of 30,000,000 new shares in the Company to General Science Inc. at a price of HK$0.09 per share on 30 November 2001.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operations to net cash outflow from operating activities

	2001	2000
	HK$'000	HK$'000
Loss from operations	**(22,010)**	(10,647)
Interest income	**(553)**	(973)
Depreciation	**1,195**	1,171
Bad debts written off	**30**	–
Warranty provision	**80**	–
Gain on disposal of a subsidiary	**(27)**	–
Impairment loss	**1,500**	–
Fixed assets written off	**2,107**	–
Loss on disposals of fixed assets	**204**	–
Amortisation of goodwill	**67**	–
Decrease in amount due from a related company	**–**	17
Decrease in amount due from a director	**–**	715
Decrease/(increase) in prepayments and deposits	**1,873**	(2,199)
Decrease/(increase) in trade and other receivables	**1,367**	(1,372)
(Decrease)/increase in trade and other payables	**(1,785)**	1,911
(Decrease)/increase in deferred income	**(175)**	318
(Decrease)/increase in deposits received	**(64)**	118
Net cash outflow from operating activities	**(16,191)**	(10,941)

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

(b) Analysis of changes in financing during the years

	Share capital, contributed surplus and share premium	Minority interests	Obligations under finance leases
	HK$'000	HK$'000	HK$'000
At 1 January 2000	165	–	259
Net cash inflow/(outflow) from financing	40,362	–	(252)
Inception of finance leases	–	–	1,400
At 31 December 2000 and 1 January 2001	40,527	–	1,407
Net cash inflow/(outflow) from financing	3,730	200	(1,112)
Issue of new shares *(note 21(c))*	2,700	–	–
Acquisition of subsidiaries	–	(77)	–
Gain on disposal of a subsidiary	–	(27)	–
Share of loss for the year	–	(177)	–
At 31 December 2001	46,957	(81)	295

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

(c) Acquisition of a subsidiary

On 30 November 2001, the Group acquired 50% of the issued share capital of Clever Investments Inc. for a consideration of HK$7,700,000. This acquisition has been accounted for by the purchase method of accounting.

	2001 HK$'000
Net assets acquired:	
Fixed assets	343
Trade receivable	132
Other receivables	240
Cash and bank balances	455
Amounts payable to a subsidiary of the Company	(1,325)
	(155)
Minority interest	77
	(78)
Goodwill	6,453
	6,375
Satisfied by:	
Shares allotted	2,700
Cash	5,000
	7,700
Less: Assignment of amounts payable to a subsidiary of the Company	(1,325)
	6,375
Net cash outflow arising on acquisition:	
Cash consideration	5,000
Cash and bank balances acquired	(455)
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	4,545

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

(c) Acquisition of a subsidiary *(continued)*

During the period since acquisition, Clever Investments Inc. has utilised approximately HK$231,000 to the Group's cash flow from operating activities and utilised approximately HK$69,000 for investing activities.

Clever Investments Inc. contributed HK$Nil to the Group's turnover and approximately HK$251,000 to the Group's loss before taxation between the date of acquisition and the balance sheet date.

(d) Major non-cash transactions

Part of the consideration for the acquisition of Clever Investments Inc. during the year comprised shares. Further details of the acquisitions are set out at note (c) above.

24. COMMITMENTS

	Group	
	2001	2000
	HK$'000	HK$'000
Total future minimum lease payments under non-cancellable operating leases for office premises which fall due as follows:		
Within one year	**445**	2,268
In the second to fifth years, inclusive	**147**	3,115
After five years	**–**	–
	592	5,383
Capital commitments contracted for in respect of:		
Capital contribution to a subsidiary established in the People's Republic of China ("PRC")	**2,100**	2,100
Capital contribution to a jointly controlled entity to be established in Hong Kong	**–**	50
	2,100	2,150
	2,692	7,533

25. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

Name of related parties	Nature of transaction	2001 HK$'000	2000 HK$'000
System Intelligent Limited	Payment for assignment of intellectual property right	–	600
Thiz.com (Hong Kong) Limited	Purchase of hardware *(Note)*	236	–

Note:

Mr. Li Sze Tang, a director of the Company, is also a director and a shareholder of the ultimate holding company of Thiz.com (Hong Kong) Limited.

26. RETIREMENT BENEFITS SCHEMES

The Group operates MPF scheme for all qualifying employees of its Hong Kong subsidiaries, in funds under the controls of trustee.

The employees of the Group's subsidiary in the People's Republic of China are members of state-managed retirement benefit scheme. The subsidiary is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contribution.

The total cost charged to the income statement of approximately HK$295,000 (2000: HK$30,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

27. CONTINGENT LIABILITIES

At the balance sheet date, the Group has the following contingent liabilities:

(a) A wholly-owned subsidiary of the Company, Grandmass Technology Limited, was subject of a legal action brought by its customer. The subsidiary has received a legal opinion stating that the aforesaid subsidiary has a strong case in the claim. In addition, Mr. Yue Chung Wing, Patrick, a resigned director of the Company, has indemnified the Group in respect of all liabilities that may arise out of or in connection with any of the claims and legal costs that may be payable to the plaintiff and any legal cost to be incurred in respect of the abovementioned claim.

27. CONTINGENT LIABILITIES *(continued)*

(b) A staff of a wholly-owned subsidiary of the Company, Grandmass Enterprise System (Shanghai) Limited, instigated legal proceeding against the subsidiary for the recovery of unpaid salaries plus the compensation for the termination of his employment contract to the extent of approximately HK$320,000. The directors have made a provision of approximately HK$150,000 in the financial statements. As the directors are of the opinion that the claim for compensation is not substantiated, they have instructed its lawyer to defend the case. Based on the legal advice of the PRC lawyer, they consider that such claim would not result in material losses to the Group in excess of the amount that has already been provided in the financial statements.

Save as the above, the Group did not have any material contingent liabilities at 31 December 2001.

28. EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the ordinary resolutions passed at a special general meeting held on 4 March 2002:

(a) the authorised share capital of the Company was increased from HK$20,000,000 to HK$100,000,000 by the creation of 8,000,000,000 new shares of HK$0.01 each of the Company, such new shares rank pari passu in all respects with the existing shares of the Company.

(b) the issue by way of rights of 960,000,000 shares of the Company at a price of HK$0.032 per Rights Share was approved. The estimated net proceeds of the Rights Issue referred to in the prospectus of the Company dated 11 March 2002 are approximately HK$29,000,000 and about HK$9,000,000 will be applied for acquisition of companies in the computer software industry and the balance of about HK$20,000,000 will be used as general working capital of the Group.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 March 2002.

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of Grandmass Enterprise Solution Limited (the "Company") will be held at Tang I, 3rd Floor, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Friday, 19 April 2002 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the reports of the directors and auditors of the Company for the year ended 31 December 2001;

2. To re-elect retiring directors and to authorise the board of directors to fix the remuneration of the directors;

3. To re-appoint the auditors of the Company and to authorise the board of directors to fix their remuneration; and

4. As special business, to consider and, if thought fit, to pass the following resolutions (the "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 powers 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 powers 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 in the Company upon the exercise of subscription rights attaching to any existing warrants, bonds and debentures convertible into shares of the Company; or (iii) an issue of shares in the Company upon the exercise of options which may be granted under the share option scheme of the Company (as adopted on 29 June 2000) or any share option scheme or similar arrangement for the time being or from time to time 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; and

(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 overseas shareholders 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)."

(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; and

(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 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
Ng Ming Wah
Chairman

Hong Kong, 27 March 2002

Principal place of business:
Suite 1801, 18th Floor, Tower 5
China Hong Kong City
China Ferry Terminal
33 Canton Road
Kowloon, Hong Kong

Notes:

1. In order to be qualified 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 despatched to the shareholders of the Company together with the 2001 annual report.