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）

Annual Report 2002
年報

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

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

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

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

香港聯合交易所有限公司(「聯交所」)創業板(「創業板」)之特色

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

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

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

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Ng Ming Wah *(Chairman)*

Ms. Kwong Wai Man, Karina

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Kwok Kee

Mr. Zhao Ming

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Hamilton HM 11

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COMPANY HOMEPAGE/WEBSITE

http://www.grandmass.com.hk

QUALIFIED ACCOUNTANT

Mr. Ho Shu Pui *ACCA, AHKSA*

COMPLIANCE OFFICER

Mr. Ng Ming Wah

AUTHORISED REPRESENTATIVES

Mr. Ng Ming Wah

COMPANY SECRETARY

Mr. Ho Shu Pui *ACCA, AHKSA*

PRINCIPAL BANKERS

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Hong Kong

AUDITORS

RSM Nelson Wheeler

Certified Public Accountants

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as to Hong Kong law

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The Bank of Bermuda Limited

6 Front Street

Hamilton HM 11

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

Ground Floor, BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Chairman's Statement

Despite the challenging year in 2002, the Group has made significant improvement in many aspects towards its objective of becoming a leading ERP software provider in the Asia market.

During the year, the Group further strengthen the research and development capabilities through acquisition of Grandmass iOMS Limited (formerly known as Clever Investments Inc.) and enlarge the customers profile in the China market. Upon the positive response of our intuitive business application system, the version has been further developed and differentiated in order to meet the needs of the customers. To offer premium quality products, with high value-added and high margin would be the core factor to be successful in the software industry. The Group will continue to monitor closely the industry trend and the global economic market to adopt adaptive strategies for the business in the coming year.

While strengthening the distribution networking in the PRC, the Group will continue to capitalize our competitive advantages and seek further growth opportunities organically as well as forming strategic partnership in the coming year.

I wish to thank the Board for their continued support and invaluable contributions. On behalf of the Board, I would like to take this opportunity to express our gratitude to all employees, shareholders, partners and customers for their continued support and dedication.

Ng Ming Wah
Chairman

Hong Kong
26 March 2003

FINANCIAL REVIEW

During the year under review, the net loss attributable to shareholders was approximately HK$22,837,000, including an impairment loss recognised in respect of a goodwill of a subsidiary amounted to approximately HK$11,055,000 compared with the net loss of approximately HK$22,319,000 from the last year.

With the implementation of the prudent cost control measures and the shifting of the research and development team, part of the sales and maintenance teams into the PRC, the operating costs, including distribution costs, administrative expenses and other operating expenses, amounted to approximately HK$15,519,000, representing a 35% lower than in 2001.

Of the total operating costs, staff costs represented the largest component including staff salaries, allowances and directors' remuneration, amounted to approximately HK$8,650,000, a 29% reduction from approximately HK$12,171,000 in 2001. As at 31 December 2002, the Group employed a total of 40 employees. In order to cope with the changing operating environment, the Board continues to streamline the workforce and maintain a cost effective remuneration scheme. Remuneration of staff and other staff benefits such as medical insurance, mandatory provident fund and employee share option scheme are commensurate with market level.

In April 2002, the Company completed a rights issue of 960 million new shares of a nominal value of HK$0.01 each and raised a sum of approximately HK$29,081,000 net of expenses. Of this proceeds, HK$7,700,000 was used in the acquisition of Grandmass iOMS Limited (formerly known as Clever Investments Inc.) in May 2002 and the remaining sum was used as working capital of the Company.

As at 31 December 2002, cash and bank balances including the time deposits of the Group was approximately HK$8,318,000. The Group has no bank borrowings.

The Group did not have any long-term debts as of 31 December 2002 and total assets amounted to approximately HK$22,180,000. The gearing ratio, expressed as a percentage of long term liabilities over total assets was nil.

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

As at 31 December 2002, the Group had not pledged any of its assets to secure any banking facilities and the details of contingent liabilities are presented at note 28 to the financial statements.

Pursuant to the ordinary resolution adopted by the shareholders of the Company on 4 March 2002, the authorised capital of the Company was increased from HK$20,000,000 to HK$100,000,000 by the creation of 8,000 million new shares of nominal value of HK$0.01 each.

Following the rights issue in 9 April 2002, and as at the date of this Report, the total number of issued share capital of the Company was 1,440 million shares of HK$0.01 each.

BUSINESS REVIEW

Overview

During the year under review, the Group remained focus on its core business, and was principally engaged in the sales of self-developed software license and related services, provision of maintenance services. The Group also continues engaged in the research and development of its software products, in order to diversify the product type and to broaden its customer base.

Strategic Developments and Business Acquisition

During the year under review, the Group further acquired the remaining 50% interests in Grandmass iOMS Limited (formerly known as Clever Investments Inc.) which strengthen the research and development capabilities of the Group and enhancing the network ability in the southern region of the PRC. The Group strongly believes the sound research and development capabilities are important to guarantee the continue success of the Group and is committed to develop pioneer software products. In July 2002, the Group acquired 33% interests in Signking Science Limited which the acquired group is principally engaged in software development, sales of software products and system integration. The main customers mainly comprise Shanghai local government entities and private enterprises. The acquisition was believed to create a synergy between the Group's business and those of the acquired group.

Key Product Developments and Integration

The fully integrated, pre-packaged, web-based, intuitive business application, Intuitive Open Manufacturing System (iOMS) remains the core product of the Group's business and attracts encouraging feedback from the customers. In order to target and tailor made to the potential customers in specific industry, inherited the fundamental functions of iOMS 2.0, industry specific solutions are injected with new elements of user interface, system flow design and function modification has been further developing to cater for businesses in electronics, furniture, toys and printing industry.

Product diversification and differentiation has been one of the business strategy of the Group. In late of 2002, the Japanese version of iOMS2.0, iOMS-J was launched to target Japanese enterprises in Hong Kong, Mainland China, Macau and the south-east Asia countries. A long term strategic partnership has been formed with NTT Data HK to act as the distributor of the products.

During the second half of 2002, product enhancement was undertaken by the Group for the current version of i-Accounts 1.0 (including the Japanese version) and the development of the internet based Human Resource Module, which is an enhanced system to handle all personnel and human resource management data for the purpose of integrating to the Group's iOMS product suite was launched.

Sales and Marketing Activities

A series of events including technological seminars and exhibitions were held in the Pearl Delta regions and the Guangdong province with the prime objective for brand-building and to capitalise the distribution network in the PRC could be achieved.

PROSPECTS

The Group has set a long term growth target beyond 2003 in research and development for a leading ERP II product, a top tier collaborative commerce application. Our goals are to enable network enterprise to exchange information between each others and facilitate seamless business operations over internets, while internally the application is fit for different vertical industry specific requirements.

In view of the local economy is still being sluggish, the directors believe that the local ERP market of the year ahead is still uncertain. The management looks forward to benefiting from the Mainland market following the WTO accession which the China ERP software market is undergoing a high growth period.

On the other hand, the Group will continue to look for potential investments and business opportunities in the software industry both within and outside Hong Kong. To form business partnership and strategic alliances are the major tactics in the coming year for the Group to expand in the existing economic climate.

Looking ahead, the management is confident with that the Group's strategic business, and will place the Group in a more advantageous position to gauge the changing demands and to capitalise on the emerging opportunities.

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 the second half year of 2002, the Group acquired 33% interests in Signking Science Limited which the acquired group is principally engaged in software development, sales of software products and system integration. The management believed that the acquisition would enhance the marketing, licensing, distribution and sales activities for the Group's products.
B. Expand distribution channel for the OMS and potential markets	
Engage more dealers and ASPs in Hong Kong and other Asian countries to distribute its products	The Group succeeded in forming a long term strategic partnership with NTT Data HK to distribute the Group's product, iOMS-J in areas covering Hong Kong, China, Macau and south-east Asia countries. Due to immaturity and lack of demand of the ASP market at present, the Group has concentrated its distribution channel in buy-and-sell channel.
C. New product development	
1. Initiate the design and development of the OMS Customer Relationship Management System	The design and development is under review and will be included in future module of the research and development programme. The Group is continuing evaluate any potential projects in the Customer Relationship Management System.
2. Continue research and development work with HKPU	The Group is continuing entered into collaboration with HKPU for the purpose of developing a range of technologies or products inclusive of software or systems which could be commercialised.

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. Participated in IT exhibitions in the Asian region	The Group endeavor to participate in sizeable IT exhibitions, in Shunde in April 2002, in Dongguan in June 2002, and the major technological event in Shenzhen in October 2002, the China Hi-Tech Fair. Such events enabled the Group to keep abreast with the industrial development and build customer relationship.
2. Organise direct mailing to targeted customers and advertisement	The Group continues to send newsletters providing latest information of the Group to targeted customers and the product brochures to potential customers periodically.

USE OF PROCEEDS

As stated in the prospectus of the Company dated 7 July 2000, for the year ended 31 December 2002, approximately HK$6 million of the net proceeds of the issue of the new shares under the initial public offer would be allocated as to approximately HK$5 million for new product development; HK$0.5 million for developing potential markets and HK$0.5 million for promoting the products and services of the Group.

For the year ended 31 December 2002, approximately HK$0.45 million had been used in new product development, approximately HK$0.5 million been used in potential market development and approximately HK$0.5 million was used on promote the Group's products and revenue. The discrepancies between planned and actual use of proceeds applied in new product development was mainly attributable to the acquisition of Grandmass iOMS Limited (formerly known as Clever Investments Inc.) and substantial staff costs was saved for this sake. Also, the Group adopted a cost effective measure to promote the products and services of the Group by way of conducting seminars and direct mailing.

As stated in the circular dated 11 March 2002, 960 million new shares of the Company had been issued under the rights issue in April 2002, net proceeds of approximately HK$29,081,000 net of expenses was raised from the rights issue. Of this proceeds, HK$9,000,000 will be applied to acquisition of companies in the computer software industry of which HK$7,700,000 was used in the acquisition of 50% interests in Grandmass iOMS Limited (formerly known as Clever Investments Inc.) in May 2002. The balance of the net proceeds will be used as general working capital of the Group.

EXECUTIVE DIRECTORS

Mr. Ng Ming Wah, aged 50, is an executive director and chairman of the Company. He is responsible for formulation of corporate strategy and overall steering of the Group's management. Besides, 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.

Ms. Kwong Wai Man, **Karina**, aged 33, was appointed executive director of the Company in April 2002. She joined the Group in June 2001 and is responsible for the Group's finance and administration functions. She holds a degree of Business Administration from the Simon Fraser University, Canada and has over 10 years' experience in accounting, financial, administration and resource management. Prior to the joining the Group, she worked for sizable organizations in various industries as senior managerial and financial executive in both Canada and Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Ming, aged 45, 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, aged 43, 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 Science 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. Taminsyah Abdy Broto, aged 40, is Managing Director of a subsidiary of the Group, IFS HK Limited (formerly known as "IFS Grandmass Limited"). Mr. Taminsyah is responsible for the development and operation of the Company. He has worked as senior management positions in major software development and IT companies in Indonesia, U.S.A. and Singapore. 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. Ho Shu Pui, aged 29, is Finance Manager responsible for the financial function of the Group. He was appointed qualified accountant and company secretary of the Company in July 2002. He graduated from the Hong Kong Polytechnic University with a Bachelor's Degree in Accountancy. He is also an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group, he has worked for an international accountancy firm.

Mr. Yip Hing Shun, aged 37, 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 to the Group, he was 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 32, is Senior Sales Manager responsible for sales function. He 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.

Report of the Directors

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 2002.

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 significant 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.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 21 to 25.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2002.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results of the Group for the last five financial years and of the assets and liabilities of the Group for the last four financial years, respectively, prepared on the basis set out in notes 1 and 2 on page 13.

Results

	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**3,444**	3,300	11,624	12,199	8,814
PROFIT/(LOSS) BEFORE TAX	**(23,456)**	(22,496)	(10,779)	3,239	282
Taxation	**—**	—	30	(585)	(60)
PROFIT/(LOSS) AFTER TAX	**(23,456)**	(22,496)	(10,749)	2,654	222
MINORITY INTERESTS	**619**	177	—	—	—
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	**(22,837)**	(22,319)	(10,749)	2,654	222

Assets and Liabilities

	As at 31 December			
	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS	**11,933**	8,452	6,007	714
NET CURRENT ASSETS/(LIABILITIES)	**8,285**	5,549	24,671	(362)
NON-CURRENT LIABILITIES	**(13)**	(40)	(828)	(115)
NET ASSETS	**20,205**	13,961	29,850	237

Notes:

1. The results, assets and liabilities of the Group presented above have been prepared on the basis as if the group structure, at the time when the corporate reorganisation was completed prior to the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, had been in existence throughout the years concerned.

2. The Company's shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 14 July 2000, the results of the Group for years ended 31 December 1999 and 1998 and the assets and liabilities of the Group as at 31 December 1999 were extracted from the Company's prospectus date 7 July 2000. The results of the Group for the year ended 31 December 2000 and the assets and liabilities of the Group as at 31 December 2000 were extracted from the Company's annual report for the year ended 31 December 2000.

FIXED ASSETS

Details of movements of 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 21 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 23 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 24 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2002, 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 (as amended), the Company may make distributions to its shareholders out of its contributed surplus in certain circumstances which the Company is currently unable to meet.

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 20% of the total sales for the year and sales to the largest customer included therein amounted to 6%. Purchases from the Group's five largest suppliers accounted for 58% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22%.

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

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Ng Ming Wah	
Ms. Kwong Wai Man, Karina	(appointed on 19 April 2002)
Mr. Li Sze Tang	(resigned on 1 May 2002)
Mr. Taminsyah Abdy Broto	(resigned on 1 January 2003)

Non-executive director:

Ms. Pan Shu Wen	(resigned on 20 September 2002)

Independent non-executive directors:

Mr. Zhao Ming
Mr. Lau Kwok Kee

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 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Taminsyah Abdy Broto, being an executive director and the chief executive office of the Company during the year (resigned on 1 January 2003), has entered into a service contract with the Company for an initial term of two years commencing from 1 October 2001. The service contract was terminated by Mr. Taminsyah having three months' notice to the Company.

Save for the above, no director proposed for re-election at the forthcoming annual general meeting has a service contract 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 disposed of a fixed asset and its interest in a jointly controlled entity to the companies which an ex-director (resigned during the year), Mr. Li Sze Tang, had a significant beneficial interest in those companies. The Group also paid legal fee to K. K. Lau & Co. for legal services rendered which an independent non-executive director, Mr. Lau Kwok Kee, is a principal of K. K. Lau & Co. The transactions were carried out in the normal course of the Group's business and at arm's length basis. The particulars of these transactions are set out in note 26 to the financial statements.

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

DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and the five highest paid individuals in the Group are set out in note 8 to the financial statements.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2002 and up to the date of this report, none of the directors or chief executive of the Company had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporation which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the Securities (Disclosure of Interests) Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to section 29 of the Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transaction by directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Pursuant to the new share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "New Share Option Scheme"), the Board of the Company may for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company 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 of the Company 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 New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The New Share Option Scheme became effective for a period of 10 years commencing 24 May 2002 (the date on which the New Share Option Scheme was adopted).

The details and major provisions of the New Share Option Scheme were set out in the circular of the Company dated 6 May 2002.

No options under the New Share Option Scheme had been granted to any persons during the period under review and up to the date of this report.

In compliance with the amended Chapter 23 of the GEM Listing Rules, the New Share Option Scheme supersedes the previous share option scheme adopted by the shareholders of the Company on 29 June 2000 (the "Previous Share Option Scheme"). The Previous Share Option Scheme was terminated on 24 May 2002 accordingly. However, notwithstanding the termination of the Previous Share Option Scheme, the outstanding options previously granted under the Previous Share Option Scheme shall remain valid and exercisable in accordance with the provisions of the Previous Share Option Scheme.

As at 31 December 2002, the outstanding options previously granted under the Previous Share Option Scheme were set out as follows:

Date of options granted	Number of options outstanding at beginning of the year	Options lapsed during the year	Number of options outstanding at end of of the year	Subscription Price	Exercisable period
15 August 2000	360,000	180,000	180,000	HK$0.199	15 Aug 2001 to 14 Aug 2005
4 December 2000	6,755,556	4,622,221	2,133,335	HK$0.141	4 Mar 2001 to 3 Mar 2005
	7,115,556	4,802,221	2,313,335		

The underlying shares of the outstanding options under the Previous Share Option Scheme as at 31 December 2002 represented approximately 0.16% of the issued shares of the Company. The highest number of shares underlying the outstanding options granted to employees under the Previous Share Option Scheme as at 31 December 2002 was 711,111.

No options granted pursuant to the Previous Share Option Scheme had been exercised up to 31 December 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the new share option scheme (the "Scheme") adopted by the Company on 24 May 2002, 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 2002, 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 2002, 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
Friedmann Pacific Greater China Investments Limited	263,100,000	18.27%

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 confirmed by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), as at 31 December 2002 and date of this report, respectively, neither Oriental Patron nor its directors nor its employees or associates, had any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) and any competing interest with the business of the Group. Pursuant to the agreement dated 29 June 2000 entered into with the Company, Oriental Patron received, and will receive, a fee for acting as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules up to 31 December 2002. Upon the expiry of the said agreement, Oriental Patron has ceased to be the retained sponsor of the Company.

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.

COMPETING INTEREST

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

AUDIT COMMITTEE

The Company set up an Audit Committee (the "Committee") on 7 July 2000 with written terms of reference being in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. As at 31 December 2002, the Committee comprises two members, namely Mr. Zhao Ming and Mr. Lau Kwok Kee, both being independent non-executive directors of the Company. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board, and had held meeting for eight times during the year. The Group's financial statements for the year ended 31 December 2002 have been reviewed by the members of the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

AUDITORS

RSM Nelson Wheeler were first appointed as auditors of the Company in 2001 upon the removal of Ernst & Young.

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

On behalf of the Board
Mr. Ng Ming Wah
Chairman

Hong Kong
26 March 2003

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

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

We have audited the financial statements on pages 21 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2002 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 2003

Consolidated Income Statement

Year ended 31 December 2002

	Note	2002 HK$'000	2001 HK$'000
TURNOVER	4	**3,444**	3,300
Cost of sales		**(1,835)**	(2,314)
Gross profit		**1,609**	986
Other revenue		**152**	768
Distribution costs		**(3,162)**	(1,355)
Administrative expenses		**(9,402)**	(16,313)
Impairment loss recognised in respect of goodwill of a subsidiary	14	**(11,055)**	—
Other operating expenses		**(2,955)**	(6,096)
LOSS FROM OPERATIONS	6	**(24,813)**	(22,010)
Finance costs	7	**(7)**	(68)
Gain on disposal of partial interest in a subsidiary		**1,146**	—
Gain on disposal of a jointly controlled entity	17	**220**	—
Share of results of a jointly controlled entity		**—**	(418)
Share of results of an associate		**(2)**	—
LOSS BEFORE TAXATION		**(23,456)**	(22,496)
Taxation	9	**—**	—
LOSS AFTER TAXATION		**(23,456)**	(22,496)
MINORITY INTERESTS		**619**	177
NET LOSS FOR THE YEAR	10, 24	**(22,837)**	(22,319)
LOSS PER SHARE — Basic	12	**(1.9) cents**	(4.8) cents

Consolidated Balance Sheet

31 December 2002

	Note	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**1,065**	2,066
Goodwill	14	**2,096**	6,386
Interest in an associate	16	**5,156**	—
Interest in a jointly controlled entity	17	**—**	—
Long term investments	18	**3,616**	—
		11,933	8,452
CURRENT ASSETS			
Trade and other receivables	19	**864**	744
Prepayments and deposits		**502**	691
Prepaid tax		**563**	563
Time deposits		**5,017**	—
Cash and bank balances		**3,301**	5,440
		10,247	7,438
CURRENT LIABILITIES			
Trade and other payables	20	**938**	942
Deferred income		**284**	389
Deposits received		**675**	304
Obligations under finance lease — due within one year	21	**—**	174
Warranty provision	22	**65**	80
		1,962	1,889
NET CURRENT ASSETS		**8,285**	5,549
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,218**	14,001
NON-CURRENT LIABILITIES			
Obligations under finance lease — due after one year	21	**—**	121
MINORITY INTERESTS		**13**	(81)
		20,205	13,961
CAPITAL AND RESERVES			
Issued share capital	23	**14,400**	4,800
Reserves	24	**5,805**	9,161
		20,205	13,961

Ng Ming Wah
Director

Zhao Ming
Director

Consolidated Summary Statement of Changes in Equity

31 December 2002

	Note	2002 HK$'000	2001 HK$'000
TOTAL EQUITY			
At 1 January		**13,961**	29,850
Rights issue of shares, net of expenses		**29,081**	—
Issue of shares, net of expenses		**—**	6,430
Net loss for the year	*24*	**(22,837)**	(22,319)
At 31 December		**20,205**	13,961

Consolidated Cash Flow Statement

Year ended 31 December 2002

	2002 HK$'000	2001 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	**(23,456)**	(22,496)
Adjustments for:		
Depreciation	**791**	1,195
Interest received	**(140)**	(553)
Impairment loss recognised in respect of long term investments	**433**	1,500
Impairment loss recognised in respect of fixed assets	**159**	—
Impairment loss recognised in respect of goodwill of a subsidiary	**11,055**	—
Amortisation of goodwill	**1,837**	67
Bad debts written off	**92**	30
Fixed assets written off	**8**	2,107
(Gain)/Loss on disposals of fixed assets	**(24)**	204
Gain on disposal of partial interest in a subsidiary	**(1,146)**	(27)
Gain on disposal of a jointly controlled entity	**(220)**	—
Share of results of a jointly controlled entity	**—**	418
Share of results of an associate	**2**	—
Interest element on finance lease	**7**	68
Operating loss before working capital changes	**(10,602)**	(17,487)
(Increase)/Decrease in trade and other receivables	**(212)**	1,367
Decrease in trade and other payables	**(4)**	(1,785)
Decrease in prepayments and deposits	**189**	1,873
Decrease in deferred income	**(105)**	(175)
Increase/(Decrease) in deposits received	**371**	(64)
(Decrease)/Increase in warranty provision	**(15)**	80
Cash used in operations	**(10,378)**	(16,191)
Interest element on finance lease	**(7)**	(68)
Profits tax paid	**—**	(141)
Net cash used in operating activities	**(10,385)**	(16,400)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of interest in a subsidiary	**(7,700)**	(4,545)
Acquisition of an associate	**(5,500)**	—
Acquisition of a long term investment	**(4,049)**	—
Proceeds from disposal of a jointly controlled entity	**220**	—
Purchases of fixed assets	**(271)**	(1,502)
Proceeds from disposals of fixed assets	**338**	780
Interest received	**140**	553
Interest in a jointly controlled entity	**—**	(418)
Time deposits pledged	**—**	5,034
Net cash used in investing activities	**(16,822)**	(98)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of new shares from placing	**—**	4,000
Proceeds from Rights Issue	**30,720**	—
Expenses paid in connection with shares issued	**(1,639)**	(270)
Proceeds from disposal of partial interest in a subsidiary	**661**	—
Capital contributed by minority shareholders	**638**	200
Payment of finance lease liabilities	**(295)**	(1,112)
Net cash from financing activities	**30,085**	2,818
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,878**	(13,680)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**5,440**	19,120
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**8,318**	5,440
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**3,301**	5,440
Time deposits with original maturity of less than three months	**5,017**	—
	8,318	5,440

Balance Sheet

31 December 2002

	Note	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**140**	200
Interests in subsidiaries	15	**13,556**	13,153
		13,696	13,353
CURRENT ASSETS			
Prepayments		**78**	258
Bank balances		**533**	701
		611	959
CURRENT LIABILITIES			
Amounts due to subsidiaries		**2,358**	30
Other payables	20	**250**	321
		2,608	351
NET CURRENT (LIABILITIES)/ASSETS		**(1,997)**	608
		11,699	13,961
CAPITAL AND RESERVES			
Issued share capital	23	**14,400**	4,800
Reserves	24	**(2,701)**	9,161
		11,699	13,961

Ng Ming Wah
Director

Zhao Ming
Director

1. CORPORATE INFORMATION

Grandmass Enterprise Solution Limited ("the Company") was incorporated in Bermuda on 19 April 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended).

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 and other regions in the People's Republic of China. It was also engaged in the provision of information technology consultancy services, customised software development services, computer system integration, system deployment support services and investment holding. There were no significant changes in the nature of the Group's principal activities during the year.

2. ADOPTION OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

In the current year, the Group has adopted for the first time the following revised and new SSAPs issued by the Hong Kong Society of Accountants:

(a)	SSAP 1 (Revised)	:	Presentation of financial statements
(b)	SSAP 15 (Revised)	:	Cash flow statements
(c)	SSAP 34	:	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of these SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 23 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on page 24 of the financial statements have been revised in accordance with the new requirements. The cash flows of the Company's overseas subsidiaries are translated using the exchange rates at the dates of the cash flows or, if applicable, at the average exchange rates.

2. ADOPTION OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(Continued)*

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has not had any material impact on the financial statements and no prior year adjustment is required. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 23. These disclosures are similar to those required by the rules governing the listing of securities on the Growth Enterprise Market ("the GEM Listing Rules") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") and which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

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.

The financial statements for the year ended 31 December 2002 have been prepared on the going concern basis which assumes the Group will be able to meet their financial obligations when they fall due. For the year ended 31 December 2002, the Group had a net cash outflow from operating activities of approximately HK$10,385,000 and loss attributable to shareholders of approximately HK$22,837,000.

Inherent in the Group's businesses are various risks and uncertainties, including uncertain profitability, history of losses and risks associated with the technology business, and the ability to raise additional capital and financing. In order to relieve the financial burden on the Group's operating activities, subsequent to the balance sheet date, in March 2003, the Company has entered into a share subscription agreement with an independent investor to invest in the Group's business. In addition, the aforesaid arrangement would enable the Group to reduce its cash outflow from operating activities drastically. Details are included in the note 29 to the financial statements. In view of the above, the Company's directors are confident that the Group can continue as a going concern. Accordingly, the financial statements do not include any adjustments that would result should the Group not be able to continue as a going concern.

Basis of consolidation

The consolidated financial statements of the Group include the financial statements made up to 31 December each year of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Minority interests, represent the interests of outside shareholders in the net assets and operating results of subsidiaries, are shown separately in the balance sheet and income statement, respectively.

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

Basis of consolidation *(Continued)*

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.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's interest in the fair values of the identifiable assets and liabilities acquired as at the date of the exchange transaction. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

Subsidiaries

Subsidiaries are enterprises that the Company controls which is normally evidenced when the Company has the power to govern its financial and operating policies so as to benefit from its activities.

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.

Associate

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results is included in the income statement. The Group's interest in an associate is stated in the balance sheet at the Group's share of net assets (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised) under the equity method of accounting less any identified impairment loss.

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

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 investments

Long term investments are investment securities intended to be held for identified long term purposes documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose, are stated at cost less any provision for impairment loss. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

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.

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

Deferred income

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

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.

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 vehicle	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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.

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset. 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.

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.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) Retirement benefits costs

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

Share option scheme

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the income statement or balance sheet.

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.

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

Research and development costs *(Continued)*

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.

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 year. 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 year in which the operation is disposed of.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consists of cash at bank and in hand, net of outstanding bank overdrafts and short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

Segments 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.

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

Segments reporting *(Continued)*

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

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

Events after the balance sheet date

Post-year-end events that provide additional information about the Group's and the 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:

	2002	2001
	HK$'000	*HK$'000*
Sales of goods	**2,459**	1,518
Rendering of services	**985**	1,782
Turnover	**3,444**	3,300

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

(a) 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.

An analysis of the Group's income and results for the years ended 31 December 2002 and 2001, and certain assets and liabilities information regarding business segments at 31 December 2002 and 2001 are as follows:

	Sales of software licence and related services		**Provision of maintenance services**		**Consolidated**	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE						
External revenue	**2,667**	2,401	**777**	899	**3,444**	3,300
RESULTS						
Segment results	**(9,042)**	(17,072)	**(2,506)**	(4,119)	**(11,548)**	(21,191)
Unallocated corporate revenue					**12**	215
Unallocated corporate expenses					**(13,417)**	(1,587)
Operating loss excluding interest income/expense					**(24,953)**	(22,563)
Interest income					**140**	553
Interest expense					**(7)**	(68)
Gain on disposal of partial interest in a subsidiary					**1,146**	—
Gain on disposal of a jointly controlled entity					**220**	—
Share of results of a jointly controlled entity					**—**	(418)
Share of results of an associate					**(2)**	—
Loss before taxation					**(23,456)**	(22,496)
Taxation					**—**	—
Loss after taxation					**(23,456)**	(22,496)
Minority interests					**619**	177
Net loss for the year					**(22,837)**	(22,319)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	Sales of software licence and related services		Provision of maintenance services		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
ASSETS						
Segment assets	**1,944**	2,156	**3**	24	**1,947**	2,180
Interest in an associate					**5,156**	—
Unallocated corporate assets					**15,077**	13,710
Consolidated total assets					**22,180**	15,890
LIABILITIES						
Segment liabilities	**853**	448	**284**	325	**1,137**	773
Unallocated corporate liabilities					**825**	1,237
Consolidated total liabilities					**1,962**	2,010

	Sales of software licence and related services		Provision of maintenance services		Unallocated		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
OTHER INFORMATION								
Capital expenditure	**271**	1,502	**—**	—	**—**	—	**271**	1,502
Depreciation	**791**	1,195	**—**	—	**—**	—	**791**	1,195
Amortisation	**—**	—	**—**	—	**1,837**	67	**1,837**	67
Non-cash expenses other than depreciation	**8**	2,311	**—**	—	**—**	—	**8**	2,311
Impairment loss in respect of								
— fixed assets	**159**	—	**—**	—	**—**	—	**159**	—
— long term investments	**—**	—	**—**	—	**433**	1,500	**433**	1,500
— goodwill of a subsidiary	**—**	—	**—**	—	**11,055**	—	**11,055**	—

(b) Geographical segments

Segment information by geographical location is not shown as overseas operations account for less than 10% of the Group's turnover and trading results.

6. LOSS FROM OPERATIONS

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

	2002 *HK$'000*	2001 *HK$'000*
Depreciation:		
Owned fixed assets	**791**	880
Leased fixed assets	**—**	315
Amortisation of goodwill (included in other operating expenses):		
Subsidiary	**1,495**	67
Associate	**342**	—
Total depreciation and amortisation	**2,628**	1,262
(Gain)/Loss on disposals of fixed assets	**(24)**	204
Fixed assets written off	**8**	2,107
Impairment loss of assets (included in other operating expenses):		
Fixed assets	**159**	—
Long term investments	**433**	1,500
Total impairment loss of assets	**592**	1,500
Auditors' remuneration	**213**	220
Operating lease rentals in respect of land and buildings	**581**	1,711
Bad debts written off	**92**	30
Staff costs, including directors' emoluments *(note 8)*	**8,650**	12,171
Research and development costs (approximately HK$419,000 2001: HK$2,198,000) included in staff costs	**450**	2,240
Interest income	**(140)**	(553)

Included in staff costs above are contributions to mandatory provident fund of approximately HK$210,000 (2001: HK$295,000).

7. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on finance lease	**7**	68

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2002 HK$'000	2001 HK$'000
Fees	**—**	—
Other emoluments for executive directors:		
Basic salaries, other allowances and benefits in kind	**1,933**	3,795
Contributions to provident fund	**25**	42
Compensation for loss of office, paid by the Company	**210**	—
	2,168	3,837
Other emoluments for non-executive and independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	**309**	292
	2,477	4,129

For the year ended 31 December 2002, the three executive directors received individual emoluments of approximately HK$841,000 (2001: HK$210,000), HK$252,000 (2001: HK$143,000) and HK$371,000 (2001: HK$Nil) respectively. One executive director resigned during the year received individual emoluments of approximately HK$704,000 (2001: HK$759,000) for the year ended 31 December 2002.

The three executive directors resigned during the year ended 31 December 2001 received individual emoluments of approximately HK$1,291,000, HK$889,000 and HK$545,000 respectively.

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(Continued)

The non-executive director resigned during the year received emoluments of approximately HK$69,000 (2001: HK$64,000) for the year ended 31 December 2002. For the year ended 31 December 2002, the two independent non-executive directors received individual emoluments of approximately HK$120,000 (2001: HK$86,000) and HK$120,000 (2001: HK$38,000) respectively. The two independent non-executive directors resigned during the year ended 31 December 2001 received individual emoluments of approximately HK$75,000 and HK$29,000 respectively.

At 31 December 2002 and 2001, none of the directors or chief executive of the Company had any share options granted under the share option schemes adopted by the Company.

No directors waived any emoluments during the year.

The five highest paid individuals included three directors (2001: one director and three resigned directors) during the year, whose emoluments are set out above. Details of the emoluments of the remaining two (2001: one) highest paid, non-director employees during the year are as follows:

	2002	2001
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	**744**	560
Contributions to provident fund	**23**	12
	767	572

The remaining two (2001: one) highest paid, non-director employees whose emoluments fell within the band of Nil to HK$1,000,000 for the year.

Save as disclosed above, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising from Hong Kong during the year.

Provision for overseas tax has not been made because the overseas subsidiaries or associate did not generate any assessable profits during the year.

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

10. NET LOSS FOR THE YEAR

For the year ended 31 December 2002, net loss of approximately HK$31,343,000 (2001: HK$22,319,000) 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 2002 (2001: 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$22,837,000 (2001: net loss of HK$22,319,000) and the weighted average of approximately 1,195,007,000 ordinary shares (2001: 462,216,000 ordinary shares) in issue during the year after adjusting the effects of the Rights Issue (note 23(b)) on 9 April 2002. The basic loss per share for 2001 had been adjusted accordingly.

Diluted loss per share for the years ended 31 December 2002 and 2001 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

					Group
	Leasehold improvements *HK$'000*	**Furniture and fixtures** *HK$'000*	**Office and computer equipment** *HK$'000*	**Motor vehicle** *HK$'000*	**Total** *HK$'000*
Cost:					
At 1 January 2002	188	281	1,849	533	2,851
Additions	—	8	263	—	271
Disposals/Write off	—	—	(121)	(533)	(654)
At 31 December 2002	188	289	1,991	—	2,468
Accumulated depreciation and impairment losses:					
At 1 January 2002	9	62	487	227	785
Charge for the year	117	56	565	53	791
Impairment loss for the year	—	60	99	—	159
Disposals/Write off	—	—	(52)	(280)	(332)
At 31 December 2002	126	178	1,099	—	1,403
Net book value:					
At 31 December 2002	62	111	892	—	1,065
At 31 December 2001	179	219	1,362	306	2,066

13. FIXED ASSETS *(Continued)*

	Company
	Office and computer equipment
	HK$'000
Cost:	
At 1 January 2002 and at 31 December 2002	200
Accumulated depreciation:	
At 1 January 2002	—
Charge for the year	60
At 31 December 2002	60
Net book value:	
At 31 December 2002	140
At 31 December 2001	200

14. GOODWILL

	Group
	HK$'000
Cost:	
At 1 January 2002	6,453
Arising on acquisition of additional interest in a subsidiary	8,260
At 31 December 2002	14,713
Accumulated amortisation and impairment losses:	
At 1 January 2002	67
Charge for the year	1,495
Impairment loss for the year	11,055
At 31 December 2002	12,617
Net book value:	
At 31 December 2002	2,096
At 31 December 2001	6,386

14. GOODWILL *(Continued)*

(a) Goodwill on acquisition of a subsidiary is amortised on a straight-line basis over its useful life of eight years.

(b) In view of the current economic condition and keen competition in the computer software industry, the directors reviewed the carrying value of goodwill arising from the acquisition of the subsidiary and an impairment loss of approximately HK$11,055,000 has been identified and recognised in the year ended 31 December 2002.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**12,168**	12,168
Less: Provision for impairment loss	**(10,004)**	—
	2,164	12,168
Amounts due from subsidiaries	**56,978**	31,568
Less: Provision for amounts due from subsidiaries	**(45,586)**	(30,583)
	11,392	985
	13,556	13,153

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	Issued and fully paid-up capital/ registered share capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities
Grandmass Cyber Factory (China) Limited	Hong Kong	HK$2	100%	100%	Investment holding
Grandmass Enterprise System (Shanghai) Limited*	The People's Republic of China	HK$900,000	100%	100%	Dormant
Grandmass ERP Limited	British Virgin Islands	US$33,085	100%	100%	Investment holding
Grandmass Global Investment Limited	British Virgin Islands	US$1	100%	100%	Investment holding
Grandmass iOMS (SZ) Co. Limited (formerly known as Clever-Tech Information System (Shenzhen) Limited)*	The People's Republic of China	HK$1,000,000	100%	100%	Provision of consultancy services and technical development in computer software packages
Grandmass iOMS Limited (formerly known as Clever Investments Inc.)	British Virgin Islands	US$50,000	100%	100%	Investment holding
Grandmass Solutions Limited (formerly known as ASPER Solutions Limited)	Hong Kong	HK$2	100%	100%	Dormant
Grand Teton Limited	British Virgin Islands	HK$2,380,000	56%	75%	Investment holding

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Company	Place of incorporation/ registration	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	50.4%	80%	Marketing, sales, implementation and support of industrial and financial system software and solutions
Sun-iOMS Limited (formerly known as 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
Sun-iOMS Development Limited (formerly known as Grandmass Development Limited)	British Virgin Islands	US$1	100%	100%	Computer software and programs development
Sun-iOMS Maintenance Limited (formerly known as iOMS Grandmass Limited)	Hong Kong	HK$2	100%	100%	Provision of sales and marketing services

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Company	Place of incorporation/ registration	Issued and fully paid-up capital/ registered share capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities
Sun-iOMS Technology Holdings Limited (formerly known as Grandmass Enterprise System (China) Limited)	British Virgin Islands	HK$245,000	100%	100%	Investment holding

Other than Grandmass ERP Limited and Grandmass Global Investment Limited, all subsidiaries are indirectly held by the Company. All subsidiaries are private companies and principally operate in Hong Kong except Grandmass iOMS (SZ) Co. Limited and Grandmass Enterprise System (Shanghai) Limited which principally operate in the People's Republic of China.

On 12 November 2002, Grandmass Global Investment Limited entered into the following agreements:

(a) a share sales agreement with an independent investor, Mighty Route Investment Limited, to dispose of 630,000 shares in Grand Teton Limited ("GTL") for a cash consideration of HK$890,000 by eight monthly instalments; and

(b) a shareholders and share subscription agreement with two independent investors, Success Decade Limited and Mile Garden Investment Limited, to allot and issue a total number of 1,450,000 new shares in GTL for cash totalled approximately HK$1,595,000 by eight monthly instalments.

At 31 December 2002, two instalments were made by the aforesaid parties and the Group's equity interest in GTL was reduced from 100% to 56%. The sale and allotment of shares are expected to be completed on 12 June 2003, and as a result, the Group's interest in GTL would be further reduced to 36%.

* A translation of the official Chinese name.

\# On 15 January 2003 a special resolution of the shareholders was passed to change the name of IFS Grandmass Limited to IFS HK Limited.

16. INTEREST IN AN ASSOCIATE

		Group
	2002	2001
	HK$'000	*HK$'000*
Share of net assets	**20**	—
Goodwill on acquisition of an associate less amortisation	**5,136**	—
	5,156	—

The movement in goodwill arising on acquisition of an associate is as follows:

	Group
	HK$'000
Cost:	
At 1 January 2002	—
Arising on acquisition of an associate	5,478
At 31 December 2002	5,478
Accumulated amortisation:	
At 1 January 2002	—
Charge for the year	342
At 31 December 2002	342
Net book value:	
At 31 December 2002	5,136
At 31 December 2001	—

Goodwill on acquisition of an associate is amortised on a straight-line basis over its useful life of eight years.

16. INTEREST IN AN ASSOCIATE *(Continued)*

At 31 December 2002, the Group had an interest in the following associate:

Name	Place of incorporation/ registration	Business structure	Particulars of issued shares held	Percentage of equity attributable to the Group	Principal activities
Signking Science Limited * (formerly known as Conceicao Co., Limited	British Virgin Islands	Corporate	Ordinary shares of US$1 each	33%	Investment in software development and related services

The associate is a private company and principally operates in Hong Kong.

* Not audited by RSM Nelson Wheeler

Summarised financial information of the associate is as follows:

Unaudited balance sheet information at 31 December 2002

	HK$'000
Non-current assets	1,885
Current liabilities	1,825
Net assets	60

Unaudited income statement information for the year ended 31 December 2002

Turnover	—
Loss for the year	(6)

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

In prior year, the share of losses of a jointly controlled entity, Thiz Grandmass ERP Systems Limited, by the Group had exceeded the Group's investment cost and loan to this jointly controlled entity. Accordingly this investment was reported at nil. 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 in the current year.

On 6 May 2002, the Group disposed of its 50% interest in and assigned the loan to the jointly controlled entity to Thiz.Com Inc. for a consideration of HK$220,000. The Group realised a gain of HK$220,000 on these transactions.

18. LONG TERM INVESTMENTS

	Group 2002 HK$'000	2001 HK$'000
Investment securities:		
Equity securities listed in Hong Kong, at cost *(note (a))*	**4,049**	—
Less: Provision for impairment loss	**(433)**	—
	3,616	—
Unlisted equity securities, at cost *(note (b))*	**1,500**	1,500
Less: Provision for impairment loss	**(1,500)**	(1,500)
	—	—
	3,616	—
Market value of listed equity securities	**3,616**	—

(a) At 31 December 2002, the carrying amounts of interests in the following company exceeded 10% of total assets of the Group:

Name	Place of incorporation/ registration	Particulars of issued shares held	Percentage of equity attributable to the Group	Principal activities
iAsia Technology Limited*	Hong Kong	Ordinary shares of HK$0.1 each	6.64%	Provision of comprehensive online trading and related systems to licensed financial institutions and intermediaries principally in Asia and investment holding

* On 13 January 2003, iAsia Technology Limited has changed its name to Value Convergence Holdings Limited.

18. LONG TERM INVESTMENTS *(Continued)*

(b) The investment in unlisted shares represented 5% shareholding of an unlisted equity investment. By a special resolution, the investee company resolved to wind up voluntarily on 5 March 2002.

19. TRADE AND OTHER RECEIVABLES

		Group		Company
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**741**	90	**—**	—
Other receivables	**123**	654	**—**	—
	864	744	**—**	—

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

		Group		Company
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 — 60 days	**175**	—	**—**	—
61 — 90 days	**235**	—	**—**	—
91 — 180 days	**207**	—	**—**	—
> 180 days	**124**	90	**—**	—
	741	90	**—**	—

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

20. TRADE AND OTHER PAYABLES

		Group		Company
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**119**	148	**—**	—
Other payables	**819**	794	**250**	321
	938	942	**250**	321

20. TRADE AND OTHER PAYABLES *(Continued)*

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

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 — 60 days	**19**	45	**—**	—
61 — 90 days	**83**	—	**—**	—
91 — 180 days	**12**	98	**—**	—
> 180 days	**5**	5	**—**	—
	119	148	**—**	—

21. OBLIGATIONS UNDER FINANCE LEASE

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance lease				
Within one year	—	186	—	174
In the second year	—	124	—	121
	—	310	—	295
Less: Future finance charges	—	(15)	—	N/A
Present value of lease obligations	—	295	—	295
Less: Amount due for settlement within 12 months (shown under current liabilities)			—	(174)
Amount due for settlement after 12 months			—	121

During the current year, all the obligations were repaid and released.

22. WARRANTY PROVISION

	2002	2001
	HK$'000	*HK$'000*
At 1 January	**80**	—
Additional provision	**65**	80
Amounts utilised	**(80)**	—
At 31 December	**65**	80

23. SHARE CAPITAL

Shares

	Number of shares	**Share capital**
	'000	*HK$'000*
Authorised:		
At 1 January 2001, ordinary shares of HK$0.1 each	2,000,000	200,000
Capital reduction, ordinary share reduced from HK$0.1 to HK$0.01 each	—	(180,000)
At 31 December 2001 and at 1 January 2002, ordinary shares of HK$0.01 each	2,000,000	20,000
Increase of ordinary shares *(note (a))*	8,000,000	80,000
At 31 December 2002	10,000,000	100,000

23. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

	Number of shares *'000*	Share capital *HK$'000*
Issued and fully paid:		
At 1 January 2001, ordinary shares of HK$0.1 each	400,000	40,000
Transfer to contributed surplus due to capital reduction	—	(36,000)
Placing of new shares	50,000	500
Issue of shares	30,000	300
At 31 December 2001 and at 1 January 2002, ordinary shares of HK$0.01 each	480,000	4,800
Rights issue of shares *(note (b))*	960,000	9,600
At 31 December 2002	1,440,000	14,400

(a) Pursuant to an ordinary resolution adopted by the shareholders of the Company on 4 March 2002, 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.

(b) On 9 April 2002, 960,000,000 new shares of HK$0.01 each were issued by way of rights issue ("Rights Issue") at an issue price of HK$0.032 per rights share in the proportion of two rights shares for every one share then held to provide additional working capital to the Company.

Share options

Pursuant to the new share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "New Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board at its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company 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 of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

23. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The New Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the New Share Option Scheme was adopted).

No options under the New Share Option Scheme had been granted to any person during the year.

In compliance with the amended Chapter 23 of the GEM Listing Rules, the New Share Option Scheme supersedes the previous share option scheme adopted by the shareholders of the Company on 29 June 2000 (the "Previous Share Option Scheme"). The Previous Share Option Scheme was terminated on 24 May 2002 accordingly. However, notwithstanding the termination of the Previous Share Option Scheme, the outstanding options previously granted under the Previous Share Option Scheme shall remain valid and exercisable in accordance with the provisions of the Previous Share Option Scheme.

At 31 December 2002, the outstanding options previously granted under the Previous Share Option Scheme were set out as follows:

Date of share options granted	Number of options outstanding at beginning of the year	Options lapsed during the year	Number of options outstanding at end of the year	Subscription price	Exercisable period
15 August 2000	360,000	180,000	180,000	HK$0.199	15 August 2001 to 14 August 2005
4 December 2000	6,755,556	4,622,221	2,133,335	HK$0.141	4 March 2001 to 3 March 2005
	7,115,556	4,802,221	2,313,335		

24. RESERVES

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Group Total *HK$'000*
At 1 January 2001	—	527	(10,677)	(10,150)
Transfer from share capital due to capital reduction *(note (a))*	—	36,000	—	36,000
Premium arising from issue of new shares from placing	3,230	—	—	3,230
Premium arising from issue of new shares for acquisition of a subsidiary	2,400	—	—	2,400
Net loss for the year	—	—	(22,319)	(22,319)
At 31 December 2001 and 1 January 2002	5,630	36,527	(32,996)	9,161
Premium arising from Rights Issue, net of expenses *(note (b))*	19,481	—	—	19,481
Net loss for the year	—	—	(22,837)	(22,837)
At 31 December 2002	25,111	36,527	(55,833)	5,805
Company and subsidiaries	25,111	36,527	(55,831)	5,807
Jointly controlled entity	—	—	—	—
Associate	—	—	(2)	(2)
At 31 December 2002	25,111	36,527	(55,833)	5,805
Company and subsidiaries	5,630	36,527	(32,578)	9,579
Jointly controlled entity	—	—	(418)	(418)
Associate	—	—	—	—
At 31 December 2001	5,630	36,527	(32,996)	9,161

(a) The contributed surplus of the Group at 1 January 2001 represented the excess of the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation on 29 June 2000, over the nominal value of the shares in the Company issued in exchange therefor. The movement for the year ended 31 December 2001 was the result of capital reduction.

(b) The premium arose from the Rights Issue at an issue price of HK$0.032 per rights share on 9 April 2002, net of Rights Issue expenses of approximately HK$1,639,000.

24. RESERVES *(Continued)*

Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2001	—	2,118	(12,268)	(10,150)
Transfer from share capital due to capital reduction *(note (a))*	—	36,000	—	36,000
Premium arising from issue of new shares from placing	3,230	—	—	3,230
Premium arising from issue of new shares for acquisition of a subsidiary	2,400	—	—	2,400
Net loss for the year	—	—	(22,319)	(22,319)
At 31 December 2001 and 1 January 2002	5,630	38,118	(34,587)	9,161
Premium arising from Rights Issue, net of expenses *(note (b))*	19,481	—	—	19,481
Net loss for the year	—	—	(31,343)	(31,343)
At 31 December 2002	25,111	38,118	(65,930)	(2,701)

(a) The contributed surplus of the Company at 1 January 2001 arose as a result of the Reorganisation on 29 June 2000 and represented 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 for the year ended 31 December 2001 was the result of capital reduction.

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

(b) The premium arose from the Rights Issue at an issue price of HK$0.032 per rights share on 9 April 2002, net of Rights Issue expenses of approximately HK$1,639,000.

25. COMMITMENTS

	Group 2002 HK$'000	2001 HK$'000
Total future minimum lease payments under non-cancellable operating leases for office premises which fall due as follows:		
Within one year	**469**	445
In the second to fifth years, inclusive	**322**	147
	791	592
Capital commitments contracted for in respect of:		
Capital contribution to a subsidiary established in the People's Republic of China	**2,100**	2,100
	2,891	2,692

26. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, the following is a summary of significant related party transactions which, in the opinion of the directors, were carried out in the normal course of the Group's business:

(a)

Name of related parties	Nature of transaction	*Note*	2002 *HK$'000*	2001 *HK$'000*
First Asia Finance Group Limited	Disposal of a fixed asset	*(i)*	**280**	—
Thiz.Com Inc.	Disposal of a jointly controlled entity	*(ii)*	**220**	—
Thiz.Com (Hong Kong) Limited	Purchase of hardware	*(iii)*	**—**	236
K. K. Lau & Co.	Legal fee	*(iv)*	**634**	—

26. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Note:

(i) The fixed asset was disposed of at a consideration of HK$280,000 by reference to the then prevailing market price and the Group realised a gain of approximately HK$27,000 on this transaction. An ex-director of the Company, Mr. Li Sze Tang, is a director and a shareholder of First Asia Finance Group Limited.

(ii) On 6 May 2002, the Group disposed of its 50% interest in and assigned the loan to a jointly controlled entity, Thiz Grandmass ERP Systems Limited to Thiz.Com Inc. for a consideration of HK$220,000. The Group realised a gain of HK$220,000 on these transactions. An ex-director of the Company, Mr. Li Sze Tang, was the then director and is a shareholder of Thiz Technology Group Limited, the ultimate holding company of Thiz.Com Inc.

(iii) In the prior year, the Group purchased hardware from Thiz.Com (Hong Kong) Limited. Mr. Li Sze Tang, the then director of the Company, was the then director and a shareholder of Thiz Technology Group Limited, the ultimate holding company of Thiz.Com (Hong Kong) Limited.

(iv) The legal fee paid to K. K. Lau & Co. was charged at prices negotiated by reference to market rates. Mr. Lau Kwok Kee, an independent non-executive director of the Company, is a principal of K. K. Lau & Co.

(b) At 31 December 2002, the Group had credit card facility amounted to approximately HK$60,000. The aforesaid facility was secured by personal guarantees of two directors of the Company, Mr. Ng Ming Wah and Ms. Kwong Wai Man, Karina, to the extent of HK$180,000.

27. RETIREMENT BENEFITS SCHEMES

The Group operates MPF scheme for all qualifying employees of its Hong Kong subsidiaries, in funds under the controls of trustee. Under the rules of the MPF scheme, the employer and its employee are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the MPF scheme is to make the required contributions under the scheme.

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 contributions.

No forfeited contribution is available to reduce the contribution payable in future years.

The total cost charged to the income statement of approximately HK$210,000 (2001: HK$295,000) represented contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

28. CONTINGENT LIABILITIES

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

(a) A wholly owned subsidiary of the Company, Sun-iOMS Limited (formerly known as Grandmass Technology Limited), was a defendant of a legal action brought by its customer. The directors consider that, after obtaining legal advice, the aforesaid subsidiary has a strong case in the aforesaid action. In addition, an ex-director of the Company, Mr. Yue Chung Wing, Patrick, has indemnified the Group in respect of all liabilities that may arise out of or in connection with any of the claims and legal costs that may be payable to the plaintiff and any legal cost to be incurred in respect of the abovementioned claim. In view of the above, the directors are of the opinion that the above legal action would not have any significant impact on the financial position of the Group, hence, no provision is considered necessary by the directors at the balance sheet date.

(b) A staff of a wholly owned subsidiary of the Company, Grandmass Enterprise System (Shanghai) Limited, instigated legal proceedings against the subsidiary for the recovery of unpaid salaries plus the compensation for the termination of his employment contract amounting to approximately HK$320,000. The directors are of the opinion that the claim is not substantiated and has instructed its lawyer to defend the case. Hence, they consider that such claim would not result in any material losses to the Group in excess of the amount of approximately HK$150,000 that had already been provided in the financial statements at 31 December 2002.

(c) On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of a wholly owned subsidiary, Sun-iOMS Maintenance Limited (formerly known as iOMS Grandmass Limited), guaranteeing that the income accrued to the wholly owned subsidiary arising from the sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, the wholly owned subsidiary and the Company took legal action against the abovementioned independent third party and two executive directors resigned in 2001 in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. The directors are of the opinion that the above legal action would not have any significant impact on the financial position of the Group, hence, no provision for legal costs are considered necessary by the directors at the balance sheet date.

Save as the above, the Group did not have any material contingent liabilities at 31 December 2002.

29. EVENTS AFTER THE BALANCE SHEET DATE

On 1 March 2003, Grandmass ERP Limited ("GEL"), a wholly owned subsidiary of the Company and as the holding company of Sun-iOMS Technology Holdings Limited ("STHL"), entered into a share subscription agreement with an independent investor, a Hong Kong listed company, to allot and issue 51 new shares at par value of HK$5,000 each representing 51% of the enlarged issued capital of "STHL" at a consideration of HK$255,000. Pursuant to the share subscription agreement, GEL agreed to grant STHL and its wholly owned subsidiaries a non-exclusive licence to use certain software for a term of 20 years.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 March 2003.

Notice of Annual General Meeting

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, 25 April 2003 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 2002;

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 new share option scheme of the Company (as adopted on 24 May 2002) 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 2003

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, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, 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, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, 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.