Grandmass Enterprise Solution Limited
盛創企業系統有限公司

(Incorporated in Bermuda with limited liability)
（百慕達註冊成立之有限公司）

ebase
eSales
ePurchase
iTrade
iFactory
iManufacturing
iOrder
iAccount

Annual Report 2003
年報

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

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

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 Stock Exchange. Listed companies are not generally required to issue paid announcement 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Grandmass Enterprise Solution Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Grandmass Enterprise Solution Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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之公司提供上市之市場。尤其在創業板上市之公司毋須有過往溢利記錄，亦毋須預測未來溢利。此外，在創業板上市之公司可因其新興性質及該等公司經營業務之行業或國家而帶有風險。有意投資之人士應了解投資於該等公司之潛在風險，並應經過審慎周詳之考慮後方作出投資決定。創業板之高風險及其他特色表示創業板較適合專業及其他經驗豐富之投資者。

鑑於在創業板上市之公司屬於新興性質，在創業板買賣之證券可能會較於主板買賣之證券承受較大之市場波動風險，同時無法保證在創業板買賣之證券會有高流通量之市場。

創業板發佈資料的主要方法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。

香港聯合交易所有限公司對本報告之內容概不負責，對其準確性或完備性亦無發表聲明，且表明不會就本報告全部或任何部分內容或因倚賴該等內容而引致之任何損失承擔任何責任。

本報告（盛創企業系統有限公司之董事願共同及個別對此負全責）乃遵照香港聯合交易所有限公司《創業板證券上市規則》的規定而提供有關盛創企業系統有限公司之資料。董事會經作出一切合理查詢後，確認就彼等所知及所信：1本報告所載資料在各重大方面均屬準確及完整，且無誤導成份；2並無遺漏任何事實致使本報告所載任何內容產生誤導；及3本報告內表達的一切意見乃經審慎周詳的考慮後方作出，並以公平合理的基準和假設為依據。

Contents

EXECUTIVE DIRECTORS
Ms. Kwong Wai Man, Karina
Mr. Zhao Ming

NON-EXECUTIVE DIRECTOR
Mr. Ng Ming Wah

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Lau Kwok Kee
Mr. Chen Pei

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Mr. Lui Hung Kwong, *FCCA, FHKSA, CGA*

Audit Committee
Mr. Lau Kwok Kee
Mr. Chen Pei

COMPLIANCE OFFICER
Ms. Kwong Wai Man, Karina

AUTHORISED REPRESENTATIVES
Ms. Kwong Wai Man, Karina
Mr. Lui Hung Kwong, *FCCA, FHKSA, CGA*

COMPANY SECRETARY
Mr. Lui Hung Kwong, *FCCA, FHKSA, CGA*

GEM Stock Code
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Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Grandmass Enterprise Solution Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present the fourth annual report of the Group since the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 14 July 2000.

FINANCIAL RESULTS

For the year ended 31 December 2003, the Group recorded consolidated loss attributable to shareholders of approximately HK$9,840,000.

DIVIDENDS

No interim dividend was paid for the year ended 31 December 2003 and the Board does not recommend the payment of a final dividend.

MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF OPERATIONS AND FUTURE PROSPECTS

During the year under review, the Group continued to engage in the provision of manufacturing decision support system and computerization consulting services and licensing to manufacturers and traders in Hong Kong and other regions in the PRC. The Group is also involved in the provision of information technology consultancy services, customized software development services, computer system integration, system deployment support services and investment holding.

Our operations encountered a difficult and disappointing financial year. Our operations were badly affected by the unexpected attack of the Severe Acute Respiratory Syndrome ("SARS") epidemic. The SARS epidemic had evolved into a crisis over the world. Many businesses in Hong Kong and other regions in the PRC had been ground to an almost stand still situation during the SARS crisis. The subsequent unfavourable business atmosphere had an adverse effect on the Group's performance during the year under review.

The Group considered that the performance and business growth of some of the subsidiaries and associates were below expectation and substantially behind the original valuation. The Board has decided to adopt prudent accounting management to evaluate investment projects, and to make a one-off full provision for impairment loss on the goodwill of Grandmass iOMS Limited and a partial provision for impairment loss on the goodwill of Signking Science Limited in this financial year, amounting to HK$1,797,000 and HK$1,000,000 respectively.

The two items of provision for impairment loss mentioned above totalled HK$2,797,000, resulting in a loss attributable to shareholders of HK$9,840,000 for this financial year. However, there was no impact on the Group's operating cash flow. The Board believes that the provisions can better reflect the Group's current and future operating conditions. With the experience gained, the Group is committed to adopting a more cautious and prudent approach in evaluating new investment projects' potential and opportunity cost.

While Hong Kong's economy is on a path of recovery, the Group will look for potential investment opportunities to broaden its earning base and strive for better returns for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

On 5 March 2003, the Group had disposed 51% equity interest of Sun-iOMS Technology Holdings Limited ("Sun-iOMS") to CEC-Technology Limited, this business arrangement had greatly reduced the cash outflows of the Group and would further strengthen the competitiveness of the Group within the ERP market.

The Rights Issue in November 2003 enabled the Company to strengthen its equity base and obtain additional cash resources in order to support the continuing development of the Group's existing business activities and new business growth.

As at 31 December 2003, cash and bank balances of the Group was approximately HK$9,618,000. The Group has no bank borrowings.

Total borrowing of the Group amounted to approximately HK$61,000, representing obligation under a finance lease contract with an interest rate of approximately 4.5% per annum and average lease term of approximately five years. Except for the finance lease contract for the Group's office equipment, the Group did not have any mortgage or charge on assets as at 31 December 2003.

As at 31 December 2003, the Group's gearing ratio was 0.31% representing a percentage of long term liabilities over total assets.

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.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my deepest gratitude to all management and staff members for their precious commitments and contributions, and to thank shareholders for their continuing confidence in the Group. We will make every endeavor to explore potential opportunities for our business growth, creating a promising future for the Group as well as our valuable shareholders.

On behalf of the Board
Kwong Wai Man, Karina
Executive Director

Hong Kong
26 March 2004

EXECUTIVE DIRECTORS

Ms. Kwong Wai Man, Karina, aged 34, was appointed as an executive director of the Company in April 2002. She is responsible for formulation of corporate strategy and 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 joining the Group in June 2001, she worked for sizable organizations in various industries as senior managerial and financial executive in both Canada and Hong Kong.

Mr. Zhao Ming, aged 46, was appointed as an executive director of the Company in October 2003. He was formerly an independent non-executive director of the Company in 2002. He is responsible for overall steering of the Group's management. He has worked in various enterprises for over 20 years in Hong Kong and the PRC and has extensive experience in sales co-ordination and general management. His sales and marketing network is far-reaching especially in China. He was 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Kwok Kee, aged 44, was appointed as an independent non-executive director of the Company in September 2001. He 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.

Mr. Chen Pei, aged 45, was appointed as an independent non-executive director of the Company in October 2003. He graduated from the department of statistics of Renmin University of China, the PRC. He used to be the Head of the National Scientific Development Committee. He has been an entrepreneur since 1994 and his investment portfolios include international trading, pharmaceutical products and bio-technology businesses. Mr. Chen's businesses spread over China and United States of America. His extensive experience and business network will definitely benefit our Company's further business development.

NON-EXECUTIVE DIRECTOR

Mr. Ng Ming Wah, aged 51, was appointed as a non-executive director of the Company in October 2003. He was formerly an executive director and chairman of the Company in 2002. 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.

COMPANY SECRETARY

Mr Lui Hung Kwong, aged 44, was appointed as company secretary and Finance Manager of the Company in November 2003. He is responsible for overseeing the company secretarial matters as well as financial functions of the Group. He has over 20 years experience in accounting with listed companies and audit fields. He is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants and also an associate member of the Certified General Accountants Association of Canada.

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 2003.

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 2003 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 19 to 64.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2003.

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 five financial years, respectively, prepared on the basis set out in the notes 1 and 2.

Results

	Year ended 31 December				
	2003	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**1,020**	3,444	3,300	11,624	12,199
PROFIT/(LOSS) BEFORE TAX	**(9,961)**	(23,456)	(22,496)	(10,779)	3,239
Taxation	**–**	–	–	30	(585)
PROFIT/(LOSS) AFTER TAX	**(9,961)**	(23,456)	(22,496)	(10,749)	2,654
MINORITY INTERESTS	**121**	619	177	–	–
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	**(9,840)**	(22,837)	(22,319)	(10,749)	2,654

Assets and Liabilities

	2003	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS	**4,639**	11,933	8,452	6,007	714
NET CURRENT ASSETS/(LIABILITIES)	**10,724**	8,285	5,549	24,671	(362)
NON-CURRENT LIABILITIES	**(50)**	(13)	(40)	(828)	(115)
NET ASSETS	**15,313**	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 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 2001 and the assets and liabilities of the Group as at 31 December 2000 and 2001 were extracted from the Company's annual report for the year ended 31 December 2000 and 2001. The above financial summary as of and for the year ended 31 December 2002 and 2003 have been extracted from the audited financial statements of the Group set out on pages 19 to 64 of the annual report.

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 2003, the Company has no distributable reserve calculated under the Companies Act 1981 of Bermuda and the Company's bye-laws.

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 66% of the total sales for the year and sales to the largest customer included therein amounted to 21%. Purchases from the Group's five largest suppliers accounted for 86% of the total purchases for the year and purchases from the largest supplier included therein amounted to 33%.

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:

Ms. Kwong Wai Man, Karina	
Mr. Zhao Ming	(appointed on 8 October 2003)
Mr. Taminsyah Abdy Broto	(resigned on 1 January 2003)
Mr. Ng Ming Wah	(resigned on 8 October 2003)

Non-executive director:

Mr. Ng Ming Wah	(appointed on 8 October 2003)

Independent non-executive directors:

Mr. Zhao Ming	(resigned on 8 October 2003)
Mr. Lau Kwok Kee	
Mr Chen Pei	(appointed on 8 October 2003)

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of Directors and Company Secretary of the Group are set out on pages 6 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Zhao Ming, being an executive director of the Company was appointed in October 2003, has entered into a service contract with the Company for an initial term of one year commencing from 8 October 2003. The service contract will continue thereafter until determined by either party giving to the other not less than three months prior written notice.

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 paid legal fee to Lau Lin & Co (formerly known as K. K. Lau & Co.) for legal services rendered. An independent non-executive director, Mr. Lau Kwok Kee, is one of the principal partners of Lau Lin & Co. The transactions were carried out in the normal course of the Group's business and at arm's length basis. The particulars of these transactions are set out in note 28 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

At 31 December 2003, 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.

As at 31 December 2003, none of the directors had any direct or indirect interest in any assets which acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

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 2003, 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 the year	Subscription Price	Exercisable period
15 August 2000	180,000	180,000	–	HK$0.199	15 Aug 2001 to 14 Aug 2005
4 December 2000	2,133,335	2,133,335	–	HK$0.141	4 Mar 2001 to 3 Mar 2005
	2,313,335	2,313,335	–		

No options granted pursuant to the Previous Share Option Scheme had been exercised up to 31 December 2003.

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 2003, 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 2003, the following persons or corporations had interests in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the Securities and Future Ordinance:

Long position in the shares

Name of shareholder	Capacity	Type of interest	Number of shares held	Approximate percentage of interest
Friedmann Pacific Greater China Investments Limited	Beneficial owner	Corporate	553,430,328	25.62%

Note: Friedmann Pacific Greater China Investments Limited is a company incorporated in Cayman Islands and its shares are listed on the main board of the Stock Exchange of Hong Kong Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31 December 2003.

EMPLOYEE INFORMATION

During the year, the Company had an average number of employees of 7 (2002: 40). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees includes retirement benefits.

DISPOSAL OF SUBSIDIARIES

On 1 March 2003, the Group entered into a share subscription agreement with an independent investor to allot and issue 51 new shares at par value of HK$5,000 each totalled HK$255,000 representing 51% of the enlarged issued capital of Sun-iOMS Technology Holdings Limited, the then wholly-owned subsidiary. Consequently, the Group had effectively disposed of its 51% equity interest in Sun-iOMS Technology Holdings Limited under the abovementioned share subscription arrangement. On the other hand, pursuant to a share sales agreement and a shareholders and share subscription agreement both dated 12 November 2002 with several independent investors, the Group's equity interest in Grand Teton Limited was gradually reduced from 56% to 39.5%. The Directors are in the opinion that the disposal of subsidiaries did not constitute discontinuing operations.

For the period from 1 January 2003 to the respective dates of disposal, the above subsidiaries were engaged in sale of software licence and related services and provision of computer consultancy services, contributed approximately HK$1,020,000 (2002: HK$3,337,000) to the Group's turnover and approximately HK$857,000 (2002: HK$4,646,000) to the Group's loss before taxation.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

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.

USE OF PROCEEDS

As stated in the circular dated 3 October 2003, 720 million new shares of the Company had been issued under the Rights Issue with bonus shares in November 2003, net proceeds of approximately HK$5 million net of expenses was raised from the Rights Issue. Of this proceeds, (i) HK$3 million for developing Short Message Service related business; (ii) HK$1 million for enhancing the research and development of the Group's ERP businesses, and (iii) HK$1 million for the Group's general working capital purposes.

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.

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, after obtaining legal advice, consider that the 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 or any legal cost that may incur. Therefore, the Directors consider that the above legal case would not have any significant impact on the financial position of the Group, hence, no provision is considered necessary at the balance sheet date.

(b) 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 ex-directors who 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 at the balance sheet date.

Save as disclosed in note (b) above, the Company had no contingent liabilities at the balance sheet date.

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.

EVENTS AFTER THE BALANCE SHEET DATE

On 23 March 2004 the Group has entered into a sale and purchase agreement (the "Agreement") to acquire from an independent third party the entire issued share capital of a company which will prior to completion of the Agreement become a holding company of a telephone set manufacturing enterprise. The consideration pursuant to the Agreement will be settled partly in cash and partly by issue of shares of the Company. The Company will announce full details of the proposed acquisition pursuant to the Agreement by way of a press announcement in due course. Trading in the shares of the Company on the Growth Enterprise Market of the Stock Exchange has been suspended with effect from 9:30 a.m. on 24 March 2004, pending release of the announcement relating to the proposed acquisition pursuant to the Agreement.

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 2003, the Committee comprises two members, namely Mr. Chen Pei and Mr. Lau Kwok Kee, both being independent non-executive directors of the Company. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board, and had held meeting for seven times during the year. The Group's financial statements for the year ended 31 December 2003 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

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
Ms. Kwong Wai Man, Karina
Executive Director

Hong Kong
26 March 2004

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 19 to 64 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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 2004

Consolidated Income Statement

Year ended 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
TURNOVER	4	**1,020**	3,444
Cost of sales		**(320)**	(1,835)
Gross profit		**700**	1,609
Other revenue		**58**	152
Distribution costs		**(768)**	(3,162)
Administrative expenses		**(3,826)**	(9,402)
Impairment loss recognised in respect of goodwill of a subsidiary		**(1,797)**	(11,055)
Impairment loss recognised in respect of goodwill of an associate		**(1,000)**	–
Other operating expenses		**(1,699)**	(2,955)
LOSS FROM OPERATIONS	6	**(8,332)**	(24,813)
Finance costs	7	**–**	(7)
Gain on disposal of subsidiaries		**510**	–
Gain on disposal of partial interest in a subsidiary		**–**	1,146
Gain on disposal of partial interest in an associate		**313**	–
Gain on disposal of a jointly controlled entity		**–**	220
Loss on disposal of a long term investment		**(1,972)**	–
Share of results of associates		**(480)**	(2)
LOSS BEFORE TAXATION		**(9,961)**	(23,456)
Taxation	9	**–**	–
LOSS AFTER TAXATION		**(9,961)**	(23,456)
MINORITY INTERESTS		**121**	619
NET LOSS FOR THE YEAR	10, 24	**(9,840)**	(22,837)
LOSS PER SHARE – Basic	12	**(0.6) cents**	(1.5) cents

Consolidated Balance Sheet

31 December 2003

	Note	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**304**	1,065
Goodwill	14	**–**	2,096
Interests in associates	16	**4,335**	5,156
Long term investments	17	**–**	3,616
		4,639	11,933
CURRENT ASSETS			
Trade and other receivables	18	**45**	864
Loan receivable	19	**1,212**	–
Prepayments and deposits		**139**	502
Prepaid tax		**563**	563
Time deposits		**–**	5,017
Cash and bank balances		**9,618**	3,301
		11,577	10,247
CURRENT LIABILITIES			
Trade and other payables	20	**840**	938
Amount due to an associate	16	**2**	–
Deferred income		**–**	284
Deposits received		**–**	675
Obligations under finance lease – due within one year	21	**11**	–
Warranty provision	22	**–**	65
		853	1,962
NET CURRENT ASSETS		**10,724**	8,285
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,363**	20,218
NON-CURRENT LIABILITIES			
Obligations under finance lease – due after one year	21	**50**	–
MINORITY INTERESTS		**–**	13
NET ASSETS		**15,313**	20,205
CAPITAL AND RESERVES			
Issued share capital	23	**21,600**	14,400
Reserves	24	**(6,287)**	5,805
SHAREHOLDERS' FUNDS		**15,313**	20,205

Kwong Wai Man, Karina
Director

Ng Ming Wah
Director

31 December 2003

	Note	2003 HK$'000	2002 HK$'000
TOTAL EQUITY			
At 1 January		**20,205**	13,961
Rights issue of shares, net of expenses		**4,948**	29,081
Net loss for the year	*24*	**(9,840)**	(22,837)
At 31 December		**15,313**	20,205

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Note	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		**(9,961)**	(23,456)
Adjustments for:			
Depreciation		**217**	791
Interest received		**(48)**	(140)
Impairment loss recognised in respect of long term investments		**–**	433
Impairment loss recognised in respect of fixed assets		**–**	159
Impairment loss recognised in respect of goodwill of a subsidiary		**1,797**	11,055
Impairment loss recognised in respect of goodwill of an associate		**1,000**	–
Amortisation of goodwill		**983**	1,837
Bad debts written off		**33**	92
Provision for amounts due from associates		**302**	–
Loss/(Gain) on disposals of fixed assets		**349**	(16)
Gain on disposal of partial interest in a subsidiary		**–**	(1,146)
Gain on disposal of a jointly controlled entity		**–**	(220)
Gain on disposal of subsidiaries		**(510)**	–
Gain on disposal of partial interest in an associate		**(313)**	–
Loss on disposal of a long term investment		**1,972**	–
Share of results of associates		**480**	2
Interest element on finance lease		**–**	7
Operating loss before working capital changes		**(3,699)**	(10,602)
Decrease/(Increase) in trade and other receivables		**125**	(212)
Increase/(Decrease) in trade and other payables		**159**	(4)
Decrease in prepayments and deposits		**149**	189
Increase/(Decrease) in deferred income		**333**	(105)
(Decrease)/Increase in deposits received		**(276)**	371
Decrease in warranty provision		**–**	(15)
Cash used in operations		**(3,209)**	(10,378)
Interest element on finance lease		**–**	(7)
Profits tax paid		**–**	–
Net cash used in operating activities		**(3,209)**	(10,385)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of interest in a subsidiary		**–**	(7,700)
Acquisition of an associate		**–**	(5,500)
Acquisition of a long term investment		**–**	(4,049)
Increase in loan receivable		**(1,212)**	–
Repayment from associates		**467**	–
Proceeds from disposal of a jointly controlled entity		**–**	220
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	*25*	**(1,485)**	–
Proceeds from disposal of partial interest in an associate		**152**	–
Proceeds from disposal of a long term investment		**1,644**	–
Purchases of fixed assets		**(218)**	(271)
Proceeds from disposals of fixed assets		**15**	338
Interest received		**48**	140
Net cash used in investing activities		**(589)**	(16,822)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Rights Issue		**5,400**	30,720
Expenses paid in connection with shares issued		**(452)**	(1,639)
Proceeds from disposal of partial interest in a subsidiary		**–**	661
Capital contributed by minority shareholders		**160**	638
Payment of finance lease liabilities		**(10)**	(295)
Net cash from financing activities		**5,098**	30,085
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,300**	2,878
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**8,318**	5,440
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**9,618**	8,318
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**9,618**	3,301
Time deposits with original maturity of less than three months		**–**	5,017
		9,618	8,318

	Note	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**81**	140
Interests in subsidiaries	15	**5,630**	13,556
Amounts due from associates	16	**1**	–
		5,712	13,696
CURRENT ASSETS			
Prepayments		**77**	78
Bank balances		**9,456**	533
		9,533	611
CURRENT LIABILITIES			
Amounts due to subsidiaries	15	**2,576**	2,358
Amount due to an associate	16	**1,256**	–
Other payables	20	**493**	250
		4,325	2,608
NET CURRENT ASSETS/(LIABILITIES)		**5,208**	(1,997)
NET ASSETS		**10,920**	11,699
CAPITAL AND RESERVES			
Issued share capital	23	**21,600**	14,400
Reserves	24	**(10,680)**	(2,701)
SHAREHOLDERS' FUNDS		**10,920**	11,699

Wong Wai Man, Karina
Director

Ng Ming Wah
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.

During the year, the Group was involved in the provision of manufacturing decision support system and computerisation consultation services and 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.

Pursuant to a share subscription agreement dated 1 March 2003, as detailed in note 25 whereby the Group had effectively disposed of its 51% equity interest in Sun-iOMS Technology Holdings Limited and granted Sun-iOMS Technology Holdings Limited and its subsidiaries a non-exclusive licence to use certain software for a term of twenty years. Subsequent to the date of the abovementioned agreement and up to the balance sheet date, the Group had not conducted any sale of software licence and related services and provision of computer consultancy services apart from those transacted through Sun-iOMS Technology Holdings Limited and its subsidiaries.

On the other hand, pursuant to a share sales agreement and a shareholders and share subscription agreement both dated 12 November 2002 with several independent investors, the Group's equity interest in Grand Teton Limited, the then subsidiary engaged in marketing, sales, implementation and support of industrial and financial system software and solutions, was gradually reduced from 56% at 1 January 2003 to 39.5% at the balance sheet date.

Consequently, Sun-iOMS Technology Holdings Limited and Grand Teton Limited were accounted for as associates and their operating results were accounted for under the equity method.

2. ADOPTION OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

In prior years, partial provision was made for deferred tax using income statement liability method on all significant timing differences 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.

In the current year, the Group has changed its accounting policy for deferred tax, as set out in note 3, following its adoption of SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has not had any material effect on the results for the current year or prior accounting periods.

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.

Inherent in the Group's businesses are various risks and uncertainties, including uncertain profitability, history of losses and risks associated with the technology business. In November 2003, the Company raised approximately HK$4,948,000 from a Rights Issue (as detailed in note 23) in order to improve its financial gearing and obtain additional cash resources to support the continuing development of the Group's existing business activities and new business growth. In view of the above, the Company's directors are confident that the Group can continue as a going concern. Accordingly, the Group's financial statements do not include any adjustments that would result should the Group not be able to continue as a going concern.

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

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.

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

A subsidiary is an enterprise 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.

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

Associates

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 interests in associates are 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.

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;

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

Revenue recognition *(Continued)*

(d) maintenance fee income, on a time proportion basis over the maintenance period;

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

(f) dividend income, when the shareholders' right to receive payment has been established.

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%

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.

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

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 inception finance leases are capitalised at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms or the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases but are depreciated over their estimated useful lives.

Impairment of assets

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 Company or 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.

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

Provisions and contingent liabilities *(Continued)*

The provision for warranty is recognised based on the management's best estimate of the Group's liability under 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

Income tax comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carry amounts for financial reporting purposes.

Deferred tax are recognised for all taxable temporary differences associated with interests in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxation profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 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.

(c) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

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

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.

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.

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consists of cash at bank and other financial institutions and cash 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.

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:

	2003	2002
	HK$'000	*HK$'000*
Sales of goods	**864**	2,459
Rendering of services	**156**	985
Turnover	**1,020**	3,444

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.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

An analysis of the Group's income and results for the years ended 31 December 2003 and 2002, and certain assets and liabilities information regarding business segments at 31 December 2003 and 2002 are as follows:

	Sales of software licence and related services		Provision of maintenance services		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE						
External revenue	**909**	2,667	**111**	777	**1,020**	3,444
RESULTS						
Segment results	**(3,857)**	(9,042)	**(415)**	(2,506)	**(4,272)**	(11,548)
Unallocated corporate revenue					**10**	12
Unallocated corporate expenses					**(4,118)**	(13,417)
Operating loss excluding interest income/expense					**(8,380)**	(24,953)
Interest income					**48**	140
Interest expense					**–**	(7)
Gain on disposal of subsidiaries					**510**	–
Gain on disposal of partial interest in a subsidiary					**–**	1,146
Gain on disposal of partial interest in an associate					**313**	–
Gain on disposal of a jointly controlled entity					**–**	220
Loss on disposal of a long term investment					**(1,972)**	–
Share of results of associates					**(480)**	(2)
Loss before taxation					**(9,961)**	(23,456)
Taxation					**–**	–
Loss after taxation					**(9,961)**	(23,456)
Minority interests					**121**	619
Net loss for the year					**(9,840)**	(22,837)
ASSETS						
Segment assets	**349**	1,944	**–**	3	**349**	1,947
Interests in associates					**4,335**	5,156
Unallocated corporate assets					**11,532**	15,077
Consolidated total assets					**16,216**	22,180
LIABILITIES						
Segment liabilities	**–**	853	**–**	284	**–**	1,137
Unallocated corporate liabilities					**903**	825
Consolidated total liabilities					**903**	1,962

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	Sales of software licence and related services		Provision of maintenance services		Unallocated		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
OTHER INFORMATION								
Capital expenditure	**289**	271	**–**	–	**–**	–	**289**	271
Depreciation	**217**	791	**–**	–	**–**	–	**217**	791
Amortisation	**–**	–	**–**	–	**983**	1,837	**983**	1,837
Impairment loss in respect of								
– fixed assets	**–**	159	**–**	–	**–**	–	**–**	159
– long term investments	**–**	–	**–**	–	**–**	433	**–**	433
– goodwill of a subsidiary	**–**	–	**–**	–	**1,797**	11,055	**1,797**	11,055
– goodwill of an associate	**–**	–	**–**	–	**1,000**	–	**1,000**	–
Other non-cash expenses	**371**	8	**–**	–	**313**	92	**684**	100

(b) Geographical segments

Over 90% of the Group's turnover, results, assets and capital expenditures are derived from operations carried out in Hong Kong. Accordingly, further geographical segment information is not presented in the financial statements.

6. LOSS FROM OPERATIONS

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

	2003	2002
	HK$'000	*HK$'000*
Depreciation:		
Owned fixed assets	**217**	791
Leased fixed assets	**–**	–
Amortisation of goodwill (included in other operating expenses):		
Subsidiary	**299**	1,495
Associate	**684**	342
Total depreciation and amortisation	**1,200**	2,628
Net loss/(gain) on disposal of fixed assets	**349**	(16)
Impairment of assets (included in other operating expenses):		
Fixed assets	**–**	159
Long term investments	**–**	433
Total impairment loss of assets	**–**	592
Auditors' remuneration	**153**	213
Operating lease rentals in respect of land and buildings	**259**	581
Bad debts written off	**33**	92
Provision for amounts due from associates	**302**	–
Staff costs, including directors' emoluments *(note 8)*	**2,483**	8,650
Research and development costs (approximately HK$29,000 (2002: HK$419,000) included in staff costs)	**29**	450
Interest income	**(48)**	(140)

Included in staff costs above are contributions to mandatory provident fund of approximately HK$88,000 (2002: HK$210,000).

7. FINANCE COSTS

	2003	2002
	HK$'000	*HK$'000*
Interest on finance lease	**–**	7

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

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

	2003	2002
	HK$'000	*HK$'000*
Fees	**–**	–
Other emoluments for executive directors:		
Basic salaries, other allowances and benefits in kind	**603**	1,933
Discretionary and performances bonuses	**40**	–
Contributions to provident fund	**22**	25
Compensation for loss of office, paid by the Company	**–**	210
	665	2,168
Other emoluments for non-executive and independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	**234**	309
Contributions to provident fund	**2**	–
	236	309
	901	2,477

For the year ended 31 December 2003, the two executive directors received individual emoluments of approximately HK$457,000 (2002: HK$371,000) and HK$32,000 (2002: HK$Nil) respectively. Two executive directors resigned during the year received individual emoluments of approximately HK$Nil (2002: HK$841,000) and HK$176,000 (2002: HK$252,000) respectively for the year ended 31 December 2003.

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

One executive director resigned during the year ended 31 December 2002 received emoluments of approximately HK$704,000 for the year ended 31 December 2002.

For the year ended 31 December 2003, one non-executive director received emoluments of approximately HK$25,000 (2002: HK$Nil). The non-executive director resigned during the year ended 31 December 2002 received emoluments of approximately HK$69,000 for the year ended 31 December 2002. For the year ended 31 December 2003, the two independent non-executive directors received individual emoluments of approximately HK$120,000 (2002: HK$120,000) and HK$Nil (2002: HK$Nil) respectively. The independent non-executive director resigned during the year received emoluments of approximately HK$91,000 (2002: HK$120,000).

At 31 December 2003 and 2002, 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 (2002: three directors) during the year, whose emoluments are set out above. Details of the emoluments of the remaining two (2002: two) highest paid, non-director employees during the year are as follows:

	2003 ***HK$'000***	2002 *HK$'000*
Basic salaries, other allowances and benefits in kind	**363**	744
Discretionary and performance bonuses	**40**	–
Contributions to provident fund	**17**	23
	420	767

The remaining two (2002: two) highest paid, non-director employees whose emoluments fell within the band of HK$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

(a) No provision for Hong Kong profits tax has been made as the Group has sufficient tax losses brought forward to set off against current year's assessable profits arising from Hong Kong (2002: HK$Nil).

Provision for overseas profits tax has not been made as the overseas subsidiaries or associates did not generate any assessable profits during the year (2002: HK$Nil).

(b) Reconciliation between tax expenses and the Group's loss before taxation at applicable tax rates:

	2003	2002
	HK$'000	*HK$'000*
Loss before taxation	**(9,961)**	(23,456)
Tax at the applicable rate of 17.5% (2002: 16%)	**(1,743)**	(3,753)
Effect of different tax rates in other jurisdictions	**(58)**	(429)
Tax effect of non-taxable income	**(330)**	(7,164)
Tax effect on non-deductible expenses	**2,028**	9,936
Tax losses not recognised	**134**	1,410
Utilisation of tax losses previously not recognised	**(31)**	–
Taxation	**–**	–

Hong Kong profits tax rate was changed from 16% to 17.5% for the year of assessment 2003/2004.

(c) At the balance sheet date, the following temporary differences have not been recognised:

	Group		**Company**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax losses	**31,132**	33,566	**17**	17
Deductible temporary differences	**784**	293	**–**	–
	31,916	33,859	**17**	17

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group and the Company can utilise the benefits. The Group's tax losses amounting to HK$3,027,000 (2002: HK$2,745,000) expire 5 years from the year the tax losses were incurred. The remaining tax losses do not expire under the respective countries' tax legislation.

10. NET LOSS FOR THE YEAR

For the year ended 31 December 2003, net loss of approximately HK$5,727,000 (2002: HK$31,343,000) 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 2003 (2002: HK$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$9,840,000 (2002: net loss of HK$22,837,000) and the weighted average of approximately 1,653,220,000 ordinary shares (2002: 1,570,909,000 ordinary shares) in issue during the year after adjusting the effects of the Rights Issue and bonus issue (note 23) on 12 November 2003. The basic loss per share for 2002 had been adjusted accordingly.

Diluted loss per share for the years ended 31 December 2003 and 2002 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	**Furniture and fixtures**	**Office and computer equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 January 2003	188	289	1,991	2,468
Additions	99	25	165	289
Disposals	(188)	(156)	(588)	(932)
Disposal of subsidiaries	–	(3)	(972)	(975)
At 31 December 2003	99	155	596	850
Accumulated depreciation and impairment losses:				
At 1 January 2003	126	178	1,099	1,403
Charge for the year	31	21	165	217
Disposals	(126)	(75)	(367)	(568)
Eliminated on disposal of subsidiaries	–	(1)	(505)	(506)
At 31 December 2003	31	123	392	546
Net book value:				
At 31 December 2003	68	32	204	304
At 31 December 2002	62	111	892	1,065

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2003 was approximately HK$71,000 (2002: HK$Nil).

13. FIXED ASSETS *(Continued)*

	Company
	Office and computer equipment
	HK$'000
Cost:	
At 1 January 2003	200
Additions	1
At 31 December 2003	201
Accumulated depreciation:	
At 1 January 2003	60
Charge for the year	60
At 31 December 2003	120
Net book value:	
At 31 December 2003	81
At 31 December 2002	140

14. GOODWILL

	Group
	HK$'000
Cost:	
At 1 January 2003 and at 31 December 2003	14,713
Accumulated amortisation and impairment losses:	
At 1 January 2003	12,617
Amortisation for the year	299
Impairment loss for the year	1,797
At 31 December 2003	14,713
Net book value:	
At 31 December 2003	–
At 31 December 2002	2,096

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) With regard to the current market situation in the computer software industry, the directors reviewed the carrying value of goodwill arising from the acquisition of a subsidiary, Grandmass iOMS Limited, which was incorporated in the British Virgin Islands, with its subsidiary principally engaged in the provision of consultancy services and technical development in computer software packages, and based on their assessment which was by reference to the value in use of the operations, a full provision for impairment loss of approximately HK$1,797,000 was recognised in the year ended 31 December 2003.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**12,168**	12,168
Less: Provision for impairment loss	**(10,130)**	(10,004)
	2,038	2,164
Amounts due from subsidiaries	**51,519**	56,978
Less: Provision for amounts due from subsidiaries	**(47,927)**	(45,586)
	3,592	11,392
	5,630	13,556
Amounts due to subsidiaries	**2,576**	2,358

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

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name of subsidiary	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 *(note (b))*
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 Limited	British Virgin Islands	US$50,000	100%	100%	Investment holding
Grandmass iOMS (SZ) Co. Limited	The People's Republic of China	HK$1,000,000	100%	100%	Provision of consultancy services and technical development in computer software packages *(note (c))*
Grandmass Solutions Limited	Hong Kong	HK$2	100%	100%	Dormant

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name of subsidiary	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 Limited	Hong Kong	HK$80,000	100%	100%	Provision of computer consultancy services, software development and trading of computer software and related services *(note (d))*
Sun-iOMS Maintenance Limited	Hong Kong	HK$2	100%	100%	Dormant

* *A translation of the official Chinese name.*

(a) 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.

(b) On 27 December 2003, Grandmass Enterprise System (Shanghai) Limited's business licence was revoked by the State Administration of Industry and Commerce as it did not pass the 2002 annual examination.

(c) Grandmass iOMS (SZ) Co. Limited ceased its operation on 1 April 2003 and remained dormant since then.

(d) Sun-iOMS Limited ceased its operation on 1 March 2003 and remained dormant since then.

16. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net (liabilities)/assets	**(202)**	20	–	–
Goodwill on acquisition of an associate less amortisation and impairment losses	**3,452**	5,136	–	–
	3,250	5,156	–	–
Amounts due from associates	**364**	–	**1,474**	–
Loan to an associate	**1,023**	–	**–**	–
Less: Provision for amounts due from associates	**(302)**	–	**(1,473)**	–
	4,335	5,156	**1**	–
Amount due to an associate	**2**	–	**1,256**	–

Particulars of the associates are as follows:

Name of associate	Place of incorporation/ registration	Business structure	Particulars of issued shares held	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities
Grand Teton Limited	British Virgin Islands	Corporate	Ordinary shares of HK$1 each	39.5%	25%	Marketing, sales implementation and support of industrial and financial system software and solutions

16. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the associates are as follows: *(Continued)*

Name of associate	Place of incorporation/ registration	Business structure	Particulars of issued shares held	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities
Signking Science Limited *	British Virgin Islands	Corporate	Ordinary shares of US$1 each	33%	33.3%	Investment in software development and related services
Sun-iOMS Technology Holdings Limited	British Virgin Islands	Corporate	Ordinary shares of HK$5,000 each	49%	33.3%	Provision of computer consultancy services, software development and trading of computer software and related services

The associates are private companies and principally operate in Hong Kong.

Pursuant to a shareholders and share subscription agreement dated 12 November 2002 which was completed in January 2004, the Group's equity interest in Grand Teton Limited was further diluted from 39.5% to 36% as a result of additional capital contribution made by the other shareholders of Grand Teton Limited.

* *Not audited by RSM Nelson Wheeler*

(a) The amounts due from/to associates are unsecured, interest free and have no fixed terms of repayment.

(b) Pursuant to a loan restructuring agreement dated 12 November 2002, the Group made a loan of HK$1,000,000 to Grand Teton Limited to develop its subsidiary, IFS HK Limited. The loan is guaranteed by an independent third party and bears interest at prime rate less 1% per annum due on 31 December 2004. At 31 December 2003, the balance outstanding represents the outstanding sum of HK$1,000,000 and interest receivable of approximately HK$23,000.

16. INTERESTS IN ASSOCIATES *(Continued)*

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

	Group
	HK$'000
Cost:	
At 1 January 2003 and at 31 December 2003	5,478
Accumulated amortisation and impairment losses:	
At 1 January 2003	342
Amortisation for the year	684
Impairment loss for the year	1,000
At 31 December 2003	2,026
Net book value:	
At 31 December 2003	3,452
At 31 December 2002	5,136

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

In view of the current economic condition and keen competition in the computer software industry, the directors reviewed the carrying value of goodwill on acquisition of an associate, Signking Science Limited, which was incorporated in the British Virgin Islands, with its associate principally engaged in software development and related services, and based on their assessment which was by reference to the value in use of the operations, determined using a discount rate of 6%, an impairment loss of approximately HK$1,000,000 has been identified and recognised in the year ended 31 December 2003.

16. INTERESTS IN ASSOCIATES *(Continued)*

(d) Summarised financial information of the Group's significant associates are as follows:

(i) Grand Teton Limited

Consolidated balance sheet information
at 31 December 2003

	HK$'000
Non-current assets	38
Current assets	1,909
Current liabilities	(2,600)
Minority interests	155
Net liabilities	(498)

Consolidated income statement information
for the year ended 31 December 2003

	HK$'000
Turnover	1,221
Loss before taxation	(1,387)
Taxation	–
Loss after taxation	(1,387)
Minority interests	103
Net loss for the year	(1,284)

16. INTERESTS IN ASSOCIATES *(Continued)*

(d) Summarised financial information of the Group's significant associates are as follows: *(Continued)*

(ii) Signking Science Limited

Unaudited balance sheet information

	2003	2002
	HK$'000	*HK$'000*
Non-current assets	**1,885**	1,885
Current liabilities	**(1,830)**	(1,825)
Net assets	**55**	60

Unaudited income statement information

	2003	2002
Turnover	**–**	–
Net loss for the year	**(5)**	(6)

17. LONG TERM INVESTMENTS

	Group 2003 HK$'000	Group 2002 HK$'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
Less: Provision for impairment loss	–	(1,500)
	–	–
	–	3,616
Market value of listed equity securities	–	3,616

(a) On 4 August 2003, the Group disposed of all its listed equity securities for a consideration, net of relevant expenses, of HK$1,644,000 and realised a loss of approximately HK$1,972,000.

(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. On 27 May 2003, the investee company was dissolved.

18. TRADE AND OTHER RECEIVABLES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Trade receivables	**45**	741
Other receivables	**–**	123
	45	864

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
0 – 60 days	**–**	175
61– 90 days	**–**	235
91 – 180 days	**–**	207
>180 days	**45**	124
	45	741

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

19. LOAN RECEIVABLE

On 26 October 2003, the Group entered into a loan agreement with a borrower, China Autocard Holdings Limited. The loan of HK$1,700,000 is guaranteed by a director of the borrower and bears interest at prime rate less 1% per annum. The amount is due for payment on 26 April 2004. Part of the loan amounted to HK$500,000 was repaid during the year. At 31 December 2003, the balance outstanding represents the unsettled principal sum of HK$1,200,000 and interest receivable of approximately HK$12,000.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**–**	119	**–**	–
Other payables	**840**	819	**493**	250
	840	938	**493**	250

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

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 – 60 days	**–**	19	**–**	–
61– 90 days	**–**	83	**–**	–
91 – 180 days	**–**	12	**–**	–
>180 days	**–**	5	**–**	–
	–	119	**–**	–

Included in other payables of the Group and the Company is an amount of HK$40,000 (2002: HK$Nil) representing accrued bonus due to the Company's director, Ms. Kwong Wai Man, Karina.

21. OBLIGATIONS UNDER FINANCE LEASE

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance lease:				
Within one year	**15**	–	**11**	–
In the second year	**15**	–	**12**	–
In the third to fifth years, inclusive	**45**	–	**38**	–
	75	–	**61**	–
Less: Future finance charges	**(14)**	–	**N/A**	N/A
Present value of lease obligations	**61**	–	**61**	–
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(11)**	–
Amounts due for settlement after 12 months			**50**	–

It is the Group's policy to lease certain of its fixed assets under finance leases. For the year ended 31 December 2003, the interest rate on finance lease was approximately 4.5% per annum and the terms entered into was five years. Interest rate is fixed at the contract rate. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

22. WARRANTY PROVISION

	Group	
	2003	2002
	HK$'000	*HK$'000*
At 1 January	**65**	80
Additional provision	**–**	65
Amounts utilised	**–**	(80)
Eliminated on disposal of subsidiaries	**(65)**	–
At 31 December	**–**	65

23. SHARE CAPITAL

Shares

	Number of shares	**Share capital**
	'000	*HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2002	2,000,000	20,000
Increase of ordinary shares	8,000,000	80,000
At 31 December 2002 and at 31 December 2003	10,000,000	100,000
Issued and fully paid:		
At 1 January 2002	480,000	4,800
Rights issue of shares	960,000	9,600
At 31 December 2002 and at 1 January 2003	1,440,000	14,400
Rights issue of shares	360,000	3,600
Bonus issue of shares	360,000	3,600
At 31 December 2003	2,160,000	21,600

23. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Pursuant to resolution passed on the special general meeting held on 20 October 2003, the Company issued 360,000,000 ordinary shares of HK$0.01 each by way of rights issue ("Rights Issue") at an issue price of HK$0.015 per rights share in the proportion of one rights share for every four shares then held with bonus shares issued with rights shares on the basis of one bonus share for every one rights share. 360,000,000 bonus shares were issued and were credited as fully paid by debiting the share premium account of 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 of the Company 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 quotation 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 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.

23. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

At 31 December 2003, 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	180,000	180,000	–	HK$0.199	15 August 2001 to 14 August 2005
4 December 2000	2,133,335	2,133,335	–	HK$0.141	4 March 2001 to 3 March 2005
	2,313,335	2,313,335	–		

24. RESERVES

	Group			
	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	5,630	36,527	(32,996)	9,161
Premium arising from Rights Issue, net of expenses	19,481	–	–	19,481
Net loss for the year	–	–	(22,837)	(22,837)
At 31 December 2002 and at 1 January 2003	25,111	36,527	(55,833)	5,805
Premium arising from Rights Issue, net of expenses	1,348	–	–	1,348
Bonus issue of shares	(3,600)	–	–	(3,600)
Net loss for the year	–	–	(9,840)	(9,840)
At 31 December 2003	22,859	36,527	(65,673)	(6,287)
Company and subsidiaries	22,859	36,527	(64,037)	(4,651)
Associates	–	–	(1,636)	(1,636)
At 31 December 2003	22,859	36,527	(65,673)	(6,287)
Company and subsidiaries	25,111	36,527	(55,831)	5,807
Associate	–	–	(2)	(2)
At 31 December 2002	25,111	36,527	(55,833)	5,805

The premium arose from the Rights Issue at an issue price of HK$0.015 per rights share on 12 November 2003, net of Rights Issue expenses of approximately HK$452,000.

24. RESERVES *(Continued)*

	Company			
	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	5,630	38,118	(34,587)	9,161
Premium arising from Rights Issue, net of expenses	19,481	–	–	19,481
Net loss for the year	–	–	(31,343)	(31,343)
At 31 December 2002 and at 1 January 2003	25,111	38,118	(65,930)	(2,701)
Premium arising from Rights Issue, net of expenses	1,348	–	–	1,348
Bonus issue of shares	(3,600)	–	–	(3,600)
Net loss for the year	–	–	(5,727)	(5,727)
At 31 December 2003	22,859	38,118	(71,657)	(10,680)

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

The premium arose from the Rights Issue at an issue price of HK$0.015 per rights share on 12 November 2003, net of Rights Issue expenses of approximately HK$452,000.

25. DISPOSAL OF SUBSIDIARIES

On 1 March 2003, the Group entered into a share subscription agreement with an independent investor to allot and issue 51 new shares at par value of HK$5,000 each totalled HK$255,000 representing 51% of the enlarged issued capital of Sun-iOMS Technology Holdings Limited, the then wholly-owned subsidiary. Consequently, the Group had effectively disposed of its 51% equity interest in Sun-iOMS Technology Holdings Limited under the abovementioned share subscription arrangement.

On the other hand, pursuant to a share sales agreement and a shareholders and share subscription agreement both dated 12 November 2002, the Group's equity interest in Grand Teton Limited was gradually reduced from 56% to 39.5%. The directors are in the opinion that the disposal of subsidiaries did not constitute discontinuing operations. Summary of the effects of the disposal of subsidiaries are as follows:

	HK$'000
Net liabilities disposed of:	
Fixed assets	**469**
Trade and other receivables	**661**
Prepayments and deposits	**214**
Cash and bank balances	**1,561**
Trade and other payables	**(257)**
Deferred income	**(617)**
Deposit received	**(399)**
Warranty provision	**(65)**
Amounts due to group companies	**(1,852)**
Minority interests	**(52)**
	(337)
Gain on disposal of subsidiaries	**510**
Interests in associates	**(97)**
	76
Satisfied by:	
Cash consideration	**76**
Net cash outflow arising on disposal:	
Cash consideration	**76**
Cash and bank balances disposed of	**(1,561)**
	(1,485)

25. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the period from 1 January 2003 to the respective dates of disposal, the above subsidiaries were engaged in sale of software licence and related services and provision of computer consultancy services, contributed approximately HK$1,020,000 (2002: HK$3,337,000) to the Group's turnover and approximately HK$857,000 (2002: HK$4,646,000) to the Group's loss before taxation.

26. NON-CASH TRANSACTIONS

During the year ended 31 December 2003, the Group acquired fixed assets at cost of approximately HK$71,000 by means of finance lease.

27. COMMITMENTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Total future minimum lease payments under non-cancellable operating leases for office premises which fall due as follows:		
Within one year	**119**	469
In the second to fifth years, inclusive	**45**	322
	164	791
Capital commitment contracted for in respect of:		
Capital contribution to a subsidiary established in the People's Republic of China	**–**	2,100
	164	2,891

As referred to in note 15, Grandmass Enterprise System (Shanghai) Limited's business licence was revoked by the State Administration of Industry and Commerce on 27 December 2003 as it did not pass the 2002 annual examination. In the opinion of the directors, the Group should not have any capital commitment in respect of capital contribution to this subsidiary.

The Company had no commitments at the balance sheet date (2002: HK$Nil).

28. 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*	**2003** ***HK$'000***	2002 *HK$'000*
First Asia Finance Group Limited	Disposal of a fixed asset	*(i)*	–	280
Thiz.Com Inc.	Disposal of a jointly controlled entity	*(ii)*	–	220
Lau Lin & Co. (formerly known as K. K. Lau & Co.)	Legal fee	*(iii)*	**402**	634

Note:

(i) In prior year, 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) In prior year, 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 a shareholder of Thiz Technology Group Limited, the ultimate holding company of Thiz.Com Inc.

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

(b) At 31 December 2003, 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.

29. 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. During the year ended 31 December 2003, all the employment contracts of the employees in the People's Republic of China were terminated.

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

The total cost charged to the income statement of approximately HK$88,000 (2002: HK$210,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

30. 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, 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.

30. CONTINGENT LIABILITIES *(Continued)*

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

Save as disclosed in note 30(b) above, the Company had no contingent liabilities at the balance sheet date.

31. EVENTS AFTER THE BALANCE SHEET DATE

On 23 March 2004, the Group has entered into a sale and purchase agreement ("the Agreement") to acquire from an independent third party the entire issued share capital of a company which will prior to completion of the Agreement become a holding company of a telephone set manufacturing enterprise in the People's Republic of China. The consideration pursuant to the Agreement will be settled partly in cash and partly by issue of shares of the Company. The Company will announce full details of the proposed acquisition pursuant to the Agreement by way of a press announcement in due course. Trading in the shares of the Company on the Growth Enterprise Market of the Stock Exchange has been suspended with effect from 9:30 a.m. on 24 March 2004, pending release of the announcement relating to the proposed acquisition pursuant to the Agreement.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2004.