# HI SUN GROUP LIMITED

# 高陽集團有限公司

*(incorporated in Bermuda with limited liability)*

# 2002

## ANNUAL REPORT

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors:–**
CHEUNG Yuk Fung *(Chairman)*
KUI Man Chun
LO Siu Yu *(appointed on 28 February 2003)*
XU Wensheng *(appointed on 28 February 2003)*
LI Wenjin
CHAN Yiu Kwong
SU Terry Lumin
XU Chang Jun
WANG Xiao Qing

**Independent Non-Executive Directors:–**
HILES Colin Clive *(resigned on 28 February 2003)*
LAU Wai Kit *(appointed on 28 February 2003)*
XU Sitao

## COMPANY SECRETARY

Chan Yiu Kwong

## BERMUDA RESIDENT REPRESENTATIVE

John Charles Ross Collis

## AUDITORS

PricewaterhouseCoopers

## LEGAL ADVISERS

**As to Hong Kong Law**
Woo, Kwan, Lee & Lo

**As to Bermuda Law**
Conyers Dill & Pearman

## PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai
Banking Corporation Limited

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2316, 23rd Floor
One International Finance Centre
No.1 Harbour View Street
Central
Hong Kong

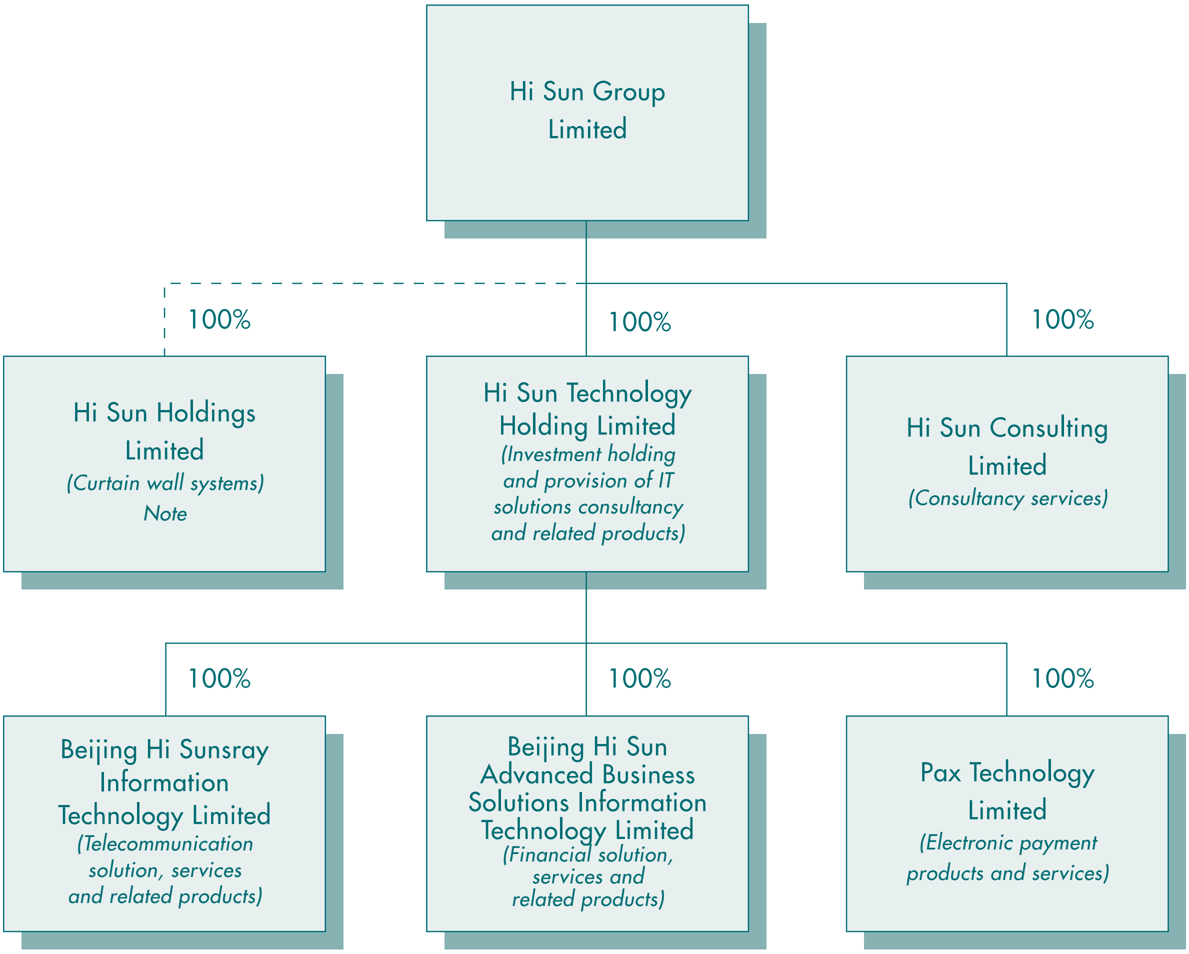
## SHARE REGISTRAR IN BERMUDA

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

The following is a simplified corporate chart of the Group's principal operating subsidiaries.




*Note:* In November 2002, the Group disposed of the entire issued capital of Hi Sun Holdings Limited and its subsidiaries.

**NOTICE IS HEREBY GIVEN** that an annual general meeting (the "Annual General Meeting") of Hi Sun Group Limited (the "Company") will be held at Suite 2316, 23rd Floor, One International Finance Centre, No. 1 Harbour View Street, Central, Hong Kong on 26 May 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors of the Company (the "Directors") and the auditors for the year ended 31 December 2002;

2. To re-elect retiring Directors and to authorize the Board of Directors to fix the remuneration of the Directors;

3. To re-appoint auditors and to authorize the Board of Directors to fix their remuneration;

4. To consider as Special Business and, if thought fit, passing the following resolutions, with or without modifications, as Ordinary Resolutions:–

(A) "**THAT**:–

(a) subject to paragraph (c) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK$0.01 each in the share capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares of HK$0.01 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the

Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:–

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, or any applicable law of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

"Rights Issue" means an offer of shares of the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to the holders of shares of the Company, or any class of shares of the Company, whose name appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company). "

(B) "**THAT**:–

(a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase shares of HK$0.01 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong ("Securities and Futures Commission") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company authorised to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:–

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, or any applicable law of the Bermuda to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution."

(C) "**THAT** subject to the passing of Resolutions No.4(A) and No.4(B) set out in this notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares pursuant to Resolution No.4(A) set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No.4(B) set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the said resolution."

(D) "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of, and permission to deal in, the shares of HK$0.01 each ("Shares") in the share capital of the Company to be issued pursuant to the exercise of options which may be granted under the New Scheme Limit (as defined below), the refreshment of the scheme limit of the Company's share option scheme adopted on 29 November 2001 of the Company, up to 10 per cent of the number of Shares in issue as at the date of passing this resolution ("New Scheme Limit") be and is hereby approved and any director of the Company be and is hereby authorized to do such act and execute such document to effect the New Scheme Limit."

By Order of the Board
**Chan Yiu Kwong**
*Executive Director*
*and Company Secretary*

Hong Kong, 28 April 2003

*Notes:–*

(1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

(2) A form of proxy for use at the meeting is enclosed.

(3) Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the meeting if the member so desires.

(4) To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority must be lodged at the principal place of the business of the Company at Suite 2316, 23rd Floor, One International Finance Centre, No.1 Harbour View Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting.

(5) In order to determine the shareholders' entitlement to attend the forthcoming annual general meeting of the Company, the registers of members of the Company will be closed from Friday, 23 May 2003 to Monday, 26 May 2003 (both days inclusive) during which no transfer of shares will be effected. For the purpose of determining the identity of shareholders who are entitled to attend and vote at the meeting, any person who has acquired shares but who has not lodged the share transfer with the Company's share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, No.56 Gloucester Road, Wanchai, Hong Kong should do so before 4:30 p.m. on 22 May 2003.

The year 2002 was a year of milestone for the Group. We have made excellent progress since we became a consulting-oriented IT solutions provider in March 2002. During the year, we brought changes to the Group that will ensure continued growth in the coming years and create a strong foundation for implementing the Group's business plan.

The management has transformed the Group from a construction company in a depressed property industry to an information technology ("IT") solution and consultancy service provider in a prosperous financial industry. The Group is now equipped with a new business model and a pool of talents to meet the challenges in the era of knowledge economy. The Group has built up a team of over 800, over 80% of them possess graduate degree or above with indepth understanding of China's IT and consultancy industry. Years of effort of the management team have brought about a new business model that is innovative and revolutionary. The success of the model is illustrated by the breakthrough in winning of IT consulting contracts. The competitors were those multinational key players in the consultancy industry. During the year, we have completed the contract for Shenzhen Development Bank to upgrade the bank's core banking system. In addition, we have secured agreements respectively by Industrial and Commercial Bank of China (Asia) Ltd. and Bank of Communications of China.

The positive impact of the management efforts to the Group is obvious, which is shown by the results and financial position. Turnover for the year ended 31 December 2002 was HK$370 million, representing a more than 9-fold increase from the same period last year. It is understood that during the developing and expanding stage, large overhead incurred is inevitable to building up new teams and establish market position. As such, the Group recorded a loss of HK$41 million, which included a gain of HK$7 million arising from the disposal of the construction business. I am confident there will be improvement in the performance in the coming future. The capital base was enlarged to 333 million shares as at the year end from 101 million shares as at last year end. Net tangible assets as at 31 December 2002 is HK$64 million which is tripled that of last year. By strengthening the market position and financial base, the Group has established a secured base for future development.

Besides expanding market position and strengthening financial position, the management has endeavoured to rationalize the resources by restructuring and refocusing. They have completed the disposal of the construction group and focused on IT solution and consultancy businesses. The management has also undertaken a review and intended to realign departments and resources to further enhance the operation efficiency. The rate of progress in terms of technology and capabilities is explosive. There is hardly an organization which remains static to survive and prosper. Management team is keenly aware of the requisite variety to meet the challenges brought by the changes in the marketplace. With the energetic team comprising industrial experts and professionals, the Group remains adaptive and competitive through continuing learning and advancement.

I would like to take this opportunity to express my heartfelt appreciation to my fellow directors and the management team for their continued contribution and drive in improving the business.

**Cheung Yuk Fung**
*Chairman*

Hong Kong, 22 April 2003

## DIRECTORS

### Executive Directors

**Mr. CHEUNG Yuk Fung**, aged 57, was appointed Chairman and Director of the Company in November 2001. He graduated from the Faculty of Radio Electronics at Peking University in the People's Republic of China (the "PRC") and worked as a professor at Peking University thereafter. Prior to joining the Group, Mr. Cheung was a chairman of a company listed in the PRC and a director of a company listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and has working experience in international trade, finance, asset management and strategic planning. Mr. Cheung was honoured many awards, including being selected as the young entrepreneur with outstanding contribution to China, and won the first prize of national golden award for enterprise initiators in the 4th National Technology Industrialist Award and many other awards.

**Mr. KUI Man Chun**, aged 37, was appointed Director of the Company in June 2001. Mr. Kui graduated from Peking University in the PRC with a master's degree in international relations and has over 10 years of experience in the information technology industry and investment activities. He is also the chairman and chief executive officer of Hi Sun Limited ("HSL"), the Company's controlling shareholder. Prior to joining HSL in 2000, Mr. Kui was the president of an enterprise in the PRC.

**Mr. LO Siu Yu**, aged 36, was appointed Director of the Company in February 2003. Mr. Lo graduated from Peking University with a bachelor's degree in computer science and obtained a master's degree from the Institute of Psychology of the Science Academy of China. He was also an executive director of a listed company on the Hong Kong Stock Exchange and has extensive experience in computer system integration of the financial industry.

**Mr. XU Wensheng**, aged 34, was appointed Director of the Company in February 2003. Mr. Xu graduated from the Dalian University of Technology with a bachelor's degree in computer science and engineering. Prior to joining the Company, Mr Xu was the president of a system integration company and has extensive experience in computer system integration of the financial industry.

**Mr. LI Wenjin**, aged 39, was appointed Director of the Company in June 2001. Mr. Li graduated from Peking University in the PRC with a master's degree in law. He has over 10 years of experience in investment and administrative affairs. He is also the managing director of HSL. Prior to joining HSL in 1999, Mr. Li had worked for several companies in the PRC and Hong Kong.

**Mr. CHAN Yiu Kwong**, aged 38, was appointed Director of the Company in July 2001. Mr. Chan graduated from the University of Hong Kong with a bachelor's degree in social sciences. He is currently an associate member of the Hong Kong Society of Accountants and a fellow member of the Chartered Association of Certified Accountants in the United Kingdom. He is also a director and the chief financial officer of HSL. Prior to joining HSL in 2000, Mr. Chan was the financial controller and company secretary of a listed company on the Hong Kong Stock Exchange and was a manager of an international public accountancy firm. Mr. Chan has over 10 years of experience in auditing, business advisory and corporate management.

**Mr. SU Terry Lumin**, aged 39, was appointed Director of the Company in July 2001. Mr. Su graduated from Peking University in the PRC with bachelor's degrees in history and international relations respectively and from the University of Oxford in the United Kingdom with a master's degree in international relations. He is also a director and executive vice president of HSL. Prior to joining HSL in 2000, Mr. Su had worked for several multinational corporations and banks. He has over 10 years of experience in corporate finance and corporate management.

**Mr. XU Chang Jun**, aged 36, was appointed Director of the Company in July 2001. Mr. Xu graduated from Peking University in the PRC with a master's degree in international economics. He is also a director of HSL. Prior to joining HSL in 2000, Mr. Xu had worked for several companies in the PRC and Hong Kong. He has over 10 years of experience in corporate management of enterprise in Hong Kong and the PRC.

**Mr. WANG Xiao Qing**, aged 37, was appointed Director of the Company in July 2001. Mr. Wang graduated from Peking University with a bachelor's degree in law. He is also a director of HSL. Prior to joining HSL, he had worked for several companies both in Hong Kong and the PRC.

### Independent Non-Executive Directors

**Mr. LAU Wai Kit**, aged 40, was appointed an independent non-executive Director of the Company in February 2003. Mr. Lau graduated from the University of Hong Kong with a bachelor of law degree and is a solicitor of the High Court of Hong Kong, an attorney and counsellor at law of the Supreme Court of the State of California, a solicitor of the Supreme Court of England and Wales, and an advocate and solicitor of the Supreme Court of Singapore. Mr. Lau is currently a partner of Gobi Partners, Inc., a Shanghai-based venture capital firm focusing on digital media and technology investments. He is also an independent non-executive director of two listed companies on the Hong Kong Stock Exchange. Mr. Lau also serves as member of the Innovation and Technology Fund (Biotechnology Projects) Vetting Committee and the Small Entrepreneur Research Assistance Programme Project Assessment Panel of the Government of Hong Kong Special Administrative Region. He has over 10 years of experience in investment banking and direct investment.

**Mr. XU Sitao**, aged 39, was appointed an independent non-executive Director of the Company in July 2001. Mr. Xu graduated from Peking University in the PRC with a bachelor of B.A. degree in economics and from the University of Connecticut with a master of science degree in Economics. He also holds a master of science degree in Finance from Boston College. Mr. Xu is currently a research fellow of Civic Exchange in Hong Kong. Prior to that, he was the Head of Asia Economic Research of SG Securities (HK) Limited. He had also worked in Standard Chartered Bank as a Regional Treasury Economist and was an Economist of Standard & Poor's MMS International in Singapore.

## SENIOR MANAGEMENT

As at 22 April 2003, the date of the Report of the Directors, Messrs Kui Man Chun, Lo Siu Yu, Xu Wensheng, Li Wenjin, Chan Yiu Kwong, Su Terry Lumin, Xu Chang Jun and Wang Xiao Qing were members of the Company's senior management.

The directors submit their report together with the audited accounts for the year ended 31 December 2002.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company was investment holding. The principal activities of the Group during the year were trading of information technology products and provision of customised information system consultancy and integration services. There were significant changes in the nature of the Group's principal activities during the year. In last year, the Group's principal activities were the construction and installation of curtain wall system and aluminium windows.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated profit and loss account on page 24.

The directors do not recommend the payment of a dividend (2001: Nil).

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

## FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options are set out in note 23 to the accounts.

## DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company did not have any reserves available for distribution as calculated under the Companies Act 1981 of Bermuda (as amended) (2001: HK$570,000). However, the Company's share premium account, in the amount of HK$100,556,000 (2001:HK$18,661,000) may be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 62.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

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

**Executive directors:**

| | |
|---|---|
| CHEUNG Yuk Fung | |
| KUI Man Chun | |
| LO Siu Yu | *(appointed on 28 February 2003)* |
| XU Wensheng | *(appointed on 28 February 2003)* |
| LI Wenjin | |
| CHAN Yiu Kwong | |
| SU Terry Lumin | |
| XU Chang Jun | |
| WANG Xiao Qing | |

**Independent non-executive directors:**

| | |
|---|---|
| HILES Colin Clive | *(resigned on 28 February 2003)* |
| LAU Wai Kit | *(appointed on 28 February 2003)* |
| XU Sitao | |

Pursuant to the Company's bye-laws 86(2), Lo Siu Yu, Xu Wensheng and Lau Wai Kit will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws 87(1) and 87(2), all of the Directors, except for Chairman of the Board of Directors, Cheung Yuk Fung who shall continue in office, are subject to retirement by rotation and re-election at the annual general meeting of the Company.

Kui Man Chun and Li Wenjin will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 9 to 10 of the annual report.

## DIRECTORS' INTERESTS IN EQUITY

As at 31 December 2002, the interests of the Directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company under Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

### (a) Ordinary shares of HK$0.01 each in the Company

| | Number of shares held | | |
|---|---|---|---|
| **Name of Director** | **Personal interest** | **Corporate Interest** *(Note)* | **Total** *(Note)* |
| Kui Man Chun | – | 189,270,909 | 189,270,909 |

*Note:* These shares are held by Kui Man Chun through Hi Sun Limited, a company which Kui Man Chun holds a 99.16% interest, and Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.

### (b) Ordinary shares in associated corporations

| Name of Director | Name of associated corporation | Number of shares held | Category of interest |
|---|---|---|---|
| Kui Man Chun | Rich Global Limited | 2 ordinary shares | Corporate |
| Kui Man Chun | Hi Sun Limited | 30,245,000 ordinary shares | Personal |
| Li Wenjin | Hi Sun Limited | 255,000 ordinary shares | Personal |

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporation as defined in the SDI Ordinance.

Save as disclosed under the heading "Share option scheme" below, at no time during the year was the Company, its fellow subsidiaries or its holding company 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 other body corporate.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating talented employees in order to strive for future developments and expansion of the Group. Eligible participants of the Scheme include the Group's full-time employees, and executive and non-executive Directors. The Scheme became effective on 29 November 2001 and unless otherwise cancelled or amended, will remain valid and effective for a period of 10 years from that date.

The total number of shares in respect of which options may be granted shall not (together with all the other Schemes, if any) exceed 10% of the total issued capital of the Company as at date of approval of the Scheme unless the Company obtains a fresh approval from its shareholders to renew the 10% limit.

The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time. At 31 December 2002, no share options had been granted.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company or to any of their associates, in excess of 1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences either immediately or after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Hong Kong Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Hong Kong Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

| Name of shareholder | Number of ordinary shares |
|---|---|
| Rich Global Limited ("RGL") | 189,270,909 |
| Hi Sun Limited ("HSL") | 189,270,909 *(Note 1)* |
| Kui Man Chun | 189,270,909 *(Note 2)* |

*Note:*

(1) HSL is interested in the Company's share capital by virtue of its 100% shareholding in RGL.

(2) Kui Man Chun is interested in the Company's share capital by virtue of his 99.16% shareholding in HSL.

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

## CONNECTED TRANSACTIONS

Connected transactions during the year were:

(1) On 28 February 2002, the Company through its wholly owned subsidiary, Hi Sun (BVI) Limited, acquired the entire issued share capital of Hi Sun Technology Holding Limited ("Hi Sun Technology") at a cash consideration of HK$9.6 million from, among others, Hi Sun Limited and Chan Yiu Kwong, who is also an executive Director of the Company. Hi Sun Limited is owned as to approximately 99.16% by Kui Man Chun, an executive Director of the Company and Hi Sun Technology, and approximately 0.84% by Li Wenjin, also an executive Director of the Company. The acquisition constitutes a connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), required to be disclosed in accordance with Chapter 14.

(2) Other significant related party transactions entered by the Group during the year ended 31 December 2002, which also constitute connected transactions under the Listing Rules are disclosed in note 29 to the accounts.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 32% of the total sales of the Group. The sales attributable to the largest customer included therein was about 17% of the Group's total sales. During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers.

None of the Directors, their associates or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company's share capital had an interest in the major customers or suppliers noted above.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), except that the independent non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation pursuant to the Company's bye-laws.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for Effective Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, Lau Wai Kit and Xu Sitao. Two meetings were held during the year ended 31 December 2002.

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Ernst & Young on 23 August 2002) who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

**Cheung Yuk Fung**
*Chairman*

Hong Kong, 22 April 2003

In the year of 2002, the Group has taken further steps to restructure its business and to strengthen its capital base. These actions were taken with a view to providing a solid foundation for the Group's long-term development and to create greater shareholder value.

## BUSINESS RESTRUCTURING

Business restructuring commenced in February 2002 when the Group brought in information technology and consulting businesses ("IT and consulting businesses") and electronic payment products and solutions under the "PAX" brand via the acquisition of Hi Sun Technology Holding Limited. By then, the Group had diversified into the provision of business and technology consulting services and solutions that helped its clients to capitalize on their business and technology opportunities.

To rationalize the Group's resources, in the third quarter of 2002, the Group disposed of an office unit held for investment purpose and the office used for its curtain wall business and being in excess of its need. Total net proceeds from these disposals was approximately HK$9 million.

Faced with the depressed property market over the past years, the Group's curtain wall and construction businesses had been confined to completing an existing project and the maintenance of completed projects. In view of the difficult market conditions and to concentrate the Group's resources on the IT and consulting businesses, the curtain wall and construction businesses were disposed of in November 2002. The net proceeds of approximately HK$8 million were used to strengthen the working capital of the Group.

## CAPITAL BASE STRENGTHENING

To allow shareholders to participate in the growth of the Company, the Company issued bonus shares on the basis of one bonus share for every one existing share held in May 2002.

In July 2002, the Company issued 20 million new shares to raise net proceeds of approximately HK$16 million.

In November 2002, the Company proposed to raise approximately HK$68 million on the basis of one rights share for every two shares held by a qualified shareholder. The rights issue was completed in December 2002. The result was that valid acceptances and applications for excess rights shares were received for a total of 80,272,333 shares. The aggregate number of rights shares accepted or applied for represented 72.3 % of the total number of rights shares available under the rights issue. Pursuant to the underwriting agreement, the underwriter had subscribed or procured subscribers for the remaining 27.7% of the total number of rights shares.

The net proceeds raised are intended for expanding the Group's IT and consulting businesses, reducing the Group's indebtedness and for general working capital purposes. It is in the best interests of the Group and the shareholders to enlarge the capital base in order to support the continuing development of the Group's business.

## BUSINESS AND FINANCIAL REVIEW

The Group recorded a turnover of HK$370 million in the year 2002. Net loss attributable to the shareholders amounted to HK$40.8 million which was stated after including a gain of HK$6.7 million arising from the disposal of the construction and installation of curtain wall system business. The segmental operating loss for the year ended 31 December 2002 was HK$45 million. The IT and consulting businesses contributed about 99% and 82% of the turnover and operating loss respectively. The Group's comparative figures for the year ended 31 December 2001 represented the operation results of the discontinued operation, namely, the construction and installation of curtain wall system businesses. Year on year comparison of the operation results of the Group is not meaningful. The discussions and reviews which follow are based on the operation results of the IT and consulting businesses as announced in the interim report for the six months period ended 30 June 2002.

### Financial solutions, services and related products

Being the flagship of the Group, the division has successfully developed a series of applications and solutions for the banking, insurance and securities industries. Together with the consulting team, comprising both local and international experts, the division has been providing integrated IT solutions and services to our clients. Worthy of special mention here are a business consulting project successfully completed for the card division of Industrial and Commercial Bank of China ("ICBC"), China's largest bank, the capturing of a substantial market share of mainframe computer services in China, and, more importantly, the completion of the upgrading of the core banking system for Shenzhen Development Bank ("SDB"), China's first listed joint-equity bank, with our proprietary application software – Integrated Banking System ("IBS"). The successful and quick implementation of IBS for SDB makes the bank the first in the country which realized nationwide data and application centralization. The deals like these are important differentiators which put us ahead of the other local system integrators in the pursuit of new high margin, high growth business model to be discussed in detail later in the analysis.

During the period under review, this segment achieved a turnover of HK$287 million (interim: HK$99.8 million) and incurred a loss of HK$26.44 million (interim: HK$1.16 million).

The hardware business accounted for 73% of the segment's turnover with an average gross margin of 11% as compared to the 13% as reported in the interim report. The solution and consultancy related services accounted for the remaining 27% of the segment's turnover.

The division endeavored to be a key player and forerunner in providing IT solution and consultancy services for the banking and financial industry in the PRC. Relatively large overheads in developing capacity and marketing of the solution and consultancy related services were incurred which explain the losses in this division.

### Electronic payment solutions and products

The division recorded a turnover of HK$45.74 million (interim: HK$6.25 million) and a loss of HK$6.33 million (interim: HK$5.24 million). It represents a more than seven-fold increase in turnover from the interim and a narrow down of the loss for the six months ended 31 December 2002. The overall gross margin was maintained in the range of 30%.

The increase in turnover was attributable to the completion of contracts for Korean customers and a steady growth in the China market as well as other markets in Hong Kong and South East Asia. The products were well received in these markets. The division continued to invest heavily in product development, design and certification to further expand into these regions.

**Telecommunication solutions, services and related products**

The turnover for the year 2002 was HK$33.15 million (interim: HK$14.05 million) while the loss was HK$4.55 million (interim: HK$0.64 million). The average gross margin achieved was in the range of 30%.

The division had strived hard to transform itself into a consulting-oriented solution provider. In view of the continued sluggish telecommunication market in China, in the near future, the division will keep an optimum size of operation and well prepare itself and get ready to reap the fruits of the revival of the telecommunication market.

**Curtain wall system**

The turnover of HK$3.95 million represented mainly the completion of the existing project, namely the Belcher Garden site in Pokfulam, Hong Kong, which had been completed during the year. Besides, the management has also put in substantial effort to collect overdue debts. During the year under review, the net recovery of bad debts and contract work in progress was HK$8.9 million. The net loss of HK$3.4 million included the write-backs of HK$8.9 million in respect of provision for doubtful debts and contract work in progress during the year under review. It also included a loss of HK$2.33 million on the disposals of the office previously used for the curtain wall system business and an office held for investment purpose.

**Gain on disposal of interests in Hi Sun Holdings Limited**

Hi Sun Holdings Limited and its subsidiaries are principally engaged in the construction and installation of curtain wall system and aluminium windows. The business segment has continued to incur operating loss and the turnover dropped significantly. In view of the sluggish market with extremely squeezed margins, the management did not anticipate that this business would turn around in the near future.

On 7 November 2002, the Group had entered into a share sale agreement in relation to the disposal of the entire interests in Hi Sun Holdings Limited via the Company's wholly owned subsidiary. Pursuant to the agreement, the purchaser, an independent third party, agreed to purchase the entire issued share capital of Hi Sun Holdings Limited and its subsidiaries and the assignment of an interest free loan in the principal amount of HK$2,102,000 owed by Hi Sun Holdings Limited to the Company, for an aggregate consideration of HK$8.5 million.

The agreement was completed on 15 November 2002 and the Group has generated a profit of HK$6.7 million from the disposal after expenses.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group recorded a total assets of HK$312.31 million which were financed by liabilities of HK$248.1 million and equity of HK$64.21 million. The net assets value was HK$64.21 million (2001: HK$20.27 million) representing a more than 210% year-on-year increase.

As at 31 December 2002, the Group had cash of HK$93.27 million and bank borrowings of HK$57.21 million. The net cash position as at that date was HK$36.06 million as compared to HK$18.32 million as at 31 December 2001. All the borrowings are short-term loans and overdrafts utilized to fund the Group's working capital requirements. The gearing ratio (defined as the total interest bearing debts divided by shareholders' equity) was 0.9, which was comfortable in view of the Group's net cash position.

## CAPITAL STRUCTURE AND DETAILS OF CHARGES

The Group's bank borrowings are short term loans and overdrafts with interests charged at floating rates. As at 31 December 2002, bank loans amounting to Renminbi 43.65 million (equivalent to HK$40.79 million) are denominated in Renminbi with average interest rates ranging from 5.31% to 5.841%. Bank loans amounting to USD$0.3 million (equivalent to HK$2.38 million) and HK$14.03 million are denominated in US dollars and Hong Kong dollars, respectively. The Hong Kong dollar and US dollar denominated loans were charged at Hong Kong Dollar Prime Lending rate and floating interest rate respectively.

Approximately HK$28 million, HK$60 million and HK$5 million of the Group's cash balances are denominated in Renminbi, Hong Kong dollar and US dollar respectively.

Bank borrowings of approximately HK$29 million were secured by fixed deposits of HK$19 million, deposits in a bank guaranteed fund of HK$1 million, and personal guarantee of HK$7 million from a Director of the Company. Bank loan of Renminbi 30 million was guaranteed by an independent third party, of which Renminbi 20 million was counter-guaranteed by the Company to the independent third party.

## EXCHANGE RATES EXPOSURE

The Group derives revenues and makes purchases and incurs expenses mainly denominated in US dollars, Renminbi and Hong Kong dollars. Currently, the Group has not entered into agreements or purchased instruments to hedge the Group's exchange rate risks. Any material fluctuation in the exchange rates of Hong Kong dollars or Renminibi may have impact on the operating results of the Group.

## CONTINGENT LIABILITIES

In prior years, the then subsidiaries, Hi Sun Holdings Limited and one of its subsidiaries were named defendants in certain lawsuits.

Following the completion of the disposal of the entire share capital of Hi Sun Holdings Limited and its subsidiaries, the Group no longer had any contingent liability arising from those lawsuits.

## EMPLOYEES

The total number of employees of the Group as at 31 December 2002 was 824. The breakdown of employees by division is as follows:

| | |
|---|---:|
| Financial solutions, services and related products | 641 |
| Electronic payment solutions and products | 74 |
| Telecommunication solutions, services and related products | 97 |
| Corporate office | 12 |
| | 824 |

The Group ensures that its remuneration packages are competitive and employees are remunerated with a fixed monthly income plus annual performance related bonuses. The Group also sponsors selected employees to attend outside training courses which suit the needs of the Group's businesses.

To provide further incentive to motivate talented employees, the Company adopted a share option scheme in November 2001. As at the date hereof, no option has been granted under the scheme.

## USE OF PROCEEDS

During the year, net proceeds of HK$68 million raised from the rights issue had already been utilized to an extent of approximately HK$22.5 million. As at 31 December 2002, the application of the net proceeds is as follows:

| **Intended application of proceeds as disclosed in the Company's Circular dated 4 December 2002** | **Intended application** *HK$ million* | **Utilized** *HK$ million* |
|---|---|---|
| Expansion of the Group's IT Business | 15 | 2.5 |
| Expansion of the Group's electronic payment products and services | 10 | 2.5 |
| Reduction of the Group's indebtedness | 25 | 15.5 |
| General working capital | 18 | 2 |
| | 68 | 22.5 |

## PROSPECTS

### Outlook for the Industry

The world economy does not show signs of upturn in view of the economic indicators from the United States. On the other hand, China's economy continues thriving at a growth rate of over 7% annually.

The trend of increasing foreign investment influx into China is expected to last following China's entry into the WTO. Together with the growing local demand, the high growth of China's economy will be sustained for the years to come.

The further opening up of China following its WTO entry will undoubtedly bring positive impact on the Group's business in medium to long term. The further deregulation of the financial and telecommunication industries will bring along strong competition to local players. To cope with the competition, financial institutions and telecommunication companies in China, local and foreign alike, will increase demand for IT services and related consultancy services.

Financial and telecommunication industries are among the ones in which IT products and services are most intensively applied. After China began its modernization drive, its banking sector was the first one unleashed from the government monopoly and broken into competing independent banking corporations. The deregulation was later copied to the securities and insurance sectors and to the telecommunication industry as well. To cope with the competitive market situation, the companies in these industries have invested heavily in their IT facilities and, by turn of the century, began to place more and more emphasis on software side of their IT build-up based on their hardware upgrade undertaken during the previous two decades. For the past three years, we have observed the trend in which the financial and telecommunication companies are demanding IT service providers to do more than just traditional system integration and help them with application software development, high value-added services and business consulting. As a matter of fact, this is a trend already prevailing in the developed economies and the China market is largely playing a catch-up. In the course of this, prospect of substantial growth for the years to come is beckoning to the IT service industry.

**Outlook for the Group**

The management believes that the Group is well positioned to capture the future business opportunities brought about by the above trend. In the course of business restructuring for the past year, the Group has established a strong team of business consulting, especially in the financial industry. With the acquisition of Hi Sun Technology Holding Limited, the Group acquired a leading IT service company whose management has long harboured a determined vision based on its in-depth observation of the development of the international IT service industry and the evolution of China's system integration industry, and has therefore directed the company to the path of transformation from a traditional system integrator into a business consulting-oriented IT service provider. The management is proud that the strategic approach proves to be a successful one, as evidenced by the deals described in the section of Business and Financial Review. Looking into the current financial year, we feel greatly encouraged by the momentum of our business development amid which some more strategic deals have been closed.

Following the completion of IBS for SDB, we secured agreements respectively with ICBC (Asia), ICBC's listed flagship in Hong Kong, and Bank of Communications of China ("BCC"), the country's 5th largest bank, to upgrade their core banking systems with our IBS. The initial stage of the contracts, business demand analysis, is well underway and a substantial part of these contracts is expected to be carried out in financial year 2003.

To further rationalize the resources allocation, the Group is also carrying out a plan of departmental reorganization. This is aimed at realigning different divisions and related resources in order to further focus on high value added and high margin services.

The Group is determined to keep the momentum of its electronic payment terminal business and to continue to invest in the research and development of its products under the PAX brandname.

Following the completion of the delivery of the PAX electronic payment products to Korea and other areas, the new product design continued to receive recognition from the industry. During the past couple of months, the new products including the P60-S and P70-S series products have been awarded certification or approval from approving bodies such as Visa International, AMEX and Singapore NETS. The years of efforts put PAX in an advantageous position to capture the potential growth of the China market and the South East Asian market. The division is optimistic about the rapid growth of the China market, which will bring about increase in sales in China.

The coming years are likely to remain challenging. We will continue to solidify our position as a leading business consulting-oriented IT service provider. At the same time, the management of the Group is closely monitoring the market development for further business opportunities. Based on our established business consulting, application software and IT service capabilities, we are seeking to bring in new service models to avail ourselves of the first-mover advantages in China and the regional markets. We have been engaged with several potential clients in China to explore the ways of providing them with outsourced IT services on long-term basis, a business model which has been widely practiced in the developed economies and which are attracting more and more interests from the local companies looking for better concentration on their core businesses and cost-cutting amid intensified market competition against the background of China's WTO entry where and when judged necessary, the Group will be willing to consider facilitating the establishment of our outsourcing business model by means of further acquisition. As our market position is being recognized, some multinational companies have also begun to approach us for our services. The Group is looking forward to some of the deals of this category being closed and executed for this financial year, which will further boost our market position and revenue growth. With all these endeavors, we are committed to dedicating our management expertise and experience to constantly satisfying the need of our clients and to pursuing our goal of being the leading local IT service player in the regional market.

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**TO THE SHAREHOLDERS OF**
**HI SUN GROUP LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 24 to 61 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 preparing accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 22 April 2003

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 31 December 2002*

| | Note | **2002** **HK$'000** | 2001 HK$'000 |
|---|---|---|---|
| Turnover | 2 | **369,996** | 35,475 |
| Cost of sales | | **(300,116)** | (42,351) |
| Gross profit/(loss) | | **69,880** | (6,876) |
| Other revenue | 2 | **1,939** | 426 |
| Gain on disposal of discontinuing operations | 3 | **6,701** | – |
| Selling expenses | | **(46,652)** | – |
| Administrative expenses | | **(79,402)** | (19,322) |
| Write-back of provision for doubtful debts | | **3,651** | 4,594 |
| Write-back of provision for contract work in progress | | **5,218** | 12,866 |
| Operating loss | 4 | **(38,665)** | (8,312) |
| Finance costs | 5 | **(2,140)** | (5,094) |
| Non-operating income, net | 6 | **–** | 353,795 |
| (Loss)/profit before taxation | | **(40,805)** | 340,389 |
| Taxation | 9 | **(23)** | 3 |
| (Loss)/profit after taxation | | **(40,828)** | 340,392 |
| Minority interests | | **–** | 2,573 |
| (Loss)/profit attributable to shareholders | 10 | **(40,828)** | 342,965 |
| Basic (loss)/earnings per share | 11 | **HK$(0.19)** | HK$2.01 |

# CONSOLIDATED BALANCE SHEET

*As at 31 December 2002*

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Non current assets | | | |
| Fixed assets | 12 | **25,760** | 18,663 |
| Interest in a jointly controlled entity | 14 | **–** | (2,335) |
| | | **25,760** | 16,328 |
| Current assets | | | |
| Inventories | 15 | **25,518** | – |
| Construction and installation contract receivables | 16 | **–** | 4,120 |
| Trade and other receivables | 17 | **167,759** | 5,678 |
| Pledged bank deposits | 19 | **20,014** | – |
| Cash and bank balances | | **73,261** | 20,205 |
| | | **286,552** | 30,003 |
| Current liabilities | | | |
| Trade payables, other payables and accruals | 18 | **180,645** | 22,154 |
| Due to ultimate holding company | 21 | **3,839** | – |
| Due to fellow subsidiaries | 21 | **6,369** | – |
| Taxation payable | | **41** | – |
| Provision for warranty | 20 | **–** | 2,015 |
| Short term bank borrowings | 19 | **57,206** | 1,889 |
| | | **248,100** | 26,058 |
| Net current assets | | **38,452** | 3,945 |
| Total assets less current liabilities | | **64,212** | 20,273 |
| Financed by: | | | |
| Share capital | 23 | **3,330** | 1,010 |
| Reserves | 24 | **60,882** | 19,263 |
| | | **64,212** | 20,273 |

On behalf of the Board

**Cheung Yuk Fung**
*Director*

**Li Wenjin**
*Director*

# BALANCE SHEET

*As at 31 December 2002*

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Non current assets | | | |
| Fixed assets | 12 | **11** | – |
| Interests in subsidiaries | 13 | **63,214** | 1,621 |
| | | **63,225** | 1,621 |
| Current assets | | | |
| Prepayments, deposits and other receivables | 17 | **1,592** | 141 |
| Cash and bank balances | | **39,436** | 18,921 |
| | | **41,028** | 19,062 |
| Current liabilities | | | |
| Other payables and accruals | 18 | **713** | 442 |
| Net current assets | | **40,315** | 18,620 |
| Total assets less current liabilities | | **103,540** | 20,241 |
| Financed by: | | | |
| Share capital | 23 | **3,330** | 1,010 |
| Reserves | 24 | **100,210** | 19,231 |
| | | **103,540** | 20,241 |

On behalf of the Board

**Cheung Yuk Fung**
*Director*

**Li Wenjin**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2002*

| | Note | **2002** **HK$'000** | 2001 HK$'000 |
|---|---|---|---|
| Total equity as at 1 January | | **20,273** | (341,516) |
| Currency translation differences | *24* | **–** | (5) |
| (Loss)/profit for the year | *24* | **(40,828)** | 342,965 |
| Exchange difference transferred to profit and loss account upon disposal of subsidiaries | *24* | **825** | – |
| Reserve funds transferred to profit and loss account upon disposal of subsidiaries | *24* | **(273)** | – |
| Issue of shares | *23, 24* | **86,341** | 19,152 |
| Share issue expenses | *24* | **(2,126)** | (323) |
| Total equity as at 31 December | | **64,212** | 20,273 |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2002*

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Operating activities | | | |
| Net cash outflow from operations | 25(a) | **(80,568)** | (8,300) |
| Interest paid | | **(2,140)** | (82) |
| Hong Kong profits tax refunded | | **–** | 3 |
| Net cash outflow from operating activities | | **(82,708)** | (8,379) |
| Investing activities | | | |
| Purchase of fixed assets | | **(6,464)** | (393) |
| Sale of fixed assets | | **12,157** | – |
| Disposal of discontinuing operations, net of cash disposed | 25(c) | **(1,415)** | (2) |
| Purchase of subsidiaries, net of cash acquired | 25(d) | **7,055** | – |
| Reclassification of interest in a subsidiary to interest in a jointly controlled entity | | **–** | (96) |
| Interest received | | **460** | 16 |
| Pledged bank deposits | | **(10,014)** | – |
| Net cash inflow/(outflow) from investing activities | | **1,779** | (475) |
| Net cash outflow before financing | | **(80,929)** | (8,854) |
| Financing activities | | | |
| Issue of ordinary shares | 25(b) | **84,215** | 18,829 |
| Inception of short term bank borrowings | 25(b) | **36,551** | 1,656 |
| Interest element of finance lease rental payments | | **–** | (106) |
| Capital element of finance lease payments | | **–** | (153) |
| Repayment to a former intermediate holding company | | **–** | (117) |
| Reorganisation expenses | 6 | **–** | (3,731) |
| Net cash inflow from financing | | **120,766** | 16,378 |
| Increase in cash and cash equivalents | | **39,837** | 7,524 |
| Cash and cash equivalents at beginning of the year | | **19,972** | 12,451 |
| Effect of foreign exchange rate changes | | **–** | (3) |
| Cash and cash equivalents at 31 December | | **59,809** | 19,972 |
| Analysis of balances of cash and cash equivalents | | | |
| Cash and bank balances | | **73,261** | 20,205 |
| Bank overdrafts | | **(13,452)** | (233) |
| | | **59,809** | 19,972 |

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

| | | |
|---|---|---|
| SSAP 1 (revised) | : | Presentation of financial statements |
| SSAP 11 (revised) | : | Foreign currency translation |
| SSAP 15 (revised) | : | Cash flow statements |
| SSAP 33 | : | Discontinuing operations |
| SSAP 34 (revised) | : | Employee benefits |

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

(i) *SSAP 1 (revised) and SSAP 15 (revised): Presentation of financial statements and cash flow statements*

Adoption of these revised SSAPs have introduced revised disclosure requirements which have been adopted in these accounts. Comparative amounts and disclosure for the prior period have been restated in order to achieve a consistent presentation. The adoption of these revised SSAPs has no material effect on the Group's results for the current and prior periods.

(ii) *SSAP 11 (revised): Foreign currency translation*

The balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves. The adoption of this revised SSAP has no material effect on the Group's results for the current and prior periods.

(iii) *SSAP 33: Discontinuing operations*

The objectives of SSAP 33 are to establish a basis for segregating information about a major operation that an enterprise has discontinued from information about its continuing operations and to specify minimum disclosures about a discontinued operation. Details of discontinuing operations have been disclosed in note 3 to the accounts.

**1. PRINCIPAL ACCOUNTING POLICIES** (Continued)

**(a) Basis of preparation** (Continued)

*(iv) SSAP 34 (revised): Employee benefits*

In 2002, the Group has adopted the provisions of SSAP 34 "Employee benefits". The adoption of this revised SSAP has no material effect on the Group's results for the current and prior periods.

**(b) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

The consolidated accounts for the year ended 31 December 2001 have been prepared using the merger basis of accounting, as a result of a group reorganisation (the "Reorganisation") on 17 October 2001. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group and was listed on The Stock Exchange of Hong Kong Limited in place of Hi Sun Holdings Limited ("HSHL").

Full details of the Reorganisation are summarised in the "Group Reorganisation" circular to the shareholders of HSHL dated 9 August 2001.

On this basis, the Company has been treated as the holding company of its subsidiaries for the year ended 31 December 2001, rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the year ended 31 December 2001 include the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation where this is a shorter period.

**1. PRINCIPAL ACCOUNTING POLICIES** (Continued)

**(c) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

The balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

**(d) Fixed assets**

*(i) Fixed assets*

Leasehold land and buildings, leasehold improvements, office furniture and equipment, plant and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

*(ii) Depreciation*

Leasehold land and buildings are depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives, on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Leasehold land and buildings | 2% – 6% |
| Leasehold improvements | 20% |
| Office furniture and equipment | 18% – 25% |
| Plant and equipment | 9% – 25% |
| Motor vehicles | 18% – 25% |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

*(iii) Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

**1. PRINCIPAL ACCOUNTING POLICIES** (Continued)

**(e) 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. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

**(f) Inventories**

Inventories comprise raw materials, work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials and direct labour. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(g) Construction and installation contracts**

The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the costs, comprising direct materials, direct labour and an appropriate proportion of variable and fixed construction overheads, incurred to date as compared to the estimated total costs to be incurred under the construction and installation contracts and or by reference to independent qualified surveyor's assessment reports. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Provision is made for foreseeable losses as soon as they are anticipated by management.

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction and installation contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction and installation contracts, under current liabilities.

**(h) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(i) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and cash investments with a maturity of three months or less from date of investment and bank overdrafts.

**(j) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Employee benefits

*(i) Employee leave entitlements*

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

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

*(ii) Pension obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Pension Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated profit and loss account as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to the Pension Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the Pension Scheme.

In addition, pursuant to the government regulations in The People's Republic of China (the "PRC"), the Group is required to contribute an amount to certain retirement benefit schemes based on 25.5% of the wages for the year of those workers in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those workers of the Group. Contributions to these retirement benefits schemes are charged to the consolidated profit and loss account as incurred.

### (l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (m) Contingent liabilities and contingent assets (Continued)

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (n) Revenue recognition

Information system consultancy and integration service income is recognised when the services are rendered.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

Revenue from construction and installation contracts is recognised based on the stage of completion of the construction and installation work, provided that the revenue and the costs incurred, as well as the estimated costs to completion, can be measured reliably. The stage of completion of the construction and installation work performed is established by reference to the costs incurred to date as compared to the estimated total costs to be incurred under the construction and installation contracts and by reference to independent qualified surveyor's assessment reports.

Operating lease rental income is recognised on a straight line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rate applicable.

### (o) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary over the cost of acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets of 5 years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (p) Related parties

Related parties included companies in which the directors of the Company have beneficial interests or parties which are subject to common control or common significant influence in making significant financial and operating decisions.

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the sale of computer hardware and software, provision of information system consultancy and integration services and the construction and installation of curtain wall system. Revenues recognised during the year are as follows:

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Sales of goods | **287,247** | 191 |
| Provision of information system consultancy and integration services | **78,803** | – |
| Value of construction and installation work performed | **3,946** | 35,284 |
| | **369,996** | 35,475 |
| Other revenue | | |
| Rental income | **238** | 410 |
| Interest income | **460** | 16 |
| Waiver of payment to a sub-contractor | **454** | – |
| Others | **787** | – |
| | **1,939** | 426 |
| Total revenue | **371,935** | 35,901 |

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

**Primary reporting format – business segments**

The Group is organised into five main business segments:

(a) Financial solutions, services and related products – provisions of customised information system consultancy and integration services and sales of computer hardware to financial institutions and banks;

(b) Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of computer hardware to the telecommunication industries;

(c) Electronic payment products and services – sales of point-of-sale ("POS") terminals;

(d) Construction and installation of curtain wall system – construction and installation of curtain wall system and aluminium windows; and

(e) Sanitary ware and kitchen cabinets – sales and distribution of sanitary ware and kitchen cabinets.

On 30 September 2002, the construction and installation of curtain wall system segment and the sales and distribution of sanitary ware and kitchen cabinets segment were disposed of to an independent third party (Note 3).

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

There are no sales or other transactions between the business segments.

**Secondary reporting format – geographical segments**

The Group's five business segments operate in two main geographical areas:

| | | |
|---|---|---|
| Hong Kong, Korea and South East Asia | – | financial solutions, services and related products, electronic payment products and services, construction and installation of curtain wall system, and sales and distribution of sanitary ware and kitchen cabinets |
| Mainland China | – | financial solutions, services and related products, telecommunication solutions, services and related products, and electronic payment products and services |

There are no sales or other transactions between the geographical segments.

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

**Primary reporting format – business segments** (Continued)

| | Financial solutions, services and related products 2002 *HK$'000* | Telecom-munication solutions, services and related products 2002 *HK$'000* | Electronic payment products and services 2002 *HK$'000* | Discontinuing operations 2002 *HK$'000* | Other operations 2002 *HK$'000* | Group 2002 *HK$'000* |
|---|---|---|---|---|---|---|
| Turnover | 287,168 | 33,146 | 45,736 | 3,946 | - | 369,996 |
| Other revenue | 530 | 97 | 491 | 248 | 573 | 1,939 |
| Segment results | (26,443) | (4,548) | (6,330) | (3,413) | (4,632) | (45,366) |
| Gain on disposal of discontinuing operations | | | | | | 6,701 |
| Operating loss | | | | | | (38,665) |
| Finance costs | | | | | | (2,140) |
| Loss before taxation | | | | | | (40,805) |
| Taxation | | | | | | (23) |
| Loss attributable to shareholders | | | | | | (40,828) |
| Segment assets | 192,362 | 22,445 | 56,368 | - | 41,137 | 312,312 |
| Segment liabilities | (178,035) | (29,450) | (39,527) | - | (1,088) | (248,100) |
| Other segment information: | | | | | | |
| Depreciation | 5,458 | 1,019 | 481 | 469 | 2 | 7,429 |
| Provision for/(write-back) of provision for doubtful debts | 481 | - | - | (3,651) | - | (3,170) |
| Provision for other receivables | 280 | - | - | - | - | 280 |
| Provision for obsolete inventories | - | - | 2,237 | - | - | 2,237 |
| Write-back of provision for contract work in progress | - | - | - | (5,218) | - | (5,218) |
| Loss on disposal and write off of fixed assets | 73 | - | 12 | 2,370 | - | 2,455 |
| Capital expenditure | 5,372 | 292 | 677 | 111 | 12 | 6,464 |

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

**Primary reporting format – business segments** (Continued)

| | Construction and installation of curtain wall system 2001 *HK$'000* | Sales and distribution of sanitary ware and kitchen cabinets 2001 *HK$'000* | Other operations 2001 *HK$'000* | Group 2001 *HK$'000* |
|---|---|---|---|---|
| Turnover | 35,284 | 191 | – | 35,475 |
| Other revenue | 395 | 31 | – | 426 |
| Segment results | (8,373) | 822 | (761) | (8,312) |
| Finance costs | | | | (5,094) |
| Non-operating income, net | | | | 353,795 |
| Profit before taxation | | | | 340,389 |
| Tax credit | | | | 3 |
| Profit after taxation | | | | 340,392 |
| Minority interests | | | | 2,573 |
| Profit attributable to shareholders | | | | 342,965 |
| Segment assets | 26,907 | 362 | 19,062 | 46,331 |
| Segment liabilities | (21,813) | (3,783) | (462) | (26,058) |
| Other segment information: | | | | |
| Depreciation | 1,153 | 17 | – | 1,170 |
| Provision for impairment in values of leasehold land and buildings | 589 | – | – | 589 |
| Write-back of provision for doubtful debts | (3,688) | (906) | – | (4,594) |
| Write-back of provision for contract work in progress | (12,866) | – | – | (12,866) |
| Write-back of provision for warranty, net | (2,643) | – | – | (2,643) |
| Write-back of provision for legal claims | (2,300) | – | – | (2,300) |
| Gain on disposal of a subsidiary | (1,378) | – | – | (1,378) |
| Capital expenditure | 393 | – | – | 393 |
| Non cash expenses | 953 | – | – | 953 |

**2. TURNOVER, REVENUE AND SEGMENT INFORMATION** (Continued)

**Secondary reporting format – geographical segments**

| | **Turnover 2002 *HK$'000*** | **Segment results 2002 *HK$'000*** | **Total assets 2002 *HK$'000*** | **Capital expenditure 2002 *HK$'000*** |
|---|---|---|---|---|
| Hong Kong, Korea and South East Asia | **42,353** | **(9,975)** | **52,269** | **124** |
| Mainland China | **327,643** | **(35,391)** | **260,043** | **6,340** |
| | **369,996** | **(45,366)** | **312,312** | **6,464** |
| Unallocated income, net | | **6,701** | | |
| Operating loss | | **(38,665)** | | |

| | Turnover 2001 *HK$'000* | Segment results 2001 *HK$'000* | Total assets 2001 *HK$'000* | Capital expenditure 2001 *HK$'000* |
|---|---|---|---|---|
| Hong Kong | 30,169 | (4,718) | 42,807 | 218 |
| Mainland China | 5,306 | (3,594) | 3,524 | 175 |
| | 35,475 | (8,312) | 46,331 | 393 |
| Unallocated costs | | – | | |
| Operating loss | | (8,312) | | |

## 3. GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS

On 7 November 2002 the Group publicly announced to sell the construction and installation of curtain wall system segment and the sales and distribution of sanitary ware and kitchen cabinets segment. HSHL, a then subsidiary, and its subsidiaries comprising these segments were sold on 30 September 2002 and is reported in these accounts as discontinuing operations. The sales, results, cash flows and net assets of these segments were as follows:

| | **Nine months to 30 September 2002** *HK$'000* | Twelve months to 31 December 2001 *HK$'000* |
|---|---|---|
| Turnover | **3,946** | 35,475 |
| Cost of sales | **(4,726)** | (42,351) |
| Gross loss | **(780)** | (6,876) |
| Other revenue | **248** | 426 |
| Operating costs | **(11,750)** | (18,561) |
| Write back of provision for doubtful debts | **3,651** | 4,594 |
| Write back of provision for contract work in progress | **5,218** | 12,866 |
| Operating loss | **(3,413)** | (7,551) |
| Finance costs | **(34)** | (5,094) |
| Non-operating income, net | **–** | 353,795 |
| (Loss)/profit before taxation | **(3,447)** | 341,150 |
| Tax credit | **18** | 3 |
| (Loss)/profit after taxation | **(3,429)** | 341,153 |
| Net operating cash outflow | **(2,173)** | (8,471) |
| Net investing cash inflow/(outflow) | **12,324** | (475) |
| Net financing cash outflow | **(1,656)** | (2,451) |
| Total net cash inflow/(outflow) | **8,495** | (11,397) |

## 3. GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS (Continued)

| | **At 30 September 2002 HK$'000** | At 31 December 2001 HK$'000 |
|---|---|---|
| Fixed assets *(Note 12)* | **3,777** | 18,663 |
| Interest in a jointly controlled entity | **(2,335)** | (2,335) |
| Current assets | **13,747** | 11,473 |
| Total assets | **15,189** | 27,801 |
| Total liabilities | **(16,412)** | (25,595) |
| Net (liabilities)/assets | **(1,223)** | 2,206 |
| Net liabilities sold | **(1,223)** | |
| Reclassifications from shareholders' equity *(Note 24)* | | |
| – exchange difference | **825** | |
| – reserve funds | **(273)** | |
| Proceeds from sale | **(8,500)** | |
| Waiver of amount due to the Group | **2,102** | |
| Legal and professional fees in respect of the disposal | **368** | |
| Gain on disposal of discontinuing operations | **(6,701)** | |
| Taxation thereon | **–** | |
| After tax gain on disposal | **(6,701)** | |

| | **At 30 September 2002 HK$'000** |
|---|---|
| The net cash inflow on sale is determined as follows: | |
| Proceeds from sale, net of expenses | **8,132** |
| *Less:* cash and cash equivalents in subsidiaries sold | **(9,547)** |
| Sale of subsidiaries, net of expenses and cash disposed | **(1,415)** |

## 4. OPERATING LOSS

The Group's operating loss is stated after crediting and charging the following:

| | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|
| *Crediting* | | |
| Net exchange gains | – | 55 |
| Write-back of provision for warranty, net | – | 2,643 |
| Write-back of provision for legal claims | – | 2,300 |
| Refund of value added tax | **2,507** | – |
| *Charging* | | |
| Auditors' remuneration | **1,160** | 540 |
| Depreciation: | | |
| Owned fixed assets | **7,429** | 1,170 |
| Staff costs *(Note 7)* | **90,149** | 11,609 |
| Operating lease rentals for land and buildings | **9,032** | 47 |
| Provision for impairment in values of leasehold land and buildings | – | 589 |
| Loss on disposal and write off of fixed assets | **2,455** | 139 |
| Provision for doubtful debts | **481** | – |
| Provision for other receivables | **280** | 308 |
| Provision for obsolete inventories | **2,237** | – |
| Provision for amounts due from minority shareholders of a subsidiary | – | 506 |
| Net exchange losses | **150** | – |

## 5. FINANCE COSTS

| | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts | **2,140** | 4,906 |
| Interest on other loans wholly repayable within five years | – | 82 |
| Interest on finance leases | – | 106 |
| | **2,140** | 5,094 |

## 6. NON-OPERATING INCOME, NET

On 10 February 2001, Hi Sun Limited, the Company's ultimate holding company, entered into a conditional sale and purchase agreement (the "Agreement") with Guangdong Investment Limited ("GDI"), the then controlling shareholder of HSHL, to acquire its entire holding of 48,138,892 shares in the capital of HSHL. Pursuant to the Agreement, GDI and its subsidiaries (collectively the "GDI Group") agreed to waive the net balance owed by HSHL and its subsidiaries to the GDI Group. The Agreement was completed on 3 March 2001 and the indebtedness waived by the GDI Group, net of expenses of approximately HK$3,731,000, amounted to approximately HK$353,795,000.

## 7. STAFF COSTS

Excluding directors' remuneration

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Wages and salaries | **87,408** | 12,565 |
| Pension costs – defined contribution plan | **3,121** | 244 |
| *Less:* staff costs capitalised into contract work in progress | **(380)** | (1,200) |
| | **90,149** | 11,609 |

## 8. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fees | **305** | 201 |
| Other emoluments: | | |
| Basic salaries, other allowances and benefits in kind | **320** | – |
| Contributions to pension schemes for Directors | **8** | – |
| | **633** | 201 |

## 8. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (Continued)

### (a) Directors' emoluments (Continued)

The emoluments of the Directors fell within the following bands:

| Emolument bands | Number of Directors **2002** | 2001 |
|---|---|---|
| HK$nil – HK$1,000,000 | **9** | 9 |

There was no arrangement under which a Director waived or agreed to waive any emolument during the year.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one Director (2001: Nil) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2001: five) individuals during the year are as follows:

| | **2002** *HK$'000* | 2001 *HK$'000* |
|---|---|---|
| Salaries, allowances and benefits in kind | **3,057** | 3,687 |

The emoluments fell within the following bands:

| Emolument bands | Number of individuals **2002** | 2001 |
|---|---|---|
| HK$nil – HK$1,000,000 | **3** | 4 |
| HK$1,000,001 – HK$1,500,000 | **–** | 1 |
| HK$1,500,001 – HK$2,000,000 | **1** | – |

## 9. TAXATION

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current taxation: | | |
| – Hong Kong profits tax | **41** | – |
| Overprovision in prior years | **(18)** | (3) |
| Taxation charge/(credit) for the year | **23** | (3) |

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the year (2001: Nil).

Pursuant to an approval from the Beijing Tax Bureau, the taxable income in respect of information technology products and services of certain subsidiaries of the Group are entitled to three years' PRC income tax exemption commencing from 1 January 2000. In addition, no provision for overseas profits tax has been provided in these accounts as the Group has no estimated assessable overseas profit for the year.

No provision for deferred taxation has been made in the accounts as there are no material timing differences which are expected to crystallise in the foreseeable future (2001: Nil).

## 10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$916,000 (2001: HK$2,723,000).

## 11. BASIS (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK$40,828,000 (2001: profit of HK$342,965,000) and on the weighted average number of 215,119,396 (2001: 170,356,666) ordinary shares in issue during the year.

The weighted average number of shares in issue used to calculate the basic (loss)/earnings per share for the years ended 31 December 2002 and 2001 has been adjusted for the effect of the Company's bonus issue and rights issue as set out in note 23(f) and (h) to the accounts respectively.

There were no dilutive effects on the basic (loss)/earnings per share for the years ended 31 December 2002 and 2001.

## 12. FIXED ASSETS

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **Leasehold land and buildings** | **Leasehold improve-ments** | **Office furniture and equipment** | **Plant and equipment** | **Motor vehicles** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost: | | | | | | |
| At 1 January 2002 | 42,729 | 1,180 | 1,918 | 37 | 1,688 | 47,552 |
| Additions | – | 358 | 5,588 | 165 | 353 | 6,464 |
| Disposals | (36,830) | (1,180) | (1,272) | (37) | – | (39,319) |
| Acquisition of subsidiaries *(Note 25(d))* | – | 5,947 | 16,763 | 278 | 3,463 | 26,451 |
| Disposal of subsidiaries *(Note 3)* | (5,899) | (105) | (755) | – | (1,686) | (8,445) |
| **At 31 December 2002** | **–** | **6,200** | **22,242** | **443** | **3,818** | **32,703** |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2002 | 24,604 | 1,177 | 1,383 | 37 | 1,688 | 28,889 |
| Charge for the year | 243 | 2,376 | 4,004 | 45 | 761 | 7,429 |
| Disposals | (22,383) | (1,178) | (1,109) | (37) | – | (24,707) |
| Disposal of subsidiaries *(Note 3)* | (2,464) | (16) | (502) | – | (1,686) | (4,668) |
| **At 31 December 2002** | **–** | **2,359** | **3,776** | **45** | **763** | **6,943** |
| Net book value: | | | | | | |
| **At 31 December 2002** | **–** | **3,841** | **18,466** | **398** | **3,055** | **25,760** |
| At 31 December 2001 | 18,125 | 3 | 535 | – | – | 18,663 |

## 12. FIXED ASSETS (Continued)

| | Company Office furniture and equipment HK$'000 |
|---|---|
| Cost: | |
| At 1 January 2002 | – |
| Additions | 12 |
| **At 31 December 2002** | **12** |
| Accumulated depreciation: | |
| At 1 January 2002 | – |
| Charge for the year | 1 |
| **At 31 December 2002** | **1** |
| Net book value: | |
| **At 31 December 2002** | **11** |
| At 31 December 2001 | – |

## 13. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted investments, at cost | **4,136** | 4,136 |
| *Less:* Provision for impairment | **–** | (2,000) |
| | **4,136** | 2,136 |
| Due from/(to) subsidiaries | **59,078** | (515) |
| | **63,214** | 1,621 |

The balances with subsidiaries are unsecured, interest free, and have no fixed terms of repayment, except for amounts due from subsidiaries of HK$3,000,000, which are unsecured, bear interest at Hong Kong Dollar Prime Lending Rate plus 2% per annum, and are repayable within one year.

## 13. INTERESTS IN SUBSIDIARIES (Continued)

The following is a full list of the subsidiaries at 31 December 2002:

| Name | Place of incorporation and type of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held | *Note* |
|---|---|---|---|---|---|
| Autocare Limited | British Virgin Islands ("BVI"), limited liability company | Investment holding in BVI | 4,230,769 ordinary shares of US$1 each | 100% | *a* |
| 北京高陽金信信息技術有限公司 (Beijing Hi Sun Advanced Business Solution Information Technology Limited) | PRC, limited liability company | Provision of financial and banking solutions and services in the PRC | HK$60,000,000 | 100% | *a* |
| 北京高陽聖思園信息技術有限公司 (Beijing Hi Sunsray Information Technology Limited) | PRC, limited liability company | Provision of telecommunication solutions and services in the PRC | HK$27,000,000 | 100% | *a* |
| Emerging Technology Limited | BVI, limited liability company | Investment holding in BVI | 7,692,308 ordinary shares of US$1 each | 100% | *a* |
| Hi Sun (BVI) Limited | BVI, limited liability company | Investment holding in BVI | 2 ordinary shares of US$1 each | *100% | |
| Hi Sun Consulting Limited | BVI, limited liability company | Provision of consultancy services in Hong Kong | 100 ordinary shares of US$1 each | 100% | |
| Hi Sun Development Management Limited | Hong Kong, limited liability company | Provision of management services in Hong Kong | 2 ordinary shares of HK$1 each | 100% | |

## 13. INTERESTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation and type of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held | *Note* |
|---|---|---|---|---|---|
| Hi Sun Technology Holding Limited | Bermuda, limited liability company | Provision of financial and banking solutions and services in Hong Kong | 168,070,000 ordinary shares of HK$0.1 each | 100% | *a* |
| Pax Technology Limited | Hong Kong, limited liability company | Sale of POS terminals in Hong Kong | 35,000,000 ordinary shares of HK$1 each | 100% | *a* |
| Turbo Speed Technology Limited | BVI, limited liability company | Investment holding in BVI | 3,589,744 ordinary shares of US$1 each | 100% | *a* |
| 百富計算機技術(深圳)有限公司 (Pax Technology (Shenzhen) Limited) | PRC, limited liability company | Sale of POS terminals in the PRC | HK$3,000,000 | 100% | *a* |

* *Shares held directly by the Company*

*Note:*

(a) On 28 February 2002, the Group acquired 100% of the share capital of Hi Sun Technology Holding Limited which, together with its subsidiaries (collectively the "HST Group"), are principally engaged in the provision of customised information system consultancy and integration services. The consideration of HK$9,600,000 was settled in cash. The fair value of the net identifiable assets of the HST Group at the date of acquisition was HK$10,021,000. The acquired business contributed revenues of HK$366,050,000 and operating loss of HK$37,321,000 to the Group for the period from 28 February 2002 to 31 December 2002. The net assets of the acquired business as at 31 December 2002 was HK$24,163,000.

## 14. INTEREST IN A JOINTLY CONTROLLED ENTITY

The Group's interest in Shanghai Full Arts Curtain Wall Engineering Co., Limited, a jointly controlled entity incorporated in the PRC, was disposed of during the year following the Group's discontinuance of the construction and installation of curtain wall system business in September 2002.

## 15. INVENTORIES

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Finished goods | **14,898** | – |
| Raw materials | **5,472** | – |
| Work in progress | **5,148** | – |
| | **25,518** | – |

As 31 December 2002, the amount of inventories that are carried at net realisable value amounted to HK$3,039,000 (2001: Nil).

## 16. CONSTRUCTION AND INSTALLATION CONTRACT RECEIVABLES

Prior year construction and installation contract receivables of HK$4,120,000 was related to a subsidiary of the Company engaged in the construction and installation of curtain wall system business which was disposed of by the Group in September 2002.

## 17. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade receivables, net of provisions *(Note)* | **143,467** | 4,734 | **–** | – |
| Prepayments, deposits and other receivables | **24,292** | 944 | **1,592** | 141 |
| | **167,759** | 5,678 | **1,592** | 141 |

*Note:* The Group's credit term to trade debtors ranges from 0 to 180 days. At 31 December 2002, the ageing analysis of the trade receivables was as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Current to 90 days | **118,510** | 1,625 |
| 91 to 180 days | **14,451** | 435 |
| 181 to 365 days | **8,871** | 1,073 |
| Over 365 days | **1,635** | 1,601 |
| | **143,467** | 4,734 |

## 18. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade payables *(Note)* | **65,963** | 8,472 | **–** | – |
| Other payables and accruals | **114,682** | 13,682 | **713** | 442 |
| | **180,645** | 22,154 | **713** | 442 |

*Note:* At 31 December 2002, the ageing analysis of the trade payables was as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Current to 90 days | **53,822** | 1,126 |
| 91 to 180 days | **8,568** | 129 |
| 181 to 365 days | **3,573** | 1,033 |
| Over 365 days | **–** | 6,184 |
| | **65,963** | 8,472 |

## 19. SHORT TERM BANK BORROWINGS

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Bank overdrafts, secured *(Note (a))* | **13,452** | 233 |
| Trust receipt loans, secured *(Note (a))* | **2,960** | 1,656 |
| Short term bank loans, secured *(Note (a))* | **12,757** | – |
| Short term bank loan, unsecured *(Note (b))* | **28,037** | – |
| | **57,206** | 1,889 |

*Note:*

(a) As at 31 December 2002, bank overdrafts, trust receipt loans and short term bank loans of HK$29,169,000 were secured by fixed deposits at banks of HK$19,000,000, deposits in a bank guaranteed fund of HK$1,014,000, personal guarantee of HK$7,000,000 from a Director of the Company, and corporate guarantee of HK$30,000,000 by the Company in accordance with the banking facility terms provided to certain subsidiaries of the Group for trading arrangement with their suppliers.

(b) Unsecured short term bank loan of RMB30,000,000 (approximately HK$28,037,000) was guaranteed by an independent third party, of which RMB20,000,000 (approximately HK$18,692,000) was counter-guaranteed by the Company to the independent third party.

## 20. PROVISION FOR WARRANTY

Prior year warranty provision of HK$2,015,000 was related to a subsidiary of the Company engaged in the construction and installation of curtain wall system business which was disposed of by the Group in September 2002.

## 21. DUE TO FELLOW SUBSIDIARIES AND THE ULTIMATE HOLDING COMPANY

The amounts due to fellow subsidiaries and the ultimate holding company are interest free, unsecured, and have no fixed terms of repayment.

## 22. PENSION OBLIGATIONS

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Obligations on: | | |
| – pensions – defined contribution plan *(Note)* | **1,234** | – |
| | **1,234** | – |

*Note:* No contribution was forfeited during the year.

## 23. SHARE CAPITAL

| | | Authorised Ordinary shares of HK$0.01 each | |
|---|---|---|---|
| | *Note* | **No. of shares** | *HK$'000* |
| On incorporation, 31 May 2001 | *(a)* | 10,000,000 | 100 |
| Increase in authorised ordinary share capital | *(b)* | 990,000,000 | 9,900 |
| At 31 December 2001 and 2002 | | 1,000,000,000 | 10,000 |

## 23. SHARE CAPITAL (Continued)

| | | Issued and fully paid ordinary shares of HK$0.01 each | |
|---|---|---|---|
| | *Note* | **No. of shares** | *HK$'000* |
| Issue of shares (on 7 June 2001) | *(c)* | 10,000,000 | – |
| Issue of shares (on 17 October 2001) | *(d)* | 74,218,010 | 842 |
| Issue of shares (on 24 December 2001) | *(e)* | 16,800,000 | 168 |
| At 31 December 2001 | | 101,018,010 | 1,010 |
| Bonus issue of shares | *(f)* | 101,018,010 | 1,010 |
| Issue of shares (on 17 July 2002) | *(g)* | 20,000,000 | 200 |
| Issue of shares (on 24 December 2002) | *(h)* | 111,018,010 | 1,110 |
| **At 31 December 2002** | | **333,054,030** | **3,330** |

*Note:*

(a) On incorporation, the Company had an authorised share capital of HK$100,000 divided into 10,000,000 shares of HK$0.01 each.

(b) Pursuant to the terms of the Reorganisation, the authorised share capital of the Company was increased from HK$100,000 to HK$10,000,000 by the creation of an additional 990,000,000 shares of HK$0.01 each ranking pari passu in all respects with the existing share capital of the Company.

(c) On 7 June 2001, 10,000,000 shares of HK$0.01 each were allotted and issued as nil paid.

(d) On 17 October 2001, pursuant to the Reorganisation, the Company allotted and issued 74,218,010 new shares of HK$0.01 each credited as fully paid at par, and credited as fully paid at par 10,000,000 shares allotted and issued nil paid as set out in (c) above, to the then shareholders of HSHL, in consideration for their transfer of shares in HSHL to Hi Sun (BVI) Limited, a subsidiary of the Company, on a one share for one share basis.

(e) On 24 December 2001, 16,800,000 shares of HK$0.01 each were issued at HK$1.14 per share by way of placing for a total cash consideration, before expenses, of HK$19,152,000.

(f) On 30 May 2002, a bonus issue of 101,018,010 ordinary shares of HK$0.01 each was made on the basis of one bonus share for every one share held on 23 May 2002 by applying HK$1,010,180 standing to the credit of the share premium account. These shares rank pari passu in all respects with the existing share capital of the Company.

(g) On 17 July 2002, 20,000,000 shares of HK$0.01 each were issued at HK$0.82 per share by way of placing for a total cash consideration, before expenses, of HK$16,400,000. These shares rank pari passu in all respects with the existing share capital of the Company.

(h) On 24 December 2002, 111,018,010 shares of HK$0.01 each were issued at HK$0.63 per share by way of rights issue for a total cash consideration, before expenses, of HK$69,941,000, on the basis of one rights share for every two shares held on that date. These shares rank pari passu in all respects with the existing share capital of the Company.

## 23. SHARE CAPITAL (Continued)

*Note:* (Continued)

(i) Share option scheme

Pursuant to an ordinary resolution passed on 29 November 2001, a share option scheme (the "Scheme") was adopted. The Board of Directors is authorised to grant options to eligible employees including full time employees, and executive and non-executive Directors of the Group. The total number of shares in respect of which options may be granted shall not (together with all the other share option schemes, if any) exceed 10% of the total issued share capital of the Company. The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time. No share options were granted during the year or outstanding at the balance sheet date.

## 24. RESERVES

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Share premium | Contributed surplus *(Note i)* | Reserve funds *(Note ii)* | Exchange difference | Accumulated losses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2001 | 41,934 | – | 269 | (816) | (467,121) | (425,734) |
| Profit for the year | – | – | – | – | 342,965 | 342,965 |
| Contributed surplus arising from the Reorganisation | – | 83,376 | – | – | – | 83,376 |
| Transfer to contributed surplus pursuant to the Reorganisation | (41,934) | 41,934 | – | – | – | – |
| Issue of shares *(Note 23(e))* | 18,984 | – | – | – | – | 18,984 |
| Share issue expenses | (323) | – | – | – | – | (323) |
| Exchange differences | – | – | 4 | (9) | – | (5) |
| At 31 December 2001 | 18,661 | 125,310 | 273 | (825) | (124,156) | 19,263 |
| At 1 January 2002 | 18,661 | 125,310 | 273 | (825) | (124,156) | 19,263 |
| Loss for the year | – | – | – | – | (40,828) | (40,828) |
| Bonus issue of shares *(Note 23(f))* | (1,010) | – | – | – | – | (1,010) |
| Reserves transferred to profit and loss account upon disposal of subsidiaries | – | – | (273) | 825 | – | 552 |
| Issue of shares *(Note 23(g), (h))* | 85,031 | – | – | – | – | 85,031 |
| Share issue expenses | (2,126) | – | – | – | – | (2,126) |
| **At 31 December 2002** | **100,556** | **125,310** | **-** | **-** | **(164,984)** | **60,882** |

## 24. RESERVES (Continued)

*Note:*

(i) The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium account of HSHL acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

(ii) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Company's subsidiary and jointly controlled entity established in the PRC has been transferred to reserve funds which are restricted as to use.

| | Company | | | |
|---|---|---|---|---|
| | **Share premium** *HK$'000* | **Contributed surplus** *(Note)* *HK$'000* | **Accumulated losses** *HK$'000* | **Total** *HK$'000* |
| On incorporation, 31 May 2001 | – | – | – | – |
| Contributed surplus arising from the Reorganisation | – | 3,293 | – | 3,293 |
| Issue of shares | 18,984 | – | – | 18,984 |
| Share issue expenses | (323) | – | – | (323) |
| Loss for the year | – | – | (2,723) | (2,723) |
| At 31 December 2001 | 18,661 | 3,293 | (2,723) | 19,231 |
| At 1 January 2002 | 18,661 | 3,293 | (2,723) | 19,231 |
| Bonus issue of shares *(Note 23(f))* | (1,010) | – | – | (1,010) |
| Issue of shares *(Note 23(g) and (h))* | 85,031 | – | – | 85,031 |
| Share issue expenses | (2,126) | – | – | (2,126) |
| Loss for the year | – | – | (916) | (916) |
| **At 31 December 2002** | **100,556** | **3,293** | **(3,639)** | **100,210** |

*Note:* The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus under certain circumstances.

## 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Operating loss | | **(38,665)** | (8,312) |
| Interest income | | **(460)** | (16) |
| Depreciation | | **7,429** | 1,170 |
| Negative goodwill recognised directly in the profit and loss account | 25(d) | **(421)** | – |
| Loss on disposal and written off of fixed assets | | **2,455** | 139 |
| Provision for impairment in values of leasehold land and buildings | | **–** | 589 |
| Provision for doubtful debts | | **481** | – |
| Provision for other receivables | | **280** | 308 |
| Provision for amounts due from minority shareholders of a subsidiary | | **–** | 506 |
| Write-back of provision for legal claims | | **–** | (2,300) |
| Write-back of provision for doubtful debts | | **(3,651)** | (4,594) |
| Write-back of provision for contract work in progress | | **(5,218)** | (12,866) |
| Provision for obsolete inventories | | **2,237** | – |
| Gain on disposal of discontinuing operations | 25(c) | **(6,701)** | – |
| Gain on disposal of a subsidiary | | **–** | (1,378) |
| Write back of provision for warranty, net | | **–** | (2,643) |
| Operating loss before working capital changes | | **(42,234)** | (29,397) |
| (Increase)/decrease in trade and other receivables | | **(49,403)** | 19,991 |
| Decrease in construction and installation contract receivables | | **10,360** | 13,980 |
| Decrease in inventories | | **5,861** | – |
| Increase in amounts due from minority shareholders of a subsidiary | | **–** | (506) |
| Increase/(decrease) in trade payables, other payables and accruals | | **34,320** | (11,225) |
| Decrease in amount due to ultimate holding company | | **(45,841)** | – |
| Increase in amounts due to fellow subsidiaries | | **6,369** | – |
| Decrease in provision for warranty | | **–** | (1,143) |
| Net cash outflow from operations | | **(80,568)** | (8,300) |

## 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

| | Issued capital (including share premium account and contributed surplus) HK$'000 | Bank loans HK$'000 | Lease payables HK$'000 | Due to a former intermediate holding company HK$'000 | Due to former fellow subsidiaries HK$'000 | Minority interests HK$'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2001 | 126,152 | – | 153 | 323,269 | 29,485 | 5,727 |
| Cash inflow/(outflow) from financing, net | 18,829 | 1,656 | (153) | (117) | – | – |
| Waiver of loans by the GDI Group | – | – | – | (323,152) | (29,485) | – |
| Share of loss for the year | – | – | – | – | – | (2,573) |
| Reclassification to interest in a jointly controlled entity | – | – | – | – | – | (3,154) |
| Balance at 31 December 2001 and 1 January 2002 | 144,981 | 1,656 | – | – | – | – |
| Cash items: | | | | | | |
| New bank loans | – | 36,551 | – | – | – | – |
| Issue of shares | 84,215 | – | – | – | – | – |
| Non cash items: | | | | | | |
| Acquisition of subsidiaries | – | 5,547 | – | – | – | – |
| **Balance at 31 December 2002** | **229,196** | **43,754** | **–** | **–** | **–** | **–** |

## 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (c) Disposal of discontinuing operations

| | 2002<br>*HK$'000* |
|---|---|
| Net liabilities disposed of: | |
| Fixed assets | **3,777** |
| Cash and bank balances | **9,547** |
| Trade receivables, construction and installation contract receivables and other receivables | **4,200** |
| Trade payables, other payables and accruals | **(14,310)** |
| Amount due to the Group | **(2,102)** |
| Interest in a jointly controlled entity | **(2,335)** |
| | **(1,223)** |
| Waiver of amount due to the Group | **2,102** |
| Realisation of reserves: | |
| – exchange difference | **825** |
| – reserve funds | **(273)** |
| Legal and professional fees in respect of the disposal | **368** |
| Gain on disposal of discontinuing operations | **6,701** |
| | **8,500** |
| Satisfied by: | |
| Cash | **8,500** |

Analysis of the net cash outflow in respect of the disposal of discontinuing operations is as follows:

| | 2002<br>*HK$'000* |
|---|---|
| Cash consideration, net of expenses | **8,132** |
| Cash and bank balances disposed of | **(9,547)** |
| Net cash outflow in respect of disposal of discontinuing operations | **(1,415)** |

## 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (d) Purchase of subsidiaries

| | 2002<br>*HK$'000* |
|---|---|
| Net assets acquired: | |
| Fixed assets | **26,451** |
| Inventories | **33,616** |
| Trade and other receivables | **115,010** |
| Pledged bank deposits | **10,000** |
| Cash and bank balances | **29,859** |
| Trade payables, other payables and accruals | **(136,484)** |
| Bank overdrafts | **(13,204)** |
| Trust receipt loans | **(5,547)** |
| Amount due to ultimate holding company | **(49,680)** |
| | **10,021** |
| Negative goodwill on acquisition | **(421)** |
| | **9,600** |
| Satisfied by: | |
| Cash | **9,600** |

The subsidiaries acquired during the year had resulted in net operating cash outflow for the Group of HK$16,457,000, contributed HK$36,370,000 in respect of the net returns on investments and servicing of finance, and utilised HK$16,285,000 for investing activities.

Analysis of the net cash inflow in respect of the purchase of subsidiaries:

| | 2002<br>*HK$'000* |
|---|---|
| Cash consideration | **(9,600)** |
| Cash and bank balances | **29,859** |
| Bank overdrafts | **(13,204)** |
| Net cash inflow in respect of the purchase of subsidiaries | **7,055** |

## 26. CONTINGENT LIABILITIES

In prior years, the then subsidiaries of the Company, namely HSHL and its subsidiary, Full Arts Metal Works Limited, were named defendants in lawsuits regarding certain completed construction and installation projects and a proposed acquisition of two companies in prior years. Full details of these lawsuits are contained in the annual report of the Company for the year ended 31 December 2001.

As disclosed in note 3 to the accounts, the Group disposed of the entire share capital of HSHL and its subsidiaries to an independent third party on 30 September 2002. Accordingly, in the opinion of the Directors, and based on the legal advice of the Company's legal advisor, the Group no longer had any contingent liability arising from such lawsuits.

As at 31 December 2002, the Group had no other contingent liabilities.

## 27. OPERATING LEASE COMMITMENTS

At 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | **Land and buildings** | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Not later than one year | **2,469** | – |
| Later than one year and not later than five years | **2,743** | – |
| | **5,212** | – |

## 28. FUTURE OPERATING LEASE ARRANGEMENTS

At 31 December 2002, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

| | **Group** | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **–** | 110 |

## 29. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

| | | Group | |
|---|---|---|---|
| | | **2002** | 2001 |
| | | ***HK$'000*** | *HK$'000* |
| Management fees paid to a related company | *(a)* | **700** | – |
| Consultancy fees paid to a related company | *(b)* | **288** | – |

(a) Two subsidiaries, Hi Sun Technology Holding Limited and Pax Technology Limited, received management services from Hi Sun Management Limited ("HSML"), a company owned by a Director, who is also a substantial shareholder, of the Company, on terms mutually agreed between the subsidiaries and HSML.

(b) A subsidiary, Pax Technology Limited, received consultancy services from Hi Sun Information Technology Services Limited ("HSITSL"), a company owned by a Director, who is also a substantial shareholder, of the Company, on terms mutually agreed between the subsidiary and HSITSL.

## 30. COMPARATIVE AMOUNTS

As further explained in note 1(a) to the accounts, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the accounts have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 31. ULTIMATE HOLDING COMPANY

In the opinion of the Directors, the ultimate holding company is Hi Sun Limited, a company incorporated in the British Virgin Islands.

## 32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22 April 2003.

A summary of the published consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set as below:

| | Year ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2002** | | 2001 | | 2000 | 1999 | 1998 |
| | ***HK$'000*** | | *HK$'000* | | *HK$'000* | *HK$'000* | *HK$'000* |
| | **Continuing operations** | **Discontinuing operations** *(Note (i))* | Continuing operations | Discontinuing operations *(Note (i))* | Discontinuing operations *(Note (i))* | Discontinuing operations *(Note (i))* | Discontinuing operations *(Note (i))* |
| **Results** | | | | | | | |
| (Loss)/profit attributable to shareholders | **(37,399)** | **(3,429)** | (761) | 343,726 | (81,511) | (332,317) | (110,606) |
| **Assets and liabilities** | | | | | | | |
| Total assets | **312,312** | **-** | 18,530 | 27,801 | 61,937 | 160,814 | 425,808 |
| Total liabilities | **(248,100)** | **-** | (463) | (25,595) | (403,453) | (420,901) | (353,598) |
| Shareholders' funds/(deficit) | **64,212** | **-** | 18,067 | 2,206 | (341,516) | (260,087) | 72,210 |

*Note (i)*

The construction and installation of curtain wall system segment and the sales and distribution of sanitary ware and kitchen cabinets segment which commenced operations since incorporation were disposed of on 30th September 2002 (Note 3).