



**HI SUN GROUP LIMITED**

**高陽集團有限公司**

*(incorporated in Bermuda with limited liability)*



**Annual Report** **2003**

# C O N T E N T S

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Corporate Information	<b>2</b>
Simplified Corporate Chart	<b>3</b>
Notice of Annual General Meeting	<b>4</b>
Financial Highlights	<b>12</b>
Chairman's Statement	<b>13</b>
Directors and Senior Management	<b>15</b>
Report of the Directors	<b>17</b>
Management Discussion and Analysis	<b>23</b>
Auditors' Report	<b>30</b>
Consolidated Profit and Loss Account	<b>31</b>
Consolidated Balance Sheet	<b>32</b>
Balance Sheet	<b>33</b>
Consolidated Statement of Changes in Equity	<b>34</b>
Consolidated Cash Flow Statement	<b>35</b>
Notes to the Accounts	<b>36</b>
Summary Financial Information	<b>62</b>

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors:-

CHEUNG Yuk Fung (*Chairman*)  
KUI Man Chun  
LO Siu Yu  
XU Wensheng  
LI Wenjin  
CHAN Yiu Kwong  
SU Terry Lumin  
XU Chang Jun  
WANG Xiao Qing (*resigned on 24 February 2004*)

#### Independent Non-Executive Directors:-

LAU Wai Kit  
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

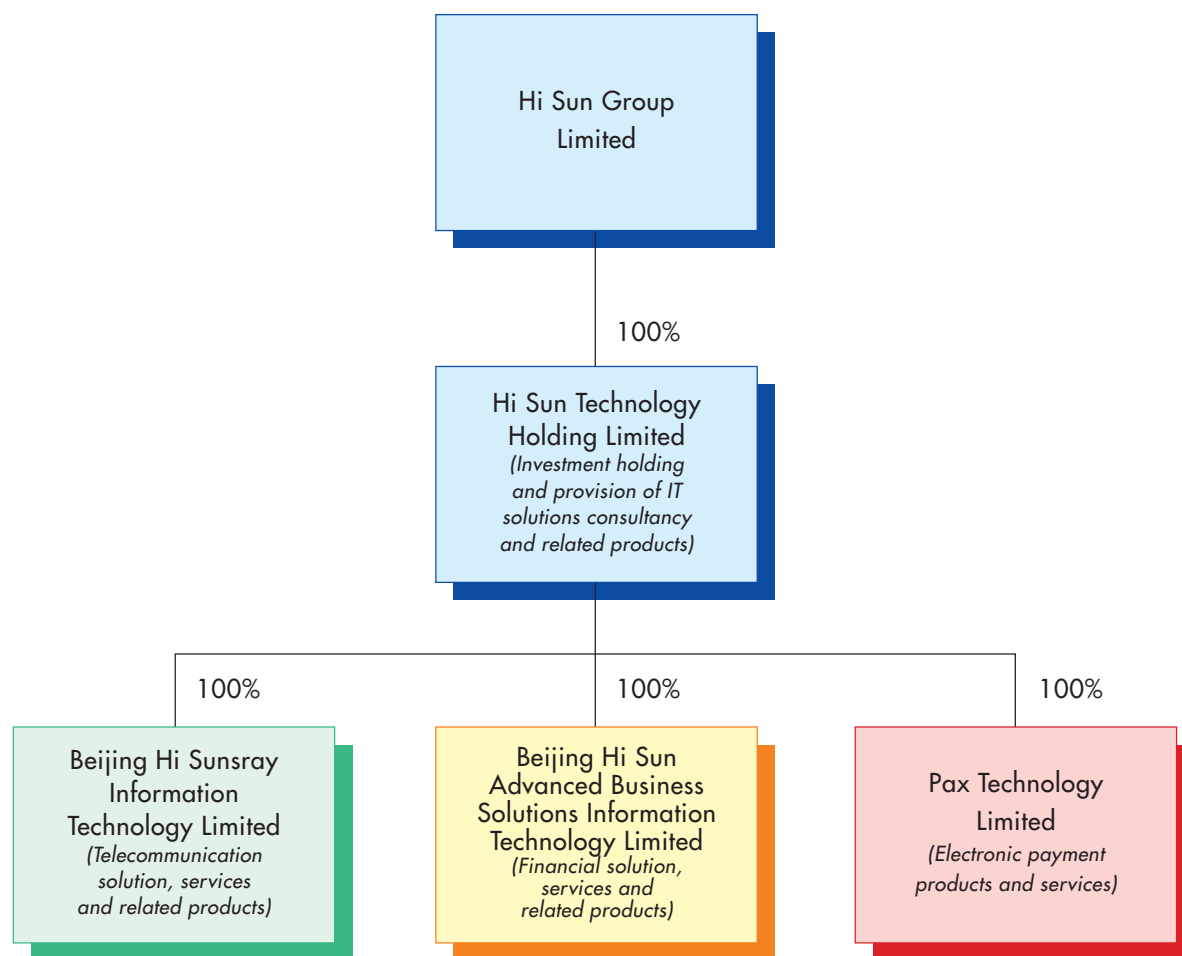
### BRANCH SHARE REGISTRAR AND TRANSFER

#### OFFICE IN HONG KONG

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

## SIMPLIFIED CORPORATE CHART

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



## NOTICE OF ANNUAL GENERAL MEETING

**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 Friday, 28 May 2004 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 2003;
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;

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

4. **"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

## NOTICE OF ANNUAL GENERAL MEETING

- (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). "

5. **"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

## NOTICE OF ANNUAL GENERAL MEETING

- (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."

6. **"THAT** subject to the passing of Resolutions No.4 and No.5 set out in the 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 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.5 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."

As special business, to consider and, if thought fit, pass the following resolution as a Special Resolution:

7. "THAT the Bye-laws of the Company be altered in the following manner:
- (A) (i) By adding the definition of "associate(s)" immediately after the definition of "Act" in Bye-law 1 in the following form:  
  
""associate(s)"      the meaning attributed to it in the Listing Rules from time to time."
  - (ii) By deleting the definition of "clearing house" in Bye-law 1 in its entirety and adding in its place the new definition of "clearing house" in Bye-law 1 in the following form:  
  
""clearing house"      a clearing house recognised by the laws of the jurisdiction on which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction."
  - (iii) By adding the definition of "Listing Rules" immediately after the definition of "head office" in Bye-law 1 in the following form:  
  
""Listing Rules"      the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited."
- (B) (i) By adding in Bye-law 2(e) after the words "visible form" the words ",and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member's election complies with all applicable Statutes, rules and regulations";
- (ii) By deleting the full stop "." at the end of Bye-law 2(j) and substituting therefor a semi-colon ";";

## NOTICE OF ANNUAL GENERAL MEETING

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- (iii) By adding the following new Bye-law 2(k) immediately following Bye-law 2(j) in the following form:

“references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.”

- (C) By adding in Bye-law 44 after the words “any other newspapers in accordance with the requirements of any Designated Stock Exchange,” the words “or by any means in such manner as may be accepted by any Designated Stock Exchange”.
- (D) By adding in Bye-law 51 after the words “any other newspapers in accordance with the requirements of any Designated Stock Exchange,” the words “or by any means in such manner as may be accepted by any Designated Stock Exchange”.
- (E) By deleting the sentence “There shall be no requirement for the chairman to disclose the voting figures on a poll.” in Bye-law 68.
- (F) By adding the following new Bye-law 77A immediately following Bye-law 77 in the following form:

“ 77A. Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

- (G) By deleting Bye-law 88 in its entirety and adding in its place a new Bye-law 88 in the following form:

“No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting, unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by that person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.”

- (H) By deleting Bye-law 103 in its entirety and adding in its place a new Bye-law 103 in the following form:

“(1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal whatsoever in which he or



## NOTICE OF ANNUAL GENERAL MEETING

any of his associate(s) is materially interested, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
  - (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
  - (iv) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director and his associate(s) is/are beneficially interested in shares of the Company provided that the director and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
  - (v) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;
  - (vi) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company."
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associate(s) (either directly or indirectly) are the holder(s) of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associate(s) is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive

## NOTICE OF ANNUAL GENERAL MEETING

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the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director and/or his associate(s) is/are interested only as a unit holder.

- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
  - (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”
- (I) By adding the words “and Bye-law 153A” after the words “Subject to Section 88 of the Act” in Bye-law 153.
  - (J) By adding the following new Bye-laws 153A and 153B immediately following Bye-law 153 in the following form:

“153A. To the extent permitted by and subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Bye-law 153 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company’s annual accounts and the directors’ report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors’ report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company’s annual financial statement and the directors’ report thereon.

153B. The requirement to send to a person referred to in Bye-law 153 the documents referred to in that bye-law or a summary financial report in accordance with Bye-law 153A shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Bye-law 153 and, if applicable, a summary financial report complying with Bye-law 153A, on the Company’s computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company’s obligation to send to him a copy of such documents.”

## NOTICE OF ANNUAL GENERAL MEETING

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- (K) By deleting Bye-law 160 in its entirety and adding in its place a new Bye-law 160 in the following form:

"160. Any Notice or document (including any "corporate communication" within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Bye-laws from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appointed newspapers (as defined in the Act) or in the newspapers in accordance with the requirements of any Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website or the website of the Designated Stock Exchange and giving to the Member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.";

- (L) By deleting Bye-law 161 in its entirety and adding in its place a new Bye-law 161 in the following form:

"161. Any Notice or other document:-

- (a) if served or delivered by post, shall where appropriate be sent by airmail or an equivalent service that is no slower and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;
- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website or the website of the Designated Stock Exchange is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;
- (c) if served or delivered in any other manner contemplated by these Bye-laws, shall be deemed to have been served or delivered at the time of personal service or

## NOTICE OF ANNUAL GENERAL MEETING

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delivery or, as the case may be, at the time of the relevant despatch, transmission or publication; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence thereof;

- (d) if served by advertisement in appointed newspapers (as defined in the Act) or newspapers in accordance with the requirements of any Designated Stock Exchange, shall be deemed to have been served on the day on which the notice is first published; and
- (e) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations."

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

Hong Kong, 30 April 2004

Notes:—

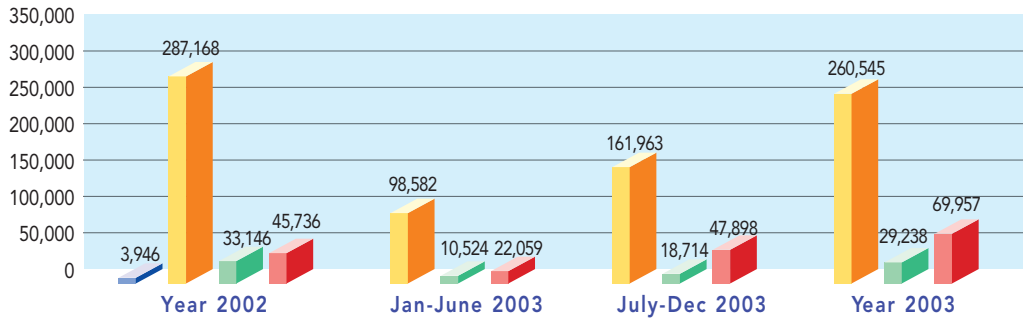
- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting is enclosed.
- (3) Completion and delivery of the form of proxy will not preclude 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.

# FINANCIAL HIGHLIGHTS

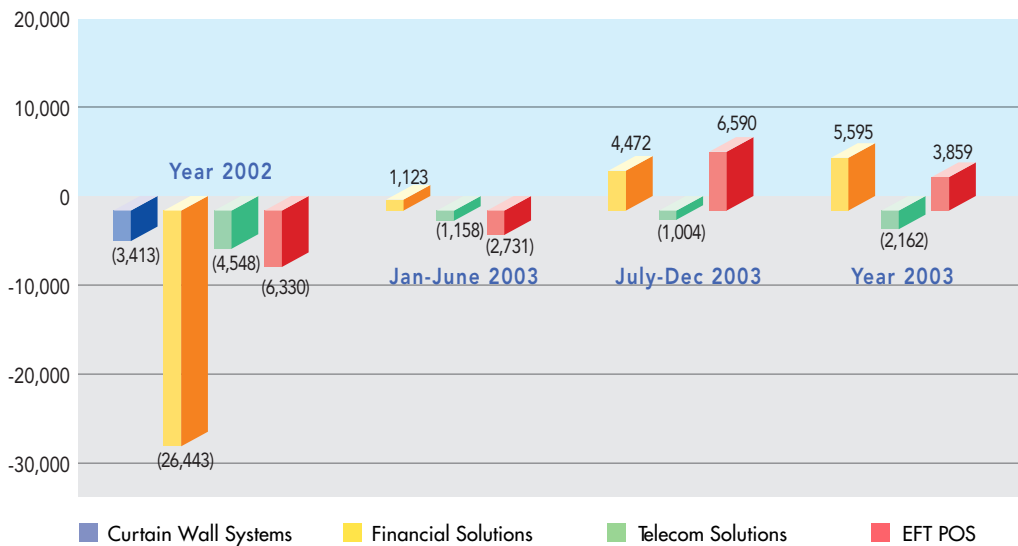
## SEGMENT INFORMATION

(HK\$'000)

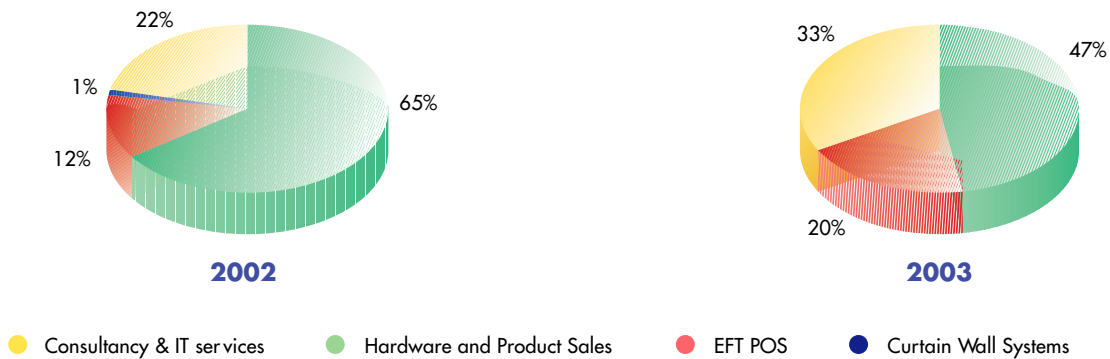
### Turnover



### Results



## SALES MIX



### **A pure Information Technology ("IT") solution provider dedicated to result improvement**

The year 2003 marked the successful metamorphosis of Hi Sun Group Limited (the "Group") into an IT solution provider. By focusing on high margin consultancy and IT services, the Group successfully cut its loss by 92% to HK\$3.45 million in 2003.

The increase of approximately HK\$40.69 million in turnover from consultancy and IT services helped offset the loss in turnover due to the discontinued construction business and decrease in the system integration and related hardware sales, which resulted in a slight decrease of 3% in the Group's turnover for 2003. The sharp rise in turnover from consultancy and IT services indicated that the Group was on the right track regarding its focus on higher value added consultancy and IT services since 2002.

During the first half of the year, the Group faced a difficult market environment. Fierce competition had sharply cut profit margin in certain IT sectors, while the outbreak of Severe Acute Respiratory Syndrome ("SARS") led to postponement of contract execution and thus the recognition of income. As the SARS epidemic was gradually contained, the Group managed to complete most of its contracts and sales in the second half of the year. As a result, the Group reported a net profit of approximately HK\$5.11 million in the second half of 2003 as compared to a loss of HK\$8.56 million in the first half of the year.

In the face of intensified market competition and new challenges from the industry, the Group had restructured its sales mix and exercised stringent cost control. Gross profit margin was thus improved from 19% to 28%. Retrenchment and business rationalisation also saved costs by approximately HK\$22.02 million.

### **Substantial growth of the core businesses**

All of the Group's core business segments displayed satisfactory performance during the year. In particular, financial solution and services and electronic payment product and services segments returned to black in 2003, indicating remarkable improvement in operating results. The Group believes that both segments have enormous growth potential, and the Group will definitely seize on every arising opportunity.

With an experienced consulting team comprising both local and international experts, the Group has provided integrated IT solutions and services to various renowned banks in China and Hong Kong, including Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") and Bank of Communications of China. To vie for a share in the traditional banking market, banks and other financial institutions will strive to provide different kinds of services to customers, including credit cards, investment, wealth management and other peripheral products. All these require the building and enhancement of IT infrastructure. The past years were the investment period of the financial business segment. Now, the Group enters the take-off period and is ready to capture opportunities arising from this high margin and high growth business.

During the period under review, in collaboration with international players, the Group provided credit card and wealth management consultancy services as well as system enhancement services to Construction Bank of China, Bank of Communications of China and Guangdong Securities Company Limited. In overall terms, the Group's application software and services revenue for the year under review grew by 52% over the previous year, representing a sharp growth of the category of the businesses.

The Group's Electronic Fund Transfer Point of Sales ("EFT POS") solution experienced fast growth in the China market. Its terminal sales increased by nearly 200% in China, where the market terminal deployment volume in China grew by approximately 100% in 2003 and demand growth is accelerating. The Group's investment in the product development, design and certification of its EFT POS solution in the past years has been rewarded with fruitful gains and has made the Group one of the leading EFT POS terminal providers in China, with approximately 25% of the new deployment market.

### **IVR system operation - a partnership with China's leading mobile telecommunication carrier**

Towards the end of the year under review, the Group entered a contract with China Mobile, China's leading mobile telecommunication carrier, for running Interactive Voice Response ("IVR") system service for the China Mobile. The contract was signed on exclusive basis, subject to a few exceptions, and gave the Group the right to connect the IVR services of the country's Service Providers ("SP") to China Mobile's nationwide telecommunication systems. The Group's confidence in its telecommunication IT service business has been greatly boosted as a result of this development, because the IVR services in China are a billions of RMB market to be tapped for the next few years according to the industry's general consensus.

Although the telecommunication business still experienced a loss due to the Group's investment in the development of the IVR system, the Group believes that such investment has laid solid foundation for future growth. As the Group is the sole IVR operator of China Mobile, the Group's unified high network capacity platform capable of supporting the future growth of China Mobile in the IVR business is expected to bring in rapidly growing revenues and profits for the years to come.

### **Be adaptable and stay ahead of the Competition**

The year under review is the first in which the Group reports its performance as a pure IT consulting services and products provider. It had witnessed a substantial development in the core businesses of IT consulting services and EFT POS payment hardware products, which accounted for 33% (2002: 22%) and 20% (2002: 12%) of the overall sales turnover respectively. This development carries a significant signal that the Group is decisively ahead of its local competitors who are mainly traditional system integration players.

Looking ahead, competition in the IT and IT related industries remain intense. Nevertheless, the Group is committed to be the first mover, and has switched its focus to high margin consultancy and IT services. With the encouraging performance in the second half of 2003, the Group is confident that it will soon return to profitability. The Group has already laid a solid foundation for the development of its core businesses, and it believes that these segments will continue to generate satisfactory results.

I would like to extend my gratitude to the Board of Directors for their support and express my heartfelt thanks to our devoted employees and management staff for their loyalty and contribution.

**Cheung Yuk Fung**

*Chairman*

Hong Kong, 26 April 2004

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

As at 26 April 2004, the date of the Report of the Directors, the Directors of the Company are as follows:

#### Executive Directors

**Mr. CHEUNG Yuk Fung**, aged 58, 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 38, 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 37, 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 35, 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 40, 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 39, 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.



## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. SU Terry Lumin**, aged 40, 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. 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 37, 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.

### Independent Non-Executive Directors

**Mr. LAU Wai Kit**, aged 41, 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 other listed companies on the Hong Kong Stock Exchange. Mr. Lau also serves as assessor of the Small Entrepreneur Research Assistance Programme which is established under the Innovation and Technology Fund of the Hong Kong Government. He has over 10 years of experience in investment banking and direct investment.

**Mr. XU Sitao**, aged 40, 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 degree in economics and from the University of Connecticut with a master of art degree in Economics. He also holds a master of science degree in Finance from Boston College. Mr. Xu is currently the Economist at ICBC (Asia) and 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 26 April 2004, 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 and Xu Chang Jun were members of the Company's senior management.

## REPORT OF THE DIRECTORS

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The Directors submit their report together with the audited accounts for the year ended 31 December 2003.

### **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 no significant changes in the nature of the Group's principal activities during the year.

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 2003 are set out in the consolidated profit and loss account on page 31.

The Directors do not recommend the payment of a dividend (2002: Nil).

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

### **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 11 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 19 to the accounts.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2003, the Company did not have any reserves available for distribution as calculated under the Companies Act 1981 of Bermuda (as amended) (2002: Nil). However, the Company's share premium account, in the amount of HK\$100,556,000 (2002: HK\$100,556,000) 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.

## REPORT OF THE DIRECTORS

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### **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

XU Wensheng

LI Wenjin

CHAN Yiu Kwong

SU Terry Lumin

XU Chang Jun

WANG Xiao Qing

*(resigned on 24 February 2004)*

#### **Independent non-executive Directors:**

LAU Wai Kit

XU Sitao

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.

Chan Yiu Kwong, Su Terry Lumin and Xu Chang Jun 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 15 to 16.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:—

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

Name of Director	Number of shares held		Total (Note)
	Personal interest	Corporate Interest (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 chief executive had any interests or short positions in the shares, or underlying shares in, or debentures, of the Company or any of its associated corporations.

Save as disclosed under the heading "Share option scheme" below, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and chief executive 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 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 2003, 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 12-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.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2003, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% 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)
Pacific Pilot Limited	30,000,000

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.

### CONNECTED TRANSACTIONS

Certain significant related party transactions entered by the Group during the year ended 31 December 2003, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Listing Rules, are disclosed in note 25 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

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

– the largest supplier	13%
– five largest suppliers combined	36%

#### Sales

– the largest customer	9%
– five largest customers combined	32%

None of the Directors, their associates or any shareholder (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.

## REPORT OF THE DIRECTORS

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### 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 Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, except that the independent non-executive Directors of the Company 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 The Formation of An 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 year.

### SUBSEQUENT EVENTS

On 17 March 2004, 33,000,000 share options were granted to Directors and employees at HK\$0.374 (the average closing price of shares as quoted in the daily quotations sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Ernst & Young were auditors of the Company for the financial year ended 31 December 2001.

On behalf of the Board

**Cheung Yuk Fung**

*Chairman*

Hong Kong, 26 April 2004

### **Highly competitive operating environment**

In 2003, the IT and IT related industries in China continued to be the battlefields for market share and profits. In particular, intensified competition in the market for system integration and hardware products had severely slashed profit margins of IT companies. Besides, the outbreak of SARS during the first half of the year aggravated the market situation, in which companies already facing a tight budget had to savagely cut or suspend their IT spending.

### **Rise to the challenge in a new capacity as pure IT solution provider**

Despite the challenges and difficulties, the Group took the advantage of its newly completed business transformation into a pure IT solution provider to consolidate and expand its operations. Well ahead of its competitors, the Group offered its financial, electronic payment and telecommunication clients a wide range of value-added consultancy and IT services that aim at raising cost-effectiveness and service quality.

During the year, the Group also actively expanded its electronic payment solutions under the PAX brand name. The Group seized on the opportunities arising from improved market sentiment after the containment of SARS by raising its EFT POS terminal sales to a new high level.

On the front of telecommunication, the Group successfully capitalised on its deep insight, profound knowledge of the industrial trend and long term dedicated services to be awarded an exclusive contract, subject to exceptions, to run the IVR platform for China Mobile, the major mobile telecommunication company in China. The Group believes that the IVR operation business enjoys the prospect of growing into a significant revenue and profit contributor for this financial year.

### **Significant improvement in operating results**

The Group's turnover for the year 2003 amounted to approximately HK\$359.79 million, representing a slight drop of 3% from that of the previous year. The modest adjustment was due to a decline of HK\$46.95 million in hardware and product sales and the absence of contribution from the discontinued construction business that accounted for approximately HK\$3.95 million in 2002. The reduced contribution from these items was offset by the increase of HK\$40.69 million in turnover from the provision of consultancy and IT services.

Capitalising on the market recovery and completion of contracts during the second half of the year, the Group's turnover for this period increased by 74% from the first half of the year to HK\$228.63 million.

Apart from a stable turnover, the Group had succeeded in narrowing down its loss from approximately HK\$40.83 million in 2002 to HK\$3.45 million in 2003. The remarkable improvement evidenced the Group's successful strategy to switch its sales composition from low margin product sales to high margin consultancy and IT services and the Group's effective cost control measures. During the year, the Group's gross profit increased from HK\$69.88 million in 2002 to HK\$101.88 million, while the gross profit margin improved from 19% in 2002 to 28%.

The Group's transformation into a pure IT solution provider received further proof of success. In the second half of the year, the Group returned to profitability and reported a net profit of HK\$5.11 million against a loss of HK\$8.56 million in the first half of the year.



### **Financial solutions, application, services and related products – Major turnover and profit contributor of the Group**

This business segment remained the major contributor to the Group's turnover and profit for the year under review. Turnover and profit from this business segment amounted to HK\$260.55 million (2002: HK\$287.17 million) and a profit of HK\$5.6 million (2002: loss of HK\$26.44 million). The outstanding performance in this segment was mainly attributed to the Group's exercising of stringent cost control during the second half of the year and substantial growth in the high margin consultancy and IT services operation, which continued to increase its contribution to this business segment. During 2003, consultancy and IT services accounted for 46% (2002: 27%) and 76% (2002: 53%) of the turnover and gross profit of this business segment respectively, while hardware products accounted for 54% (2002: 73%) and 24% (2002: 47%) of the turnover and gross profit of this business segment respectively.

### **Consultancy and IT services – New growth driver of the Group**

IT services had become a new growth driver of this business segment and ranked the highest in terms of profit growth within the Group in 2003. During the year under review, IT services reported a gross profit of HK\$54.22 million, which represented 92% increase from that of the previous year and accounted for 76% of the gross profit generated from this business segment. The upsurge in the profit growth of IT services was mainly due to the contribution from several major contracts during the year. These contracts included the upgrading of the core banking systems of ICBC (Asia) Limited and Bank of Communications of China with the Group's IBS. The application of the Group's integrated banking system ("IBS") in two of China's largest banks not only marked the Company's core competitiveness and market niche, but also the Company's successful transformation from a traditional system integrator to a leading high value-added IT service provider.

The Group had also targeted its consultancy services at personal banking, credit card and brokerage, and the strategy had proved to be successful. Prestigious clients of the Group included Industrial and Commercial Bank of China ("ICBC"), China Construction Bank, Bank of China and Guangdong Securities Company Limited, etc.

### **System integration and hardware trading – Effective inventory and cost control helped mitigate adverse impact from severe competition**

The Group's hardware product business experienced a retreat in profit margin as a result of severe market competition and reduced investment in IT infrastructure within the financial sector. To cope with these challenges, the Group adopted a "zero-inventory sales strategy", which enabled the Group to mitigate risk of capital lock-up as well as helped boost profitability.

During the second half of the year, the Group also optimized management resources, which emphasised profit margin-oriented operation. Through contracting out lower margin activities and retaining higher margin activities, the Group better utilised its resources and improved cost-effectiveness.

### **Electronic payment solutions and products – Outstanding performance in the second half of 2003**

The electronic payment business segment made a sharp turnabout in the second half of the year, realising a profit of HK\$6.59 million as compared to a loss of HK\$2.73 million in the first half of the year. For the full year of 2003, this segment reported a turnover and profit of HK\$69.96 million (2002: HK\$45.74 million) and HK\$3.86 million (2002: loss of HK\$6.33 million) respectively. During the first half of the year, this business segment suffered from the adverse impact of the outbreak of SARS, which led to deferred business negotiation, contracts and delivery. With the containment of the SARS epidemic by the end of the first half of 2003 and the rapid development of our major clients, demand for the Group's EFT POS terminals quickly bounced back.

Under the PAX brand name, EFT POS terminals, PIN pads and smart card readers had been gaining increasing market recognition and acceptance. By the end of the year under review, PAX terminal sales growth had ranked the Group the major EFT POS terminal vendor in China and positioned it well for becoming a major player in Hong Kong and Southeast Asia.

Certifications for PAX products obtained up to 2003:

#### **P60-S Terminal**

1. China UnionPay ("CUP") in China
2. Europay International, Mastercard International, Visa International ("EMV") Level I and II
3. Network for Electronic Transfers (Singapore) Pte Ltd. ("NETS") Cash Card in Singapore
4. Easy Payment System ("EPS") in Hong Kong
5. American Express ("AMEX")

#### **P70-S Terminal**

1. CUP (in China)
2. CUP (in Hong Kong for BOCI)
3. EMV Level I and II
4. EPS (with CUP) in Hong Kong
5. Proton World in Malaysia
6. NETS Cash Card in Singapore
7. VisaCash in Korea
8. Certification for China Compulsory Product Certification ("CCC")
9. AMEX

#### **PP20-C PinPAD**

1. CUP (in China)
2. VISA PIN Entry Device

As PAX is an important partner of Visa International in the Asia Pacific region with respect to the transition to EMV infrastructure, PAX, through Visa International, is currently seeking collaboration with Small Terminal Interoperability Platform ("STIP") Consortium. STIP Consortium is an international association of secure transaction solution providers, including terminal manufacturers, payphone manufacturers, smart card manufacturers and others, for the development of interoperable platform specification for secure transaction devices. The Group intends to collaborate with STIP Consortium in developing PAX POS terminals that can implement STIP specification. Such collaboration would enable the Group to enhance its know-how in the development of PAX products and its technical capability through acquiring the latest technology and experience of the international electronic payment industry.

### **Telecommunication solutions, services and related products, and a big partner earned through dedicated services**

Competition among IT service providers in China's telecommunication market remained acute during the year under review. Turnover and loss from this business segment for 2003 were HK\$29.24 million (2002: HK\$33.15 million) and loss of HK\$2.16 million (2002: HK\$4.55 million) respectively. Compared with last year's results, this segment had substantially reduced its loss by HK\$2.39 million. If the approximately HK\$1.8 million attributable to the initial investment in the IVR operation were excluded, this segment would have further narrowed down its loss to less than HK\$1 million.

Management systems and value added systems for telecommunication carriers remained the two principal solutions of this segment. Major systems completed during the year included the billing systems for 18 provinces for China Unicom, the billing systems for 3 provinces for China Mobile, the billing system for Beijing Telecom, decision support systems for Jilin Telecom and Inner Mongolia Telecom, and customer service systems for China Unicom in Yunan, Jiangxi and Ningxia.

The long term dedicated services of the Group earned the recognition of China Mobile, the leading mobile telecommunication carrier in China, which entered into an exclusive agreement with the Group towards the end of the year under review on the use of the Group's IVR system. The contract provides the Group with a new significant growth driver.

Under the cooperative agreement, the Group acts as the operator, responsible for constructing and managing the infrastructure for the "12586 mobile chat services" and the "12590 voice-SMS (Short Messages Services) information services" offered by China Mobile. The Group is entitled to a share of revenue from China Mobile and the Service Providers for those services through the Group's unified high network capacity platform. The Group's platform is designed to cater for the future growth of the voice businesses of China Mobile. 12590 voice-SMS information services provide a platform that supports voice response system. Through touch-tone input, users can retrieve voice messages from themselves or others, receive and send voice-SMS messages. On the other hand, 12586 mobile chat services provide China Mobile's users with a registered "chat room", where members can chat with friends from far and wide.

China Mobile and the other carriers in China have unswervingly been pursuing their business expansion. Short Message Service (SMS), which has grown at a compound annual growth rate of over 200% in the past three years and continues to be the main source of revenue and profit growth for carriers, is a remarkable case in point. Although the development of IVR is still in the initial investment stage, it is expected to experience rapid growth for the coming years.

As China becomes the world's largest mobile telecommunication market and China Mobile is the major mobile carrier in the country, the Group sees its collaboration with China Mobile on the IVR business an important step in diversifying into value-added telecommunication services and establishing a strong presence in a market of enormous growth potential.

### Liquidity and Financial Resources

As at 31 December 2003, the Group reported a total assets of HK\$163.68 million, which were financed by liabilities of HK\$102.92 million and equity of HK\$60.76 million. The net assets value was HK\$60.76 million (2002: HK\$64.21 million). It amounted to HK\$0.18 per share as compared to HK\$0.19 per share as at 31 December 2002.

As at 31 December 2003, the Group had cash of HK\$42.52 million and bank borrowings of HK\$24.48 million. The net cash position as at that date was HK\$18.04 million as compared to HK\$36.07 million as at 31 December 2002. All the borrowings were short-term loans and overdrafts utilised to fund the Group's working capital requirements. The gearing ratio (defined as total interest bearing debts divided by shareholders' equity) was 0.40 compared to 0.89 as at 31 December 2002 due to the repayment of certain bank borrowings after the rights issue exercise in December 2002. The gearing ratio is considered healthy and suitable for the continued growth of the Group's business.

### 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 2003, bank loans amounting to RMB9.2 million (equivalent to HK\$8.6 million) were denominated in Renminbi with average interest rates of 5.31%. Short term bank loans and overdrafts amounting to US\$0.62 million (equivalent to HK\$4.85 million) and HK\$11.03 million were denominated in US dollar and Hong Kong dollar respectively. The Hong Kong dollar and US dollar denominated loans were charged at Hong Kong Prime Lending rate and floating interest rate respectively.

Approximately HK\$17.52 million, HK\$24.17 million and HK\$0.83 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 31 December 2003.

The bank loans were secured by fixed deposits of HK\$14.46 million, deposits in bank guaranteed funds of HK\$4.42 million and a personal guarantee of HK\$7 million from a Director of the Company, and corporate guarantee of HK\$30 million by the Company.

### Exchange Rates Exposure

The Group derives its revenue, makes purchases and incurs expenses denominated mainly in US dollar, Renminbi and Hong Kong dollar. 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 dollar or Renminbi may have impact on the operating results of the Group.

### Contingent Liabilities

The Group had no contingent liability as at 31 December 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Employees

The total number of employees of the Group as at 31 December 2003 was 627. The breakdown of employees by division is as follows:

Financial solutions, services and related products	392
Electronic payment solutions and products	85
Telecommunication solutions, services and related products	77
IVR operation	65
Corporate office	8
	<hr/>
	627

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

### Share Options

To provide further incentive to motivate talented employees, the Company adopted a share option scheme in November 2001. On 17 March 2004, 33,000,000 share options were granted to Directors and employees at HK\$0.374 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

### USE OF PROCEEDS

The net proceeds of HK\$68 million raised from the Rights Issue completed in December 2002 had already been utilised. As at 31 December 2003, the application of the net proceeds was as follows:

#### Intended application of proceeds as disclosed in the Company's Circular dated 4 December 2002

	Intended application <i>HK\$ million</i>	Utilised <i>HK\$ million</i>
Expansion of the Group's IT Business	15	10
Expansion of the Group's electronic payment products and services	10	14
Reduction of the Group's indebtedness	25	26
General working capital	18	18
	<hr/>	<hr/>
	68	68

### PROSPECTS

#### Promising outlook with enormous room for growth

2004 is a year full of opportunities. Demand for upgrading of IT infrastructure in the financial industry and the transition to EMV infrastructure promoted by international payment associations such as Visa International, MasterCard International, etc. are expected to create much room for development for the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

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With respect to the financial sector, the establishment of the China Banking Regulatory Commission, changes in China's financial policies, new rules regarding the granting of licence to financial institutions and intensified competition will lead to continued enhancement of IT infrastructure in the industry. However, more and more IT service providers are expected to vie for a market share in the industry. Taking the advantage of its leading and first-mover position, the Group is confident in enlarging its market coverage through taking the following initiatives: 1) to continue to explore the markets for banking and insurance core business products and IT services; 2) to further develop the service market for credit card business; 3) to upgrade the value services added of consultancy business; 4) to strengthen the Group's data processing and analysis systems and 5) to realign the Group's management resources and technical resources, in order to meet the growing demand for IT consultancy in respect of project management, supervision and software development management.

In 2004, the Group's electronic payment business is expected to continue to display strong performance. A large number of traditional POS terminals have to be renewed by 2006 in order to comply with the requirements of EMV infrastructure, which is an accelerating trend in the payment industry. The Group believes its EFT POS terminals under the PAX brand name will continue to enjoy a solid competitive advantage over its major competitors. To cater for different needs and enrich the Group's existing product portfolio, the Group is launching a number of new hardware and software products in 2004.

Besides, the PAX products have been consolidating its leading position in China due to its price competitiveness, quality and technical support. For the year under review, through its collaboration with CUP, the country's national card association, the Group has taken approximately 25% of the new deployment market in China. In view of CUP's dominant position and rapid development, the Group believes there will be uniquely big room for the growth of the PAX products sales in China.

On the telecommunication front, the Group expects its IT business to generate satisfactory income in respect of capacity expansion and system upgrade of the management and value-added system projects for telecommunication carriers. More significantly, as the sole operator of China Mobile's IVR system services, the Group anticipates that its IVR business will become a key profit driver of the Group in the future. The market size of the IVR operation in China is expected to reach US\$300 million within the next two to three years.

In its new capacity, the Group is committed to maintaining its leading IT consultancy and service provider position in China and to creating greater shareholder value.



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### AUDITORS' REPORT TO THE SHAREHOLDERS OF HI SUN GROUP LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 31 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes 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 2003 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, 26 April 2004

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	359,790	369,996
Cost of sales		<b>(257,915)</b>	(300,116)
Gross profit		<b>101,875</b>	69,880
Other revenue	2	<b>328</b>	1,939
Gain on disposal of discontinuing operations	3	-	6,701
Selling expenses		<b>(35,899)</b>	(46,652)
Administrative expenses		<b>(68,133)</b>	(79,402)
Write-back of provision for doubtful debts		-	3,651
Write-back of provision for contract work in progress		-	5,218
Operating loss	4	<b>(1,829)</b>	(38,665)
Finance costs	5	<b>(1,625)</b>	(2,140)
Loss before taxation		<b>(3,454)</b>	(40,805)
Taxation	8	-	(23)
Loss attributable to shareholders	9	<b>(3,454)</b>	(40,828)
Basic loss per share	10	<b>HK\$(0.01)</b>	HK\$(0.19)
Diluted loss per share	10	<b>HK\$(0.01)</b>	HK\$(0.19)



## CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	Note	<b>2003</b> <b>HK\$'000</b>	2002 <b>HK\$'000</b>
<b>Non current assets</b>			
Fixed assets	11	<b>18,283</b>	25,760
<b>Current assets</b>			
Inventories	13	<b>20,738</b>	25,518
Trade and other receivables	14	<b>82,131</b>	167,759
Pledged bank deposits	16	<b>18,879</b>	20,014
Bank balances and cash		<b>23,645</b>	73,261
		<b>145,393</b>	286,552
<b>Current liabilities</b>			
Trade payables, other payables and accruals	15	<b>72,206</b>	180,645
Due to ultimate holding company	17	<b>3,042</b>	3,839
Due to fellow subsidiaries	17	<b>3,154</b>	6,369
Taxation payable		<b>41</b>	41
Short term bank borrowings	16	<b>24,475</b>	57,206
		<b>102,918</b>	248,100
Net current assets		<b>42,475</b>	38,452
Total assets less current liabilities		<b>60,758</b>	64,212
<b>Financed by:</b>			
Share capital	19	<b>3,330</b>	3,330
Reserves	20	<b>57,428</b>	60,882
Shareholders' funds		<b>60,758</b>	64,212

On behalf of the Board

**Cheung Yuk Fung**  
Director

**Li Wenjin**  
Director

## BALANCE SHEET

As at 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non current assets			
Fixed assets	11	9	11
Interests in subsidiaries	12	76,607	63,214
		<b>76,616</b>	63,225
Current assets			
Prepayments, deposits and other receivables	14	1,056	1,592
Bank balances and cash		2,874	39,436
		<b>3,930</b>	41,028
Current liabilities			
Other payables and accruals	15	819	713
Net current assets		<b>3,111</b>	40,315
Total assets less current liabilities		<b>79,727</b>	103,540
Financed by:			
Share capital	19	3,330	3,330
Reserves	20	76,397	100,210
Shareholders' funds		<b>79,727</b>	103,540

On behalf of the Board

**Cheung Yuk Fung**  
Director

**Li Wenjin**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2003*

	<i>Note</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Total equity as at 1 January		<b>64,212</b>	20,273
Loss for the year	20	<b>(3,454)</b>	(40,828)
Exchange difference transferred to profit and loss account upon disposal of subsidiaries	20	-	825
Reserve funds transferred to profit and loss account upon disposal of subsidiaries	20	-	(273)
Issue of shares	19, 20	-	86,341
Share issue expenses	20	-	(2,126)
Total equity as at 31 December		<b>60,758</b>	64,212

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Operating activities			
Net cash outflow from operations	22(a)	(14,987)	(80,568)
Interest paid		(1,625)	(2,140)
Net cash outflow from operating activities		<b>(16,612)</b>	(82,708)
Investing activities			
Purchase of fixed assets		(2,273)	(6,464)
Sale of fixed assets		574	12,157
Disposal of discontinuing operations, net of cash disposed		-	(1,415)
Purchase of subsidiaries, net of cash acquired		-	7,055
Interest received		291	460
Decrease/(increase) in pledged bank deposits		1,135	(10,014)
Net cash (outflow)/inflow from investing activities		<b>(273)</b>	1,779
Net cash outflow before financing activities		<b>(16,885)</b>	(80,929)
Financing activities			
Issue of ordinary shares	22(b)	-	84,215
Inception of short term bank borrowings	22(b)	-	36,551
Repayment of short term bank borrowings	22(b)	(27,972)	-
Net cash (outflow)/inflow from financing activities		<b>(27,972)</b>	120,766
(Decrease)/increase in cash and cash equivalents		<b>(44,857)</b>	39,837
Cash and cash equivalents at 1st January		<b>59,809</b>	19,972
Cash and cash equivalents at 31 December		<b>14,952</b>	59,809
Analysis of balances of cash and cash equivalents			
Bank balances and cash		<b>23,645</b>	73,261
Bank overdrafts		<b>(8,693)</b>	(13,452)
		<b>14,952</b>	59,809

## NOTES TO THE ACCOUNTS

### 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 Statement of Standard Accounting Practice ("SSAP") No. 12 "Income taxes" (revised) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The adoption of the above revised SSAP had no material financial impact on these accounts.

#### (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.

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 and any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investments 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.

#### (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 profit and loss account.

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

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (d) Fixed assets

##### (i) Fixed assets

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

All fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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 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 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 profit and loss account.

#### (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 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.

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (g) 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.

#### (h) 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, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

#### (i) 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, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (j) Employee benefits

##### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision, where appropriate, 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 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 administered 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.

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (l) 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.

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.

#### (m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.



## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (n) 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.

#### (o) Revenue recognition

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 has passed.

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

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

#### (p) 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.

#### (q) 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.

## NOTES TO THE ACCOUNTS

### 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. Revenues recognised during the year are as follows:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sales of goods	<b>240,295</b>	287,247
Provision of information system consultancy and integration services	<b>119,495</b>	78,803
Value of construction and installation work performed	-	3,946
	<b>359,790</b>	369,996
Other revenues		
Rental income	-	238
Interest income	<b>291</b>	460
Waiver of payment to a sub-contractor	-	454
Others	<b>37</b>	787
	<b>328</b>	1,939
Total revenue	<b>360,118</b>	371,935

#### Primary reporting format – business segments

The Group is organised into three main business segments:

- (a) Financial solutions, services and related products – provision 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; and
- (c) Electronic payment products and services – sales of point-of-sale (“POS”) terminals.

In 2002, the Group also engaged in the construction and installation of curtain wall system and aluminium windows. This segment was disposed of on 30 September 2002.

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.

## NOTES TO THE ACCOUNTS

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

#### Secondary reporting format – geographical segments

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

- Hong Kong, Korea and South East Asia – financial solutions, services and related products, and electronic payment products and services
- 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.

#### Primary reporting format – business segments

	Financial solutions, services and related products 2003 HK\$'000	Telecommunication solutions, services and related products 2003 HK\$'000	Electronic payment products and services 2003 HK\$'000	Other operations 2003 HK\$'000	Group 2003 HK\$'000
Turnover	260,545	29,238	69,957	50	359,790
Other revenue	161	7	159	1	328
Segment results	5,595	(2,162)	3,859	(9,121)	(1,829)
Finance costs					(1,625)
Loss before taxation					(3,454)
Taxation					-
Loss attributable to shareholders					(3,454)
Segment assets	83,383	23,168	52,488	4,637	163,676
Segment liabilities	(38,499)	(32,334)	(31,119)	(966)	(102,918)
Other segment information:					
Depreciation	6,977	1,160	677	2	8,816
Provision for doubtful debts	1,701	-	-	-	1,701
Provision for other receivables	1,196	-	-	-	1,196
Write-back of provision for obsolete inventories	-	-	(346)	-	(346)
Loss on disposal and write off of fixed assets	336	-	24	-	360
Capital expenditure	1,867	247	159	-	2,273

## NOTES TO THE ACCOUNTS

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

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

	Financial solutions, services and related products 2002 HK\$'000	Telecommunication 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

## NOTES TO THE ACCOUNTS

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

#### Secondary reporting format – geographical segments

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Hong Kong, Korea and South East Asia	54,823	(3,855)	40,136	11
Mainland China	304,967	1,735	123,540	2,262
	<u>359,790</u>	<u>(2,120)</u>	<u>163,676</u>	<u>2,273</u>
Unallocated income, net		<u>291</u>		
Operating loss		<u>(1,829)</u>		

	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
	<u>369,996</u>	<u>(45,366)</u>	<u>312,312</u>	<u>6,464</u>
Unallocated income, net		<u>6,701</u>		
Operating loss		<u>(38,665)</u>		

### 3. GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS

The gain on disposal of discontinuing operations represented the gain arising from the disposal of the construction and installation of curtain wall system segment and the sales and distribution of sanitary-ware and kitchen cabinets segment on 30 September 2002.

## NOTES TO THE ACCOUNTS

### 4. OPERATING LOSS

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

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Crediting		
Refund of value added tax	<b>3,355</b>	2,507
Write-back of provision for obsolete inventories	<b>346</b>	–
Charging		
Auditors' remuneration	<b>1,152</b>	1,160
Depreciation	<b>8,816</b>	7,429
Staff costs ( <i>Note 6</i> )	<b>86,335</b>	90,149
Operating lease rentals for land and buildings	<b>10,717</b>	9,032
Loss on disposal and write off of fixed assets	<b>360</b>	2,455
Provision for doubtful debts	<b>1,701</b>	481
Provision for other receivables	<b>1,196</b>	280
Provision for obsolete inventories	–	2,237
Net exchange losses	<b>218</b>	150

### 5. FINANCE COSTS

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Interest on bank loans and overdrafts	<b>1,625</b>	2,140

### 6. STAFF COSTS

Excluding Directors' remuneration

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Wages and salaries	<b>80,874</b>	87,408
Pension costs – defined contribution plan	<b>5,461</b>	3,121
Less: staff costs capitalised into contract work in progress	–	(380)
	<b>86,335</b>	90,149

## NOTES TO THE ACCOUNTS

### 7. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

#### (a) Directors' emoluments

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

	2003 HK\$'000	2002 HK\$'000
Fees	372	305
Other emoluments:		
Basic salaries, other allowances and benefits in kind	280	320
Contributions to pension schemes for Directors	10	8
	<b>662</b>	633

Directors' fees disclosed above include HK\$252,000 (2002: HK\$225,000) paid to independent non-executive Directors.

The emoluments of the Directors fell within the following bands:

	Number of Directors	
	2003	2002
<b>Emolument bands</b>		
HK\$nil – HK\$1,000,000	11	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 none of the Directors (2002: one). The emoluments payable to the five (2002: four) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	4,081	3,057

## NOTES TO THE ACCOUNTS

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

#### (b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$nil – HK\$1,000,000	4	3
HK\$1,500,001 – HK\$2,000,000	1	1

### 8. TAXATION

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

	2003 HK\$'000	2002 HK\$'000
Current taxation:		
– Hong Kong profits tax	–	41
– Overseas taxation	–	–
	–	41
Over-provision in prior years	–	(18)
Taxation charge for the year	–	23

Hong Kong profits tax has not been provided in these accounts as the Group has no estimated assessable profit for the year (2002: 16%).

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.



## NOTES TO THE ACCOUNTS

### 8. TAXATION (Continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Loss before taxation	<b>(3,454)</b>	(40,805)
Calculated at a taxation rate of 17.5% (2002: 16%)	<b>(604)</b>	(6,529)
Effect of different taxation rates in other countries	<b>1,450</b>	(8,134)
Effect of tax holiday	<b>(3,832)</b>	-
Income not subject to taxation	<b>(4)</b>	(1,682)
Expenses not deductible for taxation purposes	<b>401</b>	896
Utilisation of previously unrecognised tax losses	<b>-</b>	(871)
Unrecognised tax losses	<b>2,589</b>	16,361
Over-provision in prior years	<b>-</b>	(18)
Taxation charge	<b>-</b>	23

### 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$23,813,000 (2002: HK\$916,000).

### 10. BASIS LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$3,454,000 (2002: HK\$40,828,000) and 333,054,030 (2002: weighted average number of 215,119,396) ordinary shares in issue during the year.

The weighted average number of shares in issue used to calculate the basic loss per share for the year ended 31 December 2002 has been adjusted for the effect of the Company's bonus issue and rights issue as set out in note 19(a) and (c) respectively.

There were no dilutive effects on the basic loss per share for the years ended 31 December 2003 and 2002.

## NOTES TO THE ACCOUNTS

### 11. FIXED ASSETS

	Group				Total HK\$'000
	Leasehold improve- -ments HK\$'000	Office furniture and equipment HK\$'000	Plant and equipment HK\$'000	Motor vehicles HK\$'000	
Cost:					
At 1 January 2003	6,200	22,242	443	3,818	32,703
Additions	1,501	709	63	-	2,273
Disposals	-	(1,380)	-	(188)	(1,568)
<b>At 31 December 2003</b>	<b>7,701</b>	<b>21,571</b>	<b>506</b>	<b>3,630</b>	<b>33,408</b>
Accumulated depreciation and impairment:					
At 1 January 2003	2,359	3,776	45	763	6,943
Charge for the year	2,605	5,218	85	908	8,816
Disposals	-	(577)	-	(57)	(634)
<b>At 31 December 2003</b>	<b>4,964</b>	<b>8,417</b>	<b>130</b>	<b>1,614</b>	<b>15,125</b>
Net book value:					
<b>At 31 December 2003</b>	<b>2,737</b>	<b>13,154</b>	<b>376</b>	<b>2,016</b>	<b>18,283</b>
At 31 December 2002	3,841	18,466	398	3,055	25,760

## NOTES TO THE ACCOUNTS

### 11. FIXED ASSETS (Continued)

	<b>Company Office furniture and equipment</b> <i>HK\$'000</i>
Cost:	
At 1 January 2003	12
Additions	–
<b>At 31 December 2003</b>	<b>12</b>
Accumulated depreciation:	
At 1 January 2003	1
Charge for the year	2
<b>At 31 December 2003</b>	<b>3</b>
Net book value:	
<b>At 31 December 2003</b>	<b>9</b>
At 31 December 2002	11

### 12. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
Unlisted investments, at cost	<b>4,136</b>	4,136
Due from subsidiaries	<b>92,471</b>	59,078
Less: Provision for diminution in value	<b>(20,000)</b>	–
	<b>76,607</b>	63,214

The balances with subsidiaries are unsecured, interest free, and have no fixed terms of repayment, except for amounts due from subsidiaries of HK\$5,900,000 (2002: 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.

## NOTES TO THE ACCOUNTS

### 12. INTERESTS IN SUBSIDIARIES (Continued)

The following is a full list of the subsidiaries at 31 December 2003:

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

## NOTES TO THE ACCOUNTS

### 12. 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
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%
Turbo Speed Technology Limited	BVI, limited liability company	Investment holding in BVI	3,589,744 ordinary shares of US\$1 each	100%
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\$10,000,000	100%

\* Shares held directly by the Company

### 13. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Finished goods	7,729	14,898
Raw materials	7,608	5,472
Work in progress	5,401	5,148
	<b>20,738</b>	25,518

As 31 December 2003, the amount of inventories that are carried at net realisable value amounted to HK\$2,693,000 (2002: HK\$3,039,000).

## NOTES TO THE ACCOUNTS

### 14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Trade receivables, net of provisions ( <i>Note</i> )	64,812	143,467	-	-
Prepayments, deposits and other receivables	17,319	24,292	1,056	1,592
	<b>82,131</b>	167,759	<b>1,056</b>	1,592

*Note:* The Group's credit terms to trade debtors range from 0 to 180 days. At 31 December 2003, the ageing analysis of the trade receivables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	40,614	118,510
91 to 180 days	18,820	14,451
181 to 365 days	1,861	8,871
Over 365 days	3,517	1,635
	<b>64,812</b>	143,467

### 15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Trade payables ( <i>Note</i> )	23,303	65,963	-	-
Other payables and accruals	48,903	114,682	819	713
	<b>72,206</b>	180,645	<b>819</b>	713

## NOTES TO THE ACCOUNTS

### 15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (Continued)

Note:

At 31 December 2003, the ageing analysis of the trade payables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	17,834	53,822
91 to 180 days	503	8,568
181 to 365 days	2,309	3,573
Over 365 days	2,657	-
	<b>23,303</b>	<b>65,963</b>

### 16. SHORT TERM BANK BORROWINGS

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured (Note (a))	8,693	13,452
Trust receipt loans, secured (Note (a))	7,184	2,960
Short term bank loans, secured (Note (a))	8,598	12,757
Short term bank loan, unsecured	-	28,037
	<b>24,475</b>	<b>57,206</b>

Note:

- (a) As at 31 December 2003, bank overdrafts, trust receipt loans and secured short term bank loans of HK\$24,475,000 (2002: HK\$29,169,000) were secured by fixed deposits at banks of HK\$14,459,000 (2002: HK\$19,000,000), deposits in a bank guaranteed fund of HK\$4,420,000 (2002: HK\$1,014,000), personal guarantee of HK\$7,000,000 (2002: HK\$7,000,000) from a Director of the Company, and corporate guarantee of HK\$30,000,000 (2002: 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.

### 17. 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.

## NOTES TO THE ACCOUNTS

### 18. PENSION OBLIGATIONS

	2003 HK\$'000	Group 2002 HK\$'000
Obligations on:		
– pensions – defined contribution plan ( <i>Note</i> )	<b>3,097</b>	1,234

*Note:* No contribution was forfeited during the year (2002: Nil).

### 19. SHARE CAPITAL

		Authorised Ordinary shares of HK\$0.01 each	
<i>Note</i>	No. of shares	HK\$'000	
At 31 December 2002 and 2003	1,000,000,000	10,000	
		Issued and fully paid Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000	
At 1 January 2002	101,018,010	1,010	
Bonus issue of shares in 2002	(a) 101,018,010	1,010	
Issue of shares (on 17 July 2002)	(b) 20,000,000	200	
Issue of shares (on 24 December 2002)	(c) 111,018,010	1,110	
<b>At 31 December 2002 and 2003</b>	<b>333,054,030</b>	<b>3,330</b>	

*Note:*

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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. Details of share options granted on 17 March 2004 are set out in note 26 to the accounts.



## NOTES TO THE ACCOUNTS

### 20. RESERVES

	Group					Total HK\$'000
	Share premium HK\$'000	Contributed surplus (Note i) HK\$'000	Reserve funds HK\$'000	Exchange difference HK\$'000	Accumu- -lated losses HK\$'000	
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 19(a))	(1,010)	-	-	-	-	(1,010)
Reserves transferred to profit and loss account upon disposal of subsidiaries	-	-	(273)	825	-	552
Issue of shares (Note 19(b) and (c))	85,031	-	-	-	-	85,031
Share issue expenses	(2,126)	-	-	-	-	(2,126)
At 31 December 2002	100,556	125,310	-	-	(164,984)	60,882
At 1 January 2003	100,556	125,310	-	-	(164,984)	60,882
Loss for the year	-	-	-	-	(3,454)	(3,454)
<b>At 31 December 2003</b>	<b>100,556</b>	<b>125,310</b>	<b>-</b>	<b>-</b>	<b>(168,438)</b>	<b>57,428</b>

Note:

- (i) The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium account of Hi Sun Holdings Limited ("HSHL") acquired pursuant to the group reorganisation (the "Reorganisation") on 17 October 2001 as set out in the circular to the shareholders of HSHL dated 9 August 2001, over the nominal value of the Company's shares issued in exchange therefor.

## NOTES TO THE ACCOUNTS

### 20. RESERVES (Continued)

	Company			Total HK\$'000
	Share premium HK\$'000	Contributed surplus (Note) HK\$'000	Accumulated losses HK\$'000	
At 1 January 2002	18,661	3,293	(2,723)	19,231
Bonus issue of shares (Note 19(a))	(1,010)	–	–	(1,010)
Issue of shares (Note 19(b) and (c))	85,031	–	–	85,031
Share issue expenses	(2,126)	–	–	(2,126)
Loss for the year	–	–	(916)	(916)
<b>At 31 December 2002</b>	<b>100,556</b>	<b>3,293</b>	<b>(3,639)</b>	<b>100,210</b>
At 1 January 2003	100,556	3,293	(3,639)	100,210
Loss for the year	–	–	(23,813)	(23,813)
<b>At 31 December 2003</b>	<b>100,556</b>	<b>3,293</b>	<b>(27,452)</b>	<b>76,397</b>

*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.

## NOTES TO THE ACCOUNTS

### 21. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$12,536,000 (2002: HK\$50,260,000) to carry forward against future taxable income. These tax losses have not been recognised for due to uncertainty of their future recoverability. The tax losses will expire according to the prevailing tax laws and regulations in the countries in which the Group operates.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

#### Deferred tax liabilities

	<b>Accelerated tax depreciation</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1 January	44	72
Credited to profit and loss account	(34)	(28)
At 31 December	<b>10</b>	44

#### Deferred tax assets

	<b>Tax losses</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1 January	(44)	(72)
Charged to profit and loss account	34	28
At 31 December	<b>(10)</b>	(44)
Net deferred taxation at 31 December	-	-

## NOTES TO THE ACCOUNTS

### 22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Operating loss	<b>(1,829)</b>	(38,665)
Interest income	<b>(291)</b>	(460)
Depreciation	<b>8,816</b>	7,429
Negative goodwill recognised directly in the profit and loss account	-	(421)
Loss on disposal and write off of fixed assets	<b>360</b>	2,455
Provision for doubtful debts	<b>1,701</b>	481
Provision for other receivables	<b>1,196</b>	280
Write-back of provision for doubtful debts	-	(3,651)
Write-back of provision for contract work in progress	-	(5,218)
(Write-back)/provision for obsolete inventories	<b>(346)</b>	2,237
Gain on disposal of discontinuing operations	-	(6,701)
Operating profit/(loss) before working capital changes	<b>9,607</b>	(42,234)
Decrease/(increase) in trade and other receivables	<b>82,731</b>	(49,403)
Decrease in construction and installation contract receivables	-	10,360
Decrease in inventories	<b>5,126</b>	5,861
(Decrease)/increase in trade payables, other payables and accruals	<b>(108,439)</b>	34,320
Decrease in amount due to ultimate holding company	<b>(797)</b>	(45,841)
(Decrease)/increase in amounts due to fellow subsidiaries	<b>(3,215)</b>	6,369
Net cash outflow from operations	<b>(14,987)</b>	(80,568)

## NOTES TO THE ACCOUNTS

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

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

	<b>Issued capital (including share premium account and contributed surplus) HK\$'000</b>	<b>Bank loans HK\$'000</b>
Balance at 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
Cash items:		
Loan repayments	–	(27,972)
Balance at 31 December 2003	229,196	15,782

### 23. CONTINGENT LIABILITIES

As at 31 December 2003, the Group had no other contingent liabilities (2002: Nil).

### 24. OPERATING LEASE COMMITMENTS

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
Not later than one year	<b>6,383</b>	2,469
Later than one year and not later than five years	<b>2,366</b>	2,743
	<b>8,749</b>	5,212

## NOTES TO THE ACCOUNTS

### 25. RELATED PARTY TRANSACTIONS

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

		Group	
		2003	2002
		HK\$'000	HK\$'000
Management fees paid to a related company	(a)	280	700
Consultancy fees paid to a related company	(b)	74	288

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

(b) A subsidiary, Pax Technology Limited, received consultancy services from Hi Sun Information Technology Services Limited, a company owned by a Director, who is also a substantial shareholder, of the Company.

### 26. SUBSEQUENT EVENTS

On 17 March 2004, 33,000,000 share options were granted to Directors and employees at HK\$0.374 (the average closing price of shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

### 27. 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.

### 28. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 26 April 2004.

## SUMMARY FINANCIAL INFORMATION

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:

	2003 HK\$'000 Continuing operations	Year ended 31 December					
		2002 HK\$'000		2001 HK\$'000		2000 HK\$'000	1999 HK\$'000
		Continuing operations	Discontinuing operations (note (i))	Continuing operations	Discontinuing operations (note (i))	Discontinuing operations (note (i))	Discontinuing operations (note (i))
<b>Results</b>							
(Loss)/profit attributable to shareholders	<b>(3,454)</b>	(37,399)	(3,429)	(761)	343,726	(81,511)	(332,317)
<b>Assets and liabilities</b>							
Total assets	<b>163,676</b>	312,312	-	18,530	27,801	61,937	160,814
Total liabilities	<b>(102,918)</b>	(248,100)	-	(463)	(25,595)	(403,453)	(420,901)
Shareholders' funds/(deficit)	<b>60,758</b>	64,212	-	18,067	2,206	(341,516)	(260,087)

Note (i):

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