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

BUSINESS RESTRUCTURING

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

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

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

CAPITAL BASE STRENGTHENING

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

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

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

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

BUSINESS AND FINANCIAL REVIEW

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

Financial solutions, services and related products

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

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

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

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

Electronic payment solutions and products

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

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

Telecommunication solutions, services and related products

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

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

Curtain wall system

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

Gain on disposal of interests in Hi Sun Holdings Limited

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

CAPITAL STRUCTURE AND DETAILS OF CHARGES

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

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

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

EXCHANGE RATES EXPOSURE

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

CONTINGENT LIABILITIES

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

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

EMPLOYEES

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

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

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

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

USE OF PROCEEDS

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

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

PROSPECTS

Outlook for the Industry

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

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

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

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

Outlook for the Group

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

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

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

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

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

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