

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

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

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

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

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

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

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

(iii) *SSAP 33: Discontinuing operations*

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

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (a) Basis of preparation (Continued)

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

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

#### (b) Consolidation

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

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

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

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

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

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

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

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

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

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (c) Translation of foreign currencies

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

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

#### (d) Fixed assets

##### (i) Fixed assets

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

##### (iii) Depreciation

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

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

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

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

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

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

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

### (f) Inventories

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

### (g) Construction and installation contracts

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

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

### (h) Accounts receivable

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

### (i) Cash and cash equivalents

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

### (j) Provisions

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

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Employee benefits

#### (i) *Employee leave entitlements*

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

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

#### (ii) *Pension obligations*

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

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

### (l) Deferred taxation

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

### (m) Contingent liabilities and contingent assets

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

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

#### (n) **Revenue recognition**

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

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

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

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

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

#### (o) **Negative goodwill**

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

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

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (p) Related parties

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

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

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

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

### Primary reporting format – business segments

The Group is organised into five main business segments:

- (a) Financial solutions, services and related products – provisions of customised information system consultancy and integration services and sales of computer hardware to financial institutions and banks;
- (b) Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of computer hardware to the telecommunication industries;
- (c) Electronic payment products and services – sales of point-of-sale (“POS”) terminals;
- (d) Construction and installation of curtain wall system – construction and installation of curtain wall system and aluminium windows; and
- (e) Sanitary ware and kitchen cabinets – sales and distribution of sanitary ware and kitchen cabinets.

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

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

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

### Secondary reporting format – geographical segments

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

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

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

## NOTES TO THE ACCOUNTS

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

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

|  | Financial<br>solutions,<br>services<br>and related<br>products<br>2002<br>HK\$'000 | Telecom-<br>munication<br>solutions,<br>services<br>and related<br>products<br>2002<br>HK\$'000 | Electronic<br>payment<br>products<br>and<br>services<br>2002<br>HK\$'000 | Discontinuing<br>operations<br>2002<br>HK\$'000 | Other<br>operations<br>2002<br>HK\$'000 | Group<br>2002<br>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<br>discontinuing operations                  |  |   |  |   |   | 6,701                     |
| Operating loss   |  |   |  |   |   | (38,665)                  |
| Finance costs  |  |   |  |   |   | (2,140)                   |
| Loss before taxation   |  |   |  |   |   | (40,805)                  |
| Taxation   |  |   |  |   |   | (23)                      |
| Loss attributable to<br>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)<br>of provision for<br>doubtful debts | 481  | -   | -  | (3,651)   | -                                       | (3,170)                   |
| Provision for other<br>receivables                               | 280  | -   | -  | -   | -                                       | 280                       |
| Provision for obsolete<br>inventories                            | -  | -   | 2,237  | -   | -                                       | 2,237                     |
| Write-back of provision for<br>contract work in progress         | -  | -   | -  | (5,218)   | -                                       | (5,218)                   |
| Loss on disposal and write<br>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)

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

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

## NOTES TO THE ACCOUNTS

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

#### Secondary reporting format – geographical segments

|   | Turnover<br>2002<br>HK\$'000 | Segment<br>results<br>2002<br>HK\$'000 | Total<br>assets<br>2002<br>HK\$'000 | Capital<br>expenditure<br>2002<br>HK\$'000 |
|---|------------------------------|--|-------------------------------------|--|
| Hong Kong, Korea and<br>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 6,701

Operating loss (38,665)

|                | Turnover<br>2001<br>HK\$'000 | Segment<br>results<br>2001<br>HK\$'000 | Total<br>assets<br>2001<br>HK\$'000 | Capital<br>expenditure<br>2001<br>HK\$'000 |
|----------------|------------------------------|--|-------------------------------------|--|
| Hong Kong      | 30,169                       | (4,718)                                | 42,807                              | 218  |
| Mainland China | 5,306                        | (3,594)                                | 3,524                               | 175  |
|                | <u>35,475</u>                | <u>(8,312)</u>                         | <u>46,331</u>                       | <u>393</u>                                 |

Unallocated costs –

Operating loss (8,312)

## NOTES TO THE ACCOUNTS

### 3. GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS

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

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

## NOTES TO THE ACCOUNTS

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

|   | At<br>30 September<br>2002<br>HK\$'000 | At<br>31 December<br>2001<br>HK\$'000 |
|---|--|---------------------------------------|
| Fixed assets (Note 12)                                  | 3,777                                  | 18,663                                |
| Interest in a jointly controlled entity                 | (2,335)                                | (2,335)                               |
| Current assets  | 13,747                                 | 11,473                                |
| Total assets  | 15,189                                 | 27,801                                |
| Total liabilities                                       | (16,412)                               | (25,595)                              |
| Net (liabilities)/assets                                | (1,223)                                | 2,206                                 |
| Net liabilities sold                                    | (1,223)                                |                                       |
| Reclassifications from shareholders' equity (Note 24)   |  |                                       |
| – exchange difference                                   | 825                                    |                                       |
| – reserve funds   | (273)                                  |                                       |
| Proceeds from sale                                      | (8,500)                                |                                       |
| Waiver of amount due to the Group                       | 2,102                                  |                                       |
| Legal and professional fees in respect of the disposal  | 368                                    |                                       |
| Gain on disposal of discontinuing operations            | (6,701)                                |                                       |
| Taxation thereon  | –                                      |                                       |
| After tax gain on disposal                              | (6,701)                                |                                       |
|   | At<br>30 September<br>2002<br>HK\$'000 |                                       |
| The net cash inflow on sale is determined as follows:   |  |                                       |
| Proceeds from sale, net of expenses                     | 8,132                                  |                                       |
| Less: cash and cash equivalents in subsidiaries sold    | (9,547)                                |                                       |
| Sale of subsidiaries, net of expenses and cash disposed | (1,415)                                |                                       |

## NOTES TO THE ACCOUNTS

### 4. OPERATING LOSS

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

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

### 5. FINANCE COSTS

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

## NOTES TO THE ACCOUNTS

### 6. NON-OPERATING INCOME, NET

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

### 7. STAFF COSTS

Excluding directors' remuneration

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

### 8. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

#### (a) Directors' emoluments

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

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

## NOTES TO THE ACCOUNTS

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

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

The emoluments of the Directors fell within the following bands:

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

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

#### (b) Five highest paid individuals

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

|   | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|---|------------------|------------------|
| Salaries, allowances and benefits in kind | 3,057            | 3,687            |

The emoluments fell within the following bands:

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

## NOTES TO THE ACCOUNTS

### 9. TAXATION

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

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

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

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

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

### 10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

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

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

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

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

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

## NOTES TO THE ACCOUNTS

### 12. FIXED ASSETS

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

## NOTES TO THE ACCOUNTS

### 12. FIXED ASSETS (Continued)

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

### 13. INTERESTS IN SUBSIDIARIES

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

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

## NOTES TO THE ACCOUNTS

### 13. INTERESTS IN SUBSIDIARIES (Continued)

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

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

## NOTES TO THE ACCOUNTS

### 13. INTERESTS IN SUBSIDIARIES (Continued)

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

\* Shares held directly by the Company

Note:

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

### 14. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

## NOTES TO THE ACCOUNTS

### 15. INVENTORIES

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

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

### 16. CONSTRUCTION AND INSTALLATION CONTRACT RECEIVABLES

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

### 17. TRADE AND OTHER RECEIVABLES

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

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

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

## NOTES TO THE ACCOUNTS

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

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

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

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

### 19. SHORT TERM BANK BORROWINGS

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

*Note:*

- (a) As at 31 December 2002, bank overdrafts, trust receipt loans and short term bank loans of HK\$29,169,000 were secured by fixed deposits at banks of HK\$19,000,000, deposits in a bank guaranteed fund of HK\$1,014,000, personal guarantee of HK\$7,000,000 from a Director of the Company, and corporate guarantee of HK\$30,000,000 by the Company in accordance with the banking facility terms provided to certain subsidiaries of the Group for trading arrangement with their suppliers.
- (b) Unsecured short term bank loan of RMB30,000,000 (approximately HK\$28,037,000) was guaranteed by an independent third party, of which RMB20,000,000 (approximately HK\$18,692,000) was counter-guaranteed by the Company to the independent third party.

## NOTES TO THE ACCOUNTS

### 20. PROVISION FOR WARRANTY

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

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

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

### 22. PENSION OBLIGATIONS

|  | <b>Group</b>    |
|--|-----------------|
|  | <b>2002</b>     |
|  | <b>2001</b>     |
|  | <b>HK\$'000</b> |
|  | <b>HK\$'000</b> |
| Obligations on:  |                 |
| – pensions – defined contribution plan ( <i>Note</i> ) | 1,234 –         |
|  | 1,234 –         |

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

### 23. SHARE CAPITAL

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

## NOTES TO THE ACCOUNTS

### 23. SHARE CAPITAL (Continued)

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

Note:

- (a) On incorporation, the Company had an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each.
- (b) Pursuant to the terms of the Reorganisation, the authorised share capital of the Company was increased from HK\$100,000 to HK\$10,000,000 by the creation of an additional 990,000,000 shares of HK\$0.01 each ranking pari passu in all respects with the existing share capital of the Company.
- (c) On 7 June 2001, 10,000,000 shares of HK\$0.01 each were allotted and issued as nil paid.
- (d) On 17 October 2001, pursuant to the Reorganisation, the Company allotted and issued 74,218,010 new shares of HK\$0.01 each credited as fully paid at par, and credited as fully paid at par 10,000,000 shares allotted and issued nil paid as set out in (c) above, to the then shareholders of HSHL, in consideration for their transfer of shares in HSHL to Hi Sun (BVI) Limited, a subsidiary of the Company, on a one share for one share basis.
- (e) On 24 December 2001, 16,800,000 shares of HK\$0.01 each were issued at HK\$1.14 per share by way of placing for a total cash consideration, before expenses, of HK\$19,152,000.
- (f) On 30 May 2002, a bonus issue of 101,018,010 ordinary shares of HK\$0.01 each was made on the basis of one bonus share for every one share held on 23 May 2002 by applying HK\$1,010,180 standing to the credit of the share premium account. These shares rank pari passu in all respects with the existing share capital of the Company.
- (g) On 17 July 2002, 20,000,000 shares of HK\$0.01 each were issued at HK\$0.82 per share by way of placing for a total cash consideration, before expenses, of HK\$16,400,000. These shares rank pari passu in all respects with the existing share capital of the Company.
- (h) On 24 December 2002, 111,018,010 shares of HK\$0.01 each were issued at HK\$0.63 per share by way of rights issue for a total cash consideration, before expenses, of HK\$69,941,000, on the basis of one rights share for every two shares held on that date. These shares rank pari passu in all respects with the existing share capital of the Company.

## NOTES TO THE ACCOUNTS

### 23. SHARE CAPITAL (Continued)

Note: (Continued)

#### (i) Share option scheme

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

### 24. RESERVES

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

## NOTES TO THE ACCOUNTS

### 24. RESERVES (Continued)

Note:

- (i) The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium account of HSHL acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.
- (ii) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Company's subsidiary and jointly controlled entity established in the PRC has been transferred to reserve funds which are restricted as to use.

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

### 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

## NOTES TO THE ACCOUNTS

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

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

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

## NOTES TO THE ACCOUNTS

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

#### (c) Disposal of discontinuing operations

|  | <b>2002</b>     |
|--|-----------------|
|  | <b>HK\$'000</b> |
| Net liabilities disposed of:   |                 |
| Fixed assets   | <b>3,777</b>    |
| Cash and bank balances   | <b>9,547</b>    |
| Trade receivables, construction and installation   |                 |
| contract receivables and other receivables   | <b>4,200</b>    |
| Trade payables, other payables and accruals  | <b>(14,310)</b> |
| Amount due to the Group  | <b>(2,102)</b>  |
| Interest in a jointly controlled entity  | <b>(2,335)</b>  |
|  | <b>(1,223)</b>  |
| Waiver of amount due to the Group  | <b>2,102</b>    |
| Realisation of reserves:   |                 |
| – exchange difference  | <b>825</b>      |
| – reserve funds  | <b>(273)</b>    |
| Legal and professional fees in respect of the disposal   | <b>368</b>      |
| Gain on disposal of discontinuing operations   | <b>6,701</b>    |
|  | <b>8,500</b>    |
| Satisfied by:  |                 |
| Cash   | <b>8,500</b>    |
| Analysis of the net cash outflow in respect of the disposal of discontinuing operations is as follows: |                 |
|  | <b>2002</b>     |
|  | <b>HK\$'000</b> |
| Cash consideration, net of expenses  | <b>8,132</b>    |
| Cash and bank balances disposed of   | <b>(9,547)</b>  |
| Net cash outflow in respect of disposal of discontinuing operations                                    | <b>(1,415)</b>  |

## NOTES TO THE ACCOUNTS

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

#### (d) Purchase of subsidiaries

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

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

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

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

## NOTES TO THE ACCOUNTS

### 26. CONTINGENT LIABILITIES

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

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

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

### 27. OPERATING LEASE COMMITMENTS

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

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

### 28. FUTURE OPERATING LEASE ARRANGEMENTS

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

|                 | <b>Group</b>    |          |
|-----------------|-----------------|----------|
|                 | <b>2002</b>     | 2001     |
|                 | <b>HK\$'000</b> | HK\$'000 |
| Within one year | –               | 110      |

## NOTES TO THE ACCOUNTS

### 29. RELATED PARTY TRANSACTIONS

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

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

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

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

### 30. COMPARATIVE AMOUNTS

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

### 31. ULTIMATE HOLDING COMPANY

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

### 32. APPROVAL OF ACCOUNTS

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