

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

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

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

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

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

Substantial growth of the core businesses

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

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

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

CHAIRMAN'S STATEMENT

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

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

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

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

Be adaptable and stay ahead of the Competition

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

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

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

Cheung Yuk Fung

Chairman

Hong Kong, 26 April 2004