

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

(b) Consolidation

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

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

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

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

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

(c) Translation of foreign currencies

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

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

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Fixed assets

(i) Fixed assets

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

(ii) Depreciation

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

Leasehold improvements	20%
Office furniture and equipment	18% – 25%
Plant and equipment	9% – 25%
Motor vehicles	18% – 25%

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

(iii) Impairment and gain or loss on sale

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

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

(e) Operating leases

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

(f) Inventories

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

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Accounts receivable

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

(h) Cash and cash equivalents

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

(i) Provisions

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

(j) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Pension Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated profit and loss account as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Deferred taxation

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

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

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

(l) Contingent liabilities and contingent assets

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

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

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

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

(m) Borrowing costs

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Construction and installation contracts

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

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

(o) Revenue recognition

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

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

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

(p) Negative goodwill

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

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

(q) Related parties

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

NOTES TO THE ACCOUNTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

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

Primary reporting format – business segments

The Group is organised into three main business segments:

- Financial solutions, services and related products – provision of customised information system consultancy and integration services and sales of computer hardware to financial institutions and banks;
- Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of computer hardware to the telecommunication industries; and
- Electronic payment products and services – sales of point-of-sale (“POS”) terminals.

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

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

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

NOTES TO THE ACCOUNTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

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

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

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

Primary reporting format – business segments

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

NOTES TO THE ACCOUNTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

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

NOTES TO THE ACCOUNTS

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

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

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

3. GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS

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

NOTES TO THE ACCOUNTS

4. OPERATING LOSS

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

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

5. FINANCE COSTS

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

6. STAFF COSTS

Excluding Directors' remuneration

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

NOTES TO THE ACCOUNTS

7. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

(a) Directors' emoluments

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

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

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

The emoluments of the Directors fell within the following bands:

	Number of Directors	
	2003	2002
Emolument bands		
HK\$nil – HK\$1,000,000	11	9

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included none of the Directors (2002: one). The emoluments payable to the five (2002: four) individuals during the year are as follows:

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

NOTES TO THE ACCOUNTS

7. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (Continued)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

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

8. TAXATION

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

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

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

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

NOTES TO THE ACCOUNTS

8. TAXATION (Continued)

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

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

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

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

10. BASIS LOSS PER SHARE

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

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

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

NOTES TO THE ACCOUNTS

11. FIXED ASSETS

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

NOTES TO THE ACCOUNTS

11. FIXED ASSETS (Continued)

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

12. INTERESTS IN SUBSIDIARIES

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

The balances with subsidiaries are unsecured, interest free, and have no fixed terms of repayment, except for amounts due from subsidiaries of HK\$5,900,000 (2002: HK\$3,000,000), which are unsecured, bear interest at Hong Kong Dollar Prime Lending Rate plus 2% per annum, and are repayable within one year.

NOTES TO THE ACCOUNTS

12. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Autocare Limited	British Virgin Islands ("BVI"), limited liability company	Investment holding in BVI	4,230,769 ordinary shares of US\$1 each	100%
北京高陽金信信息技術有限公司 (Beijing Hi Sun Advanced Business Solutions Information Technology Limited)	PRC, limited liability company	Provision of financial and banking solutions and services in the PRC	HK\$60,000,000	100%
北京高陽聖思園信息技術有限公司 (Beijing Hi Sunray Information Technology Limited)	PRC, limited liability company	Provision of telecommunication solutions and services in the PRC	HK\$27,000,000	100%
Emerging Technology Limited	BVI, limited liability company	Investment holding in BVI	7,692,308 ordinary shares of US\$1 each	100%
Hi Sun (BVI) Limited	BVI, limited liability company	Investment holding in BVI	2 ordinary shares of US\$1 each	*100%
Hi Sun Consulting Limited	BVI, limited liability company	Provision of consultancy services in Hong Kong	100 ordinary shares of US\$1 each	100%
Hi Sun Development Management Limited	Hong Kong, limited liability company	Provision of management services in Hong Kong	2 ordinary shares of HK\$1 each	100%
Hi Sun Technology Holding Limited	Bermuda, limited liability company	Provision of financial and banking solutions and services in Hong Kong	168,070,000 ordinary shares of HK\$0.1 each	100%

NOTES TO THE ACCOUNTS

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Pax Technology Limited	Hong Kong, limited liability company	Sale of POS terminals in Hong Kong	35,000,000 ordinary shares of HK\$1 each	100%
Turbo Speed Technology Limited	BVI, limited liability company	Investment holding in BVI	3,589,744 ordinary shares of US\$1 each	100%
百富計算機技術(深圳)有限公司 (Pax Technology (Shenzhen) Limited)	PRC, limited liability company	Sale of POS terminals in the PRC	HK\$10,000,000	100%

* Shares held directly by the Company

13. INVENTORIES

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

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

NOTES TO THE ACCOUNTS

14. TRADE AND OTHER RECEIVABLES

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

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

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

15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

NOTES TO THE ACCOUNTS

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

Note:

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

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

16. SHORT TERM BANK BORROWINGS

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

Note:

- (a) As at 31 December 2003, bank overdrafts, trust receipt loans and secured short term bank loans of HK\$24,475,000 (2002: HK\$29,169,000) were secured by fixed deposits at banks of HK\$14,459,000 (2002: HK\$19,000,000), deposits in a bank guaranteed fund of HK\$4,420,000 (2002: HK\$1,014,000), personal guarantee of HK\$7,000,000 (2002: HK\$7,000,000) from a Director of the Company, and corporate guarantee of HK\$30,000,000 (2002: HK\$30,000,000) by the Company in accordance with the banking facility terms provided to certain subsidiaries of the Group for trading arrangement with their suppliers.

17. DUE TO FELLOW SUBSIDIARIES AND THE ULTIMATE HOLDING COMPANY

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

NOTES TO THE ACCOUNTS

18. PENSION OBLIGATIONS

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

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

19. SHARE CAPITAL

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

Note:

- (a) On 30 May 2002, a bonus issue of 101,018,010 ordinary shares of HK\$0.01 each was made on the basis of one bonus share for every one share held on 23 May 2002 by applying HK\$1,010,180 standing to the credit of the share premium account. These shares rank pari passu in all respects with the existing share capital of the Company.
- (b) On 17 July 2002, 20,000,000 shares of HK\$0.01 each were issued at HK\$0.82 per share by way of placing for a total cash consideration, before expenses, of HK\$16,400,000. These shares rank pari passu in all respects with the existing share capital of the Company.
- (c) On 24 December 2002, 111,018,010 shares of HK\$0.01 each were issued at HK\$0.63 per share by way of rights issue for a total cash consideration, before expenses, of HK\$69,941,000, on the basis of one rights share for every two shares held on that date. These shares rank pari passu in all respects with the existing share capital of the Company.
- (d) Share option scheme

Pursuant to an ordinary resolution passed on 29 November 2001, a share option scheme (the "Scheme") was adopted. The Board of Directors is authorised to grant options to eligible employees including full time employees, and executive and non-executive Directors of the Group. The total number of shares in respect of which options may be granted shall not (together with all the other share option schemes, if any) exceed 10% of the total issued share capital of the Company. The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time.

No share options were granted during the year or outstanding at the balance sheet date. Details of share options granted on 17 March 2004 are set out in note 26 to the accounts.

NOTES TO THE ACCOUNTS

20. RESERVES

			Group			
	Share premium HK\$'000	Contributed surplus (Note i) HK\$'000	Reserve funds HK\$'000	Exchange difference HK\$'000	Accumu- lated losses HK\$'000	Total HK\$'000
At 1 January 2002	18,661	125,310	273	(825)	(124,156)	19,263
Loss for the year	-	-	-	-	(40,828)	(40,828)
Bonus issue of shares (Note 19(a))	(1,010)	-	-	-	-	(1,010)
Reserves transferred to profit and loss account upon disposal of subsidiaries	-	-	(273)	825	-	552
Issue of shares (Note 19(b) and (c))	85,031	-	-	-	-	85,031
Share issue expenses	(2,126)	-	-	-	-	(2,126)
At 31 December 2002	100,556	125,310	-	-	(164,984)	60,882
At 1 January 2003	100,556	125,310	-	-	(164,984)	60,882
Loss for the year	-	-	-	-	(3,454)	(3,454)
At 31 December 2003	100,556	125,310	-	-	(168,438)	57,428

Note:

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

NOTES TO THE ACCOUNTS

20. RESERVES (Continued)

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

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

NOTES TO THE ACCOUNTS

21. DEFERRED TAXATION

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

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

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

Deferred tax liabilities

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

Deferred tax assets

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

NOTES TO THE ACCOUNTS

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

NOTES TO THE ACCOUNTS

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account and contributed surplus) HK\$'000	Bank loans HK\$'000
Balance at 1 January 2002	144,981	1,656
Cash items:		
New bank loans	–	36,551
Issue of shares	84,215	–
Non cash items:		
Acquisition of subsidiaries	–	5,547
Balance at 31 December 2002	229,196	43,754
Cash items:		
Loan repayments	–	(27,972)
Balance at 31 December 2003	229,196	15,782

23. CONTINGENT LIABILITIES

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

24. OPERATING LEASE COMMITMENTS

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

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

NOTES TO THE ACCOUNTS

25. RELATED PARTY TRANSACTIONS

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

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

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

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

26. SUBSEQUENT EVENTS

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

27. ULTIMATE HOLDING COMPANY

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

28. APPROVAL OF ACCOUNTS

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