



# HI SUN TECHNOLOGY (CHINA) LIMITED

(Formerly known as Hi Sun Group Limited)  
(Incorporated in Bermuda with limited liability)



## ANNUAL REPORT 2004

# CONTENTS

Corporate Information	2
Simplified Corporate Chart	3
Notice of Annual General Meeting	4
Chairman's Statement	8
Directors and Senior Management	10
Report of the Directors	13
Management Discussion and Analysis	22
Auditors' Report	26
Consolidated Profit and Loss Account	27
Consolidated Balance Sheet	28
Balance Sheet	29
Consolidated Statement of Changes in Equity	30
Consolidated Cash Flow Statement	31
Notes to the Accounts	32
Summary Financial Information	60

## BOARD OF DIRECTORS

### Executive Directors: –

CHEUNG Yuk Fung (*Chairman*)  
KUI Man Chun  
LO Siu Yu  
XU Wensheng  
LI Wenjin  
CHAN Yiu Kwong  
XU Chang Jun  
ZHOU Jian (*appointed on 31 May 2004*)  
WANG Xiao Qing  
(*resigned on 24 February 2004*)  
SU Terry Lumin (*resigned on 2 February 2005*)

### Independent Non-Executive Directors: –

TAM Chun Fai (*appointed on 31 May 2004*)  
LEUNG Wai Man, Roger  
(*appointed on 23 September 2004*)  
XU Sitao  
LAU Wai Kit (*resigned on 27 April 2004*)

## COMPANY SECRETARY

Chan Yiu Kwong

## BERMUDA RESIDENT REPRESENTATIVE

John Charles Ross Collis

## AUDITORS

PricewaterhouseCoopers

## LEGAL ADVISERS

### As to Hong Kong Law

Woo, Kwan, Lee & Lo

### As to Bermuda Law

Conyers Dill & Pearman

## PRINCIPAL BANKERS

Hang Seng Bank Limited  
The Hongkong and Shanghai  
Banking Corporation Limited

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2316, 23rd Floor  
One International Finance Centre  
No.1 Harbour View Street  
Central  
Hong Kong

## SHARE REGISTRAR IN BERMUDA

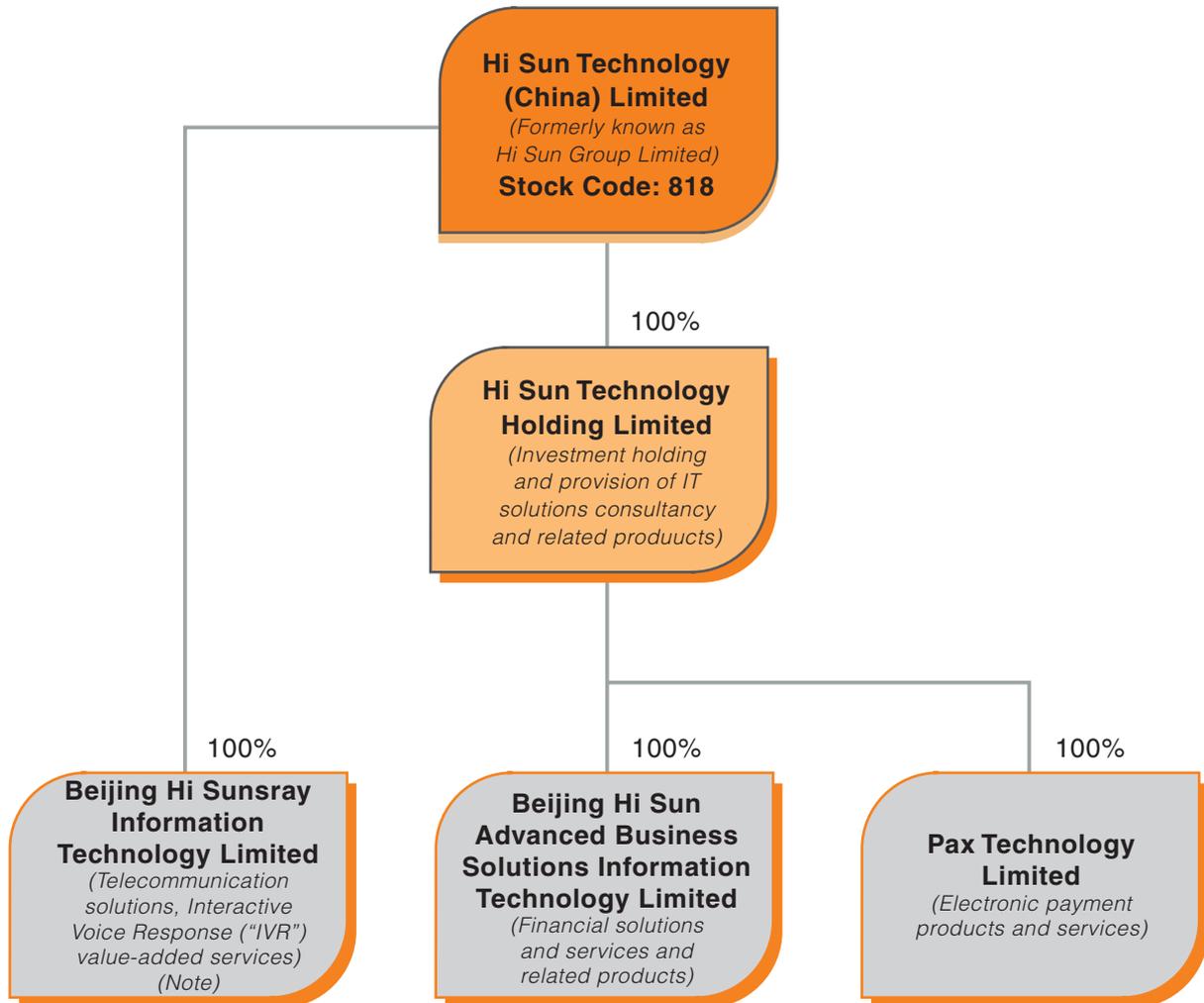
Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

## SIMPLIFIED CORPORATE CHART

The following is a simplified corporate chart of the Group's principal operating subsidiaries up to the date of this report:



*Note:* On 9 November 2004, Turbo Speed Technology Limited ("Turbo Speed"), the investment holding company of Beijing Hi Sunray Information Technology Limited and the wholly owned subsidiary of the Company, entered into the Subscription Agreement with independent third parties to the subscription of 6,837,608 Convertible Preference Shares of US\$0.1 each of Turbo Speed at a total subscription price of US\$4 million (approximately HK\$31.2 million) which represent approximately 19% of the existing total number of issued shares of Turbo Speed and approximately 16% of the total number of issued shares of Turbo Speed as enlarged by the Subscription.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an annual general meeting (the “Annual General Meeting”) of Hi Sun Technology (China) Limited (the “Company”) will be held at Suite 2316, 23rd Floor, One International Finance Centre, No.1 Harbour View Street, Central, Hong Kong on Monday, 23 May 2005 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors of the Company (the “Directors”) and the auditors for the year ended 31 December 2004;
2. To re-elect retiring Directors and to authorize the Board of Directors to fix the remuneration of the Directors;
3. To re-appoint auditors and to authorize the Board of Directors to fix their remuneration;

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

4. **“THAT:–**
  - (a) subject to paragraph (c) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.01 each in the share capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
  - (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares of HK\$0.01 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
  - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or

## NOTICE OF ANNUAL GENERAL MEETING

employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the said approval shall be limited accordingly; and

- (d) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:–
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, or any applicable law of Bermuda to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

“Rights Issue” means an offer of shares of the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to the holders of shares of the Company, or any class of shares of the Company, whose name appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

## NOTICE OF ANNUAL GENERAL MEETING

5. **“THAT:–**

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase shares of HK\$0.01 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong (“Securities and Futures Commission”) and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company authorised to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of: –
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, or any applicable law of the Bermuda to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.”

## NOTICE OF ANNUAL GENERAL MEETING

6. “**THAT** subject to the passing of Resolutions No.4 and No.5 set out in the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares pursuant to Resolution No.4 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No.5 set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the said resolution.”

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

Hong Kong, 28 April 2005

*Notes:-*

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting is enclosed.
- (3) Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the meeting if the member so desires.
- (4) To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority must be lodged at the principal place of the business of the Company at Suite 2316, 23rd Floor, One International Finance Centre, No.1 Harbour View Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
- (5) With regard to item no. 2 in this notice, the Board of Directors proposes that the retiring Directors, namely Mr. Lo Siu Yu, Mr. Xu Wensheng, Mr. Li Wenjin, Mr. Zhou Jian, Mr. Tam Chun Fai and Mr. Leung Wai Man, Roger be re-elected as Directors of the Company. Biographies of these Directors are also set out in Appendix II to the circular of the Company to be despatched to shareholders accompanying with this Annual Report.

## CHAIRMAN'S STATEMENT

This is the second year Hi Sun implement the consolidation and refocusing scheme. It has been a challenging and rewarding process so far.

For the year 2004, the Group's turnover amounted to HK\$279.70 million, as compared to the turnover of HK\$359.79 million for the year 2003. The net loss for the year was HK\$12.13 million as compared to that of HK\$3.45 million in 2003. It is worth noting that the loss was narrowed down as compared to the loss of approximately HK\$28.19 million as reported in the interim report.

The overall drop in revenue represented the decrease in turnover amounting to approximately HK\$130.76 million attributable to the financial solution segment. It is not difficult to see the other three segments, namely the telecommunication solutions and services segment, the EFT-POS terminal segment, and information technology value-added services segment contributed an increase in turnover of approximately HK\$50.52 million. The latter three segments had brought about profit contribution of approximately HK\$17.60 million.

It is most gratifying to note that the Group was able to increase overall gross margin to 30.73% (2003: 28.32%) and to lower the overall operating expenses resulting from the refocusing, spin-off and streamlining exercises during the year.

What we did in the year 2004 and up to date of this report:

- Successful implementation of the Integrated Banking System for the Industrial and Commercial Bank of China (Asia) Limited and Bank of Communication of China
- The shipment of our EFT-POS terminals in China under the PAX brand name grew by 38%
- The completion and commencement of the Interactive Voice Response ("IVR") platform providing value-added services operation for China Mobile
- Change of the company name to Hi Sun Technology (China) Limited to better describe the scope of business of the Group
- The passing of a resolution approving the share option scheme of a subsidiary to recognize their accomplishment and their hard work
- Attract new investment of US\$4 million from professional investors subscribing approximately 16% interests in Turbo Speed, the holding company of our telecommunication services arm
- We put brakes on a number of loss making divisions

## CHAIRMAN'S STATEMENT

In order to survive and prosper, we have to embrace the concept of constant reassessment that enable us to keep pace with the ever lasting changes and challenges ahead. In the past years, the Group has been in constantly reassessment process transforming the Group into a company engaging in high value-added ventures. By upholding this principle, we have successfully turned our IVR operation and EFT-POS terminals business into key profit contributors. The endeavor in the IVR operation earned the recognition of professional investors and attracted an investment of US\$4 million in this segment. It signified that the Group is on the right track and starts to create real value to the shareholders. Looking ahead, the Group is committed to striving to making new growth drivers and creating even greater shareholders' value.

Lastly, I would like to thank all of the members of the Board, and especially thank our former independent non-executive director, Mr. Lau Wai Kit and would like to welcome aboard, Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Zhou Jian. Special thanks to Mr. Su Terry Lumin, who was re-designated as the Deputy Chairman of PAX, now specializes in managing the PAX sales and marketing and makes considerable contribution to PAX management. I also want to gratefully acknowledge the invaluable contribution of all the staff in implementing the corporate plan together.

**Cheung Yuk Fung**

*Chairman*

Hong Kong, 22 April 2005

## DIRECTORS AND SENIOR MANAGEMENT

As at 22 April 2005, the date of the Report of the Directors, the biographical details of the directors and senior management of the Company are as follows: –

### BOARD OF DIRECTORS

#### Executive Directors

##### **CHEUNG YUK FUNG** *Chairman*

Mr. Cheung, aged 59, has been the Chairman and Director of the Company since November 2001. He graduated from the Faculty of Radio Electronics at Peking University in the People's Republic of China (the "PRC") and worked as a professor at Peking University thereafter. Prior to joining the Group, Mr. Cheung was a chairman of a company listed in the PRC and a director of a company listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and has working experience in international trade, finance, asset management and strategic planning. Mr. Cheung was honored many awards, including being selected as the young entrepreneur with outstanding contribution to China, and won the first prize of national golden award for enterprise initiators in the 4th National Technology Industrialist Award and many other awards.

##### **KUI MAN CHUN**

Mr. Kui, aged 39, has been the Director of the Company since June 2001. He graduated from Peking University in the PRC with a master's degree in international relations and has over 10 years of experience in the information technology industry and investment activities. Mr. Kui is also the chairman and chief executive officer of Hi Sun Limited ("HSL"), the Company's controlling shareholder. Prior to joining HSL in 2000, Mr. Kui was the president of an enterprise in the PRC.

##### **LO SIU YU**

Mr. Lo, aged 38, has been the Director of the Company since February 2003. He graduated from Peking University with a bachelor's degree in computer science and obtained a master's degree from the Institute of Psychology of the Science Academy of China. Mr. Lo was also an executive director of a listed company on the Hong Kong Stock Exchange and has extensive experience in computer systems integration of the financial industry.

##### **XU WENSHENG**

Mr. Xu, aged 36, has been the Director of the Company since February 2003. He graduated from the Dalian University of Technology with a bachelor's degree in computer science and engineering. Prior to joining the Company, Mr. Xu was the president of a system integration company and has extensive experience in computer systems integration of the financial industry.

##### **LI WENJIN**

Mr. Li, aged 41, has been the Director of the Company since June 2001. He graduated from Peking University in the PRC with a master's degree in law and has over 10 years of experience in investment and administrative affairs. Mr. Li is also the managing director of HSL. Prior to joining HSL in 1999, he had worked for several companies in the PRC and Hong Kong.

### **CHAN YIU KWONG**

Mr. Chan, aged 40, has been the Director of the Company since July 2001. He graduated from the University of Hong Kong with a bachelor's degree in social sciences. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Chartered Association of Certified Accountants in the United Kingdom. Mr. Chan is also an independent non-executive director of a listed company on the Hong Kong Stock Exchange. Prior to joining the Company, he was the financial controller and company secretary of a listed company on the Hong Kong Stock Exchange and was a manager of an international public accountancy firm. Mr. Chan has over 15 years of experience in auditing, business advisory and corporate management.

### **XU CHANG JUN**

Mr. Xu, aged 38, has been the Director of the Company since July 2001. He graduated from Peking University in the PRC with a master's degree in international economics. Mr. Xu is also the director of HSL. Prior to joining HSL in 2000, he had worked for several companies in the PRC and Hong Kong. Mr. Xu has over 10 years of experience in corporate management of enterprise in Hong Kong and the PRC.

### **ZHOU JIAN**

Mr. Zhou, aged 36, was appointed Director of the Company in May 2004. He graduated from E. M. Lyon in France with a master's degree in business administration. Mr. Zhou has over 10 years of extensive experience in operations, administrative affairs and strategic planning.

### **Independent Non-executive Directors**

#### **TAM CHUN FAI**

Mr. Tam, aged 43, was appointed independent non-executive Director of the Company since May 2004. He graduated from the Hong Kong Polytechnic University with a bachelor of arts degree in accountancy. Mr. Tam is a member of the Hong Kong Institute of Certified Public Accountants and is a member of Chartered Financial Analyst and has over 15 years' experience in auditing, corporate advisory services as well as financial management and compliance work. He is currently the financial controller and company secretary of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange.

#### **LEUNG WAI MAN, ROGER**

Mr. Leung, aged 48, was appointed independent non-executive Director since September 2004. He graduated with a bachelor's degree in Law and a Postgraduate Certificate in Laws from The University of Hong Kong. He also graduated with a bachelor's degree in Law from the University of Western Ontario, Canada. Mr. Leung has been practicing solicitor in Hong Kong since 1984 and is now a partner of the law firm, Messrs Foo, Leung & Yeung. He is also admitted as a solicitor in England and Wales and as a barrister, solicitor and notary public in Ontario, Canada. Mr. Leung has extensive working experience in law both in Hong Kong and in Canada. He has been serving as a member of the Inland Revenue Board of Review since 1997 and appointed as a China-appointed Attesting Officer since January 2003.

## DIRECTORS AND SENIOR MANAGEMENT

### **XU SITAO**

Mr. Xu, aged 41, has been an independent non-executive Director of the Company since July 2001. He graduated from Peking University in the PRC with a bachelor of arts degree major in economics and from the University of Connecticut with a master of arts degree in economics. He also holds a master of science degree in Finance from Boston College. Mr. Xu is currently a director of China Advisory Services of Economist Intelligence Unit in China. Prior to that, he was a senior economist at Industrial and Commercial Bank of China (Asia) Limited in Hong Kong from May 2003 to May 2004 and was the Chief Asian Economist of Societe Generale from September 2000 to November 2002. Between 1996 to 2000, he was a Regional Treasury Economist at Standard Chartered Bank. Prior to that, he was an Emerging Asia Economist of Standard & Poor's MMS International in Singapore.

### **SENIOR MANAGEMENT**

As at 22 April 2005, the date of the Report of the Directors, Messrs Kui Man Chun, Lo Siu Yu, Xu Wensheng, Li Wenjin, Chan Yiu Kwong and Xu Chang Jun were also members of the Company's senior management.

### **SU TERRY LUMIN**

Mr. Su, aged 41, was appointed the Deputy Chairman and Director of Pax Technology Limited, one of the wholly-owned subsidiaries of the Company since February 2005. Prior to that, he was an Executive Director of the Company. He graduated from Peking University in the PRC with bachelor's degrees in history and international relations respectively and from the University of Oxford in the United Kingdom with a master's degree in international relations. Prior to joining the Company, Mr. Su had worked for several multinational corporations and banks. He has over 10 years of experience in corporate finance and corporate management.

# REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group during the year were sales of information technology products and provision of customised information system consultancy and integration services, and information technology valued-added services. An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

## CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 28 February 2005, the English name of the Company was changed from Hi Sun Group Limited to Hi Sun Technology (China) Limited and the Chinese name of the Company was changed from 高陽集團有限公司 to 高陽科技(中國)有限公司, with effect from 28 February 2005.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 27.

The Directors do not recommend the payment of a dividend (2003: Nil).

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

## FIXED ASSETS

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

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options are set out in note 20 to the accounts.

## DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company did not have any reserves available for distribution as calculated under the Companies Act 1981 of Bermuda (as amended) (2003: Nil). However, the Company's share premium account, in the amount of HK\$100,556,000 (2003: HK\$100,556,000) may be distributed in the form of fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

# REPORT OF THE DIRECTORS

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 60.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

The Directors during the year and up to the date of this report were:

### Executive Directors:

CHEUNG Yuk Fung

KUI Man Chun

LO Siu Yu

XU Wensheng

LI Wenjin

CHAN Yiu Kwong

XU Chang Jun

ZHOU Jian *(appointed on 31 May 2004)*

WANG Xiao Qing *(resigned on 24 February 2004)*

SU Terry Lumin *(resigned on 2 February 2005)*

### Independent non-executive Directors:

TAM Chun Fai *(appointed on 31 May 2004)*

LEUNG Wai Man, Roger *(appointed on 23 September 2004)*

XU Sitao

LAU Wai Kit *(resigned on 27 April 2004)*

In accordance with the Company's bye-laws 86(2), Zhou Jian, Tam Chun Fai, Leung Wai Man, Roger will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws 87(1) and 87(2), all of the Directors, except for Chairman of the Board of Directors, Cheung Yuk Fung who shall continue in office, are subject to retirement by rotation and re-election at the annual general meeting of the Company.

Lo Siu Yu, Xu Wensheng and Li Wenjin will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS

## DIRECTORS' SERVICE CONTRACTS

As at the date of this report, each of Mr. Kui Man Chun, Mr. Lo Siu Yu, Mr. Xu Wensheng, Mr. Li Wenjin, Mr. Chan Yiu Kwong and Mr. Xu Chang Jun has entered into a service contract with the Company for a term of one year from 1 January 2004 and shall continue thereafter unless and until terminated by either the Company or the Directors giving to the other not less than a notice of three months. Save as disclosed herein, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 10 to 12.

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

As at 31 December 2004, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:–

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

Name of Director	Number of shares held		
	Personal Interest	Corporate Interest (Note)	Total (Note)
Kui Man Chun	–	189,270,909	189,270,909

*Note:* These shares are held by Kui Man Chun through Hi Sun Limited, a company which Kui Man Chun holds a 99.16% interest, and Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.

## REPORT OF THE DIRECTORS

### (b) Ordinary shares in associated corporations

Name of Director	Name of associated corporation	Number of shares held	Category of interest
Kui Man Chun	Rich Global Limited	2 ordinary shares	Corporate
Kui Man Chun	Hi Sun Limited	30,245,000 ordinary shares	Personal
Li Wenjin	Hi Sun Limited	255,000 ordinary shares	Personal

Save as disclosed above, none of the Directors or chief executive had any interests or short positions in the shares, or underlying shares in, or debentures, of the Company or any of its associated corporations.

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or other body corporate.

### SHARE OPTION SCHEME

#### (a) The Company

The Company operates a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating talented employees in order to strive for future developments and expansion of the Group. Eligible participants of the Scheme include the Group's full-time employees, and executive and non-executive Directors. The Scheme became effective on 29 November 2001 and unless otherwise cancelled or amended, will remain valid and effective for a period of 10 years from that date.

The total number of shares in respect of which options may be granted shall not (together with all the other Schemes, if any) exceed 10% of the total issued capital of the Company as at date of approval of the Scheme unless the Company obtains a fresh approval from shareholders to renew the 10% limit.

The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time. As at 31 December 2004, 33,000,000 share options had been granted.

## REPORT OF THE DIRECTORS

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company or to any of their associates, in excess of 1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences either immediately or after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Hong Kong Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Hong Kong Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

### **Movements in the Share Options**

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

## REPORT OF THE DIRECTORS

There are no changes in any term of the Scheme during the year. As at 31 December 2004, the particulars of the options granted to each of the Directors and employees of the Company under the Scheme are as follows: –

Name	Date of grant	Exercise price (HK\$)	Number of options held at 1 January 2004	Granted during the year	Lapsed during the year	Exercised during the year	Number of options held at 31 December 2004
<b>Directors</b>							
Mr. Kui Man Chun	18 March 2004	0.374	–	3,000,000	–	–	3,000,000
Mr. Lo Siu Yu	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Xu Wensheng	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Li Wenjin	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Xu Chang Jun	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Chan Yiu Kwong	18 March 2004	0.374	–	1,500,000	–	–	1,500,000
Mr. Su Terry Lumin ( <i>Note</i> )	18 March 2004	0.374	–	1,500,000	–	–	1,500,000
			–	19,200,000	–	–	19,200,000
<b>Other employees</b>							
(In aggregate)	18 March 2004	0.374	–	13,800,000	–	–	13,800,000
			–	33,000,000	–	–	33,000,000

The exercisable period of the above share options is from 18 March 2004 to 17 March 2014 (both dates inclusive).

The directors considers the disclosure of the value of options granted during the year ended 31 December 2004 is not appropriate, as the variables which are crucial for the calculation of such option value has not been determined. Such variables include the date of exercise and other relevant conditions. As such, the directors believe that any calculation of the value of the options based on a number of speculative assumptions will not be meaningful and will be misleading to the shareholders in the circumstances.

*Note:* Mr. Su Terry Lumin has resigned as Director of the Company on 2 February 2005. On the same day, he has been re-designated as the Deputy Chairman and Director of Pax Technology Limited, one of the wholly-owned subsidiaries of the Company. As at the date of this report, the share options granted to Mr. Su for 1,500,000 shares are still valid.

**(b) Employee incentive scheme of a subsidiary**

On 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited (“Turbo Speed”), to adopt an employee incentive scheme (the “Employee Incentive Scheme”) to motivate the employees of Turbo Speed and its subsidiaries. Details of an Employee Incentive Scheme was disclosed in the circular dated 18 March 2005.

## REPORT OF THE DIRECTORS

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

<b>Name of shareholder</b>	<b>Number of ordinary shares</b>
Rich Global Limited ("RGL")	189,270,909
Hi Sun Limited ("HSL")	189,270,909 ( <i>Note 1</i> )
Pacific Pilot Limited	30,000,000

*Note:*

(1) HSL is interested in the Company's share capital by virtue of its 100% shareholding in RGL.

### CONNECTED TRANSACTIONS

Certain significant related party transactions entered by the Group during the year ended 31 December 2004, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14A of the Listing Rules, are disclosed in note 26 to the accounts.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 48% of the total sales of the Group. The sales attributable to the largest customer included therein was about 15% of the Group's total sales. During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

# REPORT OF THE DIRECTORS

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation pursuant to the Company's bye-laws.

The Code of Best Practice has been replaced by the Code on Corporate Governance Practices and Corporate Governance Report (Appendices 14 and 23 of the Listing Rules) on 1 January 2005. Compliance of the new Code by the Company will be required commencing from the year ending 31 December 2005.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation and will provide comments and advice to the Board of directors. The audit committee has reviewed the audited accounts for the year ended 31 December 2004.

The Committee comprises three independent non-executive Directors, Tam Chun Fai, Leung Wai Man, Roger and Xu Sitao. Two meetings were held during the current financial year.

## SUBSEQUENT EVENTS

### (a) Change of company name

Pursuant to a special resolution passed on 28 February 2005, the English name of the Company was changed from Hi Sun Group Limited to Hi Sun Technology (China) Limited and the Chinese name of the Company was changed from 高陽集團有限公司 to 高陽科技(中國)有限公司, with effect from 28 February 2005.

### (b) Issue of convertible preference shares by a subsidiary

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited ("Turbo Speed"), to issue 6,837,608 convertible preference shares of US\$0.10 each for a total subscription price of US\$4 million (approximately HK\$31.2 million) under the subscription agreement entered into with independent third parties on 9 November 2004 (the "Subscription"). Details of the subscription are summarised in note 16.

**(c) Adoption of employee incentive scheme of a subsidiary**

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed, to adopt an employee incentive scheme (the "Employee Incentive Scheme") to the employees of Turbo Speed and its subsidiaries to subscribe for a maximum of 4,682,275 ordinary shares of Turbo Speed, representing approximately 13% of the existing issued share capital of Turbo Speed and approximately 11% of the issued share capital of Turbo Speed as enlarged by the Subscription, with an exercisable period from 4 April 2005 to 31 December 2008 (both dates inclusive).

### AUDITORS

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

On behalf of the Board

**Cheung Yuk Fung**

*Chairman*

Hong Kong, 22 April 2005

### FINANCIAL SOLUTIONS, APPLICATIONS, SERVICES AND RELATED PRODUCTS

During the year, the business segment recorded a turnover of HK\$129.79 million (2003: HK260.55 million) and loss of HK\$16.99 million (2003: profit of HK\$5.60 million).

During the year, system consultancy and integration services accounted for 63% and 84% respectively of the turnover and gross profit of the segment. System integration and hardware business unit accounted for 37% and 16% respectively of the segment turnover and segment gross profit.

The drop in the turnover was attributed to the further shrinkage in the hardware and system integration business as a result of our consolidation and refocusing measures. The loss was mainly due to the expenses incurred for the development of the several consultancy and outsourcing business lines which we scaled down towards the end of the year 2004. These business lines focused on expertise line up of business consultancy capabilities to work on large-scale outsourcing and consultancy projects. Additional losses were also attributed to the write off of certain fixed assets and provision of receivables amounting a total of approximately HK\$7.47 million. The write-offs and provision were resulted from closure of several business lines following the group strategy of consolidation and refocusing.

### ELECTRONIC PAYMENT SOLUTIONS AND PRODUCTS

Turnover and profit recorded during the year were HK\$96.00 million (2003: HK\$69.96 million) and HK\$9.66 million (2003: HK\$3.86 million) respectively. The percentage increase in total shipments was 13% on a year on year basis. The shipment contribution of Mainland China market was 67% while the Hong Kong and the South East Asian market contributed the rest. Capitalized on its well-established brand name, high quality research and development capabilities and the price competitive products, we have achieved a 38% growth in shipments in China as compared to the overall market growth of approximately 30%. Outside China, we have also achieved breakthrough with our high value for money advantages. In 2004 PAX has made great strides forward outside China market as proved by the extensive recognition from customers, including international prestigious banks. The clientele included The Hong Kong and Shanghai Banking Corporation, Bank of China (Hong Kong), Citibank N.A., Standard Chartered Bank, and United Overseas Bank. In addition, by developing cooperation partners in the South East Asia, we have also entered into the Thailand market.

It is our belief that the most important essential success factor of PAX is the quality of the products, coupled with the overall capabilities in sales and marketing, after sales value-added services, management skills and the team development.

The management has striven to improve the quality of the products and to develop new products by investing heavily in research and development. During the year, two key new products, namely, P60-S1 detachable EFT-POS terminal and the MP51-C desktop wireless EFT-POS terminal were launched with most of the existing products enhanced in terms of functionality and design.

By leveraging on the opportunity offered by the sturdy growth in China card payment market and the global trend of migration to the Europay Mastercard Visa (“EMV”) standard, with the unrelenting product enhancement, PAX is surely in a favourable position towards becoming a high growth company.

### **TELECOMMUNICATION SOLUTIONS, SERVICES, INFORMATION TECHNOLOGY VALUE-ADDED SERVICES AND RELATED PRODUCTS**

During the year 2004, the turnover and profit recorded were HK\$53.72 million (2003: HK\$29.24 million) and HK\$7.94 million (2003: loss of HK\$2.20 million) respectively. The newly commenced Interactive Voice Response (“IVR”) platform operation services generated a turnover contribution of HK\$32.28 million (2003: Nil) while the system consultancy and integration services and sales of designed information technology products business line accounted for HK\$21.44 million (2003: HK\$29.24 million) turnover contribution. The segment has been successfully transformed from an integrator to a value-added services provider and will continue to scale down the integration business.

It is clear that the growth potential of the IVR platform services is enormous as evidenced by the returning to black in the second half year once the IVR operation services commenced.

### **PROSPECTS**

The consultancy and outsourcing market in China is still in its development stage and we are lack of the technical competitiveness compared to peer global players. In view of this and limitations such as resources, the financial solutions segment will maintain the consultancy and outsourcing business lines with a smaller scale. Yet, with our seasoned business experts enjoying an edge over international peers by knowing the market better while the local competitors rarely have any such consulting power, the strategy will be changed to make the streamlined division leverage on the existing alliance of global players in the area of outsourcing and consultancy market. The management believes the business process outsourcing and consultancy for the banking and financial industries in China will take off in the long run. We will not give up any opportunity and will avail ourselves of the outsourcing and consultancy opportunities with the modified mode of business model.

The EFT-POS terminal business is prospering thanks to PAX's research and development capabilities, market initiatives, and the solidarity of the whole team. The success in China, Hong Kong, and South East Asian region have laid a solid foundation for its further growth in terms of business volume in its foothold occupied and have strengthened our confidence to expand into the American and European markets. We are well prepared to encounter the opportunities and challenges of the China market development arising from the Beijing Olympics 2008 and Shanghai Expo 2010, which will certainly contribute the popularization of card usage and hence increase the demand of the EFT-POS terminals.

Following the successful transformation into a telecommunication value-added services provider, we will continue our endeavor to upgrade the construction of the IVR platform, technical support and service to our principal, China Mobile. Further investment will be put in the development of other value-added services, based on the voice value-added products supplemented by data value-added service products for the existing platform. At the same time, we will continue the research work on the development of the other value-added services. Based on the existing revenue sharing cooperation with China Mobile and the latter's strategy in developing the IVR, WAP, ringtones, voicetones with the rapid growth of the numbers of service providers with their increasing varieties of new services and contents, the business become a key driver for our further development and contribute to the revenue and profit growth of the Group. It is the industry's general consensus that the value-added services sector will be growing to billions of RMB in China. With the new funding from professional investors, the management will further expand the capacity and enhance the technical capabilities to support the IVR platform and develop other value-added services. In view of the expected robust growth in the business, we will do our utmost to make progress in terms of services in order to tap the huge market.

The management will continue to bring substantial revenue and profit contributions to our shareholders.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group reported total assets of HK\$240.72 million, which were financed by total liabilities of HK\$192.09 million and equity of HK\$48.63 million. The net assets value was HK\$48.63 million (2003: HK\$60.76 million). It amounted to HK\$0.15 per share as compared to HK\$0.18 per share as at 31 December 2003.

As at 31 December 2004, the Group had cash of HK\$47.65 million excluding restricted cash of HK\$31.25 million and short term borrowings of HK\$14.30 million. The net cash position as at that date was HK\$33.35 million as compared to HK\$18.04 million as at 31 December 2003. The short term borrowings included short term bank loans and other loans to fund the Group's working capital requirements. The gearing ratio (defined as total interest bearing debts divided by shareholders' equity) was 0.29 compared to 0.40 as at 31 December 2003. The gearing ratio is considered healthy and suitable for the continued growth of the Group's business.

### CAPITAL STRUCTURE AND DETAILS OF CHARGES

As at 31 December 2004, the Group's short term borrowings included short term bank loans and other loans which were denominated in Renminbi, amounting to RMB14.3 million and RMB1 million respectively. The short term bank loans were charged at 5.58% per annum.

Approximately HK\$27.80 million, HK\$5.16 million and HK\$45.94 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 31 December 2004.

As at 31 December 2004, secured short term bank loans of HK\$13.36 million were secured by corporate guarantee from a fellow subsidiary of the Company and other loans of HK\$0.94 million was obtained from Shenzhen Fu Tian Science Technology Bureau and secured by corporate guarantee from an independent third party.

### EXCHANGE RATES EXPOSURE

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

### CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no contingent liability.

### EMPLOYEES

The total number of employees of the Group as at 31 December 2004 was 560. The breakdown of employees by division is as follows:

Financial solutions, services and related products	298
Electronic payment solutions and products	75
Telecommunications solutions, services and related products	97
IVR value-added services	73
Corporate office	17
	<hr/>
	560

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



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
HI SUN TECHNOLOGY (CHINA) LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 27 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's Directors are responsible for preparing accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 22 April 2005

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover	2	279,695	359,790
Cost of sales		(193,732)	(257,915)
Gross profit		85,963	101,875
Other revenue	2	458	328
Selling expenses		(30,644)	(35,899)
Administrative expenses		(66,913)	(68,133)
Operating loss	3	(11,136)	(1,829)
Finance costs	4	(1,031)	(1,625)
Loss before taxation		(12,167)	(3,454)
Taxation credit	7	40	–
Loss attributable to shareholders	8	(12,127)	(3,454)
Basic loss per share	10	HK\$(0.04)	HK\$(0.01)
Diluted loss per share	10	HK\$(0.04)	HK\$(0.01)

# CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Non current assets			
Fixed assets	11	21,135	18,283
Current assets			
Inventories	13	29,851	20,738
Trade and other receivables	14	110,836	82,131
Pledged bank deposits	17	–	18,879
Restricted cash	16	31,250	–
Bank balances and cash		47,649	23,645
		<b>219,586</b>	145,393
Current liabilities			
Trade payables, other payables and accruals	15	121,280	72,206
Deposit received from issue of convertible preference shares by a subsidiary	16	31,250	–
Due to ultimate holding company	18	24,638	3,042
Due to fellow subsidiaries	18	623	3,154
Taxation payable		–	41
Short term borrowings	17	14,299	24,475
		<b>192,090</b>	102,918
Net current assets		<b>27,496</b>	42,475
Total assets less current liabilities		<b>48,631</b>	60,758
Financed by:			
Share capital	20	3,330	3,330
Reserves	21	45,301	57,428
Shareholders' funds		<b>48,631</b>	60,758

On behalf of the Board

**Cheung Yuk Fung**  
Director

**Li Wenjin**  
Director

# BALANCE SHEET

As at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>Non current assets</b>			
Fixed assets	11	6	9
Interests in subsidiaries	12	77,183	76,607
		<b>77,189</b>	76,616
<b>Current assets</b>			
Prepayments, deposits and other receivables	14	860	1,056
Bank balances and cash		95	2,874
		<b>955</b>	3,930
<b>Current liabilities</b>			
Other payables and accruals	15	774	819
Due to ultimate holding company	18	5,924	–
		<b>6,698</b>	819
Net current (liabilities)/assets		<b>(5,743)</b>	3,111
Total assets less current liabilities		<b>71,446</b>	79,727
<b>Financed by:</b>			
Share capital	20	3,330	3,330
Reserves	21	68,116	76,397
Shareholders' funds		<b>71,446</b>	79,727

On behalf of the Board

**Cheung Yuk Fung**  
Director

**Li Wenjin**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Total equity as at 1 January		60,758	64,212
Loss attributable to shareholders	21	(12,127)	(3,454)
Total equity as at 31 December		48,631	60,758

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2004*

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Operating activities			
Net cash inflow/(outflow) generated from operations	23(a)	<b>31,011</b>	(14,987)
Interest paid		<b>(1,031)</b>	(1,625)
Hong Kong profits tax paid		<b>(1)</b>	–
Net cash inflow/(outflow) from operating activities		<b>29,979</b>	(16,612)
Investing activities			
Purchase of fixed assets		<b>(14,907)</b>	(2,273)
Sale of fixed assets		<b>54</b>	574
Interest received		<b>175</b>	291
Decrease in pledged bank deposits		<b>18,879</b>	1,135
Net cash inflow/(outflow) from investing activities		<b>4,201</b>	(273)
Net cash inflow/(outflow) before financing activities		<b>34,180</b>	(16,885)
Financing activities			
Inception of other loans	23(b)	<b>935</b>	–
Inception of short term bank loans	23(b)	<b>13,364</b>	–
Repayment of short term bank loans	23(b)	<b>(15,782)</b>	(27,972)
Net cash outflow from financing activities		<b>(1,483)</b>	(27,972)
Increase/(decrease) in cash and cash equivalents		<b>32,697</b>	(44,857)
Cash and cash equivalents at 1 January		<b>14,952</b>	59,809
Cash and cash equivalents at 31 December		<b>47,649</b>	14,952
Analysis of balances of cash and cash equivalents			
Bank balances and cash		<b>47,649</b>	23,645
Bank overdrafts		<b>–</b>	(8,693)
		<b>47,649</b>	14,952

## 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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (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.

## 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 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.

### (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.

## 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 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) 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 purposes 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.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Employee benefits (continued)

#### (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 approximately 7% to 20% 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.

#### (iii) Equity compensation benefits

Share options are granted to directors and to employees at a price determined in accordance to the Company's share options scheme on the date of the grant and are exercisable at that price, no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

### (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.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (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.

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

Revenue from the sales of designed information technology products 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 and information technology value-added service income are 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.

### (o) **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

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the sales of designed information technology products, provision of information system consultancy and integration services, and information technology value-added services. Revenues recognised during the year are as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Sales of designed information technology products	<b>166,377</b>	240,295
Provision of information system consultancy and integration services	<b>81,041</b>	119,495
Information technology value-added services	<b>32,277</b>	–
	<b>279,695</b>	359,790
Other revenue		
Interest income	<b>175</b>	291
Others	<b>283</b>	37
	<b>458</b>	328
Total revenue	<b>280,153</b>	360,118

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

### Primary reporting format – Business segments

The Group is organised into four main business segments:

- (a) Financial solutions, services and related products – provision of customised information system consultancy and integration services and sales of designed information technology products to financial institutions and banks;
- (b) Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of designed information technology products to the telecommunication industries;
- (c) Electronic payment products and services – sales of electronic fund transfer point-of-sale (“EFT-POS”) terminals; and
- (d) Information technology value-added services – provision of Interactive Voice Response (“IVR”) services.

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 four business segments operate in two main geographical areas:

- |                                      |   |   |
|--------------------------------------|---|---|
| Hong Kong, Korea and South East Asia | – | financial solutions, services and designed information technology products, and electronic payment products and services  |
| Mainland China                       | – | financial solutions, services and designed information technology products, telecommunication solutions, services and designed information technology products, electronic payment products and services, and information technology value-added 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

	Financial solutions, services and related products 2004 <i>HK\$'000</i>	Telecom- munication solutions, services and related products 2004 <i>HK\$'000</i>	Electronic payment products and services 2004 <i>HK\$'000</i>	Information technology value- added services 2004 <i>HK\$'000</i>	Other operations 2004 <i>HK\$'000</i>	Group 2004 <i>HK\$'000</i>
Turnover	129,785	21,438	95,995	32,277	200	279,695
Other revenue	87	59	307	–	5	458
Segment results	(16,986)	(661)	9,664	8,598	(11,751)	(11,136)
Finance costs						(1,031)
Loss before taxation						(12,167)
Taxation credit						40
Loss attributable to shareholders						(12,127)
Segment assets	101,922	20,280	60,065	25,529	32,925	240,721
Segment liabilities	(81,432)	(26,081)	(30,063)	(16,338)	(38,176)	(192,090)
Other segment information:						
Depreciation	5,582	1,131	575	1,328	7	8,623
Provision for doubtful debts	4,366	–	–	–	–	4,366
Write-back of provision for obsolete inventories	–	–	(429)	–	–	(429)
Loss on disposal and write off of fixed assets	3,105	–	273	–	–	3,378
Capital expenditure	1,589	795	682	11,803	38	14,907

## NOTES TO THE ACCOUNTS

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

#### Primary reporting format – Business segments (continued)

	Financial solutions, services and related products 2003 <i>HK\$'000</i>	Telecom- munication solutions, services and related products 2003 <i>HK\$'000</i>	Electronic payment products and services 2003 <i>HK\$'000</i>	Other operations 2003 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
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)

#### Secondary reporting format – Geographical segments

	<b>Turnover 2004 HK\$'000</b>	<b>Segment results 2004 HK\$'000</b>	<b>Total assets 2004 HK\$'000</b>	<b>Capital expenditure 2004 HK\$'000</b>
Hong Kong, Korea and South East Asia	75,925	(7,104)	100,639	38
Mainland China	203,770	(4,267)	140,082	14,869
	<u>279,695</u>	<u>(11,371)</u>	<u>240,721</u>	<u>14,907</u>
Unallocated income, net		<u>235</u>		
Operating loss		<u>(11,136)</u>		

	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>		

## NOTES TO THE ACCOUNTS

### 3. OPERATING LOSS

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<u>Crediting</u>		
Refund of value-added tax	<b>2,844</b>	3,355
Write-back of provision for obsolete inventories	<b>429</b>	346
Waiver of payment to a sub-contractor	<b>468</b>	–
<u>Charging</u>		
Auditors' remuneration	<b>1,221</b>	1,152
Depreciation	<b>8,623</b>	8,816
Staff costs (Note 5)	<b>74,848</b>	86,335
Operating lease rentals for land and buildings	<b>9,927</b>	10,717
Loss on disposal and write off of fixed assets	<b>3,378</b>	360
Provision for doubtful debts	<b>4,366</b>	1,701
Provision for other receivables	–	1,196
Net exchange losses	<b>118</b>	218

### 4. FINANCE COSTS

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans and overdrafts	<b>1,031</b>	1,625

### 5. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Wages and salaries	<b>71,359</b>	80,874
Pension costs – defined contribution plan	<b>3,489</b>	5,461
	<b>74,848</b>	86,335

## NOTES TO THE ACCOUNTS

### 6. 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:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	<b>273</b>	372
Other emoluments:		
Basic salaries, other allowances and benefits in kind	<b>3,684</b>	280
Contributions to pension schemes for Directors	<b>90</b>	10
	<b>4,047</b>	662

Directors' fees disclosed above include HK\$153,000 (2003: HK\$252,000) paid to independent non-executive Directors.

The emoluments of the Directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
<b>Emolument bands</b>		
Nil – HK\$1,000,000	<b>14</b>	11

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

## NOTES TO THE ACCOUNTS

### 6. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three Directors (2003: none). The emoluments payable to the remaining two (2003: five) individuals during the year are as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>1,161</b>	4,081

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2004</b>	2003
<b>Emolument bands</b>		
Nil – HK\$1,000,000	<b>2</b>	4
HK\$1,500,001 – HK\$2,000,000	–	1

- (c) During the year ended 31 December 2004, 33,000,000 share options (2003: Nil) were granted to the Directors and employees at HK\$0.374 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014. None of the share options granted has been exercised during the year.

### 7. TAXATION

The amount of taxation credited to the consolidated profit and loss account represents:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current taxation:		
– Hong Kong profits tax	–	–
– Overseas taxation	–	–
Over-provision in prior years	<b>(40)</b>	–
Taxation credit	<b>(40)</b>	–

## NOTES TO THE ACCOUNTS

### 7. TAXATION (continued)

Hong Kong profits tax has not been provided in these accounts as the Group has no estimated assessable profit for the year (2003: Nil).

The People's Republic of China (the "PRC") taxation has been provided on the profit of the Group's subsidiaries in the PRC and calculated at the applicable rates. No provision for the PRC income tax has been provided for current year as there is allowable tax losses brought forward from prior years (2003: Nil).

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 Company as follow:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss before taxation	<b>(12,167)</b>	(3,454)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>(2,129)</b>	(604)
Effect of different taxation rates in other countries	<b>123</b>	1,450
Effect of tax holiday	<b>(26)</b>	(3,832)
Income not subject to taxation	<b>(19)</b>	(4)
Expenses not deductible for taxation proposes	<b>93</b>	401
Utilisation of previously unrecognised tax losses	<b>(1,118)</b>	–
Unrecognised tax losses	<b>3,076</b>	2,589
Over-provision in prior years	<b>(40)</b>	–
Taxation credit	<b>(40)</b>	–

### 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$8,281,000 (2003: HK\$23,813,000).

### 9. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2003: Nil).

### 10. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$12,127,000 (2003: HK\$3,454,000) and 333,054,030 (2003: 333,054,030) ordinary shares in issue during the year.

## NOTES TO THE ACCOUNTS

### 10. LOSS PER SHARE (continued)

Diluted loss per share has not been presented for the year ended 31 December 2004 as the conversion of potential ordinary shares would have anti-dilutive effect to the basic loss per share.

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

### 11. FIXED ASSETS

	Group				Total HK\$'000
	Leasehold improve- -ments HK\$'000	Office furniture and equipment HK\$'000	Plant and equipment HK\$'000	Motor vehicles HK\$'000	
Cost:					
At 1 January 2004	7,701	21,571	506	3,630	33,408
Additions	698	13,920	80	209	14,907
Disposals	–	(664)	–	–	(664)
Write-off	(1,896)	(8,041)	–	–	(9,937)
<b>At 31 December 2004</b>	<b>6,503</b>	<b>26,786</b>	<b>586</b>	<b>3,839</b>	<b>37,714</b>
Accumulated depreciation and impairment:					
At 1 January 2004	4,964	8,417	130	1,614	15,125
Charge for the year	997	6,541	109	976	8,623
Disposals	–	(427)	–	–	(427)
Write-off	(593)	(6,149)	–	–	(6,742)
<b>At 31 December 2004</b>	<b>5,368</b>	<b>8,382</b>	<b>239</b>	<b>2,590</b>	<b>16,579</b>
Net book value:					
<b>At 31 December 2004</b>	<b>1,135</b>	<b>18,404</b>	<b>347</b>	<b>1,249</b>	<b>21,135</b>
At 31 December 2003	2,737	13,154	376	2,016	18,283

## NOTES TO THE ACCOUNTS

### 11. FIXED ASSETS (continued)

	<b>Company Office furniture and equipment</b> <i>HK\$'000</i>
Cost:	
At 1 January 2004 and 31 December 2004	12
Accumulated depreciation:	
At 1 January 2004	3
Charge for the year	3
<b>At 31 December 2004</b>	<b>6</b>
Net book value:	
<b>At 31 December 2004</b>	<b>6</b>
At 31 December 2003	9

### 12. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted investments, at cost	<b>4,136</b>	4,136
Due from subsidiaries	<b>93,547</b>	92,471
Due to a subsidiary	<b>(500)</b>	–
Less: Provision for diminution in value	<b>(20,000)</b>	(20,000)
	<b>77,183</b>	76,607

As at 31 December 2004, the balances with subsidiaries were unsecured, interest free, and had no fixed terms of repayment, except for an amount due from a subsidiary of HK\$2,400,000 which was unsecured, interest free, and repayable within one year.

As at 31 December 2003, the balances with subsidiaries were unsecured, interest free, and had no fixed terms of repayment, except for amounts due from subsidiaries of HK\$5,900,000 which were unsecured, bore interest at Hong Kong Dollar Prime Lending Rate plus 2% per annum, and were 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 2004:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
北京高陽金信息技術有限公司 (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 and information technology value-added services in the PRC	HK\$27,000,000	100%
Emerging Technology Limited	British Virgin Islands ("BVI"), limited liability company	Investment holding in the PRC	7,692,308 ordinary shares of US\$1 each	100%
Hi Sun (BVI) Limited	BVI, limited liability company	Investment holding in Hong Kong and the PRC	2 ordinary shares of US\$1 each	100% <sup>1</sup>
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 EFT-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 the PRC	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 EFT-POS terminals in the PRC	HK\$10,000,000	100%

<sup>1</sup> Shares held directly by the Company

### 13. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	7,475	7,608
Work in progress	3,871	5,401
Finished goods	18,505	7,729
	<b>29,851</b>	20,738

At 31 December 2004, the carrying amount of inventories that were carried at net realisable value amounted to nil (2003: HK\$2,693,000).

## NOTES TO THE ACCOUNTS

### 14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trade receivables, net of provisions (Note)	<b>101,202</b>	64,812	–	–
Prepayments, deposits and other receivables	<b>9,634</b>	17,319	<b>860</b>	1,056
	<b>110,836</b>	82,131	<b>860</b>	1,056

*Note:* The Group's credit terms to trade debtors range from 0 to 180 days. At 31 December 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current to 90 days	<b>90,087</b>	40,614
91 to 180 days	<b>4,866</b>	18,820
181 to 365 days	<b>2,914</b>	1,861
Over 365 days	<b>3,335</b>	3,517
	<b>101,202</b>	64,812

## NOTES TO THE ACCOUNTS

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

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trade payables (Note)	46,331	23,303	–	–
Other payables and accruals	74,949	48,903	774	819
	<b>121,280</b>	72,206	<b>774</b>	819

Note: At 31 December 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current to 90 days	33,927	17,834
91 to 180 days	10,605	503
181 to 365 days	120	2,309
Over 365 days	1,679	2,657
	<b>46,331</b>	23,303

### 16. RESTRICTED CASH AND DEPOSIT RECEIVED FROM ISSUE OF CONVERTIBLE PREFERENCE SHARES BY A SUBSIDIARY

On 9 November 2004, Turbo Speed Technology Limited (“Turbo Speed”), a wholly-owned subsidiary of the Company, entered into a subscription agreement with independent third parties in relation to the subscription of 6,837,608 convertible preference shares of US\$0.10 each of Turbo Speed for a total subscription price of US\$4 million (approximately HK\$31.2 million) (“the Subscription”). The convertible preference shares represent approximately 19% of the total existing number of issued shares of Turbo Speed and approximately 16% of the total number of issued shares of Turbo Speed as enlarged by the Subscription.

The subscription price had been received by Turbo Speed shortly after signing of the said agreement and is held in jointly controlled bank accounts and will be released on completion of the Subscription. The completion of the Subscription is conditional upon the completion of (a) a written confirmation from China Mobile Communications Corporation that the IVR Contract has been renewed; (b) amendment to the Memorandum of Association of Turbo Speed for sub-division of and reclassify its authorised share capital into 93,000,000 ordinary shares of US\$0.10 each and 7,000,000 convertible preference shares of US\$0.10 each; and (c) the necessary approvals obtained from relevant authorities for the Subscription. If the conditions set out in the above are not fulfilled or waived in writing prior to 30 April 2005, the Subscription shall terminate and none of the parties shall have any claims against the others.

## NOTES TO THE ACCOUNTS

### 17. SHORT TERM BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
<b>Short term bank borrowings</b>		
Bank overdrafts – Hong Kong, secured ( <i>Note (a)</i> )	–	8,693
Trust receipt loans – Hong Kong, secured ( <i>Note (a)</i> )	–	7,184
Short term bank loans – PRC, secured ( <i>Note (a)</i> )	<b>13,364</b>	8,598
<b>Others</b>		
Other loans – PRC, secured ( <i>Note (b)</i> )	<b>935</b>	–
	<b>14,299</b>	24,475

*Note:*

- (a) As at 31 December 2004, secured short term bank loans of HK\$13,364,000 were secured by corporate guarantee from a fellow subsidiary of the Company.

As at 31 December 2003, bank overdrafts, trust receipt loans and secured short term bank loans of HK\$24,475,000 were secured by fixed deposits at banks of HK\$14,459,000, deposits in a bank guaranteed fund of HK\$4,420,000, 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) As at 31 December 2004, other loans of HK\$935,000 was obtained from Shenzhen Fu Tian Science Technology Bureau and secured by corporate guarantee from an independent third party.

### 18. DUE TO FELLOW SUBSIDIARIES AND ULTIMATE HOLDING COMPANY

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

### 19. PENSION OBLIGATIONS

	Group	
	2004 HK\$'000	2003 HK\$'000
Obligations on:		
– pensions – defined contribution plan ( <i>Note</i> )	<b>3,850</b>	3,097

*Note:* No contribution was forfeited during the year (2003: Nil).

**20. SHARE CAPITAL**

	<b>Authorised Ordinary shares of HK\$0.01 each</b>	
	<b>No. of shares</b>	<i>HK\$'000</i>
At 31 December 2003 and 2004	1,000,000,000	10,000
	<b>Issued and fully paid Ordinary shares of HK\$0.01 each</b>	
	<b>No. of shares</b>	<i>HK\$'000</i>
At 31 December 2003 and 2004	333,054,030	3,330

**Share option scheme**

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

The exercisable period of the above share options is from 18 March 2004 to 17 March 2014 (both dates inclusive). No share options have been exercised during the year ended 31 December 2004.

## NOTES TO THE ACCOUNTS

### 21. RESERVES

	Group			Total HK\$'000
	Share premium HK\$'000	Contributed surplus (Note) HK\$'000	Accumulated losses HK\$'000	
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
At 1 January 2004	100,556	125,310	(168,438)	57,428
Loss for the year	–	–	(12,127)	(12,127)
<b>At 31 December 2004</b>	<b>100,556</b>	<b>125,310</b>	<b>(180,565)</b>	<b>45,301</b>

*Note:* 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.

	Company			Total HK\$'000
	Share premium HK\$'000	Contributed surplus (Note) HK\$'000	Accumulated losses HK\$'000	
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
At 1 January 2004	100,556	3,293	(27,452)	76,397
Loss for the year	–	–	(8,281)	(8,281)
<b>At 31 December 2004</b>	<b>100,556</b>	<b>3,293</b>	<b>(35,733)</b>	<b>68,116</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

### 22. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

Deferred income tax assets are recognised for tax losses 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\$102,150,000 (2003: HK\$85,087,000) 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:

	<b>Accelerated tax depreciation</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Deferred tax liabilities		
At 1 January	<b>10</b>	44
Charged/(credited) to profit and loss account	<b>18</b>	(34)
At 31 December	<b>28</b>	10

	<b>Tax losses</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Deferred tax assets		
At 1 January	<b>(10)</b>	(44)
(Credited)/charged to profit and loss account	<b>(18)</b>	34
At 31 December	<b>(28)</b>	(10)

## NOTES TO THE ACCOUNTS

### 22. DEFERRED TAXATION (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Deferred tax assets	<b>(28)</b>	(10)
Deferred tax liabilities	<b>28</b>	10
	<b>–</b>	–

### 23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating loss	<b>(11,136)</b>	(1,829)
Interest income	<b>(175)</b>	(291)
Depreciation	<b>8,623</b>	8,816
Loss on disposal and write off of fixed assets	<b>3,378</b>	360
Provision for doubtful debts	<b>4,366</b>	1,701
Provision for other receivables	<b>–</b>	1,196
Write-back of provision for obsolete inventories	<b>(429)</b>	(346)
Operating profit before working capital changes	<b>4,627</b>	9,607
(Increase)/decrease in trade and other receivables	<b>(33,071)</b>	82,731
(Increase)/decrease in inventories	<b>(8,684)</b>	5,126
Increase/(decrease) in trade payables, other payables and accruals	<b>49,074</b>	(108,439)
Increase/(decrease) in amount due to ultimate holding company	<b>21,596</b>	(797)
Decrease in amounts due to fellow subsidiaries	<b>(2,531)</b>	(3,215)
Net cash inflow/(outflow) generated from operations	<b>31,011</b>	(14,987)

## NOTES TO THE ACCOUNTS

### 23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	<b>Issued capital (including share premium account and contributed surplus) <i>HK\$'000</i></b>	<b>Short term bank loans (including trust receipts loans) <i>HK\$'000</i></b>	<b>Other loans <i>HK\$'000</i></b>
At 1 January 2003	229,196	43,754	–
Repayment of short term bank loans	–	(27,972)	–
At 31 December 2003	229,196	15,782	–
Inception of other loans	–	–	935
Inception of short term bank loans	–	13,364	–
Repayment of short term bank loans	–	(15,782)	–
<b>At 31 December 2004</b>	<b>229,196</b>	<b>13,364</b>	<b>935</b>

### 24. CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no other contingent liabilities (2003: Nil).

## NOTES TO THE ACCOUNTS

### 25. OPERATING LEASE COMMITMENTS

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Not later than one year	5,494	6,383	4,463	–
Later than one year and not later than five years	1,991	2,366	–	–
	<b>7,485</b>	8,749	<b>4,463</b>	–

### 26. RELATED PARTY TRANSACTIONS

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

		Group	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Management fees received from a related company	(a)	200	–
Management fees paid to a related company	(b)	–	280
Consultancy fees paid to a related company	(c)	–	74
Rental fees paid to a related company	(d)	916	–

- (a) A subsidiary, Hi Sun Development Management Limited, provided management services to Panorama Stock Limited, a company owned by a Director of the Company.
- (b) 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.
- (c) 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.
- (d) A subsidiary, Beijing Hi Sun Advanced Business Solution Information Technology Limited, paid rental fees to Beijing Hi Sun Electric Power Information Technology Limited, a company owned by a Director, who is also a substantial shareholder, of the Company.

The above transactions were conducted in the normal course of business and charged at terms mutually agreed or in accordance with the terms of the underlying agreements, where appropriate.

### 27. SUBSEQUENT EVENTS

**(a) Change of company name**

Pursuant to a special resolution passed on 28 February 2005, the English name of the Company was changed from Hi Sun Group Limited to Hi Sun Technology (China) Limited and the Chinese name of the Company was changed from “高陽集團有限公司” to “高陽科技(中國)有限公司”, with effect from 28 February 2005.

**(b) Issue of convertible preference shares by a subsidiary**

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed, to issue 6,837,608 convertible preference shares of US\$0.10 each for a total subscription price of US\$4 million (approximately HK\$31.2 million) under the subscription agreement entered into with independent third parties on 9 November 2004 (the “Subscription”). Details of the Subscription are summarised in note 16.

**(c) Adoption of employee incentive scheme of a subsidiary**

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed, to adopt an employee incentive scheme to the employees of Turbo Speed and its subsidiaries to subscribe for a maximum of 4,682,275 ordinary shares of Turbo Speed, representing approximately 13% of the existing issued share capital of Turbo Speed and approximately 11% of the issued share capital of Turbo Speed as enlarged by the Subscription, with an exercisable period from 4 April 2005 to 31 December 2008 (both dates inclusive).

### 28. 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.

### 29. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 22 April 2005.

## SUMMARY FINANCIAL INFORMATION

A summary of the published consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set as below:

	<b>2004</b> <i>HK\$'000</i>	Year ended 31 December					
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>		2001 <i>HK\$'000</i>		2000 <i>HK\$'000</i>
<b>Continuing operations</b>	<b>Continuing operations</b>	Continuing operations	Discontinuing operations <i>(note)</i>	Continuing operations	Discontinuing operations <i>(note)</i>	Discontinuing operations <i>(note)</i>	
<b>Results</b>							
(Loss)/profit attributable to shareholders	<b>(12,127)</b>	(3,454)	(37,399)	(3,429)	(761)	343,726	(81,511)
<b>Assets and liabilities</b>							
Total assets	<b>240,721</b>	163,676	312,312	-	18,530	27,801	61,937
Total liabilities	<b>(192,090)</b>	(102,918)	(248,100)	-	(463)	(25,595)	(403,453)
Shareholders' funds/(deficit)	<b>48,631</b>	60,758	64,212	-	18,067	2,206	(341,516)

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