



Hi Sun Technology (China) Limited

(Incorporated in Bermuda with limited liability)

2005
Interim Report

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30th June 2005. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2005, and the consolidated balance sheet as at 30th June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 10 to 28 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and business review

The Group achieved remarkable results for the six months ended 30th June 2005. For the first half of 2005, the Group's turnover amounted to HK\$178.97 million, as compared to the turnover of HK\$66.65 million for the corresponding period last year. The management is pleased to report a significant turnaround, recording net profit attributable to shareholders of HK\$38.57 million, while the loss for the corresponding period of the previous year was HK\$28.19 million.

The turnaround was mainly due to the take off of the telecommunication value-added services and the improvement in the result of the financial solutions division.

Financial solutions, services and related products

During the period under review, this business segment recorded a turnover of HK\$49.10 million (2004 interim: HK\$20.56 million) and a profit of HK\$0.76 million (2004 interim: loss of HK\$18.50 million).

Consultancy and IT services accounted for 56% of the turnover of this business segment, as compared to the 50% in the corresponding period of the last year.

System integration and hardware products business accounted for 44% of the turnover of this business segment, as compared to the 50% in the corresponding period of the last year.

The implementation of the integrated banking systems for the ICBC (Asia) in Hong Kong and Bank of Communication in China were on schedule. New contracts were also executed for the ICBC (Asia) – Belgian Bank integration and certain projects for Bank of Communication, Hong Kong branch. The systems implementation were smooth and well received by our clients. During the period under review, services delivery were all on schedule and there was no such delay we experienced in last year. Following the retrenchment measures we carried out in the last quarter of year 2004, we recorded a saving of expenses of approximately HK\$7 million compared to that of last period. It is encouraging to see the benefits as a result of the measures we pursued over the last few months.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Telecommunication solutions, services, information technology value-added services and related products

During the period under review, a turnover of HK\$81.67 million (2004 interim: HK\$5.87 million) and a profit of HK\$50.50 million (2004 interim: loss of HK\$7.08 million) were recorded.

During the period under review, there was a slight decrease of HK\$2.62 million in the turnover from traditional integrated applications services, while the turnover from IVR value-added business was significantly increased by HK\$78.42 million.

It is clear that the SMS content market is maturing while other wireless internet value-added services including IVR appeared to be taking its place. Capitalised on our focused and dedicated services in IVR platform development and the strong and leading technology we maintained, we have experienced strong profit growth in the period under review. Over the past several quarters, we have upgraded our service platform and support system. The capacity has been expanded to cater for the rapid growing mobile telecommunication subscribers and their demand for new services.

The increase in investment is inevitable in order to maintain a platform providing stable and reliable services as well as to develop new products and to enter into new markets. The increases in the expenses and investment were well under control and the management will endeavour to keep cost competitive.

Electronic payment products and services

This business segment recorded a turnover of HK\$48.10 million (2004 interim: HK\$40.12 million) and a profit of HK\$5.70 million (2004 interim: HK\$3.97 million). The robust growth in demand of EFT-POS terminals, in particular the speeding up of launching of machines for China Union Pay, brought about a shipment growth of 38%. During the period under review, the shipment percentage contribution of Mainland China market was 83%. Due to the deferral in the implementation of Europay Mastercard Visa ("EMV") standard migration of certain clients in Hong Kong and overseas, the contribution outside Mainland China only accounted for 17% of the total shipment.

The management commenced a comprehensive review of the financial, logistic and procurement controls, market strategy and product development. The review is an ongoing process, creating a plan to improve profitability and sustain our growth momentum. Thanks to our special task force team for their effort towards control in procurement and logistic process, the cost of sales was significantly reduced. As a result, despite of the price pressure, we managed to maintain a reasonable gross profit margin which is comparable with that of the same period last year.

Overall expenses increased due to our additional investment in research and development and sale and marketing efforts and these are expected to grow in the second half year. However, we believe that the investment will earn rewards soon in view of the drastic growth in the Mainland China market and the huge potential of the European and American markets.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS

Finance

Our financial solutions team have strived to provide world class systems to our financial clients. Not only did we win the appreciation from our clients, we also won the recognition from the industrial practitioners. With the revolutionary changes in the regulations and market environment in the industry, resulting challenging operating environment which lead the financial institutions to carry out integration and consolidation plan and to execute cost saving programme through technology investment. These market forces are placing new demands on the financial institutions and drive them to change how services are delivered. Leveraged on our solid foundation laid and proven operational excellence, as well as our established alliances with global peers, we have made ourselves ready to reap these opportunities later on.

Our new outsourcing and consultancy strategy proposed has struck a chord with our client. This paved the way for our repositioning from a pure IT consultant and system integrator into a business process outsourcing services provider. Teaming up with global peers in this market is under discussion and we expected the collaboration will establish us as a leader in outsourcing businesses in the Mainland China.

Telecommunication

We realise that focusing on single IVR platform operating business line can be a double edged sword. Thus, besides constantly improve our existing platform and support system, we started to build up strategic alliances with several service providers in the areas of new products and new markets. We believe the wireless value-added services market should have a double digit percentage growth rate on a year on year basis in the coming years. Our revenue and profit growth momentum will be maintained through new services and new markets offerings.

Electronic payment terminals

PAX's management believes quality of products, sale and marketing capabilities and management skills are critical to keep PAX competitive. The investments and efforts we made are designed to position us for a long-term growth in China and to vie for a presence in the global market. As one of the market leaders in Mainland China with presence in Asian market, PAX is better positioned than before to join forces with our potential partners in the lucrative American market. All of our fellow managers are committed to excellence and readily reacting to what our clients needed. Looking ahead, we are confident of our prospect and believe all these endeavours and investments will pay off in 2005 and beyond for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2005, the Group reported total assets of HK\$306.98 million, which were financed by total liabilities of HK\$195.17 million and equity of HK\$111.81 million. The net assets value was HK\$111.81 million (31st December 2004 : HK\$48.63 million). It amounted to HK\$0.33 per share as compared to HK\$0.15 per share as at 31st December 2004.

As at 30th June 2005, the Group had cash of HK\$118.52 million, short term borrowings of HK\$61.03 million and financial liability portion of convertible preference shares issued by a subsidiary of HK\$6.69 million. The net cash position as at that date was HK\$50.80 million as compared to HK\$33.35 million as at 31st December 2004. 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 0.61 compared to 0.29 as at 31st December 2004. In view of the Group's net cash position, the gearing ratio was considered comfortable.

CAPITAL STRUCTURE AND DETAILS OF CHARGES

As at 30th June 2005, the Group's short term borrowings included short term bank loans and other loans which were denominated in Renminbi, amounting to RMB64.30 million and RMB1 million respectively. The short term bank loans were charged at interest rate of 5.58% per annum.

As at 30th June 2005, the financial liability portion of convertible preference shares issued by a subsidiary was HK\$6.69 million which was denominated in Hong Kong dollar and the effective interest rate was 9.36% per annum.

Approximately HK\$67.03 million, HK\$5.32 million and HK\$46.17 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 30th June 2005.

As at 30th June 2005, secured short term bank loans of HK\$60.09 million were secured by corporate guarantee of HK\$46.73 million from the Company and corporate guarantee of HK\$13.36 million 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.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES

The total number of employees of the Group as at 30th June 2005 was 599. The breakdown of employees by division is as follows:–

Financial solutions, services and related products	287
Electronic payment solutions and products	99
Telecommunication solutions, services, related products and others	107
IVR operation	90
Corporate office	16
	<hr/>
	599

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 business.

SHARE OPTION SCHEME

(a) The Company

To provide further incentive to motivate talented employees, the Company adopted a share option scheme in November 2001 ("Scheme"). On 18th March 2004, 33,000,000 share options were granted 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 Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18th March 2004) with an expiry date of 17th March 2014.

There are no changes in any term of the Scheme during the six months ended 30th June 2005. The exercisable period of the above share options is from 18th March 2004 to 17th March 2014 (both dates inclusive). No share options have been exercised during the six months ended 30th June 2005.

The detailed terms of the Scheme were disclosed in the 2004 annual report.

SHARE OPTION SCHEME (continued)

(a) The Company (continued)

The following table discloses movements in the Company's share options during the period are as follows:-

Name	Date of grant	Exercise price (HK\$)	Number of options held at 1st January 2005	Granted during the period	Lapsed during the period	Exercised during the period	Number of options held at 30th June 2005
Directors							
Mr Kui Man Chun	18th March 2004	0.374	3,000,000	-	-	-	3,000,000
Mr Lo Siu Yu	18th March 2004	0.374	3,300,000	-	-	-	3,300,000
Mr Xu Wensheng	18th March 2004	0.374	3,300,000	-	-	-	3,300,000
Mr Li Wenjin	18th March 2004	0.374	3,300,000	-	-	-	3,300,000
Mr Xu Chang Jun	18th March 2004	0.374	3,300,000	-	-	-	3,300,000
Mr Chan Yiu Kwong	18th March 2004	0.374	1,500,000	-	-	-	1,500,000
			17,700,000	-	-	-	17,700,000
Other Employees							
(In aggregate)	18th March 2004	0.374	15,300,000	-	-	-	15,300,000
			33,000,000	-	-	-	33,000,000

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

(b) Employee incentive scheme of a subsidiary

On 4th 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 subsidiary. On 8th July 2005, 1,425,000 share options had been granted, details of which are also disclosed under the heading "Subsequent Events" below.

CONTINGENT LIABILITIES

The Group had no material contingent liability as at 30th June 2005.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group derives most of its revenue from the PRC and Hong Kong and makes purchase and incurs expenses denominated mainly in US dollar, Renminbi and Hong Kong dollar. The Group's exposure to the fluctuation of exchange rate is minimal. Currently, the Group has not entered into agreements or purchased instruments to hedge the Group's exchange rate risks.

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

As at 30th June 2005, 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	Personal interest	Number of shares held	
		Corporate interest	Total
Kui Man Chun	–	189,270,909(Note)	189,270,909(Note)
Liu Yangsheng, Charles	320,000	–	320,000

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.

(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" above, at no time during the period 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 any other body corporate.

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 30th June 2005, 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 interest are in addition to those disclosed above in respect of the Directors & chief executive.

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

Note: HSL is interested in the Company's share capital by virtue of its 100% shareholding in RGL.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). The Model Code sets a required standard against which directors and employees of the Company and its subsidiaries (the "Group") must measure their conduct regarding transactions in securities of the Company.

Having made specific enquiry, all Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30th June 2005.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June 2005, except for the deviation from code provision A.2.1, A.4.1 and E.1.2 of the CG Code.

Under code provision A.2.1 which stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman of the board does not perform the duty of chief executive officer while the other executive directors of the Company assumes the role of chief executive officer. The present structure is more suitable to the Company and the practice is considered no less exacting than those in the CG Code.

CORPORATE GOVERNANCE *(continued)*

Under code provision A.4.1 that none of the existing non-executive director (including independent non-executive director) of the Company is appointed for a specific term. However, in view of the fact that all directors of the Company (executive and non-executive director) are subject to the retirement by rotation at least once every three years in accordance with Bye-law 87 of the Bye-laws of the Company.

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. The chairman did not attend the annual general meeting held on 23rd May 2005 of the Company, however, Mr. Li Wenjin, as an executive director of the Company, took the chair pursuant to the Bye-laws of the Company.

As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG 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 and have been updated in accordance with the requirements of the CG Code.

The Audit Committee, which comprises three independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the Condensed Interim Accounts for the six months ended 30th June 2005 with the directors.

SUBSEQUENT EVENTS

(a) *Issue of share options by a subsidiary*

On 8th July 2005, Turbo Speed had granted 1,425,000 share options to certain directors and employees of its subsidiary to subscribe ordinary shares of Turbo Speed at an exercise price of HK\$1.922 per share. The exercisable period of the above share options is from 8th July 2005 to 31st December 2008 (both dates inclusive).

(b) *Refreshment of the limit on grant of options under the share option scheme of the Company*

Pursuant to an ordinary resolution passed on 17th August 2005, a refreshment of the limit on grant of options under the share option scheme of the Company ("Scheme") was approved by the shareholders. Upon refreshing the 10 per cent limit on grant of options under the Scheme, 33,305,403 shares may be issued pursuant to the grant of further options under the Scheme.

Prior to the refreshment of the limit on grant of options under the Scheme, the Company has granted options carrying rights to subscribe for 33,000,000 shares, of which no granted option has lapsed nor has been exercised after the date of grant. As a result, only 305,403 options may be granted under the Scheme prior to the refreshment of the 10 per cent limit. However, upon refreshing the 10 per cent limit on grant of options under the Scheme, 33,305,403 shares may be issued pursuant to the grant of further options under the Scheme.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

		Unaudited Six months ended 30th June	
	Note	2005 HK\$'000	2004 HK\$'000
Turnover	3	178,968	66,650
Cost of sales		(74,487)	(43,775)
Gross profit		104,481	22,875
Other revenue		558	146
Selling expenses		(15,968)	(18,722)
Administrative expenses		(47,115)	(31,988)
Operating profit/(loss)	4	41,956	(27,689)
Finance costs	5	(894)	(496)
Profit/(loss) before taxation		41,062	(28,185)
Taxation	6	(2,494)	–
Profit/(loss) attributable to equity holders of the Company		38,568	(28,185)
Earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company during the period:			
– Basic	8	HK\$0.12	HK\$(0.08)
– Diluted	8	HK\$0.11	HK\$(0.08)

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2005 AND 31ST DECEMBER 2004

	Note	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Non-current assets			
Fixed assets	9	24,739	21,135
Current assets			
Inventories		46,266	29,851
Trade receivables	10	65,994	101,202
Prepayments, deposits and other receivables		51,366	9,634
Due from a related company	13,17(b)	100	–
Restricted cash	15	–	31,250
Bank balances and cash		118,516	47,649
		282,242	219,586
Current liabilities			
Trade payables	11	44,799	46,331
Other payables and accruals		64,583	74,949
Deposit received from issue of convertible preference shares by a subsidiary	15	–	31,250
Short term borrowings	12	61,028	14,299
Due to ultimate holding company	13,17(b)	17,755	24,638
Due to a fellow subsidiary	13,17(b)	314	623
		188,479	192,090
Net current assets		93,763	27,496
Total assets less current liabilities		118,502	48,631
Equity:			
Share capital	14	3,330	3,330
Reserves		108,480	45,301
Capital and reserves attributable to the Company's equity holders		111,810	48,631
Non-current liabilities			
Financial liability portion of convertible preference shares issued by a subsidiary	12,15	6,692	–
		118,502	48,631

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
 FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Unaudited	
	Six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Net cash inflow from operating activities	342	6,929
Net cash (outflow)/inflow from investing activities	(7,404)	2,811
Net cash inflow/(outflow) from financing activities	77,929	(13,773)
Increase/(decrease) in cash and cash equivalents	70,867	(4,033)
Cash and cash equivalents at 1st January	47,649	14,952
Cash and cash equivalents at 30th June	118,516	10,919
Analysis of balances of cash and cash equivalents		
Bank balances and cash	118,516	11,283
Bank overdrafts	–	(364)
	118,516	10,919

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	
At 1st January 2005	3,330	100,556	125,310	–	(180,565)	48,631
Profit for the period	–	–	–	–	38,568	38,568
Issue of convertible preference shares by a subsidiary (note 15)	–	–	–	24,611	–	24,611
At 30th June 2005	3,330	100,556	125,310	24,611	(141,997)	111,810
At 1st January 2004	3,330	100,556	125,310	–	(168,438)	60,758
Loss for the period	–	–	–	–	(28,185)	(28,185)
At 30th June 2004	3,330	100,556	125,310	–	(196,623)	32,573

NOTES TO CONDENSED ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts ("Condensed Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These Condensed Interim Accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these Condensed Interim Accounts are consistent with those used in the annual accounts for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

These Condensed Interim Accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these Condensed Interim Accounts.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

NOTES TO CONDENSED ACCOUNTS *(continued)*

2. Changes in accounting policies *(continued)*

(a) Effect of adopting new HKFRS *(continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 36 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 33, 36 and HKFRS 3 had no material effect on the Group's policies; and
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005; and
- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005.

NOTES TO CONDENSED ACCOUNTS *(continued)*

2. Changes in accounting policies *(continued)*

(b) *New accounting policies*

The accounting policies used for the Condensed Interim Accounts for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual accounts except for the following:

2.1 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.2 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of convertible preference shares is determined using a market interest rate for an equivalent non-convertible preference share. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the convertible preference shares, where appropriate. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO CONDENSED ACCOUNTS (continued)

3. Segment reporting

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) Information technology value-added services – provision of Interactive Voice Response (“IVR”) services; and
- (d) Electronic payment products and services – sales of electronic fund transfer point-of-sale (“EFT-POS”) terminals.

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

An analysis of the Group’s revenue and results for the period by business segments is as follows:

	Unaudited Six months ended 30th June 2005					
	Financial solutions, services and related products HK\$'000	Telecommunication solutions, services and related products HK\$'000	Information technology value-added services HK\$'000	Electronic payment products and services HK\$'000	Other operations HK\$'000	Group HK\$'000
Turnover	49,102	3,253	78,416	48,097	100	178,968
Segment results	757	2,224	48,274	5,704	(15,561)	41,398
Unallocated income						558
Operating profit						41,956
Finance costs						(894)
Profit before taxation						41,062
Taxation						(2,494)
Profit attributable to equity holders of the Company						38,568

NOTES TO CONDENSED ACCOUNTS (continued)

3. Segment reporting (continued)

	Unaudited Six months ended 30th June 2004				Group HK\$'000
	Financial solutions, services and related products HK\$'000	Telecom- munication solutions, services and related products HK\$'000	Electronic payment products and services HK\$'000	Other operations HK\$'000	
Turnover	20,559	5,872	40,119	100	66,650
Segment results	(18,501)	(7,075)	3,969	(6,228)	(27,835)
Unallocated income					146
Operating loss					(27,689)
Finance costs					(496)
Loss before taxation					(28,185)
Taxation					-
Loss attributable to equity holders of the Company					(28,185)

There are no sales or other transactions between the business segments. Unallocated income represents interest income.

An analysis of the Group's turnover and contribution to operating profit/(loss) for the period by geographical segment is as follows:

	Unaudited Turnover Six months ended 30th June		Unaudited Operating profit/(loss) Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong and South East Asia	26,381	18,729	(1,010)	(1,763)
Mainland China	152,587	47,921	42,966	(25,926)
	178,968	66,650	41,956	(27,689)

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

NOTES TO CONDENSED ACCOUNTS (continued)

4. Operating profit/(loss)

Operating profit/(loss) is stated after crediting and charging the following:

	Unaudited Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Crediting		
Write-back of provision for obsolete inventories	–	371
Charging		
Auditors' remuneration	500	500
Depreciation	4,352	4,412
Provision for obsolete inventories	207	–
Provision for doubtful debts	1,302	–
Staff costs (including directors' remuneration):		
Wages and salaries	43,658	30,912
Pension contributions	1,879	1,955
Less: staff costs capitalised into contract work in progress	(3,130)	(5,050)
	42,407	27,817
Operating lease rentals for land and buildings	4,371	5,236
Loss on disposal and write-off of fixed assets	6	19

5. Finance costs

	Unaudited Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Interest on bank loans and overdrafts	791	496
Interest on financial liability portion of convertible preference shares issued by a subsidiary (note 15)	103	–
	894	496

NOTES TO CONDENSED ACCOUNTS (continued)

6. Taxation

The amount of taxation charged to the condensed consolidated income statement represents:

	Unaudited Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Current taxation:		
– Hong Kong profits tax (note (a))	–	–
– Overseas taxation (note (b))	2,494	–
	2,494	–

(a) Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the period (six months ended 30th June 2004: Nil).

(b) 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 (six months ended 30th June 2004: Nil).

7. Dividend

No dividend has been paid or declared by the Company for the six months ended 30th June 2005 (six months ended 30th June 2004: Nil).

8. Earnings/(loss) per share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the number of ordinary shares in issue during the period.

	Unaudited Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Profit/(loss) attributable to equity holders of the Company	38,568	(28,185)
Number of ordinary shares in issue (thousands)	333,054	333,054
Basic earnings/(loss) per share (HK\$ per share)	0.12	(0.08)

NOTES TO CONDENSED ACCOUNTS (continued)

8. Earning/(loss) per share (continued)

Diluted

Diluted earnings per share for the six months ended 30th June 2005 is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible preference shares issued by a subsidiary and share options. The convertible preference shares issued by a subsidiary are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30th June 2005 HK\$'000
Profit attributable to equity holders of the Company	38,568
Interest expense on convertible preference shares issued by a subsidiary (net of tax)	85
Profit used to determine diluted earnings per share	38,653
Number of ordinary shares in issue (thousands)	333,054
Adjustments for	
– assumed conversion of convertible preference shares issued by a subsidiary (thousands)	8,667
– share options (thousands)	587
Number of ordinary shares for diluted earnings per share (thousands)	342,308
Diluted earnings per share (HK\$ per share)	0.11

Diluted loss per share for the six months ended 30th June 2004 has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to the basic loss per share.

NOTES TO CONDENSED ACCOUNTS (continued)

9. Fixed assets

	<i>HK\$'000</i>
Net book value as at 1st January 2005	21,135
Additions	7,967
Disposals	(6)
Write-off	(5)
Depreciation	(4,352)
Net book value as at 30th June 2005	24,739
Net book value as at 1st January 2004	18,283
Additions	11,212
Disposals	(27)
Depreciation	(4,412)
Net book value as at 30th June 2004	25,056
Additions	3,695
Disposals	(210)
Write-off	(3,195)
Depreciation	(4,211)
Net book value as at 31st December 2004	21,135

10. Trade receivables

The Group's credit terms to trade receivables ranges from 0 to 180 days. An aged analysis of the Group's trade receivables is as follows:

	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Current to 90 days	48,466	90,087
91 days to 180 days	5,244	4,866
181 to 365 days	10,410	2,914
Over 365 days	1,874	3,335
	65,994	101,202

NOTES TO CONDENSED ACCOUNTS (continued)

11. Trade payables

An aged analysis of the Group's trade payables is as follows:

	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Current to 90 days	33,309	33,927
91 days to 180 days	7,791	10,605
181 to 365 days	2,272	120
Over 365 days	1,427	1,679
	44,799	46,331

12. Borrowings

	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Non-current		
– Financial liability portion of convertible preference shares issued by a subsidiary (note 15)	6,692	–
Current		
Short term bank borrowings		
– Short term bank loans – PRC, secured (note (a))	60,093	13,364
Others		
– Other loans – PRC, secured (note (b))	935	935
	61,028	14,299
Total borrowings	67,720	14,299

Note:

- (a) As at 30th June 2005, secured short term bank loans of HK\$60,093,000 were secured by corporate guarantee of HK\$46,729,000 from the Company and corporate guarantee of HK\$13,364,000 from a fellow a subsidiary of the Company to a subsidiary of the Group.

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

- (b) As at 30th June 2005 and 31st 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.

The carrying amounts of financial liability portion of convertible preference shares issued by a subsidiary and short-term borrowings approximate their fair values.

NOTES TO CONDENSED ACCOUNTS (continued)

12. Borrowings (continued)

The carrying amounts of the borrowings were denominated in the following currencies:

	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Hong Kong dollar	6,692	–
Renminbi	61,028	14,299
	67,720	14,299

13. Due from/(to) ultimate holding company, a fellow subsidiary and a related company

The amounts due from/(to) ultimate holding company, a fellow subsidiary and a related company were unsecured, interest-free and had no fixed terms of repayment.

14. Share capital

	Unaudited 30th June 2005		Audited 31st December 2004	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	1,000,000,000	10,000	1,000,000,000	10,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.01 each	333,054,030	3,330	333,054,030	3,330

There was no movement in the share capital of the Company during the period.

Share option scheme

- (i) Pursuant to an ordinary resolution passed on 29th November 2001, a share option scheme of the Company (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 18th 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 18th March 2004) with an expiry date of 17th March 2014.

The exercisable period of the above share options is from 18th March 2004 to 17th March 2014 (both dates inclusive). No share options have been exercised during the six months ended 30th June 2005.

NOTES TO CONDENSED ACCOUNTS (continued)

15. Convertible preference shares issued by a subsidiary

On 9th 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 subscription price had been received by Turbo Speed shortly after signing of the said subscription agreement and was held in jointly controlled bank accounts and would be released on completion of the Subscription.

Pursuant to an ordinary resolution passed on 4th April 2005, the Company approved the Subscription and the Subscription was completed on 29th April 2005. The deposit received from issue of convertible preference shares by a subsidiary as at 31st December 2004 included a balance of HK\$50,000 which represented accrued interest income on the total subscription price of US\$4 million (approximately HK\$31.2 million). Such accrued interest income was recognised in the income statement as interest income for the six months ended 30th June 2005.

According to the said subscription agreement, the rights attached to holders of convertible preference shares of Turbo Speed are summarised as follows:

(a) *Income (assuming no conversion of convertible preference shares)*

- (i) A fixed cumulative preferred dividend equal to HK\$624,000 for each financial year of Turbo Speed; and
- (ii) Participation in part of dividends declared and payable by Turbo Speed (after the preferred dividend), calculated by applying an agreed formula so that the aggregate of the preferred dividend and ordinary dividend to the holders of the convertible preference shares would be equal to 16% (on annual basis) of the total dividends payable by Turbo Speed.

(b) *Conversion options*

- (i) Convertible at any time from the date of completion of the Subscription for a period of 24 months into new shares of the Company at a conversion price of HK\$1.2 per share, subject to adjustment set out in the subscription agreement (the "Conversion"). The amount for the Conversion shall be US\$4 million; and
- (ii) Automatic conversion into ordinary shares of Turbo Speed at a ratio of 1:1 on the business day after Turbo Speed has paid total dividends on each convertible preference share which exceed its original issue price.

According to a shareholders' agreement entered into by the Company and the convertible preference shareholders of Turbo Speed on 29th April 2005, if the audited net profit after taxation of Beijing Hi Sunray Technology Limited ("Beijing Hi Sunray"), a wholly-owned subsidiary of Turbo Speed, for either of the financial year ending 31st December 2005 or 2006, as stated in the audited financial statements of Beijing Hi Sunray for the relevant financial year is less than RMB40 million, the Company shall transfer an agreed percentage of shares in Turbo Speed to the then convertible preference shareholders for a consideration of HK\$1.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible preference shares.

NOTES TO CONDENSED ACCOUNTS (continued)

15. Convertible preference shares issued by a subsidiary (continued)

The fair value of the liability component, included in long-term borrowings, was calculated by using a market interest rate for an equivalent non-convertible preference share. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserve.

The convertible preference shares recognised in the balance sheet is calculated as follows:

	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Face value of convertible preference shares issued on 29th April 2005	31,200	–
Equity component	(24,611)	–
Liability component on initial recognition at 29th April 2005	6,589	–
Interest expense (note 5)	103	–
Liability component at 30th June 2005 (note 12)	6,692	–

The fair value of the liability component of convertible preference shares at 30th June 2005 amounted to HK\$6,650,000. The fair value is calculated by using cash flows discounted at a rate based on the borrowings rate of 9.27% per annum.

Interest expense on convertible preference shares is calculated by using the effective interest method by applying the effective interest rate of 9.36% per annum to the liability component.

16. Commitments under operating leases

As at 30th June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000	Unaudited 30th June 2005 HK\$'000	Audited 31st December 2004 HK\$'000
Not later than one year	4,086	5,494	1,785	4,463
Later than one year and not later than five years	1,898	1,991	–	–
	5,984	7,485	1,785	4,463

NOTES TO CONDENSED ACCOUNTS (continued)

17. Related party transactions

The Group is controlled by Rich Global Limited (incorporated in British Virgin Islands), which owns approximately 57% of the Company's shares. The remaining of approximately 43% of the shares are widely held. The ultimate parent of the Group is Hi Sun Limited (incorporated in British Virgin Islands).

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

	Unaudited	
	Six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Management fees received from a related company (note (i))	100	–
Rental fees paid to a fellow subsidiary (note (ii))	391	–
Settlement of operating expenses by the ultimate holding company on behalf of the Group (note (iii))	6,559	20,806

- (i) A subsidiary, Hi Sun Development Management Limited, provided management services to Panorama Stock Limited, a company owned by a Director of the Company.
- (ii) A subsidiary, Beijing Hi Sun Advanced Business Solutions Information Technology Limited, paid rental fees to Beijing Hi Sun Electric Power Information Technology Limited, a fellow subsidiary owned by a Director, who is also a substantial shareholder, of the Company.
- (iii) The ultimate holding company, Hi Sun Limited, settled certain operating expenses on behalf of the Group.

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.

- (b) Period/year end balances with related parties are as follows:

	Unaudited	Audited
	30th June	31st December
	2005	2004
	HK\$'000	HK\$'000
Receivable from a related company Panorama Stock Limited	100	–
Payable to a fellow subsidiary Beijing Hi Sun Electric Power Information Technology Limited	314	623
Payable to the ultimate holding company Hi Sun Limited	17,755	24,638

NOTES TO CONDENSED ACCOUNTS (continued)

17. Related party transactions (continued)

(c) Key management compensation

	Unaudited Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Fees	165	137
Other emoluments:		
Basic salaries, other allowances and benefits in kind	1,371	1,842
Provision for bonus	9,600	–
Contributions to pension schemes	39	45
	11,175	2,024

18. Subsequent events

(a) Issue of share options by a subsidiary

On 8th July 2005, Turbo Speed had granted 1,425,000 share options to certain directors and employees of its subsidiary to subscribe ordinary shares of Turbo Speed at an exercise price of HK\$1.922 per share. The exercisable period of the above share options is from 8th July 2005 to 31st December 2008 (both dates inclusive).

(b) Refreshment of the limit on grant of options under the share option scheme of the Company

Pursuant to an ordinary resolution passed on 17th August 2005, a refreshment of the limit on grant of options under the share option scheme of the Company ("Scheme") was approved by the shareholders. Upon refreshing the 10 per cent limit on grant of options under the Scheme, 33,305,403 shares may be issued pursuant to the grant of further options under the Scheme.

Prior to the refreshment of the limit on grant of options under the Scheme, the Company has granted options carrying rights to subscribe for 33,000,000 shares, of which no granted option has lapsed nor has been exercised after the date of grant. As a result, only 305,403 options may be granted under the Scheme prior to the refreshment of the 10 per cent limit. However, upon refreshing the 10 per cent limit on grant of options under the Scheme, 33,305,403 shares may be issued pursuant to the grant of further options under the Scheme.

On behalf of the Board

Li Wenjin

Executive Director

Hong Kong, 16th September 2005