



# HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技（中國）有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0818)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The Board of Directors (the “Board”) of Hi Sun Technology (China) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding period in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2006*

		Unaudited Six months ended 30 June	
	Note	2006 HK\$'000	2005 HK\$'000
Turnover	3	193,554	178,968
Cost of sales	4	(111,839)	(74,487)
Gross profit		81,715	104,481
Selling expenses	4	(15,451)	(15,968)
Administrative expenses	4	(37,713)	(47,115)
Operating profit		28,551	41,398
Other gains	3	19,377	558
Finance costs	5	(1,902)	(894)

**Unaudited**  
**Six months ended**  
**30 June**

	<i>Note</i>	<b>2006</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>
Profit before income tax		46,026	41,062
Income tax expense	6	(3,805)	(2,494)
		<hr/>	<hr/>
Profit attributable to the equity holders of the Company		42,221	38,568
		<hr/>	<hr/>
Earnings per share for profit attributable to the equity holders of the Company:			(Restated)
– Basic	8	HK\$0.028	HK\$0.029
		<hr/>	<hr/>
– Diluted	8	HK\$0.025	HK\$0.028
		<hr/>	<hr/>

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

		<b>Unaudited</b>	<b>Audited</b>
		<b>30 June</b>	<b>31 December</b>
		<b>2006</b>	<b>2005</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		50,134	37,760
Leasehold land		204	208
		<hr/>	<hr/>
		50,338	37,968
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current assets</b>			
Inventories		23,822	21,607
Trade receivables	9	116,631	78,291
Prepayments, deposits and other receivables		25,879	19,146
Due from a related company	11	67	150
Due from a fellow subsidiary	11	49	–
Cash and cash equivalents		179,321	156,579
		<hr/>	<hr/>
		345,769	275,773
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total assets</b>		<b>396,107</b>	<b>313,741</b>
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		4,090	3,330
Other reserves		267,650	124,104
		<hr/>	<hr/>
<b>Total equity</b>		<b>271,740</b>	<b>127,434</b>
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

		<b>Unaudited</b> <b>30 June</b> <b>2006</b> <i>HK\$'000</i>	<b>Audited</b> <b>31 December</b> <b>2005</b> <i>HK\$'000</i>
	<i>Note</i>		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liability portion of convertible preference shares issued by a subsidiary		21,770	21,173
		-----	-----
<b>Current liabilities</b>			
Trade payables	<i>10</i>	47,569	40,305
Other payables and accruals		52,421	75,647
Due to a fellow subsidiary	<i>11</i>	–	390
Taxation payable		2,607	715
Short term borrowings		–	48,077
		-----	-----
		102,597	165,134
		-----	-----
<b>Total liabilities</b>		124,367	186,307
		-----	-----
<b>Total equity and liabilities</b>		396,107	313,741
		-----	-----
<b>Net current assets</b>		243,172	110,639
		-----	-----
<b>Total assets less current liabilities</b>		293,510	148,607
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# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Unaudited						
	Share capital	Share premium	Contributed surplus	Other reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	3,330	100,556	125,310	15,627	872	(118,261)	127,434
Profit for the period	–	–	–	–	–	42,221	42,221
Shares issued under share options scheme of the Company	100	3,640	–	–	–	–	3,740
Issue of new shares	660	95,700	–	–	–	–	96,360
Share issuance expenses	–	(60)	–	–	–	–	(60)
Share premium reduction	–	(100,556)	43,125	–	–	57,431	–
Employee share option scheme – value of employee services	–	–	–	1,612	–	–	1,612
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	–	433	–	433
At 30 June 2006	<u>4,090</u>	<u>99,280</u>	<u>168,435</u>	<u>17,239</u>	<u>1,305</u>	<u>(18,609)</u>	<u>271,740</u>
At 1 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	–	–	–	11,134	–	–	11,134
At 30 June 2005	<u>3,330</u>	<u>100,556</u>	<u>125,310</u>	<u>11,134</u>	<u>–</u>	<u>(141,997)</u>	<u>98,333</u>

Notes:

## 1. Basis of preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2006 (“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 annual consolidated financial statements for the year ended 31 December 2005.

## **2. Accounting policies**

The accounting policies used in the preparation of these Condensed Interim Accounts are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations, which have become effective for accounting periods beginning on or after 1 January 2006, are mandatory for financial year ending 31 December 2006. The Group adopted those which are relevant to its operations.

- HKAS 19 (Amendment) “Actuarial Gains and Losses, Group Plans and Disclosures”;
- HKAS 21 (Amendment) “Net investment in a foreign operation”;
- HKAS 39 (Amendment) “Cash Flow Hedge Accounting of Forecast Intragroup Transactions”;
- HKAS 39 (Amendment) “The Fair Value Option”;
- HKAS 39 and HKFRS 4 (Amendment) “Financial Guarantee Contracts”.

The adoption of the above HKAS did not result in substantial changes to the Group’s results of operations and financial position.

Certain new standards, amendments and interpretations to existing standards have been published but not effective for the financial year ending 31 December 2006 and which the Group has not early adopted. The Group is in the process of making an assessment of the impact of these Hong Kong Financial Reporting Standards (“HKFRS”) and is not yet in a position to state what impact all these new HKFRS would have on its results of operations and financial position.

### 3. Turnover, other revenue and segment reporting

The Group is principally engaged in the sales of electronic payment products and services, information technology products, provision of financial solutions and services, provision of telecommunications solutions and services, and information technology operation value-added services. Turnover and other revenue recognised are as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of electronic payment and information technology products	103,329	72,956
Provision of information system solution and services	32,821	27,596
Information technology operation value-added services	57,404	78,416
	<u>193,554</u>	<u>178,968</u>
	-----	-----
Other gains		
Interest income	1,410	520
Realised gain on financial assets at fair value through profit or loss	17,938	–
Others	29	38
	<u>19,377</u>	<u>558</u>
	-----	-----
Total turnover and other gains	<u>212,931</u>	<u>179,526</u>

The Group is organised into four main business segments:

- (a) Financial solutions, services and information technology products – provision of customised information system consultancy and integration services and sales of information technology products to financial institutions and banks; and
- (b) Telecommunications solutions, services and information technology products – provision of customised information system consultancy and integration services and sales of information technology products to the telecommunications industries; and

- (c) Electronic payment products and services – sales of electronic fund transfer point-of-sale (“EFT-POS”) terminals; and
- (d) Information technology operation 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.

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

	<b>Unaudited</b>					
	<b>Six months ended 30 June 2006</b>					
	<b>Financial solutions, services and information technology products</b>	<b>Telecom- solutions, services and information technology products</b>	<b>Electronic payment products and services</b>	<b>Information technology operation value-added services</b>	<b>Other operations</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>49,331</u>	<u>3,395</u>	<u>83,424</u>	<u>57,404</u>	<u>–</u>	<u>193,554</u>
Segment results	<u>(7,077)</u>	<u>1,661</u>	<u>15,122</u>	<u>28,531</u>	<u>(9,686)</u>	28,551
Unallocated income						19,377
Finance costs						<u>(1,902)</u>
Profit before income tax						46,026
Income tax expense						<u>(3,805)</u>
Profit attributable to the equity holders of the Company						<u>42,221</u>

**Unaudited**  
**Six months ended 30 June 2005**

	<b>Financial solutions, services and information technology products</b> <i>HK\$'000</i>	<b>Telecom- munciations solutions, services and information technology products</b> <i>HK\$'000</i>	<b>Electronic payment products and services</b> <i>HK\$'000</i>	<b>Information technology operation value-added services</b> <i>HK\$'000</i>	<b>Other operations</b> <i>HK\$'000</i>	<b>Group</b> <i>HK\$'000</i>
Turnover	49,102	3,253	48,097	78,416	100	178,968
Segment results	757	2,224	5,704	48,274	(15,561 )	41,398
Unallocated income						558
Finance costs						(894 )
Profit before income tax						41,062
Income tax expense						(2,494 )
Profit attributable to the equity holders of the Company						38,568

**Secondary reporting format – Geographical segments**

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

- Hong Kong and South East Asia – financial solutions, services and information technology products, and electronic payment products and services
- The People's Republic of China ("PRC") – financial solutions, services and information technology products, telecommunications solutions, services and information technology products, electronic payment products and services, and information technology operation value-added services

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

	<b>Unaudited</b>	
	<b>Turnover</b>	<b>Segment results</b>
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and South East Asia	30,079	(2,578)
PRC	163,475	31,129
	<hr/>	<hr/>
Operating profit	<b>193,554</b>	<b>28,551</b>
	<hr/>	<hr/>
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and South East Asia	26,381	(1,398)
PRC	152,587	42,796
	<hr/>	<hr/>
Operating profit	<b>178,968</b>	<b>41,398</b>
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#### 4. Expenses by nature

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	857	500
Depreciation	5,855	4,352
Amortisation of leasehold land	4	—
Employee benefit expense (including directors' emoluments)	41,176	48,133
<i>Less: employee benefit expense capitalised into contract work in progress</i>	—	(3,130)
Cost of inventories sold	69,904	54,004
Operating lease rentals for land and buildings	4,922	4,371
Operating lease rentals for equipment	4,494	3,160
Research and development costs	1,643	452
Loss on disposal and write-off of fixed assets	—	6
Provision for doubtful debts	41	1,302
Write-off of obsolete inventories	117	207
Refund of value-added tax	(639)	(2,142)
	<hr/>	<hr/>

## 5. Finance costs

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	883	791
Interest on financial liability portion of convertible preference shares issued by a subsidiary	1,019	103
	<u>1,902</u>	<u>894</u>

## 6. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current Income tax		
– Hong Kong profits tax ( <i>Note (a)</i> )	–	–
– Overseas taxation ( <i>Note (b)</i> )	3,805	2,494
	<u>3,805</u>	<u>2,494</u>

*Note:*

- (a) Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the period (six months ended 30 June 2005: Nil).
- (b) 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 30 June 2005: HK\$2,494,000).

A subsidiary in the PRC enjoys tax concessions made available to Foreign Investment Enterprises and Foreign Enterprises during the six months ended 30 June 2006. Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises, the subsidiaries in the PRC are subjected to tax rate and tax concessions as follows:

<b>Name of subsidiaries</b>	<b>Applicable tax rate</b>	<b>Year of tax exemption/relief</b>
Pax Technology (Shenzhen) Limited	15%	2004 to 2008
Beijing Hi Sun Advanced Business Solutions Information Technology Limited	15%	2000 to 2005
Beijing Hi Sunray Information Technology Limited	15%	2000 to 2005

**7. Dividend**

No dividend on ordinary share has been paid or declared by the Company for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

**8. Earnings per share**

*Basic*

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

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)
		(Note)
Profit attributable to equity holders of the Company	42,221	38,568
Weighted average number of ordinary shares in issue (thousands)	1,484,181	1,332,216
Basic earnings per share (HK\$ per share)	0.028	0.029

*Diluted*

Diluted earnings per share for the six months ended 30 June 2006 is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. The Company has two categories of dilutive 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 during the period) based on the monetary

value of the subscription rights attached to outstanding share options. The number of shares calculated as above for the purpose of diluted earnings per share calculation is compared with the number of shares that would have been issued assuming the exercise of the share options.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)
		<i>(Note)</i>
Profit attributable to equity holders of the Company	42,221	38,568
Interest expense on convertible preference shares issued by a subsidiary	1,019	103
	<u>          </u>	<u>          </u>
Profit used to determine diluted earnings per share	43,240	38,671
	<u>          </u>	<u>          </u>
Weighted average number of ordinary shares in issue (thousands)	1,484,181	1,332,216
Adjustments for		
– assumed conversion of convertible preference shares issued by a subsidiary (thousands)	104,000	34,668
– share options (thousands)	159,749	2,348
	<u>          </u>	<u>          </u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,747,930	1,369,232
	<u>          </u>	<u>          </u>
Diluted earnings per share (HK\$ per share)	<u>0.025</u>	<u>0.028</u>

*Note:* The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the six months ended 30 June 2005 have been adjusted for the Company's share subdivision in June 2006.

**9. Trade receivables**

The Group's credit terms to trade receivables range from 0 to 180 days. At 30 June 2006 and 31 December 2005, the ageing analysis of the trade receivables were as follows:

	<b>Unaudited 30 June 2006 HK\$'000</b>	<b>Audited 31 December 2005 HK\$'000</b>
Current to 90 days	100,410	68,199
91 days to 180 days	14,447	7,220
181 to 365 days	3,298	3,573
Over 365 days	8,093	10,130
	<hr/>	<hr/>
Trade receivables	126,248	89,122
Less: provision for doubtful debts	(9,617)	(10,831)
	<hr/>	<hr/>
Trade receivables – net	<b>116,631</b>	<b>78,291</b>

**10. Trade payables**

At 30 June 2006 and 31 December 2005, the ageing analysis of the trade payables were as follows:

	<b>Unaudited 30 June 2006 HK\$'000</b>	<b>Audited 31 December 2005 HK\$'000</b>
Current to 90 days	33,417	32,373
91 days to 180 days	10,568	2,463
181 to 365 days	2,310	3,704
Over 365 days	1,274	1,765
	<hr/>	<hr/>
	<b>47,569</b>	<b>40,305</b>

## 11. Related party transactions

The Group is controlled by Rich Global Limited (incorporated in the British Virgin Islands), which owns approximately 46% of the Company's shares. The ultimate parent of the Group is Hi Sun Limited (incorporated in British Virgin Islands).

- (a) The following transactions were carried out with related parties:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fees received from a related company ( <i>Note (i)</i> )	–	100
Rental fees paid to a fellow subsidiary ( <i>Note (ii)</i> )	367	391
	<b>_____</b>	<b>_____</b>

*Note:*

- (i) A subsidiary, Hi Sun Development Management Limited, provided management service 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 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.

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

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receivable from a related company Panorama Stock Limited	67	150
	<b>_____</b>	<b>_____</b>
Receivable from/(payable to) a fellow subsidiary Beijing Hi Sun Electric Power Information Technology Limited	49	(390)
	<b>_____</b>	<b>_____</b>

The amounts are interest free, unsecured and repayable on demand.

(c) Key management compensation (equivalent to directors' emoluments)

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	186	165
Other emoluments:		
Basic salaries, other allowances and benefits in kind	2,641	1,371
Provision for bonus	–	9,600
Contributions to pension schemes	42	39
	<hr/>	<hr/>
	<b>2,869</b>	<b>11,175</b>
	<hr/>	<hr/>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial and business review**

For the six months ended 30 June 2006, the Group achieved remarkable performance in the results and financial position. The Directors and the management are pleased to present, during the first half of year 2006, the Group recorded growth in turnover and profit attributable to the shareholders. The development of each business segments displayed a trend of balanced performance. It laid down a solid foundation for the future business further advancement for the Group.

For the first half of year 2006, the Group's turnover amounted to HK\$193.55 million, as compared to turnover of HK\$178.97 million for the corresponding period last year. The profit attributable to shareholders amounted to HK\$42.22 million, as compared to HK\$38.57 million of same period last year. The change of the revenue sharing scheme of IVR business did temporarily affect the earning of the Group. However, in the areas of EFT-POS terminals sales and the short term investment, the performance was encouraging. These contributed to the better overall performance over that of last year.

### **Financial solutions, services and related products**

During the period under review, the business segment recorded a turnover of HK\$49.33 million (2005 interim: HK\$49.10 million) and a loss of HK\$7.08 million (2005 interim: profit of HK\$0.76 million)

During the first half of this year, the Group increased expenses in new business lines. The expenses will bring about future benefits. However, increased expenses incurred during the period under review contributed to the loss.

During the period under review, the financial solution and consultancy services for ICBC (Asia) in Hong Kong and Bank of Communications in China were implemented orderly. At the same time, the system integration services businesses for People's Bank of China and other banks were moving forward smoothly.

The Group was active in expanding into new business opportunities in the financial sector, achieving significant progress in signing cooperation agreement with bank. In certain cities, we have begun the installation and operation of ATM machines and have accomplished what we expected.

### **Electronic payment solutions and products**

This business segment recorded a turnover of HK\$83.42 million (2005 interim: HK\$48.10 million) and a profit of HK\$15.12 million (2005 interim : HK\$5.70 million). The management are pleased to note the remarkable performance in the turnover and profit demonstrated a development trend of advancing in unison.

The rapid growth of electronic payment products and services was benefited from the positive exploration of both the Mainland China market and the international market. In particular, the volume of shipment to China Union Pay was further boosted. During the reporting period, the shipment for Mainland China market accounted for 83% of the total. Out of which, the shipment to China Union Pay was 70% of the total shipment of the Mainland market, while that of international market was 17% of the total shipment.

The management believes that following the positive progress of the strategy of China, Olympic Game, the volume of credit card issuance in Mainland China will be growing rapidly. The environment / infrastructure of credit card usage will be further improved. These factors will sustain to drive the market demand for electronic payment product. In the coming future, it is envisaged the electronic payment products and services will attain a more considerable development.

### **Telecommunications solutions, services, information technology operation value-added services and related products**

During the period under review, this business segment recorded a turnover of HK\$60.80 million (2005 interim: HK\$81.67 million) and a profit of HK\$30.19 million (2005 interim: HK\$50.50 million). The main reason for the decrease in turnover and profit was the change in the revenue sharing scheme.

The market size of the IVR business continued to expand further. Taking out the effect of the decrease of the revenue sharing percentage, the business volume operated under the Hi Sun's IVR platform achieved a growth of approximately 39% over the same period last year. The management considered that following the continuous expansion of the business scale and the centralization of the IVR platform, the IVR business will be able to achieve outstanding performance in the coming future.

During the reporting period, the nation-wide IVR business platform operation, the Group also expanded into regional network operation business. Several regional network business platform have been operated. It is expected that in the future, these regional network business will be able to bring new source of income to the Group.

## **PROSPECTS**

Looking forward, we are very confident in the future prospect of the Group. Following the completion of the construction of several commercial core banking systems in China and Hong Kong, the success of which enhanced our level of expertise and market position in this niche market. We will continue to strengthen our market position and technical expertise in the banking solution. Based on the established market position and experience, we have been engaged in the initial preparation for the ATM and electronic fund transfer POS operation services as well as outsourcing for the financial institutions

In the telecommunication front, we will keep innovating to adapt to the ever-changing environment in order to provide first class value-added platform operation for our partners. New technology based on 3G communication are well prepared and several new products and services for mobile service delivery are also under development. Further resources in these areas will be invested in the coming years.

Thanks to our partners of the capital market who are confident in our management and invest in our several rounds of equity financing this year. Not only is it strengthened our financial position to embark upon the new projects, it also boost our confidence to execute our plans. With all these support from our clients and partners, together with the endeavors of the management and staff, we are committed to dedicating our expertise and experience to pursuing our goal of being leading service player in the financial and telecommunication industries and to striving to satisfy the client and shareholders by making continuous progress and innovation, as well as sustainable growth and development.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2006, the Group reported total assets of HK\$396.11 million (31 December 2005: HK\$313.74 million), which were financed by total liabilities of HK\$124.37 million (31 December 2005: HK\$186.31 million) and equity of HK\$271.74 million (31 December 2005: HK\$127.43 million). The net assets value was HK\$271.74 million (31 December 2005: HK\$127.43 million). The net assets value per share amounted to HK\$0.166 per share as compared to HK\$0.096 per share as at 31 December 2005.

As at 30 June 2006, the Group had cash of HK\$179.32 million (31 December 2005: HK\$156.58 million) and financial liability portion of convertible preference shares issued by a subsidiary of HK\$21.77 million (31 December 2005: HK\$21.17 million). As at 30 June 2006, the Group has no short term borrowings (31 December 2005: HK\$48.08 million). The net cash position as at that date was HK\$179.32 million as compared to HK\$108.50 million as at 31 December 2005. The gearing ratio (defined as total borrowings divided by shareholders' equity) was 0.08 as compared to 0.54 as at 31 December 2005.

## **CAPITAL STRUCTURE AND DETAILS OF CHARGES**

As at 30 June 2006, the Group has no short term borrowings.

As at 30 June 2006, the financial liability portion of convertible preference shares issued by a subsidiary was HK\$21.77 million which was denominated in Hong Kong dollars and the effective interest rate was 8.27% per annum.

Approximately HK\$48.04 million, HK\$125.81 million and HK\$5.47 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 30 June 2006.

## **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 30 June 2006 was 705. The breakdown of employees by division is as follows:

Financial solutions, services and related products	282
Electronic payment solutions and products	146
Telecommunications solutions, services, related products and others	112
IVR operation	147
Corporate office	18
	<hr/>
	705

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 SUBDIVISION**

Pursuant to an ordinary resolution passed on 28 June 2006, each of the existing issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company was subdivided into four ordinary shares of HK\$0.0025 each (the "Share Subdivision"), which was approved by the shareholders of the Company and became effective on 29 June 2006.

## **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.

On 18 March 2004, 33,000,000 share options were granted to certain directors and employees at an exercise price of 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.

Pursuant to an ordinary resolution passed on 17 August 2005, a refreshment of the limit on grant of options under the 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.

On 26 September 2005, 33,300,000 share options were granted to certain directors and employees at an exercise price of HK\$0.768 (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 26 September 2005) with an expiry date of 25 September 2015.

Prior to the Share Subdivision, there are outstanding share options granted under the Share Option Scheme to subscribe for 56,300,000 shares. The Share Subdivision has led to an adjustment to the exercise price of the outstanding options and the number of shares to be issued by the Company upon exercise of the outstanding options. For share options with exercise period from 18 March 2004 to 17 March 2014, the number of shares to be issued by the Company upon full exercise of such options has been increased from 23,000,000 shares to 92,000,000 shares and the exercise price has been adjusted from HK\$0.374 to HK\$0.0935 per share. For share options with exercise period from 26 September 2005 to 25 September 2015, the number of shares to be issued by the Company upon full exercise of such options has been increased from 33,300,000 shares to 133,200,000 shares and the exercise price has been adjusted from HK\$0.768 to HK\$0.192 per share.

The detailed terms of the Scheme were disclosed in the 2005 Annual Report. There are no changes in any term of the Scheme during the six months ended 30 June 2006 and the movements in the Company's share options during the period will be disclosed in the 2006 interim report.

**(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. On 8 July 2005, 1,425,000 share options had been granted 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 these share options is from 8 July 2005 to 31 December 2008 (both dates inclusive). During the six months ended 30 June 2006, 1,245,000 share options have been lapsed and no share options have been exercised.

### **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005 Interim: Nil).

### **CONTINGENT LIABILITIES**

The Group had no material contingent liability as at 30 June 2006.

### **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.

### **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.

Specific enquiry had been made to all the Directors and the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

### **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 30 June 2006, except for the deviation from code provision A.2.1, A.4.1 and E.1.2 of the CG Code.

Code provision A.2.1 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, however, six of the other executive directors who are also members of the senior management share the role of the Chief Executive Officer. The Board considers that due to the scale of operations of the Group

and the daily operation of the Group's business are delegated to the senior management and department heads, the appointment of a Chief Executive Officer is not necessary.

Code provision A.4.1 stipulates that non-executive director should be appointed for a specific term, subject to re-election. Although the independent non-executive directors are not appointed for a specific term, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws.

Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting. The Chairman did not attend the annual general meeting held on 23 May 2006, 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 Audit Committee comprises three independent non-executive directors, namely Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Xu Sitao. The Audit Committee 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 unaudited condensed consolidated financial statements for the six months ended 30 June 2006 with the directors.

#### **DIRECTORS' INTEREST IN COMPETING BUSINESS**

None of the directors of the Company have an interest in any business constituting a competing business to the Group.

#### **PENSION SCHEME**

The subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme of the Group or Company set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

In addition, pursuant to the government regulations in 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.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules throughout the six months ended 30 June 2006.

## **SUBSEQUENT EVENTS**

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

On 21 August 2006, Emerging Technology Limited (“Emerging Technology”), a wholly-owned subsidiary of the Company, entered into a subscription agreement with certain independent third party subscribers in relation to the subscription of 760,778 new convertible preference shares (“Convertible Preference Shares”) of US\$1.00 each in the share capital of Emerging Technology at a total subscription price of US\$18 million (equivalent to approximately HK\$140 million) (the “Subscription”). The Convertible Preference Shares represent approximately 9.9% of the existing issued share capital of Emerging Technology and 9.0% of the issued share capital of Emerging Technology as enlarged by the Subscription. Under certain circumstances as described in the subscription agreement, Emerging Technology is required to issue to the subscribers additional new convertible preference shares of up to approximately 3% of its issued share capital if those circumstances are fulfilled.

The Subscribers are entitled to convert the Convertible Preference Shares at any time during a period of two years from the date of completion into either the ordinary shares of Emerging Technology or the ordinary shares of the Company.

The subscription price will be settled in cash on completion. The completion of the Subscription is conditional upon the fulfilment of (a) amendment to the Memorandum of Association of Emerging Technology as may be required to create the Convertible Preference Shares of Emerging Technology; (b) permission to deal in the Conversion Shares having been granted by the Listing Committee of The Stock Exchange of Hong Kong Limited; (c) the approval of the subscription agreement and the transactions contemplated thereunder in a manner by the shareholders as required by the Listing Rules; and (d) the execution of all documents required to be duly executed on or before completion. If any of the conditions above has not been fulfilled or waived (save that item (b) and (c) above shall not be capable of being waived) in writing by the subscribers on or prior to 16 October 2006 (or such later date as the Company, Emerging Technology and the subscribers may agree in writing), the Subscription shall terminate.

The Subscription and the transactions contemplated herein above will be subject to the approval of the shareholders of the Company on 25 September 2006 as set out in the announcement of the Company dated 8 September 2006.

Management is in the process of assessing the financial impact of the Subscription of the Convertible Preference Shares to the Group.

**PUBLICATION OF 2006 INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE**

The 2006 Interim Report of the Company containing all the information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board  
**LI WENJIN**  
*Executive Director*

Hong Kong, 15 September 2006

*\* For identification purpose only*

*As at the date of this announcement, the Board is comprised of eight executive directors, namely, Cheung Yuk Fung, Kui Man Chun, Lo Siu Yu, Xu Wensheng, Li Wenjin, Chan Yiu Kwong, Xu Chang Jun and Zhou Jian, and three independent non-executive director, namely Tam Chun Fai, Leung Wai Man, Roger and Xu Sitao.*