



# HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技(中國)有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 818)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

<b>FINANCIAL HIGHLIGHTS</b>			
<b>Results</b>	<b>1H2007</b>	<b>1H2006</b>	<b>Change</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>+ / (-) %</i>
Turnover	<b>301.54</b>	193.55	+55.8
Gross profit	<b>140.18</b>	81.72	+71.5
Profit before income tax	<b>121.64</b>	46.03	+164.3
Net profit	<b>112.25</b>	42.22	+165.9
Gross profit margin (%)	<b>46.5%</b>	42.2%	+10.2
Net profit margin (%)	<b>37.2%</b>	21.8%	+70.6
Basic earnings per share (HK\$)	<b>0.056</b>	0.028	+100
Diluted earnings per share (HK\$)	<b>0.050</b>	0.025	+100
<b>Key balance sheet items</b>	<b>30 June</b>	<b>31 December</b>	<b>Change</b>
	<b>2007</b>	<b>2006</b>	<b>+ / (-) %</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Total equity	<b>886.05</b>	679.67	+30.4
Net current assets	<b>776.78</b>	592.10	+31.2
Total assets	<b>1,043.92</b>	847.11	+23.2
Net assets per share (HK\$)	<b>0.435</b>	0.362	+20.2

\* For identification only

The Board of Directors (the “Board”) of Hi Sun Technology (China) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 together with the unaudited comparative figures for the corresponding period in 2006 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2007*

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2007</b>	<b>2006</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	<b>301,543</b>	193,554
Cost of sales	5	<b>(161,368)</b>	(111,839)
Gross profit		<b>140,175</b>	81,715
Other gains, net	4	<b>83,953</b>	19,377
Selling expenses	5	<b>(23,126)</b>	(15,451)
Administrative expenses	5	<b>(78,068)</b>	(37,713)
Operating profit		<b>122,934</b>	47,928
Finance costs	6	<b>(1,299)</b>	(1,902)
Profit before income tax		<b>121,635</b>	46,026
Income tax expense	7	<b>(9,387)</b>	(3,805)
Profit for the period		<b><u>112,248</u></b>	<u>42,221</u>
Attributable to:			
Equity shareholders of the Company		<b>110,414</b>	42,221
Minority interests		<b>1,834</b>	–
		<b><u>112,248</u></b>	<u>42,221</u>
Earnings per share for profit attributable to the equity holders of the Company:			
– Basic	10	<b><u>HK\$0.056</u></b>	<u>HK\$0.028</u>
– Diluted	10	<b><u>HK\$0.050</u></b>	<u>HK\$0.025</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007 and 31 December 2006

		Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties		3,452	3,540
Property, plant and equipment		75,646	75,959
Leasehold land		30,177	30,559
		<u>109,275</u>	<u>110,058</u>
<b>Current assets</b>			
Inventories		49,372	28,552
Trade and other receivables, prepayments and deposits	11	271,010	139,076
Due from a fellow subsidiary	13	1,003	–
Due from a related company	13	67	67
Financial assets at fair value through profit or loss		35,728	41,281
Cash and cash equivalents		577,460	528,076
		<u>934,640</u>	<u>737,052</u>
<b>Total assets</b>		<u><u>1,043,915</u></u>	<u><u>847,110</u></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share Capital		5,091	4,699
Other reserves		844,262	674,973
		<u>849,353</u>	<u>679,672</u>
<b>Minority Interests</b>		<u>36,701</u>	–
<b>Total equity</b>		<u><u>886,054</u></u>	<u><u>679,672</u></u>

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2007</b>	2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liability portion of convertible preference shares issued by a subsidiary		—	22,485
		-----	-----
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>140,691</b>	117,282
Due to a fellow subsidiary	<i>13</i>	—	13,497
Taxation payable		<b>11,370</b>	7,174
Short term borrowings		<b>5,800</b>	7,000
		-----	-----
		<b>157,861</b>	144,953
		-----	-----
<b>Total liabilities</b>		<b>157,861</b>	167,438
		-----	-----
Total equity and liabilities		<b>1,043,915</b>	847,110
		=====	=====
Net current assets		<b>776,779</b>	592,099
		=====	=====
Total assets less current liabilities		<b>886,054</b>	702,157
		=====	=====

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

Unaudited

	Attributable to equity holders of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	
At 1 January 2007	4,699	269,586	168,434	156,494	7,688	72,771	-	679,672
Profit for the period	-	-	-	-	-	110,414	1,834	112,248
Shares issued under share option scheme of the Company	133	9,740	-	-	-	-	-	9,873
Issue of new shares upon the conversion of convertible preference shares issued by a subsidiary	259	21,821	-	-	-	-	-	22,080
Employee share option scheme – value of employee services	-	-	-	27,615	-	-	-	27,615
Deemed disposal of a subsidiary	-	-	-	-	-	-	34,867	34,867
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	-	-	(301)	-	-	(301)
At 30 June 2007	<u>5,091</u>	<u>301,147</u>	<u>168,434</u>	<u>184,109</u>	<u>7,387</u>	<u>183,185</u>	<u>36,701</u>	<u>886,054</u>

**Unaudited**

	<b>Attributable to equity holders of the Company</b>						
	<b>Share capital</b>	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Other reserve</b>	<b>Exchange reserve</b>	<b>Accumulated losses</b>	<b>Total</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>	<i>HK\$'000</i>
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>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Net cash outflow from operating activities	<u>(32,394)</u>	<u>(10,570)</u>
Net cash outflow from investing activities	<u>(5,020)</u>	<u>(18,229)</u>
Net cash inflow from financing activities	<u>86,798</u>	<u>51,541</u>
Increase in cash and cash equivalents	49,384	22,742
Cash and cash equivalents at beginning of period	<u>528,076</u>	<u>156,579</u>
Cash and cash equivalents at end of period	<u>577,460</u>	<u>179,321</u>
<b>Analysis of balances of cash and cash equivalents</b>		
Bank balances and cash	<u><u>577,460</u></u>	<u><u>179,321</u></u>

Notes:

## 1. GENERAL INFORMATION

The principal activity of Hi Sun Technology (China) Limited (the “Company”) is investment holding.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the sales of information technology products, provision of business process operation services, provision of information system consultancy and integration services, and information technology operation value-added services.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is listed on the Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements were approved for issue on 27 August 2007.

## 2. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements for the six months ended 30 June 2007 (“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 consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

## 3. ACCOUNTING POLICIES

The following new standards, amendments and interpretations to existing standards, which have become effective for accounting periods beginning on or after 1 January 2007, are mandatory for financial year ending 31 December 2007. The Group adopted those which are relevant to its operations.

- HKAS 1 (Amendments) Presentation of Financial Statement: Capital Disclosures
- HKFRS 7 Financial Instruments: Disclosures
- HK(IFRIC)-Int 8: Scope of IFRS/HKFRS 2, Share-based Payment
- HK(IFRIC)-Int 9: Reassessment of Embedded Derivatives
- HK(IFRIC)-Int 10: Interim Financial Reporting and Impairment

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

The Group has not adopted the following new standards, amendments and interpretations to existing standards have been published but not effective for the financial year ending 31 December 2007.

- HKAS 23 (Revised) Borrowing Costs
- HKFRS 8 Operating Segments
- HK(IFRIC) – Int 11: HKFRS 2 – Group and Treasury Share Transactions
- HK(IFRIC) – Int 12: Service Concession Arrangements

The Group is in the process of making an assessment of the impact of these 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.



#### 4. TURNOVER, OTHER GAINS AND SEGMENT REPORTING

The Group is principally engaged in the sales of information technology products, provision of business process operation services, provision of information system consultancy and integration services, and information technology operation value-added services. Turnover and other gains recognised are as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover		
Sales of goods	<b>171,840</b>	103,329
Provision of business process operation services	<b>3,847</b>	–
Provision of information system consultancy and integration services	<b>33,585</b>	32,821
Information technology operation value-added services	<b>91,713</b>	57,404
Rental income	<b>558</b>	–
	<u><b>301,543</b></u>	<u>193,554</u>
	<u><b>301,543</b></u>	<u>193,554</u>
Other gains, net		
Interest income	<b>4,666</b>	1,410
Gain on disposal of financial assets at fair value through profit or loss	<b>34,406</b>	17,938
Fair value loss on financial assets at fair value through profit or loss	<b>(118)</b>	–
Gain on deemed disposal of 20% equity interest in a subsidiary ( <i>Note 9</i> )	<b>43,258</b>	–
Finance lease income	<b>17</b>	–
Other income	<b>1,724</b>	29
	<u><b>83,953</b></u>	<u>19,377</u>
	<u><b>83,953</b></u>	<u>19,377</u>
Turnover and other gains	<u><b>385,496</b></u>	<u>212,931</u>
	<u><b>385,496</b></u>	<u>212,931</u>

The Group is organised into five main business segments:

- (a) Electronic payment products and services – sales of electronic fund transfer point-of-sale (“EFT-POS”) terminals;
- (b) Information technology operation value-added services – provision of Interactive Voice Response (“IVR”) services;
- (c) Telecommunication solutions, services and related products – provision of information system consultancy and integration services and sales of information technology products to the telecommunications industries;
- (d) Financial solutions, services and related products – provision of information system consultancy and integration services and sales of information technology products to financial institutions and banks; and
- (e) Business process operations – provision of outsourcing services to financial institutions and banks with payment solutions, such as automatic teller machines (“ATM”) and EFT-POS terminals.

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

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

	Unaudited Six months ended 30 June 2007						Group HK\$'000
	Electronic payment products and services HK\$'000	Information technology operation value-added services HK\$'000	Telecom- munication solutions, services and related products HK\$'000	Financial solutions, services and related products HK\$'000	Business process operations HK\$'000	Unallocated HK\$'000	
Turnover	166,632	91,713	1,581	37,212	3,847	558	301,543
Other gains, net	-	-	-	-	-	83,953	83,953
Segment results	34,332	48,709	452	(4,565)	(2,676)	46,682	122,934
Finance costs						(1,299)	(1,299)
Profit before income tax							121,635
Income tax expense						(9,387)	(9,387)
Profit for the period							<u>112,248</u>

	Unaudited Six months ended 30 June 2006						Group HK\$'000
	Electronic payment products and services HK\$'000	Information technology operation value-added services HK\$'000	Telecom- munication solutions, services and related products HK\$'000	Financial solutions, services and related products HK\$'000	Unallocated HK\$'000		
Turnover	83,424	57,404	3,395	49,331	-		193,554
Other gains	-	-	-	-	19,377		19,377
Segment results	15,122	28,531	1,661	(7,077)	9,691		47,928
Finance costs					(1,902)		(1,902)
Profit before income tax							46,026
Income tax expense					(3,805)		(3,805)
Profit for the period							<u>42,221</u>

## Secondary reporting format – Geographical segments

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

Mainland China	–	electronic payment products and services, information technology operation value-added services, telecommunication solutions, services and related products, financial solutions, services and related products and business process operations
Hong Kong, South East Asia and others	–	electronic payment products and services and financial solutions, services and related products

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June 2007</b>	
	<b>Turnover</b>	<b>Segment</b>
	<b>HK\$'000</b>	<b>results</b>
		<b>HK\$'000</b>
Mainland China	<b>266,495</b>	<b>74,706</b>
Hong Kong, South East Asia and others	<b>35,048</b>	<b>1,668</b>
	<hr/> <b>301,543</b>	<hr/> <b>76,374</b>
Other gains, net, unallocated		<b>83,953</b>
Unallocated expenses		<b>(37,393)</b>
Operating profit		<hr/> <b>122,934</b> <hr/>
	<b>Unaudited</b>	
	<b>Six months ended 30 June 2006</b>	
	<b>Turnover</b>	<b>Segment</b>
	<b>HK\$'000</b>	<b>results</b>
		<b>HK\$'000</b>
Mainland China	163,475	31,129
Hong Kong, South East Asia and others	30,079	7,108
	<hr/> 193,554	<hr/> 38,237
Other gains, unallocated		19,377
Unallocated expenses		(9,686)
Operating profit		<hr/> 47,928 <hr/>

## 5. 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 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Auditor's remuneration	1,057	857
Depreciation of property, plant and equipment	9,811	5,855
Depreciation of investment properties	88	–
Amortisation of leasehold land	382	4
Employee benefit expense (including Directors' emoluments)	76,447	41,176
Costs of inventories sold	113,230	69,904
Operating lease rentals for land and buildings	4,564	4,922
Operating lease rentals for equipment	5,365	4,494
Research and development costs	1,129	1,643
Loss on disposal of property, plant and equipment	188	–
Provision for impairment of trade receivables	36	41
Write-back of provision for impairment of trade receivables	(225)	–
Write-off of inventories	1,261	117
Refund of value-added tax	(98)	(639)
	<u>          </u>	<u>          </u>

## 6. FINANCE COSTS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank loans and overdrafts	966	883
Interest on financial liability portion of convertible preference shares issued by a subsidiary	333	1,019
	<u>          </u>	<u>          </u>
	<u>1,299</u>	<u>1,902</u>

## 7. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as there is no estimated assessable profit for the period (six months ended 30 June 2006: Nil). 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 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current Income tax		
– Hong Kong profits tax	–	–
– Overseas taxation	9,387	3,805
	<u>          </u>	<u>          </u>
Income tax expense	<u>9,387</u>	<u>3,805</u>

PRC taxation has been provided on the profits of the Group's subsidiaries operating in the PRC and calculated at the applicable rates for the six months ended 30 June 2007 and 2006.

A subsidiary in the PRC, Pax Technology (Shenzhen) Limited, enjoys tax concessions made available to Foreign Investment Enterprises and Foreign Enterprises during the six months ended 30 June 2007 and 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:

Name of subsidiaries	Applicable tax rate	Year of tax exemption/relief
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

## 8. DIVIDEND

No dividend on ordinary share has been paid or declared by the Company for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

## 9. DEEMED DISPOSAL OF 20% EQUITY INTEREST IN A SUBSIDIARY

On 4 April 2007, PAX Technology Limited (“PAX”), a then wholly-owned subsidiary of the Company, and the Company entered into a subscription agreement with Digital Investment Limited (the “PAX Subscriber”) in relation to the subscription by the PAX Subscriber of 8,750,000 preference shares of PAX of HK\$1.00 each (the “PAX Preference Shares”) at a total subscription price of US\$10 million (equivalent to approximately HK\$78.1 million) (the “PAX Subscription”). The PAX Preference Shares represent 25% of the then existing issued share capital of PAX and 20% of the issued share capital of PAX as enlarged by the PAX Subscription. The PAX Subscriber is a third party independent of the Group. The PAX Subscription was completed on 23 May 2007 and resulted in a gain on deemed disposal of 20% equity interest in a subsidiary of HK\$43,258,000.

## 10. EARNINGS PER SHARE

### (a) 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.

	Unaudited	
	Six months ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company ( <i>HK\$'000</i> )	110,414	42,221
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	1,970,502	1,484,181
Basic earnings per share ( <i>HK\$ per share</i> )	<u>0.056</u>	<u>0.028</u>

**(b) Diluted**

Diluted earnings per share 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 subsidiaries and share options. The convertible preference shares issued by subsidiaries 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 30 June</b>	
	<b>2007</b>	<b>2006</b>
Profit attributable to equity holders of the Company ( <i>HK\$'000</i> )	<b><u>110,414</u></b>	<u>42,221</u>
Interest expense on convertible preference shares issued by a subsidiary ( <i>Note 6</i> ) ( <i>HK\$'000</i> )	<b>333</b>	1,019
Profit used to determine diluted earnings per share ( <i>HK\$'000</i> )	<b><u>110,747</u></b>	<u>43,240</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<b><u>1,970,502</u></b>	<u>1,484,181</u>
Adjustments for		
– assumed conversion of convertible preference shares issued by subsidiaries ( <i>thousands</i> )	<b>167,398</b>	104,000
– share options ( <i>thousands</i> )	<b>61,933</b>	159,749
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousands</i> )	<b><u>2,199,833</u></b>	<u>1,747,930</u>
Diluted earnings per share ( <i>HK\$ per share</i> )	<b><u>0.050</u></b>	<u>0.025</u>

**11. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS**

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Trade receivables	<b>253,227</b>	130,220
Finance leases receivables	<b>31</b>	720
Less: provision for impairment of receivables	<b><u>(3,519)</u></b>	<u>(4,318)</u>
Trade receivables – net	<b>249,739</b>	126,622
Prepayments, deposits and other receivables	<b><u>21,271</u></b>	<u>12,454</u>
	<b><u>271,010</u></b>	<u>139,076</u>

The Group's credit terms to trade receivables range from 0 to 180 days. At 30 June 2007 and 31 December 2006, the ageing analysis of the trade receivables were as follows:

	<b>Unaudited 30 June 2007 HK\$'000</b>	Audited 31 December 2006 HK\$'000
Current to 90 days	157,862	117,451
91 days to 180 days	77,782	6,774
181 days to 365 days	15,210	3,519
Over 365 days	2,373	2,476
	<u>253,227</u>	<u>130,220</u>

## 12. TRADE AND OTHER PAYABLES

	<b>Unaudited 30 June 2007 HK\$'000</b>	Audited 31 December 2006 HK\$'000
Trade payables	83,805	54,611
Other payables and accruals	33,490	44,399
Pension obligations	9,051	8,696
Social security and other taxes	14,345	9,576
	<u>140,691</u>	<u>117,282</u>

At 30 June 2007 and 31 December 2006, the ageing analysis of the trade payables were as follows:

	<b>Unaudited 30 June 2007 HK\$'000</b>	Audited 31 December 2006 HK\$'000
Current to 90 days	69,655	44,888
91 days to 180 days	5,875	4,923
181 days to 365 days	4,768	2,987
Over 365 days	3,507	1,813
	<u>83,805</u>	<u>54,611</u>

### 13. RELATED PARTY TRANSACTIONS

The Group is controlled by Rich Global Limited (incorporated in British Virgin Islands), which owns 37.18% of the Company's shares. The remaining 62.82% of the shares are widely held. In the opinion of the Directors, the ultimate holding company of the Company is Hi Sun Limited (incorporated in the British Virgin Islands).

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Rentals paid to a related company ( <i>Note (i)</i> )	<u>–</u>	<u>367</u>

*Note:*

(i) The subsidiaries, Beijing Hi Sun Advanced Business Solutions Information Technology Limited and Pax Technology (Shenzhen) Limited, paid rentals 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.

(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>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Receivable from a related company Panorama Stock Limited	<u>67</u>	<u>67</u>
Receivable from/(payable to) a fellow subsidiary Beijing Hi Sun Electric Power Information Technology Limited	<u>1,003</u>	<u>(13,497)</u>

The balances with related parties are unsecured, interest-free and repayable on demand.

Panorama Stock Limited is a related company owned by a Director of the Company.

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fees	270	186
Other emoluments:		
Basic salaries, other allowances and benefits in kind	2,320	2,641
Contributions to pension schemes	36	42
	<u>2,626</u>	<u>2,869</u>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

Our results for the six months ended 30 June 2007 reflected notable increases in turnover, profit before income tax and net profit from that for the corresponding period last year. These remarkable results have strengthened our confidence, proving the success of Hi Sun's business model.

### **Electronic payment products and services**

Segmental turnover and operating profit recorded during the current period were HK\$166.63 million (1H2006: HK\$83.42 million) and HK\$34.33 million (1H2006: HK\$15.12 million) respectively. Total shipment during period reached 74,000 units with a percentage increase of 90% as compared to 1H2006. During the first half of 2007, we continue to be ranked No.1 in the Mainland China market. The shipment for Mainland China market accounted for 85% of the total shipment, while that of international market was 15%. Despite the keen competition in the market, we managed to maintain a GP% of 34% in 1H2007.

The rapid growth of electronic payment products and services was benefited from the strong market demand and increased penetration in both Mainland China market and overseas market. Starting from this year, we have further exploration of the international market and we have penetrated into certain European countries, such as Luxembourg, Denmark, Belgium, France and Russia etc, as well as the Middle East market, like UAE and Saudi Arabia, and the African countries, such as South Africa, Ghana and Nigeria.

Electronic payment has become a dominant payment channel in the world as it brings along better security and convenience. Up to 1H2007, EFT-POS terminal penetration in Mainland China is relatively low as compared to most developed countries, with only about 900,000 terminals. The accelerating number of card payments has driven substantial growth in the demand in electronic payment products and services. Following the progressive improvement of the payment transactions processing environment/infrastructure in Mainland China and 2008 Beijing Olympic Games, management considers that the volume of credit card issuance and payment card usage in Mainland China will surge rapidly, leading to tremendous opportunities to the Group.

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

During the current period under review, the segmental turnover and operating profit recorded were HK\$93.29 million (1H2006: HK\$60.80 million) and HK\$49.16 million (1H2006: HK\$30.19 million) respectively. Sharp increase in turnover and operating profit was due to the migration of all IVR Service Providers to our nation-wide IVR platform starting from January 2007, due to certain policy changes in 2H2006. Segmental turnover and operating profit increased by 87% and 241% as compared to results in 2H2006, respectively.

Market size of the IVR business continues to expand further and recover from the reorganisations in 2H2006. Entertainment content, songs dedication and interactive games are ranked the three most popular IVR content categories. Management has the strong belief that following the centralization of the IVR platform and the continuous expansion of the business scale with subsequent launch of the IVVR platforms for the 3G operators, the IVR/IVVR business will be enjoying massive growth and bringing in remarkable and sustainable profit to the Group.

In addition, we continuously seek new ideas and innovations in our business. Examples like IVR intelligent toys targeting young children and multi-communicator technology for the use of uniform IP multimedia soft phone etc, are going to bring us new exciting opportunities in the coming years.

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

During the period under review, this business segment recorded a turnover of HK\$37.21 million (1H2006: HK\$49.33 million) and an operating loss of HK\$4.57 million (1H2006: operating loss of HK\$7.08 million). Despite a drop in turnover, we have narrowed down the segmental operating loss as compared to prior period, which was attributed to our consolidation and refocusing measures to focus on business consultancy and integrated banking systems, as well as business process operation services, for better growth potential and higher margins. The segmental operating loss recorded in the first half year is mainly contributed by certain delays in the Bank of China core banking project and the specific seasonality factors of the industry whilst most of the key project milestones are expected to be completed in the second half year.

Our core competencies and underlying strengths in the financial solutions have been established over the past years and developed reputation for secure and reliable services. Moving ahead, with the strong and growing demand in Mainland China for local banks to build up their own integrated banking systems for better competitiveness, management is confident in securing more new contracts given the trust and reputation we have built up for years.

### **Business process operations**

The Group has been leveraging its reputation in the financial solutions segment and actively expanding into new business opportunities in the financial sector. With proven technical base in processing transactions, the Group has migrated into new high-margin consumer services and achieved significant progress in business process operations, providing outsourcing services to financial institutions and banks with payment solutions, such as automated teller machines (“ATM”) and EFT-POS terminals.

Starting from 2H2006, we have begun the operation of ATM at non-bank locations in certain major cities in Mainland China and accomplished what we targeted. During the six months ended 30 June 2007, this business segment recorded a turnover of HK\$3.85 million and an operating loss of HK\$2.68 million.

Up to 1H2007, ATM penetration rate in Mainland China was comparatively low by international standards, with only about 102,000 ATMs and less than 80 ATMs per one million residents. Given the astonishing demand and development of the payment transactions processing infrastructure in Mainland China and the installation of more automated processing systems for consumer payments, the management believes that the Group has various business opportunities for the establishment and expansion of its own payment process operation networks in the coming years.

### **PROSPECT**

Demand for electronic payment solution is accelerating in line with the tremendous increase in the number of card payments. Following the progressive improvement of the payment transactions processing environment/infrastructure in Mainland China and exploration of the international market, we are confident that the electronic solution and payment segment will maintain its momentum for growth in the coming years.

In the telecommunication front, our enthusiasm and passion for innovations have kept us ahead and competitive despite the ever-changing technology and market demand. It is always our mission to provide first class value-added platform operation and services to our partners. New technology, the IVVR platform, based on 3G communications and several new products and services are ready to hit the market. With these new exciting opportunities and dynamic environment, we will further strengthen our position in the market and continue to create great values to our partners.

Based on our established market position and experience in the financial solution segment, the Group has migrated into high-margin consumer services segments and engaged in the business process operations services for ATM and EFT-POS for the financial institutions and banks. In the longer term, we target to establish and expand our own payment process operation networks in Mainland China.

In addition, the Group also actively seeks opportunities for expansion. On 30 July 2007, the Company completed the acquisition of the Hualong Group (please refer to subsequent events section for definition), one of the largest manufacturers of electric utility meters in the PRC. Management considers that it will allow the Group to diversify its business to the electronic power meters and solutions industry. We believe that demand for power meters and solutions will experience significant growth given the booming China economy which in turn drives the need to replace the traditional mechanical meters with the more technologically advanced and automated electronic meters and solutions. Besides, the Hualong Group will be able to leverage on the Group's management, sales and solution implementation experience, particularly in the areas of high-end solution execution, cooperation and development of the overseas market.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2007, the Group reported total assets of HK\$1,043.92 million (31 December 2006: HK\$847.11 million), which were financed by total liabilities of HK\$157.86 million (31 December 2006: HK\$167.44 million) and equity of HK\$886.05 million (31 December 2006: HK\$679.67 million). The net asset value was HK\$886.05 million (31 December 2006: HK\$679.67 million). The net asset value per share amounted to HK\$0.44 per share as compared to HK\$0.36 per share as at 31 December 2006.

As at 30 June 2007, the Group had cash of HK\$577.46 million (31 December 2006: HK\$528.08 million) and short term borrowings of HK\$5.80 million (31 December 2006: HK\$7 million). The net cash position as at that date was HK\$571.66 million as compared to HK\$521.08 as at 31 December 2006. The short term borrowings included short term bank loan to fund the Group's working capital requirements. As at 30 June 2007, the Group had no financial liability in respect of convertible preference shares issued by a subsidiary (31 December 2006: HK\$22.49 million). The gearing ratio (defined as total borrowings divided by shareholders' equity) was 0.01 as compared to 0.04 as at 31 December 2006. The gearing ratio is considered healthy and suitable for the continuous growth of the Group's business.

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

As at 30 June 2007, the Group's short term borrowings included short term bank loan which was denominated in Renminbi, amounting to RMB5.80 million. The short term bank loan was charged at interest of 6.8% per annum.

Approximately HK\$63.14 million, HK\$273.46 million and HK\$240.86 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 30 June 2007.

As at 30 June 2007, short term bank loans of RMB5.80 million (31 December 2006: RMB7 million) were secured by the leasehold land and building of a subsidiary of the Company and the corporate guarantee from an independent third party, 深圳市高新技術投資擔保有限公司 (Shenzhen High and New Technology Investment Guarantee Company Limited).

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

The total number of employees of the Group as at 30 June 2007 was 795. The breakdown of employees by division is as follows:

Financial solutions, services and related products	344
Electronic payment products and services	164
Telecommunication solutions, services and related products and information technology operation value-added services	249
Business process operations	21
Corporate office	17
	<hr/>
	795
	<hr/> <hr/>

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

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 26 September 2005, 33,300,000 share options were granted to certain Directors and employees at an exercise price of HK\$0.768 per shares (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. The option period commences on 26 September 2005 and expires 10 years thereafter.

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.

On 2 January 2007, 43,000,000 share options were granted to certain employees at exercise price of HK\$2.00 per share (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 2 January 2007) with an expiry date of 1 January 2010.

There are no changes in any term of the Scheme during the six months ended 30 June 2007. The Group has no legal or constructive obligation to repurchase or settle the options in cash. As at the date of this announcement, the Company has 71,350,000 share options outstanding. The movements in the Company's share options during the period will be disclosed in the 2007 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 subsidiary (the "Turbo Speed Group"). Eligible participants of the Employee Incentive Scheme include the full-time employees of Turbo Speed or any of its subsidiaries, including any Directors of Turbo Speed or any of its subsidiaries (but excluding any person who is a Director of the Company) provided always that such term shall exclude any person who has tendered his resignation or who at the relevant time is working out his period of notice pursuant to his employment contract or otherwise. The Employee Incentive Scheme became effective from 4 April 2005 to 31 December 2008 unless terminated by resolution of a remuneration committee formed by the Board to administer the Employee Incentive Scheme (the "Committee").

On 8 July 2005, 1,425,000 share options had been granted to certain Directors and employees of a subsidiary of Turbo Speed 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 8 July 2005 to 31 December 2008 (both dates inclusive).

During the six months ended 30 June 2007, no share options have been exercised and lapsed. The Group has no legal or constructive obligation to repurchase or settle the options in cash. As at the date of this announcement, Turbo Speed has 180,000 share options outstanding.

**INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006 Interim: Nil).

**CONTINGENT LIABILITIES**

The Group had no material contingent liability as at 30 June 2007.

**EXCHANGE RATES EXPOSURE**

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



## **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 2007.

## **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 2007, 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, five 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 30 May 2007, 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 report for the six months ended 30 June 2007 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 People's Republic of China (the "PRC"), the Group is required to contribute an amount to certain retirement benefit schemes based on approximately 7% to 20% of the wages for the year of those workers in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those workers of the Group.

## **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 2007.

## **SUBSEQUENT EVENTS**

### **Acquisition of the entire interest in Baifu Hualong and Pacific Sheen and disposal of 5% interest in New Concept Services Limited**

On 10 February 2007, the Company entered into a sale and purchase agreement (the "Hualong Agreement") with 王秉人(Wang Bing Ren), 王中方 (Wang Zhong Fang), 蔣杰忠(Jiang Jie Zhong), 趙樹勳(Zhao Shu Xun (also known as 趙力斌(Zhao Li Bin)), 李寧川(Li Ning Chuan) and Everon Group Holdings Limited (a company incorporated in Hong Kong) (collectively the "Vendors"), who are parties independent of the Group, pursuant to which the Company conditionally agreed to procure the acquisition of the entire registered capital of Hangzhou Baifu Holding Company Limited ("Baifu Hualong"), a company incorporated in the PRC which will hold the entire interest in 杭州華隆電子技術有限公司(Hangzhou Hualong Electronic Technology Company Limited), a company

established in the PRC (“Hualong Electronic”) and 杭州華隆信息技術有限公司 (Hangzhou Hualong Information Technology Company Limited), a company established in the PRC (“Hualong Information”), the entire issued share capital of Pacific Sheen International Limited (富順國際有限公司), a company incorporated in Hong Kong (“Pacific Sheen”) and their respective subsidiaries (collectively referred to as the “Hualong Group”) and the shareholders’ loans (the “Hualong Acquisition”).

As part of the transactions in relation to the Hualong Acquisition, the Company disposed of 5% of the issued share capital of New Concept Services Limited, a subsidiary of the Company and the immediate holding company of Baifu Hualong and Pacific Sheen, to the Vendors for a total consideration of RMB15.0 million (equivalent to approximately HK\$15.5 million), which is equal to 5% of the total consideration to be paid by the Group for the Hualong Acquisition (the “Hualong Disposal”).

The Hualong Acquisition and the Hualong Disposal and the transactions contemplated herein have been completed on 30 July 2007. The consideration of RMB300,650,000 (equivalent to approximately HK\$310.7 million) for the Hualong Acquisition was reduced by the amount of dividends of RMB30,000,000 (equivalent to approximately HK\$31.0 million) that the Hualong Group declared and paid to the Vendors prior to the completion. The consideration of RMB270,650,000 (equivalent to approximately HK\$279.7 million) for the Hualong Acquisition was satisfied by the Company as to: (a) a cash payment of RMB170,650,000 (equivalent to approximately HK\$176.3 million); and (b) the balance of RMB100,000,000 (equivalent to approximately HK\$103.3 million) by way of the consideration shares. The Company received cash consideration of RMB15,032,500 (equivalent to approximately HK\$15.5 million) for the Hualong Disposal.

As at 31 December 2006, the aggregate audited carrying value of the total net assets of the Hualong Group amounted to approximately HK\$169.8 million. Goodwill arising from the Hualong Acquisition and Hualong Disposal will be finalised upon completion of management’s assessment of the fair value of identifiable assets and liabilities of the Hualong Group as at the date of completion.

By Order of the Board  
**Li Wenjin**  
*Executive Director*

Hong Kong, 27 August 2007

*As at the date of this announcement, the Board comprises six executive Directors namely Mr. Cheung Yuk Fung, Mr. Kui Man Chun, Mr. Xu Wensheng, Mr. Li Wenjin, Mr Chan Yiu Kwong and Mr. Xu Chang Jun; and three independent non-executive Directors, namely Mr. Tam Chun Fai, Mr. Xu Sitao and Mr. Leung Wai Man, Roger.*

“Please also refer to the published version of this announcement in The Standard”