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HI SUN GROUP LIMITED

高陽集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0818)

DISCLOSEABLE TRANSACTION ISSUE OF CONVERTIBLE PREFERENCE SHARES BY A SUBSIDIARY RESULTING IN DEEMED DISPOSAL OF APPROXIMATELY 16% EQUITY INTEREST IN SUCH SUBSIDIARY

Financial advisor to the Company



On 9 November 2004, Turbo Speed, a wholly owned subsidiary of the Company, entered into the Subscription Agreement with the Subscribers in relation to the subscription by the Subscribers of the Convertible Preference Shares at a total subscription price of US\$4 million (approximately HK\$31.2 million). The Convertible Preference Shares represent approximately 19.0% of the existing total number of issued shares of Turbo Speed and approximately 16.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription. The subscription price will be fully satisfied by the Subscribers in cash.

The Convertible Preference Shares can be converted at a minimum value of US\$500,000 (approximately HK\$3.9 million) or integral multiples thereof at any time from the date of Completion for a period of 24 months into the Shares at a conversion price of HK\$1.2 per share, subject to adjustment.

The proceeds raised from the Subscription will be used for the business expansion, principally relating to the provision of telecommunication solutions and services, and working capital of Beijing Hi-Sunsray.

Upon Completion, the Subscription will result in a reduction of the effective percentage equity interest of the Company in Turbo Speed from 100% to approximately 84% and constitutes a deemed disposal of Turbo Speed by the Company under the Listing Rules. In addition, under the term of the Shareholders Agreement to be entered into on Completion, the Company may be required to transfer an additional 2% equity interest in Turbo Speed to the Subscribers if the Profit Target could not be met. The Subscription also constitutes a discloseable transaction pursuant to Rule 14.06(2) of the Listing Rules. A circular setting out further details of the Subscription will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 10 November 2004 at the request of the Company pending the release of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 12 November 2004.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares. Shareholders and the investing public should note that Completion is conditional and they should exercise caution when dealing in the Shares.

* For identification purpose only

INTRODUCTION

On 9 November 2004, Turbo Speed, a wholly owned subsidiary of the Company, entered into the Subscription Agreement with the Subscribers in relation to the subscription by the Subscribers of the Convertible Preference Shares at a total subscription price of US\$4 million (approximately HK\$31.2 million). The Convertible Preference Shares represent approximately 19.0% of the existing total number of issued shares of Turbo Speed and approximately 16.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription.

THE SUBSCRIPTION AGREEMENT

- Date : 9 November 2004
- Issuer : Turbo Speed, a wholly owned subsidiary of the Company
- Subscribers : (i) Comtel Development
(ii) Acme Partner
- To the Directors' best knowledge, information and belief having made all reasonable enquiry, each of the Subscribers and their respective ultimate beneficial shareholders are not connected (for the purpose of the Listing Rules) with any of the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates.
- Warrantor : The Company
- The Company has essentially guaranteed the performance by Turbo Speed of its obligations under the Subscription Agreement.
- The Subscription : Pursuant to the Subscription Agreement, Turbo Speed will issue the Convertible Preference Shares to the Subscribers for a total consideration of US\$4 million (approximately HK\$31.2 million).
- The Convertible Preference Shares represent approximately 16.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription and will be issued to the Subscribers in the following manner:-
- (i) 5,128,206 of the Convertible Preference Shares, which represents approximately 12.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription, will be issued to Comtel Development at a subscription price of US\$3 million (approximately HK\$23.4 million); and
- (ii) 1,709,402 of the Convertible Preference Shares, which represents approximately 4.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription, will be issued to Acme Partner at a subscription price of US\$1 million (approximately HK\$7.8 million).
- Settlement of the subscription price : The total subscription price of US\$4 million (approximately HK\$31.2 million) will be settled in cash by the Subscribers in the following manner:-
- (i) as to a sum of US\$3 million (approximately HK\$23.4 million) by Comtel Development; and
- (ii) as to a sum of US\$1 million (approximately HK\$7.8 million) by Acme Partner.
- The subscription monies are to be paid by the Subscribers within 3 Business Days after signing of the Subscription Agreement and will be held in jointly controlled bank accounts and be released on Completion.
- Principal terms of the Convertible Preference Shares :
- The Convertible Preference Shares will rank in priority to any other class of shares in the capital of Turbo Speed to the return of an amount equal to the unpaid Preferred Dividend (as defined below) (if any) and the aggregate initial subscription price of the Convertible Preference Shares and thereafter with no entitlement to the return of capital on winding up of Turbo Speed or otherwise.
 - Holders of the Convertible Preference Shares together will be entitled to a fixed cumulative preferred dividend equal to HK\$624,000 (the "Preferred Dividend") (being the HK dollar equivalent of 2% of the initial subscription amounts) for each financial year of Turbo Speed, assuming no conversion of those Convertible Preference Shares.
 - Holders of the Convertible Preference Shares shall be entitled to

participate in part of dividends (the “Ordinary Dividend”) 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 will be equal initially to 16% (on an annual basis) of the total dividends payable by the Company, assuming no conversion of those Convertible Preference Shares

- Holders of the Convertible Preference Shares will be entitled to convert at a minimum value of US\$500,000 (approximately HK\$3.9 million) or integral multiples thereof at any time from the date of Completion for a period of 24 months into the Shares at a conversion price of HK\$1.2 per share, subject to adjustment as set out below:–
 1. on consolidation or sub-division of the Shares;
 2. if, at any time prior to 31 December 2005, the Company shall issue any shares (otherwise than pursuant to the exercise of conversion rights under the Convertible Preference Shares and/or subscription rights attached to options or other securities already in issue before the date of the Subscription Agreement) at a price (“Alternative Price”) which is lower than the then prevailing conversion price of the Convertible Preference Shares, then any holder of the Convertible Preference Shares shall be entitled to convert the Convertible Preference Shares into the Shares at the Alternative Price for a period of 20 Business Days after the holder of the Convertible Preference Shares is notified of the issue; and
 3. on issues of Shares by way of bonus or rights, in the manner provided for in listed warrants in Hong Kong if the issue price is less than 90% of the then market price of the Shares.
- On the Business Day after Turbo Speed has paid total dividends on each Convertible Preference Share which exceed its original issue price, Turbo Speed will be entitled to convert the Convertible Preference Shares into ordinary shares of Turbo Speed at a conversion ratio of 1:1, subject to adjustment on consolidation/sub-division of ordinary shares of Turbo Speed.
- Holders of the Convertible Preference Shares shall have the right to receive notice of and to attend general meeting of Turbo Speed, but shall have no right to vote at such meetings except on matters that affect the rights of the Convertible Preference Shares.

- Conditions precedent : Completion is conditional upon the following conditions being fulfilled:–
- (a) provision by Turbo Speed a written confirmation from China Mobile that the IVR Contract has been renewed;
 - (b) no event having occurred which could reasonably be construed as one that could prevent or impede China Mobile from performing its obligations under the IVR Contract on or before the Business Day immediately preceding the date of Completion;
 - (c) no circumstances occurring which could frustrate the performance of the IVR Contract or make the performance of the IVR Contract illegal, unenforceable or impossible on or before the Business Day immediately preceding the date of Completion;
 - (d) permission to deal in the Conversion Shares having been granted by the Listing Committee;
 - (e) the approval of the Subscription Agreement and the transactions contemplated thereunder by the Shareholders (if required) in a manner as required under the Listing Rules; and
 - (f) the amendment to the Memorandum of Association of Turbo Speed relating to the creation of the Convertible Preference Shares having been agreed by the parties.

If any of the conditions above has not been fulfilled or waived (save that item (d), (e) and (f) above shall not be capable of being waived) in writing by the Subscribers on or prior to 30 April 2005 (or such later date as the Company, Turbo Speed and the Subscribers may agree in writing), then the Subscription Agreement shall terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any prior breach of the Subscription Agreement).

- Undertakings in the Shareholders Agreement : On Completion, the Company is required to enter into the Shareholders Agreement which provides for the following:-
1. If the audited net profit after taxation of Beijing Hi-Sunray (and its subsidiaries on a consolidated basis, if applicable) under the generally accepted accounting principles of Hong Kong for either the financial year ending 31 December 2005 or the financial year ending 31 December 2006 is less than RMB40 million (approximately HK\$37.6 million) ("Profit Target"), the Company is required to transfer to the Subscribers (pro rata to their initial equity interest in Turbo Speed) 2% equity interest in Turbo Speed by the transfer of the relevant number of ordinary shares in Turbo Speed at nominal consideration of HK\$1. The actual percentage of equity interest which needs to be transferred will be adjusted by taking into account as part of the then equity capital of Turbo Speed the Convertible Preference Shares which have by then been converted and after excluding any shares in Turbo Speed issued after Completion at a price which is equal to or exceeds the Benchmark Price.
 2. If at any time for so long as Comtel Development and/or Acme Partner is/are holding any shares of Turbo Speed, Turbo Speed issues further shares at a price per share below the Benchmark Price, each of Comtel Development and Acme Partner shall be entitled to subscribe within 25 Business Days immediately after such issue at par such number of ordinary shares of Turbo Speed which maintains their interest in Turbo Speed before such issue (but after taking into account the Subscribers' interest in the Convertible Preference Shares which they have by then converted or transferred).
- Moratorium : The Company has agreed and undertaken to the Subscribers that it shall not issue any Shares prior to 30 April 2005 (otherwise than pursuant to the exercise of conversion rights under the Convertible Preference Shares and/or subscription rights attached to options or other securities already in issue before the date of the Subscription Agreement). As at the date of this announcement, there were outstanding options granted under the share option scheme of the Company to issue up to 33,000,000 Shares.
- Completion : Completion shall take place on the third Business Day following the day on which the conditions of the Subscription Agreement set out in (a), (d), (e) and (f) under the paragraph headed "Conditions precedent" above has been satisfied or waived.

THE CONVERSION

The Convertible Preference Shares can be converted at a minimum value of US\$500,000 (approximately HK\$3.9 million) or integral multiples thereof at any time from the date of Completion for a period of 24 months into the Shares at a conversion price of HK\$1.2 per share, subject to adjustment (please see the paragraph headed "Principal terms of the Convertible Preference Shares" above for further details).

The Conversion price represents:-

- (i) a premium of approximately 185.7% over the closing price of HK\$0.42 per Share quoted on the Stock Exchange on 9 November 2004, being the date of the Subscription Agreement;
- (ii) a premium of approximately 192.7% over the average closing price of approximately HK\$0.41 per Share over the last 5 trading days up to and including 9 November 2004; and
- (iii) a premium of approximately 1,112.1% to the unaudited consolidated net asset value of the Company of approximately HK\$0.099 per share as at 30 June 2004.

The conversion price was arrived at after commercial negotiation between the parties. The Directors consider that the conversion price of HK\$1.2 per share, which is at a high premium to the prevailing market price of the

Shares and net asset value per share of the Company, is in the interests of the Company and the Shareholders as a whole.

Assuming the Convertible Preference Shares are fully converted into the Shares at the initial conversion price of HK\$1.2 per share, a total of 26,000,000 Shares will be issued and based on the total number of issued Shares as at the date of this announcement, the Subscribers will hold in aggregate approximately 7.2% of the share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares will be issued under the general mandate (the “General Mandate”) granted to the Board at the special general meeting of the Company held on 28 May 2004. Up to the date of this announcement, there was no issue of Shares under the General Mandate.

APPLICATION FOR LISTING

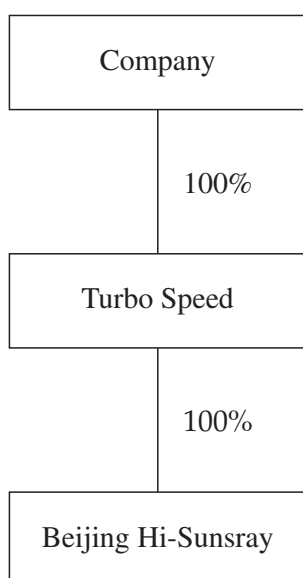
The Convertible Preference Shares will not be listed on any stock exchange. No application will be made for the listing of the Convertible Preference Shares.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

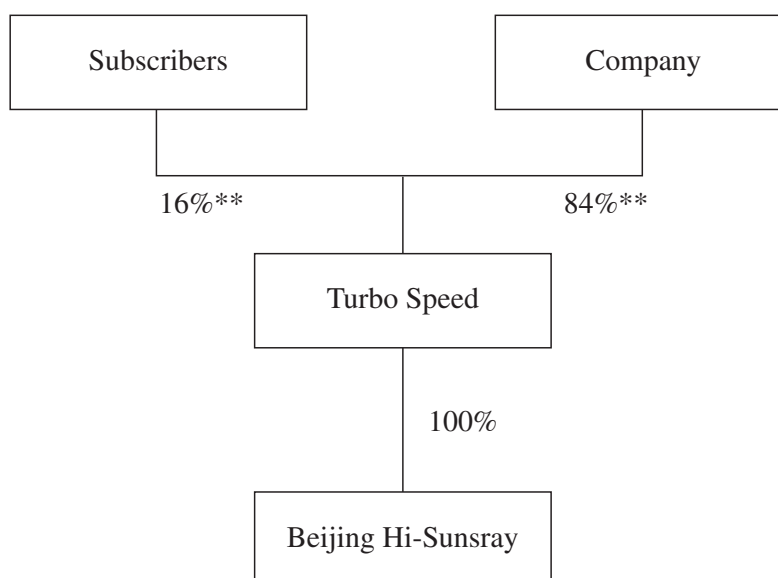
SHAREHOLDING STRUCTURE OF TURBO SPEED BEFORE AND AFTER THE SUBSCRIPTION

The following diagrams show the simplified corporate structure of Turbo Speed before and immediately after the Subscription:–

As at the date of this announcement



Immediately after the Subscription*



* Assuming no other change in the shareholding structure of Turbo Speed other than the issue of the Convertible Preference Shares pursuant to the Subscription Agreement

** This is the percentage that the number of shares in Turbo Speed held by the relevant party represents of the total number of ordinary shares and Convertible Preference Shares in issue immediately upon Completion.

As mentioned in the sub-paragraph 1 of the paragraph headed “Undertakings in the Shareholders Agreement”, in the event if the Profit Target could not be met, the Company may be required to transfer an additional 2% equity interest in Turbo Speed to the Subscribers and the interest of the Subscribers in Turbo Speed may amount to 18%.

FINANCIAL EFFECTS OF THE SUBSCRIPTION ON THE GROUP

Upon Completion, the Group is expected to record a gain on the deemed disposal amounting to approximately HK\$27 million after deducting the professional fees and all related expenses, which gain is subject to adjustment and review by the auditors of the Company. The net asset value of Turbo Speed will also be increased by approximately HK\$30 million to approximately HK\$17 million, which increase is subject to adjustment and review by the auditors of the Company.

INFORMATION OF THE GROUP AND TURBO SPEED

The Group is an IT solution provider with focus on the provision of IT related consultancy and services. Turbo Speed, a wholly owned subsidiary of the Company, is a company incorporated in the British Virgin Islands on 28 January 2000 and is in the business of investment holding with its sole investment being its ownership of the 100% equity interest in Beijing Hi-Sunsray. Beijing Hi-Sunsray, a wholly foreign owned enterprise incorporated in the PRC on 24 May 2000, is engaged principally in the provision of telecommunication solutions and services and system integration services in the PRC. In December 2003, Beijing Hi-Sunsray

entered into the IVR Contract with China Mobile, a leading mobile telecommunication carrier in the PRC, for a period of one year from the date of the contract, to run Interactive Voice Response (IVR) system service for China Mobile which involves the cooperative provision of a unified connection and interface platform for voice value added services and for the construction, development and maintenance of that platform and a user database by itself. The cooperative arrangement under the IVR Contract has commenced.

Based on the audited financial statements of Turbo Speed, which are prepared in accordance with accounting principles generally accepted in Hong Kong, the consolidated net loss (before and after taxation) for the two years ended 31 December 2003 and the consolidated net asset value of Turbo Speed as at 31 December 2002 and 2003 are as follows:

	For the year ended 31 December	
	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss before and after taxation	6,262	2,267
	As at 31 December	
	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net asset value	(7,990)	(10,257)

INFORMATION OF THE SUBSCRIBERS

Comtel Development is wholly-owned by On Capital China Tech Fund, a Cayman Island regulated mutual fund company. The fund's investment objective is to seek medium to long term capital appreciation and superior returns, principally by means of investment in early stage high-growth technology enterprises in the PRC, with a focus on electronics and information technology.

Acme Partner is wholly-owned by The Yangtze Ventures Limited, a private investment fund company which aims to achieve superior returns for investors through investing in equity linked investments in technology-based and high growth enterprises along the Yangtze River Delta.

To the Directors' best knowledge, information and belief having made all reasonable enquiry, each of the Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

REASON FOR THE SUBSCRIPTION AND PROPOSED USE OF PROCEEDS

The Directors consider that the Subscription will provide new funding to Turbo Speed for the business expansion, principally relating to the provision of telecommunication solutions and services, and working capital of Beijing Hi-Sunsray and is in the interests of the Shareholders as a whole.

The Directors also consider that the terms of the Subscription Agreement, which were negotiated on an arm's length basis and agreed on normal commercial terms between the parties involved, to be fair and reasonable.

Following Completion, Turbo Speed will remain as a subsidiary of the Company and Beijing Hi-Sunsray will continue to engage in its existing businesses.

GENERAL

Upon Completion, the Subscription will result in a reduction of the percentage equity interest of the Company in Turbo Speed from 100% to approximately 84% and constitutes a deemed disposal of Turbo Speed by the Company and a discloseable transaction pursuant to Rule 14.06(2) of the Listing Rules. A circular setting out further details of the Subscription will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 10 November 2004 at the request of the Company pending the release of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 12 November 2004.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares. Shareholders and the investing public should note that completion of the Subscription Agreement is conditional and they should exercise caution when dealing in the Shares.

As at the date of this announcement, the Board comprises nine executive Directors, namely Mr. CHEUNG Yuk Fung, Mr. KUI Man Chun, Mr. LO Siu Yu, MR. XU Wensheng, Mr. LI Wenjin, Mr. CHAN Yiu Kwong, Mr. SU Terry Lumin, Mr. XU Chang Jun and Mr. ZHOU Jian, and three independent non-executive Directors, namely Mr. TAM Chun Fai, Mr. XU Sitao and Mr. LEUNG Wai Man, Roger.

DEFINITIONS

In this announcement, the following terms have the following meanings:

“Acme Partner”	Acme Partner International Limited, a company incorporated in the British Virgin Islands
“associate”	has the meaning ascribed to it under the Listing Rules
“Beijing Hi-Sunsray”	北京高陽聖思園信息技術有限公司 (Beijing Hi Sunsray Information Technology Limited), a wholly foreign owned enterprise incorporated in the PRC with limited liability and a wholly owned subsidiary of Turbo Speed
“Benchmark Price”	US\$0.58 (approximately HK\$4.5), being the price at which each Convertible Preference Share is to be issued pursuant to the Subscription Agreement
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for business
“China Mobile”	China Mobile Communications Corporation
“Company”	Hi Sun Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription Agreement
“Comtel Development”	Comtel Development Limited, a company incorporated in British Virgin Islands
“Conversion”	the exercise of the conversion rights under the Subscription Agreement to convert the Convertible Preference Shares into the Shares at an initial conversion price of HK\$1.2 per share, subject to adjustment
“Convertible Preference Shares”	6,837,608 new convertible preference shares of US\$0.10 each in the share capital of Turbo Speed to be issued pursuant to the Subscription Agreement
“Conversion Shares”	Shares falling to be issued upon the Conversion
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“IVR Contract”	the contract entered into between Beijing Hi-Sunsray and China Mobile dated 9 December 2003 in relation to the cooperative provision of a unified connection and interface platform for voice value added services in the PRC and the construction, development and maintenance of, among other things, that platform and a user database, for a period of one year from the date of the contract
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Committee”	the listing sub-committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“Shareholders”	holders of the Shares
“Shareholders Agreement”	the shareholders agreement to be entered into amongst the Company, Comtel Development, Acme Partners and Turbo Speed upon Completion
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Comtel Development and Acme Partner
“Subscription”	the subscription of the Convertible Preference Shares by the Subscribers pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 9 November 2004 and entered into between the Company, Turbo Speed and the Subscribers in relation to the Subscription

“Turbo Speed” Turbo Speed Technology Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“US\$” United States dollars, the lawful currency of the United States of America

Unless the context requires otherwise, translation of US\$ and RMB into HK\$ are made in this announcement, for illustration purpose only, at the rate of US\$1.00 = HK\$7.80 and RMB1.00 = HK\$0.94 respectively.

By Order of the Board
CHAN Yiu Kwong
Executive Director

Hong Kong, 11 November 2004

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