



HI SUN TECHNOLOGY (CHINA) LIMITED

(Formerly known as Hi Sun Group Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 818)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

The Board of Directors of Hi Sun Technology (China) Limited hereby announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004 together with the comparative figures for 2003 as follows:

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	2	279,695	359,790
Cost of sales		<u>(193,732)</u>	<u>(257,915)</u>
Gross profit		85,963	101,875
Other revenue		458	328
Selling expenses		(30,644)	(35,899)
Administrative expenses		<u>(66,913)</u>	<u>(68,133)</u>
Operating loss	3	(11,136)	(1,829)
Finance costs	4	<u>(1,031)</u>	<u>(1,625)</u>
Loss before taxation		(12,167)	(3,454)
Taxation credit	5	<u>40</u>	<u>–</u>
Loss attributable to shareholders		<u>(12,127)</u>	<u>(3,454)</u>
Basic loss per share	6	<u>HK\$(0.04)</u>	<u>HK\$(0.01)</u>
Diluted loss per share	6	<u>HK\$(0.04)</u>	<u>HK\$(0.01)</u>

Note

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention.

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

2. Turnover, revenue and segment information

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Sales of designed information technology products	166,377	240,295
Provision of information system consultancy and integration services	81,041	119,495
Information technology value-added services	32,277	–
	<u>279,695</u>	<u>359,790</u>

Primary reporting format – Business segments

	Financial solutions, services and related products 2004 <i>HK\$'000</i>	Telecommunication solutions, services and related products 2004 <i>HK\$'000</i>	Electronic payment products and services 2004 <i>HK\$'000</i>	Information technology value-added services 2004 <i>HK\$'000</i>	Other operations 2004 <i>HK\$'000</i>	Group 2004 <i>HK\$'000</i>
Turnover	<u>129,785</u>	<u>21,438</u>	<u>95,995</u>	<u>32,277</u>	<u>200</u>	<u>279,695</u>
Other revenue	<u>87</u>	<u>59</u>	<u>307</u>	<u>–</u>	<u>5</u>	<u>458</u>
Segment results	<u>(16,986)</u>	<u>(661)</u>	<u>9,664</u>	<u>8,598</u>	<u>(11,751)</u>	<u>(11,136)</u>
Finance costs						<u>(1,031)</u>

	Financial solutions, services and related products 2003 HK\$'000	Telecommunication solutions, services and related products 2003 HK\$'000	Electronic payment products and services 2003 HK\$'000	Other operations 2003 HK\$'000	Group 2003 HK\$'000
Turnover	260,545	29,238	69,957	50	359,790
Other revenue	161	7	159	1	328
Segment results	5,595	(2,162)	3,859	(9,121)	(1,829)
Finance costs					(1,625)

Secondary reporting format – Geographical segments

	Turnover 2004 HK\$'000	Segment results 2004 HK\$'000	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
Hong Kong, Korea and South East Asia	75,925	(7,104)	100,639	38
Mainland China	203,770	(4,267)	140,082	14,869
	279,695	(11,371)	240,721	14,907
Unallocated income, net		235		
Operating loss		(11,136)		
	Turnover 2003 HK\$'000	Segment Results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Hong Kong, Korea and South East Asia	54,823	(3,855)	40,136	11
Mainland China	304,967	1,735	123,540	2,262
	359,790	(2,120)	163,676	2,273
Unallocated income, net		291		
Operating loss		(1,829)		

3. Operating loss

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

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

4. Finance costs

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

5. Taxation

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

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

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

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

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

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

6. Loss per share

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

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

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

DIVIDENDS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial solutions, applications, services and related products

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

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

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

Electronic payment solutions and products

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

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

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

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

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

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

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

PROSPECTS

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

CAPITAL STRUCTURE AND DETAILS OF CHARGES

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

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

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

EXCHANGE RATES EXPOSURE

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

CONTINGENT LIABILITIES

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

EMPLOYEES

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

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

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SUBSEQUENT EVENTS

(a) Change of company name

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

(b) Issue of convertible preference shares by a subsidiary

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited ("Turbo Speed"), to issue 6,837,608 convertible preference shares of US\$0.10 each for a total subscription price of US\$4,000,000 (approximately HK\$31,250,000) under the subscription agreement entered into with independent third parties on 9 November 2004 (the "Subscription").

(c) Adoption of employee incentive scheme of a subsidiary

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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

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

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

AUDIT COMMITTEE

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

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

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

PUBLICATION OF DETAILS RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

All the information in respect of the Company was required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's website in due course.

By Order of the Board
Li Wenjin
Executive Director

Hong Kong, 22 April 2005

As at the date of this Announcement, the board of directors of the Company 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 directors, namely Tam Chun Fai, Leung Wai Man, Roger and Xu Sitao.

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