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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

FINANCIAL HIGHLIGHTS

	2006	2005	Change +/(-)
	HK$'000	*HK$'000*	*%*
RESULTS			
Turnover	473,122	438,763	7.8
Profit before income tax	145,242	66,942	117.0
Profit attributable to the equity holders of the Company	133,600	62,304	114.4
	HK$	*HK$*	
Basic earnings per share*	0.083	0.047	76.6
Diluted earnings per share*	0.070	0.043	62.8

* *For identification purpose only*

	2006	2005	Change +/(-)
	HK$'000	*HK$'000*	*%*
KEY BALANCE SHEET ITEMS			
Total equity	679,672	127,434	433.4
Net current assets	592,099	110,639	435.2
Total assets	847,110	313,741	170.0
	HK$	*HK$*	
Net assets per share*	0.362	0.096	277.1

* *Adjusted for the effect of share subdivision of 1 into 4 on 29 June 2006.*

The Board of Directors (the "Board") of Hi Sun Technology (China) Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 together with the comparative figures for year 2005. The annual results have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2006	**2005**
	Note	*HK$'000*	*HK$'000*
Turnover	*2*	473,122	438,763
Cost of sales	*3*	(264,870)	(247,208)
Gross profit		208,252	191,555
Other gains	*2*	68,359	2,587
Selling expenses	*3*	(28,899)	(40,119)
Administrative expenses	*3*	(98,667)	(83,083)
Operating profit		149,045	70,940
Finance costs	*4*	(3,803)	(3,998)
Profit before income tax		145,242	66,942
Income tax expense	*5*	(11,642)	(4,638)
Profit attributable to the equity holders of the Company		133,600	62,304
Earnings per share for profit attributable to the equity holders of the Company:			
– Basic	*6*	HK$0.083	HK$0.047
– Diluted	*6*	HK$0.070	HK$0.043

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2006	**2005**
	Note	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Investment property		3,540	–
Property, plant and equipment		75,959	37,760
Leasehold land		30,559	208
		110,058	37,968
Current assets			
Inventories		28,552	21,607
Trade and other receivables, prepayments and deposits	*7*	139,076	97,437
Due from a related company		67	150
Financial assets at fair value through profit or loss		41,281	–
Cash and cash equivalents		528,076	156,579
		737,052	275,773
Total assets		847,110	313,741
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		4,699	3,330
Other reserves		674,973	124,104
Total equity		679,672	127,434

LIABILITIES			
Non-current liabilities			
Financial liability portion of convertible preference shares issued by a subsidiary		22,485	21,173
Current liabilities			
Trade and other payables	*8*	117,282	115,952
Due to a fellow subsidiary		13,497	390
Taxation payable		7,174	715
Short term borrowings		7,000	48,077
		144,953	165,134
Total liabilities		167,438	186,307
Total equity and liabilities		847,110	313,741
Net current assets		592,099	110,639
Total assets less current liabilities		702,157	148,607

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable the equity holders of the Company						
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Other reserves *HK$'000*	Exchange reserve *HK$'000*	(Accumulated losses)/ retained earnings *HK$'000*	Total *HK$'000*
Balance at 1 January 2005	3,330	100,556	125,310	–	–	(180,565)	48,631
Profit for the year	–	–	–	–	–	62,304	62,304
Issue of convertible preference shares by a subsidiary	–	–	–	11,134	–	–	11,134
Employee share option scheme-value of employee services	–	–	–	4,220	–	–	4,220
Employee share option scheme of a subsidiary – value of employee services	–	–	–	273	–	–	273
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	–	872	–	872
Balance at 31 December 2005	3,330	100,556	125,310	15,627	872	(118,261)	127,434

Balance at 1 January 2006	3,330	100,556	125,310	15,627	872	(118,261)	127,434
Profit for the year	–	–	–	–	–	133,600	133,600
Issue of convertible preference shares by a subsidiary	–	–	–	138,480	–	–	138,480
Shares issued under share options scheme of the Company	459	24,196	–	–	–	–	24,655
Issue of new shares	910	245,450	–	–	–	–	246,360
Share issuance expenses	–	(60)	–	–	–	–	(60)
Share premium reduction	–	(100,556)	43,124	–	–	57,432	–
Employee share option scheme – value of employee services	–	–	–	2,387	–	–	2,387
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	–	6,816	–	6,816
Balance at 31 December 2006	4,699	269,586	168,434	156,494	7,688	72,771	679,672

NOTES

1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

In 2006, the Group adopted the following new amendments and interpretations of HKFRS and Hong Kong Accounting Standards ("HKAS"), which are relevant to its operations:

- HKAS 19 (Amendment) Actuarial Gains and Losses, Group Plans and Disclosures
- HKAS 21 (Amendment) Net Investment in a Foreign Operation
- HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HKAS 39 (Amendment) The Fair Value Option
- HKAS 39 (Amendment) and HKFRS 4 (Amendment) Financial Guarantee Contracts
- HKFRS-Int 4 Determining whether an Arrangement contains a Lease

The adoptions of new/revised HKAS 19 (Amendment), 21 (Amendment), 39 (Amendment), HKFRS 4 (Amendment) and HKFRS-Int 4 did not result in substantial changes to the accounting policies of the Group.

The adoption standards, amendments or interpretations to existing standards have been published but are not effective for 2006 and have not been early adopted:

- HKAS 1 (Amendment) Presentation of Financial Statements: Capital Disclosures
- HKFRS 7 Financial Instruments: Disclosures
- HKFRS 8 Operating Segments
- HK(IFRIC)-Int 7 Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies
- HK(IFRIC)-Int 8 Scope of HKFRS 2
- HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives
- HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment
- HK(IFRIC)-Int 11 HKFRS 2-Group and Treasury Share Transactions
- HK(IFRIC)-Int 12 Service Concession Arrangements

The Group has already commenced an assessment of the impact of the new standards, amendments or interpretations to existing standards but is not yet in a position to state whether these new standards, amendments or interpretations to existing standards would have a significant impact to its results of operations and financial position.

2 Turnover, other gains and segment information

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

	For the year ended 31 December 2006 *HK$'000*	2005 *HK$'000*
Turnover		
Sales of goods	197,843	200,261
Provision of information system consultancy and integration services	169,695	102,111
Information technology operation value-added services	105,584	136,241
Management fees received from a related company	–	150
	473,122	438,763
Other gains		
Interest income	4,831	1,403
Subsidy income from government grant	–	926
Gain on disposal of financial assets at fair value through profit or loss	59,727	–
Fair value gain on financial assets at fair value through profit or loss	2,699	–
Finance lease income	111	41
Other income	991	217
	68,359	2,587
Turnover and other gains	541,481	441,350

Primary reporting format – business segments

As at 31 December 2006, the Group is organised into four main business segments:

(a) 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;

(b) Telecommunication solutions, services and related products – provision of information system consultancy and integration services and sales of information technology products to the telecommunication industries;

(c) Electronic payment products and services – sales of electronic fund transfer point-of-sale ("EFT-POS") terminals; and

(d) Information technology operation value-added services – provision of Interactive Voice Response ("IVR") platform operation services.

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

Turnover consists of sales from financial solutions, services and related products, telecommunication solutions, services and related products, electronic payment products and services and information technology operation value-added services, which are HK$473,122,000 and HK$438,613,000 for the years ended 31 December 2006 and 2005 respectively.

Other Group operations during the year ended 31 December 2005 mainly comprised of management fees received from a related company of HK$150,000.

No such management fee was received during the current year.

The segment results for the year ended 31 December 2006 and segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Financial solutions, services and related products	Telecom-munication solutions, services and related products	Electronic payment products and services	Information technology operation value–added services	Unallocated	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	164,474	5,221	197,843	105,584	–	473,122
Other gains	–	–	–	–	68,359	68,359
Segment results	30,911	2,649	30,081	41,950	43,454	149,045
Finance costs					(3,803)	(3,803)
Profit before income tax						145,242
Income tax expense					(11,642)	(11,642)
Profit attributable to equity holders of the Company						133,600
Segment assets	240,561	1,398	151,158	127,136	326,857	847,110
Segment liabilities	(37,142)	(3,828)	(68,422)	(27,026)	(31,020)	(167,438)

Other segment information:						
Depreciation of property, plant and equipment	3,765	–	1,413	7,739	172	13,089
Depreciation of investment property	–	–	–	–	8	8
Amortisation of leasehold land	–	–	5	–	31	36
Write back of provision for impairment of trade receivables	–	(1,523)	–	–	–	(1,523)
Provision for impairment of trade receivables	369	–	897	–	–	1,266
Write-off of inventories	–	–	1,504	–	–	1,504
(Gain)/loss on disposal of property, plant and equipment	(18)	–	(1)	(10)	11	(18)
Capital expenditure	34,313	–	1,502	11,165	36,086	83,066

Primary reporting format – business segments

The segment results for the year ended 31 December 2005 and segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Financial solutions, services and related products HK$'000	Telecom-munication solutions, services and related products HK$'000	Electronic payment products and services HK$'000	Information technology operation value-added services HK$'000	Other Group operations HK$'000	Unallocated HK$'000	Group HK$'000
Turnover	157,784	11,515	133,073	136,241	150	–	438,763
Other gains	–	–	–	–	–	2,587	2,587
Segment results	13,103	(3,438)	12,912	71,462	150	(23,249)	70,940
Finance costs						(3,998)	(3,998)
Profit before income tax							66,942
Income tax expenses						(4,638)	(4,638)
Profit attributable to equity holders of the Company							62,304
Segment assets	87,625	2,178	104,535	116,030	–	3,373	313,741
Segment liabilities	(76,338)	(19,957)	(48,903)	(30,695)	–	(10,414)	(186,307)

Other segment information:							
Depreciation of property, plant and equipment	4,160	–	673	4,989	–	62	9,884
Provision for impairment of trade receivables	1,586	3,477	1,911	–	–	–	6,974
Write-off of inventories	–	–	1,008	–	–	–	1,008
Loss on disposal of property, plant and equipment	188	–	5	126	–	–	319
Capital expenditure	418	–	6,816	18,619	–	527	26,380

Secondary reporting format – Geographical segments

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

Hong Kong and South East Asia – financial solutions, services and related products, electronic payment products and services, and other Group operations

Mainland China – financial solutions, services and related products, telecommunication solutions, services and related products, electronic payment products and services, and information technology operation value-added services

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

	Turnover 2006 HK$'000	Segment results 2006 HK$'000	Total assets 2006 HK$'000	Capital expenditure 2006 HK$'000
Hong Kong and South East Asia	110,040	5,942	257,420	14
Mainland China	363,082	99,649	262,833	46,966
	473,122	105,591	520,253	46,980
Other gains, unallocated		68,359		
Unallocated expenses		(24,905)		
Operating profit		149,045		
Unallocated assets			326,857	
Total assets			847,110	
Unallocated capital expenditure				36,086
Total capital expenditure				83,066

	Turnover 2005 *HK$'000*	Segment results 2005 *HK$'000*	Total assets 2005 *HK$'000*	Capital expenditure 2005 *HK$'000*
Hong Kong and South East Asia	71,100	(1,740)	35,821	123
Mainland China	367,663	95,929	274,547	25,730
	438,763	94,189	310,368	25,853
Other gains, unallocated		2,587		
Unallocated expenses		(25,836)		
Operating profit		70,940		
Unallocated assets			3,373	
Total assets			313,741	
Unallocated capital expenditure				527
Total capital expenditure				26,380

3 Expenses by nature

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

	2006 *HK$'000*	2005 *HK$'000*
Auditors' remuneration	1,894	1,620
Depreciation of property, plant and equipment	13,089	9,884
Depreciation of investment property	8	–
Amortisation of leasehold land	36	–
Employee benefit expense (including directors' emoluments)	100,641	101,092
Costs of inventories sold	147,246	185,572
Operating lease rentals for land and buildings	9,379	10,254
Operating lease rentals for equipment	9,348	7,212
Research and development costs	2,598	2,204
(Gain)/loss on disposal of property, plant and equipment	(18)	319
Provision for impairment of trade receivables	1,266	6,974
Write-back of provision for impairment of trade receivables	(1,523)	–
Write-off of inventories	1,504	1,008
Refund of value-added tax	(1,097)	(4,816)

4 Finance costs

	2006 HK$'000	2005 HK$'000
Interest on bank loans and overdrafts	2,069	2,891
Interest on financial liability portion of convertible preference shares issued by a subsidiary	1,734	1,107
	3,803	3,998

5 Income tax expense

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

	2006 HK$'000	2005 HK$'000
Current income tax		
– Hong Kong profits tax	3,100	–
– Overseas taxation	8,542	4,638
Income tax expense	11,642	4,638

PRC taxation has been provided on the profits of the Group's subsidiaries operating in the PRC and calculated at the applicable rates for both years ended 31 December 2006 and 2005.

The subsidiaries in the PRC enjoy tax concessions made available to Foreign Investment Enterprises and Foreign Enterprises. Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises, the subsidiaries in the PRC are subject to tax rate and tax concessions as follow:

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 Sunsray Information Technology Limited	15%	2000 to 2005

6 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 year.

	For the year ended 31 December	
	2006	**2005**
Profit attributable to equity holders of the Company (HK$'000)	133,600	62,304
Weighted average number of ordinary shares in issue (thousands) (Note)	1,606,721	1,332,216
Basic earnings per share (HK$ per share)	0.083	0.047

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all potentially dilutive shares. The Company has two categories of potentially dilutive shares: convertible preference shares issued by subsidiaries and share options. The convertible preference shares issued by subsidiaries are assumed to be converted into ordinary shares of the Company 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 would have been acquired at fair value (determined as the average market share price of the Company's shares during the current year) based on the monetary value of the subscription rights attached to these outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the year ended 31 December	
	2006	**2005**
Profit attributable to equity holders of the Company (HK$'000)	133,600	62,304
Interest expense on convertible preference shares issued by a subsidiary (HK$'000)	1,734	1,107
Profit used to determine diluted earnings per share (HK$'000)	135,334	63,411
Weighted average number of ordinary shares in issue (thousands)	1,606,721	1,332,216
Adjustments for		
– assumed conversion of convertible preference shares issued by subsidiaries (thousands)	138,206	69,808
– share options (thousands)	178,314	75,704
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,923,241	1,477,728
Diluted earnings per share (HK$ per share)	0.070	0.043

Note:

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended 31 December 2005 has been adjusted for the Company's share subdivision in June 2006.

7 Trade and other receivables, prepayments and deposits

	2006	**2005**
	HK$'000	*HK$'000*
Trade receivables *(Note a)*	130,220	86,624
Finance leases receivables *(Note b)*	720	2,498
Less: provision for impairment trade receivables	(4,318)	(10,831)
Trade receivables – net	126,622	78,291
Prepayments, deposits and other receivables	12,454	19,146
	139,076	97,437

Note a: Trade receivables

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

	2006	**2005**
	HK$'000	*HK$'000*
Current to 90 days	117,451	66,594
91 to 180 days	6,774	6,700
181 to 365 days	3,519	3,200
Over 365 days	2,476	10,130
	130,220	86,624

The Group' sales are made to several major customers and there is concentration of credit risks. Collections of outstanding receivable balances are closely monitored on an ongoing basis to minimise such credit risks.

During the year ended 31 December 2006, the Group has recognised a provision of HK$1,266,000 for the impairment of its trade receivables (2005: HK$6,974,000) and a write back of provision of HK$1,523,000 (2005: Nil) upon the settlement of trade receivables previously provided for. These amounts have been included in administrative expenses in the consolidated income statement.

Note b: Finance leases receivables

	2006	**2005**
	HK$'000	*HK$'000*
Current receivables		
Gross receivables from finance leases:		
Not later than 1 year	729	2,576
Unearned future finance income on finance leases	(9)	(78)
Net investment in finance leases	720	2,498
The net investment in finance leases is analysed as follows:		
Not later than 1 year	720	2,498

8 Trade and other payables

	2006	2005
	HK$'000	*HK$'000*
Trade payables	54,611	40,305
Other payables and accruals	44,399	67,671
Pension obligations	8,696	4,284
Social security and other taxes	9,576	3,692
	117,282	115,952

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

	2006	2005
	HK$'000	*HK$'000*
Current to 90 days	44,888	32,373
91 to 180 days	4,923	2,463
181 to 365 days	2,987	3,704
Over 365 days	1,813	1,765
	54,611	40,305

MANAGEMENT DISCUSSION AND ANALYSIS

Our results for the year ended 31 December 2006 reflected increases in net sales, gross profit and net profit from that of the year ended 31 December 2005. Net sales was HK$473.12 million, compared with HK$438.76 million in 2005. Gross profit was HK$208.25 million, compared with HK$191.56 million in 2005. Net profit was HK$133.60 million, compared with HK$62.30 million in 2005. Earnings per share was HK$0.083, compared with earnings per share of HK$0.047 in 2005 (after the adjustment for the effect of share subdivision on 29 June 2006).

We have achieved a good balance in revenue growth from our four business segments as reflected by the revenue and contribution recorded for each segment.

Cash flows from operations were HK$84.37 million, compared with HK$74.60 million for 2005. With regard to our balance sheet, at the end of 2006, total assets as at 31 December 2006 amounted to HK$847.11 million, compared with HK$313.74 million as at 31 December 2005. Current assets as at 31 December 2006 was HK$737.05 million, compared with HK$275.77 million as at 31 December 2005.

Financial solutions, services and related products

During the year, the business segment recorded a turnover of HK$164.47 million (2005: HK$157.78 million) and profit of HK$30.91 million (2005: HK$13.10 million). The segmental profit has increased by 136% as compared to last year.

During the first half of this year, the Group increased expenses in new business lines, which bought in distinguished opportunities and remarkable benefits in the second half of the year. During the year, the financial solutions and consultancy services for ICBC (Asia), as well as, People's Bank of China, Bank of Communication and Bank of China were implemented smoothly.

The Group was active in expanding into new business opportunities in the financial sector, achieving significant progress in signing cooperation agreement with bank. In certain cities, we have begun the installation and operation of ATM machines and have accomplished what we expected. We experienced short term negative contribution from the new division and will endeavour to strive for growing the division. We believe upon reaching a critical mass, the division will make significant contribution to the Group in the long run.

Given the astonishing growth and development of the banking sector in China, management believes that the Group has various business opportunities for the provision of system integration services, financial solutions and consultancy services, as well as the establishment and expansion of ATM networks in the coming years.

Electronic payment solutions and products

Turnover and profit recorded during the year were HK$197.84 million (2005: HK$133.07 million) and HK$30.08 million (2005: HK$12.91 million) respectively. Total shipment increased by 72% on a year-on-year basis.

Management is pleased to note the remarkable performance in the turnover and profit which demonstrated a development trend of advancing in unison. The rapid growth of electronic payment products and services was benefited from the positive exploration of both the Mainland China market and the international market. During the current year, the shipment for Mainland China market accounted for 85% of the total shipment, while that of international market was 15% of the total shipment.

It is a major global trend to move towards electronic payment methods and away from the traditional cash and checks transactions. The accelerating usage of credit and debit card based payments is the key driver to the growth of electronic payment solutions and products. Therefore, management believes that the potential growth is significant.

Following the positive progress of the strategy of China market, Olympic Game, management considers that the volume of credit card issuance in Mainland China will be growing rapidly. The environment/infrastructure of credit card usage will also be further improved.

These factors will sustain to drive the market demand for electronic payment solutions and products. In the coming future, it is envisaged the electronic payment products and services will attain a more considerable development.

Telecommunication solutions, services and related products, information technology operation value-added services and related products
During the year 2006, the turnover and profit recorded were HK$110.81 million (2005: HK$147.76 million) and HK$44.60 million (2005: HK$68.02 million) respectively. The main reasons for the drop in turnover and profit was the change in the revenue sharing scheme and certain policy changes implemented by China Mobile under the directives of China's Ministry of Information Industry (the "MII") that negatively impacted our IVR business.

During the year, China Mobile have implemented certain policy changes under the directives of the MII. These policy changes aim to address a number of issues, including reducing customer complaints, increasing customer satisfaction and promoting the healthy development of the IVR platform. Coupled with the works in migrating of platforms of all Service Providers to our platform, these policies had led to short term negative impact to our IVR business in the second half of 2006.

Despite these negative impacts, the market size of the IVR business continued to expand further. Taking out the effect of the decrease in revenue sharing percentage, the Group's IVR platform maintained its business volume as compared to last year. Management considers that following the continuous expansion of the business scale and the migration of the IVR platform, the IVR business will be able to achieve outstanding performance in the long run.

PROSPECT
In 2007, following the completion of the construction of several commercial core banking systems in China and Hong Kong, our level of expertise and market position in this niche market has been greatly enhanced. We will continue to strengthen our market position and technical expertise in the banking solution. Based on the established market position and experience, we have been engaged in the initial preparation for the ATM and electronic fund transfer POS operation services as well as outsourcing for the financial institutions.

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

In addition, the Group also actively seeks opportunities for expansion. On 10 February 2007, the Company entered into a sale and purchase agreement pursuant to which the Company conditionally agreed to procure the acquisition of the entire registered capital of the Hualong Group, which represents a group of companies comprising Baifu Hualong which holds Hualong Electronic and Hualong Information, and Pacific Sheen and their respective subsidiaries, for a total consideration of RMB300.7 million (equivalent to approximately HK$302.9 million) (the "Hualong Acquisition"). The Directors are of the view that the entering into of the Hualong Agreement allows the Group to diversify its business to the electronic power meters and solutions industry. The Directors believe that demand for power meters and solutions will experience significant growth given the booming PRC economy which in turn drives the need to replace the traditional mechanical meters with more technologically advanced and automated electronic meters. Given the profitable track record of the Hualong Group, the Directors consider that the Hualong Acquisition will strengthen the Group's revenue and profit base. The Directors further believe that the Hualong Acquisition will allow the Hualong Group to leverage on the Group's management, sales and solution implementation experience, particularly in high end solution execution and cooperation and developing the overseas market.

With these exciting opportunities as well as challenges, the Group will maintain its top quality services and products and encourage innovations in order to maintain sustainable development.

Liquidity and Financial Resources

As at 31 December 2006, the Group reported total assets of HK$847.11 million (2005: HK$313.74 million), which were financed by total liabilities of HK$167.44 million (2005: HK$186.31 million) and equity of HK$679.67 million (2005: HK$127.43 million). The net asset value was HK$679.67 million (2005: HK$127.43 million). It amounted to HK$0.36 per share as compared to HK$0.10 per share as at 31 December 2005 (adjusted for the effect of share subdivision on 29 June 2006).

As at 31 December 2006, the Group had cash of HK$528.08 million (2005: HK$156.58 million) and short term borrowings of HK$7 million (2005: HK$48.08 million). The net cash position as at that date was HK$521.08 million as compared to HK$108.50 million as at 31 December 2005. The short term borrowings included short term bank loan to fund the Group's working capital requirements. As at 31 December 2006, the Group had financial liability portion of convertible preference shares issued by a subsidiary of HK$22.49 million (2005: HK$21.17 million). The gearing ratio (defined as total borrowings divided by shareholders' equity) was 0.04 compared to 0.54 as at 31 December 2005. 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 2006, the Group's short term borrowings included short term bank loan which was denominated in Renminbi, amounting to RMB7 million. The short term bank loan was charged at interest of 6.8% per annum.

As at 31 December 2006, the financial liability portion of convertible preference shares issued by a subsidiary was HK$22.49 million (2005: HK$21.17 million) which was denominated in Hong Kong dollars and the effective interest rate was 8.27% per annum.

Approximately HK$76.04 million, HK$342.28 million and HK$109.76 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 31 December 2006.

As at 31 December 2006, short term bank loans of 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).

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

The Group had no contingent liability as at 31 December 2006.

Employees

The total number of employees of the Group as at 31 December 2006 was 799. The breakdown of employees by division is as follows:

Financial solutions, services and related products	356
Electronic payment solutions and products	147
Telecommunications solutions, services and related products and information technology operation value-added services	280
Corporate office	16
	799

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.

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. On 18 March 2004, 33,000,000 share options were granted to certain Directors and employees at an exercise price of HK$0.374 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 18 March 2004) with an expiry date of 17 March 2014.

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 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 26 September 2005) with an expiry date of 25 September 2015.

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.

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

On 2 January 2007, 43,000,000 share options were granted to certain employees at an 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.

(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. On 8 July 2005, 1,425,000 share options had been granted. Up to the date of this announcement, 1,245,000 share options have been lapsed and no share options have been exercised. As at the date of this announcement , Turbo Speed has 180,000 share options outstanding.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2006.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Throughout the year, the Company has complied with most of the Code Provisions and certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.2.1, A.4.1 and E.1.2, will be explained in the Corporate Governance Report in the 2006 Annual Report.

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

CONVERTIBLE PREFERENCE SHARES ISSUED BY SUBSIDIARIES

(a) Convertible preference shares issued by Turbo Speed Technology Limited ("Turbo Speed")

On 9 November 2004, Turbo Speed, a subsidiary of the Company, entered into a subscription agreement with independent third parties in relation to the subscription of 6,837,608 convertible preference shares of US$0.10 each of Turbo Speed for a total subscription price of US$4 million (approximately HK$31.2 million) (the "TS Subscription").

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved the TS Subscription and the TS Subscription was completed on 29 April 2005. During the year, no convertible preference shares had been converted into new ordinary shares of either Turbo Speed or the Company. On 18 January 2007, 3,418,804 convertible preference shares in Turbo Speed were converted into 51,866,667 new shares of the Company at a conversion price of HK$0.3 per share.

(b) Convertible preference shares issued by Emerging Technology Limited ("Emerging Technology")

On 21 August 2006, Emerging Technology, a subsidiary of the Company, entered into a subscription agreement with independent third parties in relation to the subscription of 760,778 convertible preference shares of US$1.00 each of Emerging Technology for a total subscription price of US$18 million (approximately HK$140 million) (the "ET Subscription").

Pursuant to an ordinary resolution passed on 25 September 2006, the Company approved the ET Subscription and the ET Subscription was completed on 12 October 2006. Details of which will be set out in the 2006 Annual Report. During the year and up to the date of this announcement, no convertible preference shares had been converted into new ordinary shares of either Emerging Technology or the Company.

SUBSEQUENT EVENTS

(i) Termination of disposal and issue of preference shares by Pax Technology Limited ("PAX")

On 6 November 2006, the Company entered into a sale and purchase agreement ("the PAX Disposal Agreement") with Keen Ambition Enterprise Limited (the "Purchaser"), a company incorporated in the British Virgin Islands and Mr. Mo Ying San (the "Guarantor"), who owns the entire issued share capital of the Purchaser, in relation to the disposal of the entire issued share capital of an aggregate of 35,000,000 ordinary shares of HK$1.00 of PAX, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company, for a consideration of HK$200 million, which is to be satisfied by cash. The Purchaser and the Guarantor are both third parties independent of the Group.

On 4 April 2007, the Company, the Purchaser and the Guarantor entered into a termination agreement to terminate the PAX Disposal Agreement in consideration of the return of the deposit of HK$5 million by the Company to the Purchaser.

On 4 April 2007, PAX and the Company entered into a subscription agreement (the "PAX 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 existing issued share capital of PAX and 20% of the issued share capital of PAX as enlarged by the PAX Subscription. The Subscriber is a third party independent of the Group.

The Completion of the PAX Subscription is subject to the approval by the shareholders of the Company.

(ii) Grant of options

On 2 January 2007, 43,000,000 share options had been granted to certain employees of the Company pursuant to the Share Option Scheme of the Company to subscribe ordinary shares of the Company at an exercise price of HK$2.00 per share. The exercisable period of these share options is from 2 January 2007 to 1 January 2010 (both dates inclusive).

(iii) Conversion of convertible preference shares in a subsidiary of the Company

On 12 January 2007, the Company received a notice from a holder of the convertible preference shares issued by Turbo Speed for the conversion of all of its 3,418,804 convertible preference shares into the ordinary shares of the Company pursuant to the terms of the subscription agreement dated 9 November 2004.

As a result of the above conversion, 51,866,667 new ordinary shares of the Company were issued and allotted to the convertible preference shares holder at a conversion price of HK$0.3 per share on 18 January 2007.

(iv) Proposed acquisition of the entire interest in Baifu Hualong and Pacific Sheen and disposal of 5% interest in Hualong Holding

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 to be 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") prior to completion of the Hualong Agreement, 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 its subsidiary (collectively referred to as the "Hualong Group") and the shareholders' loans of HK$24.0 million (the "Shareholders' Loans") for a total consideration of RMB300.7 million (equivalent to approximately HK$302.9 million) (the "Hualong

Acquisition"). The consideration for the Hualong Acquisition will be satisfied as to RMB200.7 million (equivalent to approximately HK$202.1 million) in cash and as to the remaining balance of RMB100.0 million (equivalent to approximately HK$100.7 million) by way of the 36,900,146 new shares of the Company (the "Consideration Shares") at a consideration of HK$2.73 per share.

As part of the transactions in relation to the Hualong Acquisition, the Company and the Vendors will execute all relevant documents for the disposal of 5% of the issued share capital of Hualong Holding, a subsidiary of the Company which will become the immediate holding company of Baifu Hualong and Pacific Sheen upon completion of the Hualong Agreement, to the Vendors for a total consideration of RMB15.0 million (equivalent to approximately HK$15.1 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 above have not been completed up to the date of this announcement.

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.

(v) Effect of the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law")

On 16 March 2007, the National People's Congress approved the new CIT Law. The new CIT Law changes the corporate income tax rate to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that this announcement are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

(vi) **Exercise of share options**

Subsequent to the year end and up to the date of this announcement, total aggregate number of 26,885,000 share options have been exercised, which result in the issue of 26,885,000 additional ordinary shares of the Company. As at the date of this announcement, the Company has 98,115,000 share options outstanding.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2006. The figures in respect of the preliminary announcement of the Group's results for the year have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year 2006. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PENSION SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Pension Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Particulars of the Pension Scheme will be set out in the 2006 Annual Report.

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 employees in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those employees of the Group.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

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) if 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, 17 April 2007

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