THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hi Sun Technology (China) Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

HI SUN TECHNOLOGY (CHINA) LIMITED

高 陽 科 技（中 國）有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock code: 818)

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE INTEREST IN BAIFU HOLDING AND PACIFIC SHEEN AND DISPOSAL OF 5% INTEREST IN HUALONG HOLDING

Financial adviser to the Company

CIMB-GK Securities (HK) Limited

A notice convening the special general meeting of the Company to be held at 10:00 a.m. on Monday, 16 April 2007 at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong is set out on pages 159 to 160 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event not later than 48 hours before the time for the meeting or any adjournment thereof to the principal place of business of the Company at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

* *For identification purpose only*

30 March 2007

CONTENTS

In this circular, the following expressions shall, unless the context otherwise requires, have the following meanings:

"Acquisition"	the acquisition by the Company of the entire equity interest in Baifu Holding, the entire issued share capital of Pacific Sheen and the Shareholders' Loans from the Vendors pursuant to the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 10 February 2007 entered into between the Company and the Vendors in relation to the Acquisition and the Disposal as more particularly set out under the section headed "The Agreement" of this circular
"Announcement"	the announcement of the Company dated 13 February 2007 in relation to the Acquisition and the Disposal
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Baifu Holding"	杭州百富控股有限公司 (Hangzhou Baifu Holding Company Limited), a company incorporated in the PRC which holds the entire equity interest in Hualong Electronic and Hualong Information, which has been referred to as "Baifu Hualong" in the Announcement
"Baifu Holding Group"	Baifu Holding and its subsidiaries
"Board"	the board of Directors
"Company"	Hi Sun Technology (China) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition
"Condition(s)"	being the condition(s) precedent for Completion as summarized in the section headed "Conditions precedent" in this circular
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Consideration Shares"	36,900,146 new Shares to be issued at Completion to the Vendors (or as they may direct) by the Company as part of the consideration for the Acquisition

"Director(s)"	the directors of the Company
"Disposal"	the disposal by the Company of 5% of the issued capital of Hualong Holding to the Vendors pursuant to the terms and conditions of the Agreement
"Enlarged Group"	the Group immediately after Completion
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hualong Electronic"	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 Group"	the group of companies comprising Baifu Holding, which holds Hualong Electronic and Hualong Information, and Pacific Sheen and their respective subsidiaries
"Hualong Holding"	a subsidiary of the Company which will become the immediate holding company of Baifu Holding and Pacific Sheen upon Completion
"Hualong Information"	杭州華隆信息技術有限公司 (Hangzhou Hualong Information Technology Company Limited), a company established in the PRC
"Last Trading Day"	the last trading day immediately prior to the suspension of trading in the Shares pending the release of the Announcement
"Latest Practicable Date"	28 March 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Pacific Sheen"	Pacific Sheen International Limited (富順國際有限公司), a company incorporated in Hong Kong
"Pacific Sheen Group"	Pacific Sheen and its subsidiaries

"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
"SFO"	the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held to consider and if thought appropriate, to approve, among other matters (if any), the Acquisition, the Disposal and all transactions contemplated under the Agreement
"Share(s)"	ordinary share(s) of nominal value of HK$0.0025 each in the share capital of the Company
"Shareholders"	shareholders of the Company
"Shareholders' Loans"	the loans advanced by the Vendors to Pacific Sheen, the aggregate balance of which was HK$24,001,700 as at 31 December 2006
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendors"	王秉人 (Wang Bing Ren), 王中方 (Wang Zhong Fang), 蔣杰忠 (Jiang Jie Zhong), 趙樹勳 (Zhao Shu Xun (also known as 趙力斌 (Zhao Li Bin)), 李寧川 (Li Ning Chuan) and Everon Group Holdings Limited (a company incorporated in Hong Kong)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

For the purpose of illustration in this circular, figures in Renminbi are translated into HK$ at the approximate exchange rate of RMB0.99268 to HK$1.00.

HI SUN TECHNOLOGY (CHINA) LIMITED
高陽科技（中國）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 818)

Executive Directors:
Mr. CHEUNG Yuk Fung *(Chairman)*
Mr. KUI Man Chun
Mr. XU Wensheng
Mr. LI Wenjin
Mr. CHAN Yiu Kwong
Mr. XU Chang Jun

Independent non-executive Directors:
Mr. TAM Chun Fai
Mr. XU Sitao
Mr. LEUNG Wai Man, Roger

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business:
Room 2416, 24th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

30 March 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE INTEREST IN BAIFU HOLDING AND PACIFIC SHEEN AND DISPOSAL OF 5% INTEREST IN HUALONG HOLDING

INTRODUCTION

On 10 February 2007, the Company entered into the Agreement with the Vendors, who are parties independent of the Company and connected persons of the Company, pursuant to which the Company conditionally agreed to procure the acquisition of the entire equity interest in Baifu Holding, the entire issued share capital of Pacific Sheen and the Shareholders' Loans for a total consideration of RMB300,650,000 (equivalent to approximately HK$302.9 million). The consideration for the Acquisition will be satisfied as to RMB200,650,000 (equivalent to approximately HK$202.1 million) in cash and as to the remaining balance of RMB100,000,000 (equivalent to approximately HK$100.7 million) by way of the Consideration Shares.

* *For identification purpose only*

As part of the transactions in relation to the 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 Holding and Pacific Sheen upon Completion, to the Vendors for a total consideration of RMB15,032,500 (equivalent to approximately HK$15.1 million), which is equal to 5% of the total consideration for the Acquisition.

The Acquisition together with the Disposal constitute a major transaction for the Company under the Listing Rules and is subject to the Shareholders' approval at the SGM. As no Shareholder has an interest in the Agreement which is materially different from the other Shareholders, no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with further details of the Agreement and a notice convening the SGM to approve the Agreement and the transactions contemplated thereunder.

THE AGREEMENT

Date: 10 February 2007

Parties: (1) Purchaser: the Company

(2) Vendors: 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.

The beneficial shareholders of Everon Group Holdings Limited are 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)) and 李寧川 (Li Ning Chuan).

To the Directors' best knowledge, Everon Group Holdings Limited is an investment holding company for the purpose of acting as the holding company of Pacific Sheen.

To the Directors' best knowledge, information and belief having made all reasonable enquiry, the Vendors and their ultimate beneficial owners are parties independent of the Company and its connected persons.

Assets to be acquired

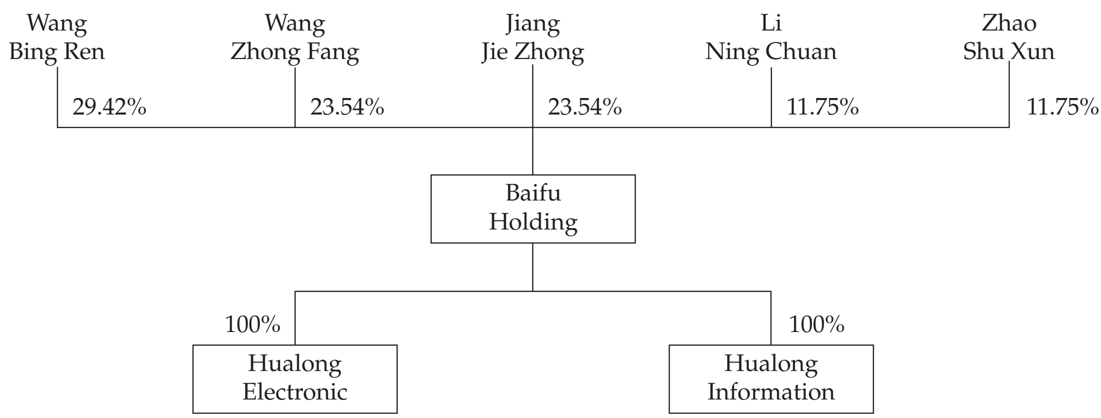
The entire equity interest in Baifu Holding, the entire issued share capital of Pacific Sheen and the Shareholders' Loans, the aggregate balance of which was HK$24,001,700 as at 31 December 2006.

Baifu Holding, an investment holding company established by the Vendors, is the immediate holding company of Hualong Electronic and Hualong Information. Hualong Electronic and Hualong Information are principally engaged in the design, manufacture and sale of electronic power meters and provision of management and automation solutions for the electric power industry. Pacific Sheen in an investment company established for the purpose of holding (via a subsidiary) the land and buildings located in Hangzhou for the operations of Hualong Electronic and Hualong Information.

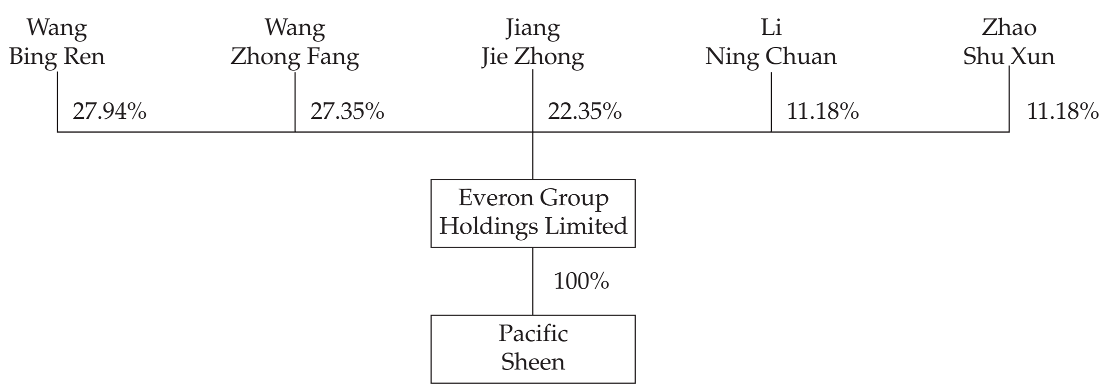
The shareholding structure of Baifu Holding and Pacific Sheen immediately prior to and after Completion will be as follows:

Immediately prior to Completion

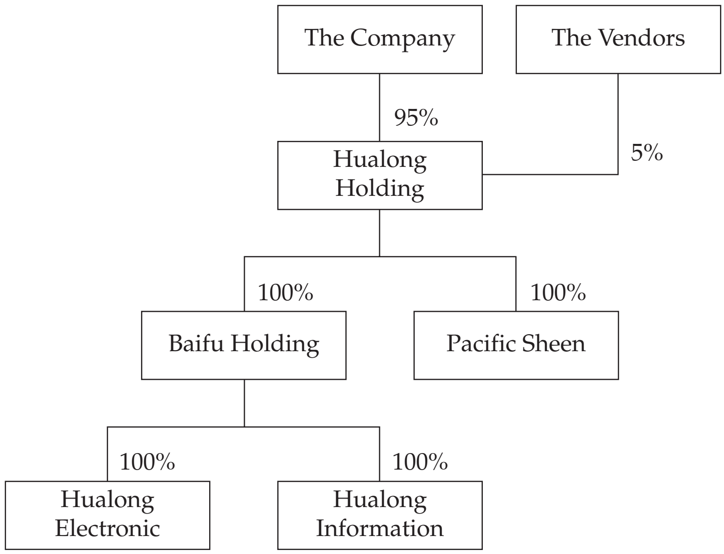
Baifu Holding



Pacific Sheen



Immediately after Completion



Consideration

The consideration of RMB300,650,000 (equivalent to approximately HK$302.9 million) for the Acquisition will be satisfied by the Company in the following manner:

(i) a cash payment of RMB160,520,000 (equivalent to approximately HK$161.7 million) shall be paid by the Company to an escrow account within 10 business days from the date of approval of the Agreement by the Shareholders at the SGM, which amount will be released to the Vendors upon the earlier of Completion or within 5 business days from the fulfillment of Conditions (i), (ii) and (vii) and delivery by the Vendors to the Company of the new business licences of Hualong Electronic and Hualong Information;

(ii) a further cash payment of RMB40,130,000 (equivalent to approximately HK$40.4 million) shall be paid by the Company to an escrow account within 10 business days from the date of the Company's receipt of approval of the transfer of the interest in Baifu Holding to the Company by all relevant PRC authorities, which amount will be released to the Vendors upon the earlier of Completion or within 5 business days from the fulfillment of Conditions (i), (ii) and (vii) and delivery by the Vendors to the Company of the new business licences of Hualong Electronic and Hualong Information; and

(iii) the balance of RMB100,000,000 (equivalent to approximately HK$100.7 million) by way of the Consideration Shares to be issued upon Completion.

Pursuant to the Agreement, the Hualong Group may, prior to Completion, declare and pay dividends to the Vendors up to an aggregate amount of RMB30,000,000 (equivalent to approximately HK$30.2 million). In such circumstances, the cash portion of the consideration for the Acquisition shall be reduced by any amount of such dividends paid. If the maximum amount of the dividends of RMB30,000,000 is paid, the consideration of the Agreement shall be reduced to RMB270,650,000 (equivalent to approximately HK$272.6 million), of which RMB170,650,000 (equivalent to approximately HK$172 million) shall be satisfied in cash and the remaining balance of RMB100,000,000 (equivalent to approximately HK$100.7 million) by way of the Consideration Shares.

The consideration for the Acquisition was determined after arm's length negotiations between the parties with reference to the net assets of the Hualong Group, the face value of the Shareholders' Loans, the historical financial performance of the Hualong Group and the unaudited combined net profit of the Hualong Group for the year ended of approximately RMB40,000,000 (equivalent to approximately HK$40.3 million). Taking into account the above factors and the promising prospect of the power meters and solution industry in the PRC, the Directors consider that the consideration for the Acquisition is fair and reasonable.

The Company intends to finance the cash portion of the consideration for the Acquisition of RMB200,650,000 (equivalent to approximately HK$202.1 million) from its internal resources.

The Consideration Shares

The issue price of the Consideration Shares of HK$2.73 per Share, which was determined after arm's length negotiations between the parties with reference to average closing price of the Shares as quoted on the Stock Exchange for the last 15 trading days ended on the Last Trading Day, represents:

(i) a premium of approximately 6.98% over the closing price of the Shares of HK$2.55 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 1.30% over the average closing price of the Shares of HK$2.69 per Share as quoted on the Stock Exchange for the last 10 trading days ended on the Last Trading Day;

(iii) a premium of approximately 4.98% over the average closing price of the Shares of HK$2.60 per Share as quoted on the Stock Exchange for the last 30 trading days ended on the Last Trading Day; and

(iv) a premium of approximately 9.64% over the closing price of the Shares of HK$2.49 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represents approximately 1.89% of the existing issued share capital of the Company and approximately 1.86% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

Pursuant to the Agreement, the Consideration Shares will be subject to a twelve months' lock-up from the date of their issue and the Vendors undertake to execute such moratorium agreement not to dispose of the Consideration Shares as requested by the Company.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date, assuming full conversion of the convertible preference shares issued by two subsidiaries of the Company (details of which are set out in the circular of the Company dated 18 March 2005 and 8 September 2006 respectively) (the "Preference Shares"), and immediately upon Completion (assuming there is no other change in the share capital of the Company from the Latest Practicable Date to the date of Completion):

	As at the Latest Practicable Date		Immediately after full conversion of the Preference Shares but before Completion		Immediately after Completion but before conversion of the Preference Shares		Immediately after Completion and full conversion of the Preference Shares	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Rich Global Limited *(Note 1)*	757,083,636	38.86	757,083,636	35.57	757,083,636	38.14	757,083,636	34.96
The Directors *(Note 2)*	58,128,000	2.98	58,128,000	2.73	58,128,000	2.93	58,128,000	2.69
OZ Management L.L.C. *(Note 3)*	30,000,000	1.54	146,223,284	6.87	30,000,000	1.51	146,223,284	6.75
HTSS ET Capital Limited *(Note 4)*	–	–	64,356,618	3.02	–	–	64,356,618	2.97
The Vendors	–	–	–	–	36,900,146	1.86	36,900,146	1.70
Other public Shareholders	1,102,956,151	56.62	1,102,956,151	51.81	1,102,956,151	55.56	1,102,956,151	50.93
	1,948,167,787	100.00	2,128,747,689	100.00	1,985,067,933	100.00	2,165,647,835	100.00

Notes:

1. Mr. Kui Man Chun ("Mr. Kui"), a Director, holds 99.16% interest in Hi Sun Limited, which owns the entire issued share capital of Rich Global Limited.

2. Comprising 26,400,000 Shares held by Mr. Li Wenjin, 13,200,000 Shares held by Mr. Xu Wensheng, 13,200,000 Shares held by Mr. Xu Chang Jun, 4,728,000 Shares held by Mr. Chan Yiu Kwong and 600,000 Shares held by Mr. Xu Xitao.

3. OZ Management L.L.C. is a holder of the Preference Shares. Its shareholding as at the Latest Practicable Date is based on its latest filing under the Securities (Disclosure of Interests) Ordinance dated 8 December 2006.

4. HTSS ET Capital Limited is a holder of the Preference Shares.

The issue of the Consideration Shares will not result in a change of control of the Company.

Conditions precedent

Completion is conditional upon the fulfillment of the following conditions:

(i) the obtaining of all relevant approvals and consents from the relevant PRC authorities in relation to the transactions contemplated under the Agreement including but not limited to the transfer of the registered capital of Baifu Holding to the Company (or as it may direct), the transformation of Baifu Holding to a wholly foreign-owned enterprise and the issue of the Consideration Shares to the Vendors (or as they may direct) and the signing of such agreements and further documentation required to be submitted to the relevant original approving authorities in respect thereof;

(ii) execution of relevant documents in relation to the Disposal;

(iii) approval of the Agreement and the transactions contemplated thereunder by the Board and the Shareholders in a general meeting as required under the Listing Rules;

(iv) the Listing Committee of the Stock Exchange and the relevant approving authority, if any, granting the listing of and permission to deal in the Consideration Shares;

(v) the obtaining by the Company of a legal due diligence report to be issued by a PRC law firm in relation to the transactions contemplated under the Agreement in a format to its satisfaction;

(vi) the issuance of accountants' reports on Baifu Holding and Pacific Sheen by the Company's auditors confirming that the combined audited net assets of Baifu Holding and Pacific Sheen together with the face value of the Shareholders' Loans as at 31 December 2006 is not less than RMB170 million; and

(vii) receipt of evidence by the Company confirming that the legality of Baifu Holding's ownership of the entire interest of each of Hualong Electronic and Hualong Information.

In the event that any of the above conditions has not been fulfilled on or before 1 July 2007 (or such later date as is otherwise agreed to between the parties in writing), the Agreement shall terminate and the parties shall have no further claim against each other for costs, damages, compensations or otherwise, and any sum remaining under the escrow account shall be refunded to the Company with interests.

Pursuant to the Agreement, the Company may in writing waive the satisfaction of Conditions (ii), (v), (vi) and (vii). The Company has no present intention to waive any of the above conditions.

THE DISPOSAL

As part of the transactions in relation to the Acquisition, the Company and the Vendors will execute all relevant documents for the disposal of 5% of the issued share capital of Hualong Holding to the Vendors for a consideration of RMB15,032,500 (equivalent to approximately HK$15.1 million). The Directors consider that the consideration for the Disposal is fair and reasonable given the fact that it is equal to 5% of the total consideration for the Acquisition.

INFORMATION ON THE HUALONG GROUP

The Hualong Group, having operated for more than a decade, is principally engaged in the design, manufacture and sale of electronic power meters and provision of management and automation solutions for the electric power industry. The Hualong Group's electronic power meters, which can be broadly classified into six types of single-phase and/or three-phase electronic power meters with different functions and specifications, are primarily used to measure the transfer of electricity between power stations, power companies and end users of electricity such as residential and industrial users, and can be custom-made according to customers' requirements and specifications. With over 800 employees, a sales network covering most of the provincial and municipal cities in the PRC and various patents registered in the PRC, the Hualong Group is one of the largest suppliers of such products in the PRC and has reached an annual production capacity of approximately 1.6 million units of electronic power meters.

The Hualong Group has been focusing on the development and production of high-end and advanced electronic power meters and related automation systems that add values to its customers. In addition to producing high quality, high-end electronic power meters, the Hualong Group also provides specialized management and automation solutions to its customers and has 29 liaison offices across the PRC. Hualong Electronic and Hualong Information are recognised as "New and High Technology Enterprise (高新技術企業)" in the PRC. Hualong Electronic is also one of the Forbes' "Top 100 Potential Enterprises in the PRC". As a result of its continuous efforts in product development and technological advancement, the Hualong Group has recorded strong growth in sales in recent years. In particular, the aggregate sales of the Hualong Group during the period from 1999 to 2006 has achieved a compound annual growth rate of over 97%.

At present, the Hualong Group's products are mostly sold in the PRC. With the view to tap into the overseas market, the Hualong Group commenced to adopt the industry standards recognised by Germany and the Netherlands in recent years. In 2006, the Hualong Group further co-operated with a US-based multinational company to research and develop products for the overseas market.

Set out below is a summary of the audited combined financial information of Baifu Holding Group and the audited consolidated financial information of Pacific Sheen Group (details of which are set out in appendices II and III to this circular) for the three years ended 31 December 2006 which are prepared in accordance with the accounting principles generally accepted in Hong Kong.

Baifu Holding Group

	For the year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	273,769	313,502	394,579
Net profit before taxation	52,802	34,191	59,320
Net profit after taxation	43,899	36,672	43,345
Net asset value	115,979	166,651	164,761

Pacific Sheen Group

	For the year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	Nil	Nil	Nil
Net loss before and after taxation	(414)	(299)	(619)
Net asset value	3,702	3,478	3,815

The audited combined net asset value of Hualong Group together with the face value of the Shareholders' Loans as at 31 December 2006 was approximately RMB192.40 million.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE HUALONG GROUP

(i) Financial results for the two years ended 31 December 2006

Baifu Holding Group

For the year ended 31 December 2006, Baifu Holding Group recorded a turnover of approximately RMB394.58 million, representing an increase of approximately 25.9% as compared to that of 2005. The increase in turnover for the year ended 31 December 2006 was mainly attributable to the revenue generated from the new markets of Baifu Holding Group in the western and south-western parts of the PRC as well as the growth in sales in its existing markets during the year. The gross profit for the year was approximately RMB200.62 million, representing a gross profit margin of approximately 50.8%. The increase in Baifu Holding Group's gross profit margin from approximately 45.6% for the year ended 31 December 2005 to approximately 50.8% for the year ended 31 December 2006 was mainly due to the continuous efforts of Baifu Holding Group in enhancing its production efficiency and cost control.

Selling expenses of Baifu Holding Group amounted to approximately RMB80.57 million for the year ended 31 December 2006 and represents an increase of approximately 39.0% as compared to that of 2005. The increase in selling expenses for the year ended 31 December 2006 was mainly attributable to the increase in sales staff bonus and sales commissions paid during the year.

Administrative expenses of Baifu Holding Group amounted to approximately RMB76.54 million for the year ended 31 December 2006 and represents an increase of approximately 14.7% as compared to that of 2005. The increase in administrative expenses for the year ended 31 December 2006 was mainly attributable to the increase in staff benefits paid and the increase in research and development expenses for the development of new products during the year.

Finance cost of Baifu Holding Group for the year ended 31 December 2006 was approximately RMB2.50 million, representing an increase of approximately 136.6% as compared to that of 2005. The increase in finance cost for the year ended 31 December 2006 was mainly due to the increase in bank loans raised to finance the infrastructure upgrades of Baifu Holding Group during the year.

Baifu Holding Group recorded net profit of approximately RMB43.35 million for the year ended 31 December 2006, representing an increase of approximately 18.2% over the net profit for the year ended 31 December 2005. The net profit margin for the year was approximately 11.0%, as compared to the net profit margin of approximately 11.7% for the year ended 31 December 2005. The increase in net profit for the year ended 31 December 2006 was mainly attributable to the increase in sales as a result of Baifu Holding Group's continuous efforts in expansion into new markets.

Pacific Sheen Group

As Pacific Sheen is an investment holding company established for the purpose of holding (via a subsidiary) the land and buildings located in Hangzhou, the PRC, for the operations of Hualong Electronic and Hualong Information, it did not record any turnover for the three years ended 31 December 2006.

Pacific Sheen Group recorded net loss of approximately RMB0.62 million for the year ended 31 December 2006, which was attributable to administrative expenses of approximately RMB0.62 million for the year ended 31 December 2006 as partly offset by other gains of approximately RMB0.001 million, being interest income earned by Pacific Sheen Group, for the year ended 31 December 2006.

(ii) Financial results for the two years ended 31 December 2005

Baifu Holding Group

For the year ended 31 December 2005, Baifu Holding Group recorded a turnover of approximately RMB313.50 million, representing an increase of approximately 14.5% as compared to that of 2004. The increase in turnover for the year ended 31 December 2005 was mainly attributable to the sales from a newly-developed high-precision electronic power meter which was relatively new to the market and thus subjected to less competitions and enabled Baifu Holding Group to charge a higher price. The gross profit for the year was approximately RMB143.07 million, representing a gross profit margin of approximately 45.6%. The gross profit margin remained fairly stable as compared to that of approximately 43.1% for the year ended 31 December 2004.

Selling expenses of Baifu Holding Group amounted to approximately RMB57.97 million for the year ended 31 December 2005 and represents an increase of approximately 76.8% as compared to that of 2004. The increase in selling expenses for the year ended 31 December 2005 was mainly attributable to the increase in sales staff benefits and sales commissions paid as a result of the increase in the number of sales staff of Baifu Holding Group during the year to cope with its business expansion.

Administrative expenses of Baifu Holding Group amounted to approximately RMB66.73 million for the year ended 31 December 2005 and represents an increase of 46.0% as compared to that of 2004. The increase in administrative expenses for the year ended 31 December 2005 was mainly attributable to the increase in staff benefits paid as a result of the increase in the number of staff during the year to cope with the business expansion of Baifu Holding Group. In addition, Baifu Holding Group had been upgrading its information system infrastructure in 2005 which also contributed to the increase in administrative expenses during the year.

Finance cost of Baifu Holding Group for the year ended 31 December 2005 was approximately RMB1.06 million, representing a decrease of approximately 32.0% as compared to that of 2004. The decrease in finance cost for the year was mainly due to the decrease in the average amount of bank loans outstanding during the year.

Baifu Holding Group recorded net profit of approximately RMB36.67 million for the year ended 31 December 2005, representing a decrease of approximately 16.5% as compared to that of 2004. The net profit margin for the year was approximately 11.7%, as compared to a net profit margin of approximately 16.0% for the year ended 31 December 2004. The decrease in net profit for the year ended 31 December 2005 was mainly attributable to the increase in selling and administrative expenses incurred during the year.

Pacific Sheen Group

Pacific Sheen Group recorded net loss of approximately RMB0.30 million for the year ended 31 December 2005, which was attributable to administrative expenses of approximately RMB0.30 million for the year ended 31 December 2005 as partly offset by other gains of approximately RMB0.005 million, being interest income earned by Pacific Sheen Group, for the year ended 31 December 2005.

(iii) Liquidity and financial resources

As at 31 December 2006, Baifu Holding Group reported total assets of approximately RMB425.90 million, which were financed by total liabilities of approximately RMB261.14 million and equity of approximately RMB164.76 million. The net asset value was approximately RMB164.76 million as at 31 December 2006. Included in the total assets of Baifu Holding Group as at 31 December 2006 was an aggregate amount due from the shareholders of RMB50.10 million, which amount had been fully settled on 1 February 2007.

As at 31 December 2006, Baifu Holding Group had cash and cash equivalents amounting to approximately RMB47.29 million and total bank borrowings of approximately RMB55.80 million, all of which are short-term bank loans in the PRC.

The gearing ratio (defined as total interest-bearing borrowings divided by shareholders' equity) of Baifu Holding Group was approximately 0.34 times as at 31 December 2006.

As at 31 December 2006, Pacific Sheen Group reported total assets of approximately RMB28.00 million, which were financed by total liabilities of approximately RMB24.19 million, which comprised mainly of the Shareholders' Loans, and equity of approximately RMB3.82 million. The net asset value was approximately RMB3.82 million as at 31 December 2006.

As at 31 December 2006, Pacific Sheen Group had cash and cash equivalents amounting to approximately RMB0.84 million. Pacific Sheen Group had no bank borrowings as at 31 December 2006. Accordingly, the gearing ratio of Pacific Sheen as at 31 December 2006 was nil.

(iv) Contingent liabilities

Save for the guarantee granted by Hualong Electronic in favour of 中程科技有限公司 (Zhengcheng Technology Co., Ltd.) in respect of bank loans of an amount of up to RMB20.0 million, the Hualong Group did not have any material contingent liabilities as at 31 December 2006.

(v) Charges on assets

At 31 December 2006, bank loans of RMB26.80 million were secured by the land use rights and buildings of Baifu Holding Group with a net book value of approximately RMB6.69 million and RMB14.26 million respectively. In addition, bank loans of RMB10.00 million, RMB19.00 million and RMB4.80 million were guaranteed by 浙江華隆電力儀器制造有限公司(Zhejiang Hualong Electronic Power Instrument Manufacturing Co., Ltd.), a company beneficially-owned by the shareholders of Baifu Holding; Hualong Electronic; and Mr. Li Ning Chuan, a shareholder of Baifu Holding, respectively.

(vi) Treasury policy

The Hualong Group generally finances its operations with internally generated resources and bank loans.

(vii) Foreign exchange exposure

Baifu Holding Group derives most of its revenue from the PRC and makes purchase and incurs expenses denominated mainly in Renminbi. Baifu Holding Group's exposure to the fluctuation of exchange rate is minimal. As at 31 December 2006, Baifu Holding Group has not entered into agreements or purchased instruments to hedge its exchange rate risks.

(viii) Employee and remuneration policies

The total number of employees of Baifu Holding Group as at 31 December 2006 was 840. The employees' remuneration (including directors' emoluments) of Baifu Holding Group (details of which are set out in note 9 to the accountants' report of Baifu Holding contained in Appendix II to this circular) amounted to approximately RMB61.24 million for the year ended 31 December 2006. The employees' remuneration of Baifu Holding Group comprises three parts, namely monthly salary, annual performance bonus as well as statutory and company fringe benefits, of which salary and performance bonus are determined based on the position and performance of the relevant staff. Pursuant to statutory requirements, Baifu Holding Group has provided basic retirement insurance, basic medical insurance, industrial injury insurance, unemployment insurance and childbearing insurance as well as accumulation fund to its employees. In addition, Baifu Holding Group also provides staff training to its employees. As at 31 December 2006, Baifu Holding Group did not adopt any employee share option scheme.

REASONS FOR THE ACQUISITION TOGETHER WITH THE DISPOSAL

The Group is principally engaged in the sales of information technology products and the provision of customized information system consultancy and integration services, and information technology operation value-added services, which business will be continued by the Group irrespective of whether Completion takes place.

Power meters can be generally divided into two types, namely mechanical meters and electronic meters. The main users of power meters include power plant, power grid companies, regional power grid substations and end users of electricity such as industrial and residential users. The susceptibility to measurement error over time and inability to be programmable for the transmission of data required for the automated power measurement systems of the traditional mechanical meters have been driving the need to replace the traditional mechanical meters with the more technologically advanced and automated electronic power meters. In 1998, a program for the reform of rural and urban power grids commenced in the PRC. A key objective of the reform program was to implement the "One Household One Meter" project, under which more than 50 million power meters have been installed in the PRC since its implementation. It is expected that the power meter industry will continue to be benefited from the implementation of the "One Household One Meter" project in the future. Coupled with the booming real estate industry in the PRC and the rapid development of the PRC economy, which has boosted both commercial and non-commercial use of electricity in the PRC, the Directors believe that demand for power meters and solutions will continue to experience significant growth.

Given the profitable track record of the Hualong Group and the prospects of the electronic power meter industry, the Directors are of the view that the Acquisition will strengthen the Group's revenue and profit base and will allow the Group to diversify its business to the electronic power meters and solutions industry where the Directors consider to have strong growth potential. The Directors further believe that the Acquisition would 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. Taking into account the benefits of the Acquisition as described above, the Directors consider that the terms of the Agreement are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS ON THE ENLARGED GROUP

Upon Completion, companies comprising the Hualong Group will become non-wholly owned subsidiaries of the Company and their financial results will be consolidated into the consolidated financial statements of the Group.

As set out in Appendix IV to this circular, the goodwill arising from the Acquisition, before taking into account the special dividend of RMB50.10 million for the financial year ended 31 December 2006 (the "Special Dividend") declared on 1 February 2007, as detailed under the section headed "Subsequent Events" of Appendix II to this circular, is approximately HK$70.93 million, which represents the difference between the consideration for the Acquisition (on the basis that the fair value of the Consideration Shares is HK$2.73 per Share) and the fair value of the Hualong Group as at 31 December 2006. On the basis that the fair value of the Consideration Shares as at completion of the Acquisition is HK$2.73 per Share and the fair value of the Hualong Group as at completion of the Acquisition remains unchanged at such fair value as at 31 December 2006 and taking into account the Special Dividend, the goodwill arising from the Acquisition is approximately HK$121.40 million. The goodwill arising from the Acquisition to be recognised will be determined at the time of completion of the Acquisition with reference to the then fair value of the Hualong Group and the consideration for the Acquisition based on the then market price of the Consideration Shares. Such goodwill will be subject to annual assessment of impairment by the Directors and there will be no immediate profit and loss effect immediately upon completion of the Acquisition.

As set out in Appendix IV to this circular, on the basis that the fair value of the Consideration Shares is HK$2.73 per Share, there is no excess or deficit of the consideration over or under the net book value of the assets acquired arising from the Disposal. However, as the closing market price of the Consideration Shares at the time of completion of the Disposal may or may not equal to HK$2.73 per Share, an excess (or deficit) may be resulted upon completion of the Disposal in the case that the closing market price is below (or above) HK$2.73.

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular, assuming Completion took place on 30 June 2006, the unaudited pro forma net asset value of the Enlarged Group would have increased from approximately HK$271.74 million to approximately HK$384.08 million after Completion.

LISTING RULES IMPLICATIONS

The Acquisition together with the Disposal constitutes a major transaction for the Company under the Listing Rules and is subject to the Shareholders' approval at the SGM. As at the Latest Practicable Date and so far as the Company is aware, as no Shareholder has an interest in the Acquisition and the Disposal which is materially different from the other Shareholders, no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

SGM

Set out on pages 159 to 160 of this circular is a notice convening the SGM to be held at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 16 April 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, pass the resolution to approve the Agreement and all transactions contemplated thereunder.

A form of proxy is herewith enclosed for use at the SGM. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of the Company at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

Pursuant to Bye-Law 66 of the bye-laws of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the bye-laws of the Company) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by: (i) the chairman of the meeting; or (ii) at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or (iii) a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (iv) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or (v) if required by the rules of the Designated Stock Exchange (as defined in the bye-laws of the Company) by the chairman of the meeting and/or the director or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at such meeting.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Agreement are fair and reasonable and in the best interests of the Company and the Shareholders as a whole. The Directors recommend that the Shareholders vote in favour of the resolution for approving the Agreement and all transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board
Hi Sun Technology (China) Limited
LI Wenjin
Executive Director

1. FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial information on the Group for each of the three years ended 31 December 2003, 2004 and 2005 as extracted from the relevant annual reports of the Company for which the auditors of the Company, PricewaterhouseCoopers, expressed unqualified opinion.

Results

	For the year ended 31 December		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	359,790	279,695	438,763
Operating (loss)/profit	(1,829)	(11,136)	70,940
Finance costs	(1,625)	(1,031)	(3,998)
(Loss)/profit before income tax	(3,454)	(12,167)	66,942
Income tax credit/(expense)	–	40	(4,638)
(Loss)/profit attributable to the equity holders of the Company	(3,454)	(12,127)	62,304

Assets and liabilities

	As at 31 December		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	163,676	240,721	313,741
Total liabilities	(102,918)	(192,090)	(186,307)
Total equity	60,758	48,631	127,434

Note: In financial year ended 31 December 2005, the Group adopted certain new/revised standards and interpretations of Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The 2005 figures have been amended as required in accordance with the relevant requirements, and the 2003 and 2004 figures have not been restated by virtue of the transitional provisions.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the audited consolidated financial statements of the Group for the year ended 31 December 2005 together with the accompanying notes, extracted from the annual report of the Company for the year ended 31 December 2005.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

		Year ended 31 December	
		2005	**2004**
	Note	*HK$'000*	*HK$'000*
Turnover	*5*	438,763	279,695
Cost of sales	*7*	(247,208)	(193,732)
Gross profit		191,555	85,963
Other revenue	*5*	2,587	458
Selling expenses	*7*	(40,119)	(30,644)
Administrative expenses	*7*	(83,083)	(66,913)
Operating profit/(loss)		70,940	(11,136)
Finance costs	*10*	(3,998)	(1,031)
Profit/(loss) before income tax		66,942	(12,167)
Income tax (expense)/credit	*11*	(4,638)	40
Profit/(loss) attributable to the equity holders of the Company	*12*	62,304	(12,127)
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share)			
Basic earnings/(loss) per share	*14*	0.187	(0.036)
Diluted earnings/(loss) per share	*14*	0.172	(0.036)

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

		As at 31 December	
		2005	**2004**
	Note	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	*37,760*	21,135
Leasehold land	*6*	208	–
		37,968	21,135
Current assets			
Inventories	*18*	21,607	29,851
Trade and other receivables	*17*	97,587	110,836
Restricted cash	*23*	–	31,250
Cash and cash equivalents	*19*	156,579	47,649
		275,773	219,586
Total assets		313,741	240,721
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*20*	3,330	3,330
Other reserves	*21*	124,104	45,301
Total equity		127,434	48,631
LIABILITIES			
Non-current liabilities			
Financial liability portion of convertible preference shares issued by a subsidiary	*23,25*	21,173	–
Current liabilities			
Trade and other payables	22	115,952	121,280
Deposit received from issue of convertible preference shares by a subsidiary	23	–	31,250
Due to ultimate holding company	*24, 30(b)*	–	24,638
Due to fellow subsidiaries	*24, 30(b)*	390	623
Taxation payable		715	–
Short term borrowings	*25*	48,077	14,299
		165,134	192,090
Total liabilities		186,307	192,090
Total equity and liabilities		313,741	240,721
Net current assets		110,639	27,496
Total assets less current liabilities		148,607	48,631

BALANCE SHEET

As at 31 December 2005

		As at 31 December	
		2005	**2004**
	Note	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	4	6
Investments in subsidiaries	*16*	4,136	4,136
		4,140	4,142
Current assets			
Prepayments, deposits and other receivables	*17*	997	860
Due from subsidiaries	*16*	58,214	73,547
Cash and cash equivalents	*19*	848	95
		60,059	74,502
Total assets		64,199	78,644
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*20*	3,330	3,330
Other reserves	*21*	50,638	68,116
Total equity		53,968	71,446
LIABILITIES			
Current liabilities			
Other payables and accruals	*22*	10,231	774
Due to a subsidiary	*16*	–	500
Due to ultimate holding company	*24*	–	5,924
		10,231	7,198
Total equity and liabilities		64,199	78,644
Net current assets		49,828	67,304
Total assets less current liabilities		53,968	71,446

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Share capital	Share premium	Contributed surplus	Other reserves	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2004	3,330	100,556	125,310	–	–	(168,438)	60,758
Loss for the year	–	–	–	–	–	(12,127)	(12,127)
Balance at 31 December 2004 and 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 *(Note 21 and 23)*	–	–	–	11,134	–	–	11,134
Issue of share options by the Company *(Note 20 and 21)*	–	–	–	4,220	–	–	4,220
Issue of share options by a subsidiary *(Note 20 and 21)*	–	–	–	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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

		Year ended 31 December	
		2005	**2004**
	Note	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Cash generated from operations	*27*	74,601	31,011
Interest paid		(2,891)	(1,031)
Hong Kong profits tax paid		–	(1)
Overseas profits tax paid		(3,923)	–
Net cash generated from operating activities		67,787	29,979
Cash flows from investing activities			
Purchase of property, plant and equipment	*15*	(26,380)	(14,907)
Purchase of leasehold land		(208)	–
Sale of property, plant and equipment	*27*	157	54
Interest received		1,403	175
Decrease in pledged bank deposits		–	18,879
Net cash (used in)/generated from investing activities		(25,028)	4,201
Cash flows from financing activities			
Inception of other loans		–	935
Inception of short term bank loans		48,077	13,364
Repayment of other loans		(935)	–
Repayment of short term bank loans		(13,364)	(15,782)
Proceeds from issuance of convertible preference shares by a subsidiary		31,200	–
Subsidy income from Government		926	–
Net cash generated from/(used in) financing activities		65,904	(1,483)
Net increase in cash and cash equivalents		108,663	32,697
Exchange gains on cash and cash equivalents		267	–
Cash and cash equivalents at beginning of the year		47,649	14,952
Cash and cash equivalents at the end of the year	*19*	156,579	47,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively known as the "Group"), are principally engaged in the sales of information technology products, provision of information system consultancy and integration services, and information technology operation valued-added services. An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

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

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Hi Sun Technology (China) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases

HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
(Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 10	Government Assistance – No Specific Relation to Operating Activities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 33, 36, 37, HKAS-Int 10 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 33, 36, 37, HKAS-Int 10 and HKFRS 3 had no material effect on the Group's policies; and

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements; and

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005; and

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

	2005
	HK$'000
The adoption of revised HKAS 17 resulted in:	
Decrease in property, plant and equipment	208
Increase in leasehold land	208

There is no impact on basic and diluted earnings per share from the adoption of revised HKAS 17.

	2005
	HK$'000
The adoption of HKASs 32 and 39 resulted in:	
Increase in financial liability portion of convertible preference shares issued by a subsidiary	21,173
Increase in other reserves	11,134
Increase in finance costs	1,107
Decrease in basic earnings per share (expressed in HK$ per share)	0.003
Decrease in diluted earnings per share (expressed in HK$ per share)	0.003

	2005
	HK$'000
The adoption of HKFRS 2 resulted in:	
Increase in other reserves	4,493
Increase in administrative expenses	4,493
Decrease in basic earnings per share (expressed in HK$ per share)	0.013
Decrease in diluted earnings per share (expressed in HK$ per share)	0.012

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKASs 17, 32, 39 and HKFRS 2.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of new Standards and Interpretations but is not yet in a position to state whether these new Standards/Interpretations would have a significant impact of its results in operations and financial position.

HKAS 1 (Amendment), Capital disclosures
HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment), The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts
HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
HKFRS 6, Exploration for and Evaluation of Mineral Resources
HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures
HKFRS-Int 4, Determining whether an Arrangement contains a Lease
HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	20%
Office furniture and equipment	18% – 25%
Plant and equipment	9% – 25%
Motor vehicles	18% – 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.7 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.9).

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises, raw materials and direct labour. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to the Pension Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the Pension Scheme.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In addition, pursuant to the government regulations in the People's Republic of China (the "PRC"), the Group is required to contribute an amount to certain retirement benefit schemes based on approximately 7% to 20% of the wages for the year of those workers in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those workers of the Group. Contributions to these retirement benefits schemes are charged to the consolidated income statement as incurred.

(c) Share-based compensation

The Group operates two equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 Provisions

Provisions for environmental restoration, restructuring cost and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.16 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised when the services are rendered.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) Lease income

Lease income under finance lease is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.18 Government grants

Grants from the government are recognised as income where there is a reasonable assurance that the grant will be received.

Government grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

2.19 Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.21 Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in current year.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the executive Directors. The executive Directors identify, evaluate and hedge financial risks in close co-operation within the operating units of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates mainly in the People's Republic of China (the "PRC") and Hong Kong. The exchange rate of Renminbi to HK dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. At present, the Group does not have any financial instruments for hedging purposes.

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The executive Directors are responsible for managing the net position in each foreign currency.

(ii) Price risk

The estimated fair value of the convertible preference shares issued by a subsidiary, share options issued by the Company and a subsidiary are affected by the changes in market prices.

(b) *Credit risk*

The Group has concentration of credit risk. Sales of goods and services to the top five customers constitute 65% of the Group's turnover for the year ended 31 December 2005.

The executive Directors consider that the Group's exposure to bad debts is not significant since the Group primarily trades with reputable and creditworthy customers. In addition, the Group has credit policies in place to ensure that sales of products and services are made to customers with appropriate credit history. Collection of outstanding receivable balances and authorised credit limits to individual customers are closely monitored on an ongoing basis.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the ability to apply for bank loan facilities when necessary.

(d) *Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets, except for the cash placed with banks.

The interest rate risk of the Group arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. At the year end, all borrowings were at a fixed rate.

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and made assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivable and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that was available to the Group for similar financial instruments. The fair values of share options granted by the Company and a subsidiary of the Company during the year are estimated by using the Black-Scholes-Merton option pricing model.

Details of the fair value estimation of convertible preference shares issued by a subsidiary are set out in Note 4(b).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Estimated fair value of the liability component of the convertible preference shares issued by Turbo Speed Technology Limited ("Turbo Speed"), a wholly-owned subsidiary of the Company

The fair value of the liability component is estimated by applying the Discounted Cash Flows Method. The Group makes significant assumptions of the future dividend payments to convertible preference shareholders of the subsidiary based on available latest financial information, business potential and plans, and recent market information of industry and sector performance.

According to the subscription agreement entered into by Turbo Speed, the holders of the convertible preference shares are entitled to a fixed cumulative preferred dividend equal to HK$624,000 (the "Preferred dividend"). The holders of the convertible preference shares are also 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 to the holders of convertible preference shares are equal initially to 16% (on an annual basis) of the total dividend payable by Turbo Speed. The Group has revised the assumptions of the dividend payment pattern used on the Discounted Cash Flows Method since interim. It is because the executive Directors are now in a better position to estimate the dividend payments in the future years since 2005 is the first full year result of IVR operation and the dividend in respect of 2005 to be proposed by Turbo Speed.

According to a shareholders' agreement entered into by the Company and the convertible preference shareholders of Turbo Speed on 29 April 2005, if the audited net profit after taxation of Beijing Hi Sunsray Technology Limited ("Beijing Hi Sunsray"), a wholly-owned subsidiary of Turbo Speed, for either of the financial year ending 31 December 2005 or 2006, as stated in the audited financial statements of Beijing Hi Sunsray for the relevant financial year is less than RMB40 million, the Company shall transfer an agreed percentage of shares in Turbo Speed to the then convertible preference shareholders of Turbo Speed for a consideration of HK$1. The Group has considered the contingent value is minimal based on the available latest financial information and the financial forecast of Beijing Hi Sunsray.

(c) Impairment of receivables

The executive Directors determine the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. The executive Directors reassess the provision on each of the balance sheet date.

5. TURNOVER, OTHER REVENUE 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 revenue recognised during the year are as follows:

	For the year ended 2005 HK$'000	2004 HK$'000
Turnover		
Sales of information technology products	200,261	166,377
Provision of information system consultancy and integration services	102,261	81,041
Information technology operation value-added services	136,241	32,277
	438,763	279,695
Other revenue		
Interest income	1,403	175
Subsidy income from Government *(Note below)*	926	–
Other income	258	283
	2,587	458
Turnover and other revenue	441,350	280,153

Note: The Group obtained and recognised as income a government grant of HK$0.93 million which was an incentive to the Group for the development of new technology and new products (2004: Nil). There is no obligation attached with such government subsidy.

Primary reporting format – business segments

As at 31 December 2005, the Group is organised into four main business segments:

(a) Financial solutions, services and related products – provision of customised information system consultancy and integration services and sales of information technology products to financial institutions and banks; and

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

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

(d) Information technology operation value-added services – provision of Interactive Voice Response ("IVR") 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$438.61 million and HK$279.50 million for the years ended 31 December 2005 and 2004 respectively.

Other Group operations mainly comprise the management fees received from a related company. This does not constitute a separately reportable segment. Management fees received from a related company for the year ended 31 December 2005 is HK$0.15 million (2004: HK$0.2 million).

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 information technology products *HK$'000*	Telecommunication solutions, services and information technology products *HK$'000*	Electronic payment products and services *HK$'000*	Information technology operation value-added services *HK$'000*	Others *HK$'000*	Group *HK$'000*
Turnover	157,784	11,515	133,073	136,241	150	438,763
Other revenue	212	–	1,320	1,052	3	2,587
Segment results	13,315	(3,438)	14,232	72,514	(25,683)	70,940
Finance costs						(3,998)
Profit before taxation						66,942
Income tax expense						(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	4,160	–	673	4,989	62	9,884
Provision for doubtful debts	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

The segment results for the year ended 31 December 2004 and segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Financial solutions, services and information technology products	Telecom-munication solutions, services and information technology products	Electronic payment products and services	Information technology operation value-added services	Others	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	129,785	21,438	95,995	32,277	200	279,695
Other revenue	87	59	307	–	5	458
Segment results	(16,986)	(661)	9,664	8,598	(11,751)	(11,136)
Finance costs						(1,031)
Loss before taxation						(12,167)
Income tax credit						40
Loss attributable to equity holders of the Company						(12,127)
Segment assets	101,922	20,280	60,065	25,529	32,925	240,721
Segment liabilities	(81,432)	(26,081)	(30,063)	(16,338)	(38,176)	(192,090)
Other segment information:						
Depreciation	5,582	1,131	575	1,328	7	8,623
Provision for doubtful debts	4,366	–	–	–	–	4,366
Write-back of provision for obsolete inventories	–	–	(429)	–	–	(429)
Loss on disposal of property, plant and equipment	183	–	–	–	–	183
Loss on write off of property, plant and equipment	2,922	–	273	–	–	3,195
Capital expenditure	1,589	795	682	11,803	38	14,907

Secondary reporting format – Geographical segments

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

Hong Kong and South East Asia – financial solutions, services and information technology products, and electronic payment products and services

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

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

	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	(26,392)	39,194	650
Mainland China	367,663	95,929	274,547	25,730
	438,763	69,537	313,741	26,380
Unallocated income, net		1,403		
Operating profit		70,940		

	Turnover 2004 *HK$'000*	Segment results 2004 *HK$'000*	Total assets 2004 *HK$'000*	Capital expenditure 2004 *HK$'000*
Hong Kong 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)		

6. LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	Group 2005 *HK$'000*	2004 *HK$'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	208	–

During the year, Pax Technology (Shenzhen) Limited ("PAX SZ"), a subsidiary of the Company, has acquired leasehold land and building (the "Property") at a total consideration of HK$5,714,000 from the PRC government as an incentive to PAX SZ for the development of new technology and new products.

The Property acquired by PAX SZ is limited to self-use on specific projects approved by the PRC government. The Property cannot be used for property trading or sub-leasing purposes. Any transfer of ownership of the Property is subject to approval from the PRC government, ruled by applicable laws and regulations.

	2005
	HK$'000
Acquisition cost of leasehold land	208
Acquisition cost of building *(Note 15)*	5,506
	5,714

7. EXPENSES BY NATURE

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

	2005	**2004**
	HK$'000	*HK$'000*
Auditors' remuneration	1,620	1,221
Depreciation	9,884	8,623
Employee benefit expense (including directors' emoluments) *(Note 9)*	101,092	74,848
Changes in inventories of finished goods	185,572	142,990
Operating lease rentals for land and buildings	10,254	9,927
Operating lease rentals for equipment	7,212	2,576
Research and development costs	2,204	2,269
Loss on disposal of property, plant and equipment	319	183
Write off of property, plant and equipment	–	3,195
Provision for doubtful debts	6,974	4,366
Write-off of inventories	1,008	–
Write-back of provision for obsolete inventories	–	(429)
Refund of value-added tax	(4,816)	(2,844)
Waiver of payment to a sub-contractor	–	(468)

8. NET FOREIGN EXCHANGE GAINS/(LOSSES)

The net foreign exchange gains recognised in the income statement included as administrative expenses for the year ended 31 December 2005 amounted to HK$500,000 (2004: net foreign exchange losses of HK$118,000).

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2005	**2004**
	HK$'000	*HK$'000*
Wages, salaries and bonus	86,920	66,477
Social security costs	6,574	4,882
Share options granted to directors and employees *(Note 21)*	4,493	–
Pension costs – defined contribution plans *(Note (a))*	3,105	3,489
	101,092	74,848

Note:

(a) Pensions – defined contribution plans

Contributions totalling HK$4,284,000 (2004: HK$3,850,000) were payable to the fund at the year end.

No contribution was forfeited during the year (2004: Nil).

(b) Directors' emoluments

There was no arrangement under which a Director waived or agreed to waive any emolument during the year (2004: Nil).

The directors' emoluments for the year are equivalent to key management compensation. The remuneration of every Director for the year ended 31 December 2005, is set out below:

Name of Director	Fees	Salary	Discretionary bonus	Employer's contribution to pension scheme	Other benefits – Share options *(Note (c))* No. of share options	Fair value –	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*		*HK'000*	*HK$'000*
Executive Directors							
Cheung Yuk Fung	220	–	150	9	–	–	379
Kui Man Chun	–	612	2,000	12	3,300,000	418	3,042
Lo Siu Yu	–	425	1,200	12	3,300,000	418	2,055
Xu Wensheng	–	425	1,000	12	3,300,000	418	1,855
Li Wenjin	–	477	2,000	12	3,300,000	418	2,907
Chan Yiu Kwong	–	852	450	12	1,000,000	127	1,441
Xu Chung Jun	–	399	500	12	3,300,000	418	1,329
Zhou Jian	–	–	–	–	–	–	–
Su Terry Lumin *(Note (a))*	–	–	–	–	–	–	–
	220	3,190	7,300	81	17,500,000	2,217	13,008
Non-Executive Director							
Liu Yangsheng, Charles *(Note (b))*	75	–	300	–	–	–	375
Independent Non-Executive Directors							
Tam Chun Fai	60	–	–	–	–	–	60
Leung Wai Man, Roger	60	–	–	–	–	–	60
Xu Sitao	60	–	–	–	–	–	60
	180	–	–	–	–	–	180
	475	3,190	7,600	81	17,500,000	2,217	13,563

Note:

(a) Mr. Su Terry Lumin has resigned as Director of the Company on 2 February 2005.

(b) Mr. Liu Yangsheng, Charles was appointed as a Non-Executive Director of the Company on 17 May 2005 and resigned on 17 April 2006.

(c) On 26 September 2005, 17,500,000 share options were granted to certain directors at HK$0.768 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 26 September 2005) with an expiry date of 25 September 2015. The option period commences on 26 September 2005 and expires 10 years thereafter. Options granted are vested as follows:

On 26 September 2005	Up to 50%
On 26 September 2006	Up to 100%

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	**Fees** *HK'000*	**Salary** *HK'000*	**Employer's contribution to pension scheme** *HK'000*	**Total** *HK'000*	**Other benefits – Share options** *(Note)* **No. of share options**
Executive Directors					
Cheung Yuk Fung	120	–	6	126	–
Kui Man Chun	–	612	12	624	3,000,000
Lo Siu Yu	–	252	12	264	3,300,000
Xu Wen Sheng	–	252	12	264	3,300,000
Li Wen Jin	–	432	12	444	3,300,000
Chan Yiu Kwong	–	852	12	864	1,500,000
Su Terry Lumin	–	972	12	984	1,500,000
Xu Chung Jun	–	312	12	324	3,300,000
Zhou Jian	–	–	–	–	–
	120	3,684	90	3,894	19,200,000
Independent Non-Executive Directors					
Tam Chun Fai	35	–	–	35	–
Leung Wai Man, Roger	16	–	–	16	–
Xu Sitao	70	–	–	70	–
Lau Wai Kit	32	–	–	32	–
	153	–	–	153	–
	273	3,684	90	4,047	19,200,000

Note: On 18 March 2004, 19,200,000 share options of the Company were granted to certain directors at HK$0.374 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014. The exercisable period of the above share options is from 18 March 2004 to 17 March 2014 (both dates inclusive). These options have been fully vested at 1 January 2005.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four Directors (2004: three). The emoluments payable to the remaining one (2004: two) individual during the year are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	2,432	1,161

The emoluments fell within the following bands:

	Number of individuals	
	2005	**2004**
Emolument bands		
Nil – HK$1,000,000	–	2
HK$2,000,000 – HK$2,500,000	1	–

10. FINANCE COSTS

	2005	**2004**
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	2,891	1,031
Interest on financial liability portion of convertible preference shares issued by a subsidiary *(Note 23)*	1,107	–
	3,998	1,031

11. INCOME TAX EXPENSE/(CREDIT)

The applicable profit tax rate in Hong Kong is 17.5% (2004: 17.5%). 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.

	2005	**2004**
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	–	–
– Overseas taxation	4,638	–
Deferred income tax *(Note 26)*	–	–
Overprovision in previous year	–	(40)
Tax expense/(credit)	4,638	(40)

(a) Hong Kong profits tax has not been provided in these financial statements as the Group has no estimated assessable profit for the year (2004: Nil).

(b) The PRC taxation has been provided on the profits of the Group's subsidiaries in the PRC and calculated at the applicable rates (2004: Nil).

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 follows:

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

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

	2005 *HK$'000*	2004 *HK$'000*
Profit/(loss) before taxation	66,942	(12,167)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	11,715	(2,129)
Effect of different taxation rates in other countries	(2,357)	123
Effect of tax holiday	(8,207)	(26)
Income not subject to taxation	(18)	(19)
Expenses not deductible for taxation proposes	2,862	93
Utilisation of previously unrecognised tax losses	(2,560)	(1,118)
Unrecognised tax losses	3,203	3,076
Over-provision in prior years	–	(40)
Tax expense/(credit)	4,638	(40)

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$21,698,000 (2004: HK$8,281,000).

13. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2004: Nil).

14. EARNINGS/(LOSS) PER SHARE

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the number of ordinary shares in issue during the year.

	2005 *HK$'000*	2004 *HK$'000*
Profit/(loss) attributable to equity holders of the Company	62,304	(12,127)
Number of ordinary shares in issue *(thousands)*	333,054	333,054
Basic earnings/(loss) per share *(HK$ per share)*	0.187	(0.036)

Diluted

Diluted earnings per share is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible preference shares issued by a subsidiary and share options. The convertible preference shares issued by a subsidiary are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to 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.

	2005
	HK$'000
Profit attributable to equity holders of the Company	62,304
Interest expense on convertible preference shares issued by a subsidiary	1,107
Profit used to determine diluted earnings per share	63,411
Weighted average number of ordinary shares in issue *(thousands)*	333,054
Adjustments for	
– assumed conversion of convertible preference shares issued by a subsidiary *(thousands)*	17,452
– share options *(thousands)*	18,926
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	369,432
Diluted earnings per share *(HK$ per share)*	0.172

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

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings	Leasehold improvements	Office furniture and equipment	Plant and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004						
Cost or valuation	–	7,701	21,571	506	3,630	33,408
Accumulated depreciation	–	(4,964)	(8,417)	(130)	(1,614)	(15,125)
Net book amount	–	2,737	13,154	376	2,016	18,283
Year ended 31 December 2004						
Opening net book amount	–	2,737	13,154	376	2,016	18,283
Additions	–	698	13,920	80	209	14,907
Disposals *(Note 27)*	–	–	(237)	–	–	(237)
Depreciation	–	(997)	(6,541)	(109)	(976)	(8,623)
Write-off	–	(1,303)	(1,892)	–	–	(3,195)
Closing net book amount	–	1,135	18,404	347	1,249	21,135
At 31 December 2004						
Cost or valuation	–	6,503	26,786	586	3,839	37,714
Accumulated depreciation	–	(5,368)	(8,382)	(239)	(2,590)	(16,579)
Net book amount	–	1,135	18,404	347	1,249	21,135
Year ended 31 December 2005						
Opening net book amount	–	1,135	18,404	347	1,249	21,135
Exchange differences	–	32	527	11	35	605
Additions	5,786	–	18,515	135	1,944	26,380
Disposals *(Note 27)*	–	–	(440)	–	(36)	(476)
Depreciation	–	(961)	(7,784)	(134)	(1,005)	(9,884)
Closing net book amount	5,786	206	29,222	359	2,187	37,760
At 31 December 2005						
Cost or valuation	5,786	6,698	42,043	740	5,695	60,962
Accumulated depreciation	–	(6,492)	(12,821)	(381)	(3,508)	(23,202)
Net book amount	5,786	206	29,222	359	2,187	37,760

Depreciation expense of HK$5,394,000 (2004: HK$2,316,000) has been expensed in cost of goods sold, HK$148,000 (2004: HK$111,000) in selling expenses and HK$4,342,000 (2004: HK$6,196,000) in administrative expenses.

During the year, PAX SZ has acquired the Property at a total consideration of HK$5,714,000 from the PRC government as an incentive to PAX SZ for the development of new technology and new products. The acquisition cost of the building amounted to HK$5,506,000. Details are set out in note 6.

	Company Office furniture and equipment HK$'000
At 1 January 2004	
Cost or valuation	12
Accumulated depreciation	(3)
Net book amount	9
Year ended 31 December 2004	
Opening net book amount	9
Depreciation	(3)
Closing net book amount	6
At 31 December 2004	
Cost or valuation	12
Accumulated depreciation	(6)
Net book amount	6
Year ended 31 December 2005	
Opening net book amount	6
Depreciation	(2)
Closing net book amount	4
At 31 December 2005	
Cost or valuation	12
Accumulated depreciation	(8)
Net book amount	4

16. INVESTMENTS IN SUBSIDIARIES AND DUE FROM/(TO) SUBSIDIARIES

	Company	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted investments, at cost	4,136	4,136
Due from subsidiaries *(Note below)*	78,214	93,547
Less: Provision for diminution in value	(20,000)	(20,000)
	58,214	73,547
Due to a subsidiary *(Note below)*	–	(500)
	62,350	77,183

Note: As at 31 December 2005, the balances with subsidiaries are unsecured, interest free, and repayable on demand. As at 31 December 2004, the balances with subsidiaries are unsecured, interest free, and have no fixed terms of repayment, except for amount due from a subsidiary of HK$2,400,000 which is unsecured, interest free, and repayable within one year.

The following is a full list of the subsidiaries at 31 December 2005:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
北京高陽金信信息技術有限公司(Beijing Hi Sun Advanced Business Solutions Information Technology Limited)	PRC, limited liability company	Provision of financial and banking solutions and services in the PRC	HK$60,000,000	100%
北京高陽聖思園信息技術有限公司(Beijing Hi Sunsray Information Technology Limited)	PRC, limited liability company	Provision of telecommunication solutions and services and information technology operation value-added services in the PRC	HK$27,000,000	100%
Emerging Technology Limited	BVI, limited liability company	Investment holding in the PRC	7,692,308 ordinary shares of US$1 each	100%
Hi Sun (BVI) Limited	BVI, limited liability company	Investment holding in Hong Kong and the PRC	2 ordinary shares of US$1 each	100%[1]
Hi Sun Development Management Limited	Hong Kong, limited liability company	Provision of management services in Hong Kong	2 ordinary shares of HK$1 each	100%
Hi Sun Technology Holding Limited	Bermuda, limited liability company	Provision of financial and banking solutions and services in Hong Kong	168,070,000 ordinary shares of HK$0.1 each	100%
Pax Technology Limited	Hong Kong, limited liability company	Sale of EFT-POS terminals in Hong Kong	35,000,000 ordinary shares of HK$1 each	100%
Turbo Speed Technology Limited	BVI, limited liability company	Investment holding in the PRC	35,897,440 ordinary shares of US$0.1 each and 6,837,608 convertible preference shares of US$0.1 each	100%
百富計算機技術(深圳)有限公司(Pax Technology (Shenzhen) Limited)	PRC, limited liability company	Sale of EFT-POS terminals in the PRC	HK$10,000,000	100%

[1] *Shares held directly by the Company*

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables *(Note (a))*	86,624	109,212	–	–
Finance leases receivables *(Note (b))*	2,498	–	–	–
Less: provision for doubtful debts	(10,831)	(8,010)	–	–
Trade receivables – net	78,291	101,202	–	–
Prepayments, deposits and other receivables	19,146	9,634	997	860
Receivables from a related party *(Note 30)*	150	–	–	–
	97,587	110,836	997	860

Note (a): **Trade receivables**

The Group's credit terms to trade debtors range from 0 to 180 days. At 31 December 2005 and 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Current to 90 days	66,594	90,127
91 to 180 days	6,700	4,866
181 to 365 days	3,200	2,914
Over 365 days	10,130	11,305
	86,624	109,212

The Group's sales are made to several major customers and there is concentration of credit risks. Collection of outstanding receivables are closely monitored on an ongoing basis to minimise credit risk.

The Group has recognised a loss of HK$6,974,000 for the impairment of its trade receivables during the year ended 31 December 2005 (2004: HK$4,366,000). The loss has been included in administrative expenses in the income statement.

Note (b): **Finance leases receivables**

	Group
	2005
	HK$'000
Current receivables	
Gross receivables from finance leases:	
Not later than 1 year	2,576
Unearned future finance income on finance leases	(78)
Net investment in finance leases	2,498

The net investment in finance leases is analysed as follows:

Not later than 1 year	2,498

18. INVENTORIES

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Raw materials	5,780	7,475
Work in progress	7,586	3,871
Finished goods	8,241	18,505
	21,607	29,851

At 31 December 2005, the carrying amount of inventories that are carried at net realisable value amounted to nil (2004: Nil).

The cost of inventories recognised as expense and included in cost of sales amounted to HK$185,752,000 (2004: HK$143,419,000).

The Group reversed HK$429,000 of a previous inventory write-down for the year ended 31 December 2004 while the Group has sold the related goods that were written down to independent customers. The amount reversed has been included in administrative expenses in the income statement in prior year.

19. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	156,579	47,649	848	95

Funds of the Group amounting to HK$114.63 million (2004: HK$27.67 million) are kept in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange controls.

20. SHARE CAPITAL

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2004 and 2005	1,000,000,000	10,000

	Issued and fully paid Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2004 and 2005	333,054,030	3,330

On 21 March 2006, the Company entered into a subscription agreement with Huge Rising Limited (the "Subscriber"), a company incorporated in the British Virgin Islands, in relation to the subscription by the Subscriber at a price of HK$1.46 per share (the "Subscription Price") for an aggregate of 66,000,000 new ordinary shares of HK$0.01 each to be issued by the Company pursuant to the subscription agreement (the "Subscription"). The Subscription Price is to be paid in cash on completion of the subscription agreement. The Subscription was completed on 31 March 2006. Details of the subscription are set out in note 31(ii).

Share options

(a) The Company

The Company operates a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating talented employees in order to strive for future developments and expansion of the Group. Eligible participants of the Scheme include the Group's full-time employees, and executive and non-executive Directors. The Scheme became effective on 29 November 2001 and unless otherwise cancelled or amended, will remain valid and effective for a period of 10 years from that date.

The total number of shares in respect of which options may be granted shall not (together with all the other Schemes, if any) exceed 10% of the total issued capital of the Company as at date of approval of the Scheme unless the Company obtains a fresh approval from shareholders to renew the 10 per cent limit.

The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time. On 18 March 2004, 33,000,000 share options were granted to certain directors and employees at HK$0.374 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

Pursuant to an ordinary resolution passed on 17 August 2005, a refreshment of the limit on grant of options under the Scheme was approved by the shareholders. Upon refreshing the 10 per cent limit on grant of options under the Scheme, 33,305,403 shares may be issued pursuant to the grant of further options under the Scheme.

On 26 September 2005, 33,300,000 share options were granted to certain directors and employees at an exercise price of HK$0.768 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 26 September 2005) with an expiry date of 25 September 2015. The option period commences on 26 September 2005 and expires 10 years thereafter.

Options granted are vested as follows:

On 26 September 2005	Up to 50%
On 26 September 2006	Up to 100%

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise prices:

	Exercise price	**Share options**	
Expiry date	**HK$ per share**	**2005**	**2004**
17 March 2014	0.374	33,000	33,000
25 September 2015	0.768	33,300	–
		66,300	33,000

The fair values of options granted during the year determined using the Black-Scholes-Merton option pricing model were:

Options to be vested on	**Number of options**	**Fair value** *(HK$)*
26 September 2005	16,650,000	3,356,000
26 September 2006	16,650,000	3,251,000

The significant inputs into the model were share price of HK$0.75 at the grant date, exercise price shown above, standard deviation of expected share price returns of 82.11%, expected life of options of 2 years, expected dividend paid out rate of 0% and annual risk-free interest rate of 3.89%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the past 260 trading days prior to the grant date.

For the year ended 31 December 2005, no share options have been exercised or lapsed. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

On 26 January 2006, Mr. Su Terry Lumin, a former director of the Company, exercised 1,500,000 share options at the exercise price of HK$0.374, result in the issue of 1,500,000 additional ordinary shares of the Company.

Subsequent to the year end and up to the date of this report, the employees of the Company exercised 7,300,000 share options at the exercise price of HK$0.374, result in the issue of 7,300,000 additional ordinary shares of the Company.

(b) *Employee incentive scheme of a subsidiary*

On 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited ("Turbo Speed"), to adopt an employee incentive scheme (the "Employee Incentive Scheme") to motivate the employees of Turbo Speed and its subsidiary (the "Turbo Speed Group"). Eligible participants of the Employee Incentive Scheme include the full-time employees of Turbo Speed or any of its subsidiaries, including any directors of Turbo Speed or any of its subsidiaries (but excluding any person who is a Director of the Company) provided always that such term shall exclude any person who has tendered his resignation or who at the relevant time is working out his period of notice pursuant to his employment contract or otherwise. The duration of Scheme is from 4 April 2005 to 31 December 2008, unless terminated by resolution of a remuneration committee formed by the Board to administer the Employee Incentive Scheme (the "Committee").

The total number of shares in respect of which options may be granted shall not exceed 4,682,275 ordinary shares of Turbo Speed ("Turbo Speed Shares"), representing approximately 11.0% of the existing issued share capital of Turbo Speed as enlarged by the subscription of convertible preference shares, currently held by a wholly-owned subsidiary of the Company. Options may be offered to any Employee determined by the Committee in its absolute discretion from time to time by reference to: (i) the performance of that Employee; and (ii) the financial performance of the Turbo Speed Group and the extent to which the Turbo Speed Group has achieved its intended business plans. The maximum number of the Turbo Speed Shares which may be offered to an employee who is also a director of companies within the Turbo Speed Group in any 12-month period may not exceed 1% of the entire issued share capital of Turbo Speed.

On 8 July 2005, 1,425,000 share options had been granted to certain directors and employees of its subsidiary to subscribe ordinary shares of Turbo Speed at an exercise price of HK$1.922 per share. The exercisable period of the above share options is from 8 July 2005 to 31 December 2008 (both dates inclusive).

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise price:

	Exercise price	**Share options**	
Expiry date	**HK$ per share**	**2005**	**2004**
31 December 2008	1.922	1,425	–

The fair value of options granted during the period determined using the Black-Scholes-Merton option pricing model was HK$273,000. The significant inputs into the model were estimated share price of HK$1.922 with reference to the market value of Turbo Speed, exercise price of HK$1.922 shown above, standard deviation of expected share price returns of 56.41%, expected life of options of 3 years, expected dividend paid out rate of 12.17% and annual risk-free interest rate of 3.33%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the past 260 trading days prior to the grant date.

For the year ended 31 December 2005, no share options had been exercised or lapsed (2004: Nil). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Subsequent to the year end and up to the date of this report, 780,000 share options had been lapsed, following the cessation of employment of certain employees.

21. OTHER RESERVES

(a) Group

	Share premium	Contributed surplus *(Note)*	Other reserves	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	100,556	125,310	–	–	(168,438)	57,428
Loss for the year	–	–	–	–	(12,127)	(12,127)
At 31 December 2004	100,556	125,310	–	–	(180,565)	45,301
At 1 January 2005	100,556	125,310	–	–	(180,565)	45,301
Profit for the year	–	–	–	–	62,304	62,304
Issue of convertible preference shares by a subsidiary *(Note 23)*	–	–	11,134	–	–	11,134
Issue of share options by the Company *(Note 20)*	–	–	4,220	–	–	4,220
Issue of share options by a subsidiary *(Note 20)*	–	–	273	–	–	273
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	872	–	872
At 31 December 2005	100,556	125,310	15,627	872	(118,261)	124,104

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium account of Hi Sun Holdings Limited ("HSHL") acquired pursuant to the group reorganisation (the "Reorganisation") on 17 October 2001 as set out in the circular to the shareholders of HSHL dated 9 August 2001, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium	Contributed surplus *(Note)*	Other reserves	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	100,556	3,293	–	(27,452)	76,397
Loss for the year	–	–	–	(8,281)	(8,281)
At 31 December 2004	100,556	3,293	–	(35,733)	68,116
At 1 January 2005	100,556	3,293	–	(35,733)	68,116
Loss for the year	–	–	–	(21,698)	(21,698)
Issue of share options by the Company	–	–	4,220	–	4,220
At 31 December 2005	100,556	3,293	4,220	(57,431)	50,638

Note: The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus under certain circumstances.

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	40,305	46,331	–	–
Other payables and accruals	67,671	67,817	10,231	774
Pension obligations	4,284	3,850	–	–
Social security and other taxes	3,692	3,282	–	–
	115,952	121,280	10,231	774

At 31 December 2005 and 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Current to 90 days	32,373	33,927
91 to 180 days	2,463	10,605
181 to 365 days	3,704	120
Over 365 days	1,765	1,679
	40,305	46,331

23. CONVERTIBLE PREFERENCE SHARES ISSUED BY A SUBSIDIARY

On 9 November 2004, Turbo Speed Technology Limited ("Turbo Speed"), a wholly-owned 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 Subscription"). The subscription price had been received by Turbo Speed shortly after signing of the said subscription agreement and was held in jointly controlled bank account and would be released on completion of the Subscription.

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved the Subscription and the Subscription was completed on 29 April 2005. The deposit received from issue of convertible preference shares by a subsidiary as at 31 December 2004 included a balance of HK$50,000 which represented accrued interest income on the total subscription price of US$4 million (approximately HK$31.2 million). Such accrued interest income was recognised in the income statement as interest income for the year ended 31 December 2005.

According to the said subscription agreement, the rights attached to holders of convertible preference shares of Turbo Speed are summarised as follows:

(a) Income (assuming no conversion of convertible preference shares)

(i) A fixed cumulative preferred dividend equal to HK$624,000 for each financial year of Turbo Speed; and

(ii) Participation in part of dividends 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 to the holders of the convertible preference shares would be equal to 16% (on annual basis) of the total dividends payable by Turbo Speed.

(b) Conversion options

(i) Convertible at any time from the date of completion of the Subscription for a period of 24 months into new shares of the Company at a conversion price of HK$1.2 per share, subject to adjustment set out in the subscription agreement (the "Conversion"). The amount for the Conversion shall be US$4 million; and

(ii) Automatic conversion into ordinary shares of Turbo Speed at a ratio of 1:1 on the business day after Turbo Speed has paid total dividends on each convertible preference share which exceed its original issue price.

According to a shareholders' agreement entered into by the Company and the convertible preference shareholders of Turbo Speed on 29 April 2005, if the audited net profit after taxation of Beijing Hi Sunsray Technology Limited ("Beijing Hi Sunsray"), a wholly-owned subsidiary of Turbo Speed, for either of the financial year ending 31 December 2005 or 2006, as stated in the audited financial statements of Beijing Hi Sunsray for the relevant financial year is less than RMB40 million, the Company shall transfer an agreed percentage of shares in Turbo Speed to the then convertible preference shareholders of Turbo Speed for a consideration of HK$1.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible preference shares.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible preference shares. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves.

The convertible preference shares recognised in the balance sheet is calculated as follows:

	2005
	HK$'000
Face value of convertible preference shares issued on 29 April 2005	31,200
Equity component	(11,134)
Liability component on initial recognition at 29 April 2005	20,066
Interest expense *(Note 10)*	1,107
Liability component at 31 December 2005 *(Note 25)*	21,173

The fair value of the liability component of convertible preference shares at 31 December 2005 amounted to HK$21,023,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.32% per annum.

Interest expense on convertible preference shares is calculated using the effective interest method by applying the effective interest rate of 8.27% per annum to the liability component.

24. DUE TO FELLOW SUBSIDIARIES AND THE ULTIMATE HOLDING COMPANY

The amounts due to fellow subsidiaries and the ultimate holding company are interest free, unsecured, and repayable on demand.

25. BORROWINGS

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Non-current		
Financial liability portion of convertible preference shares issued by a subsidiary *(Note 23)*	21,173	–
Current		
Short term bank borrowings:		
Short term bank loan – PRC, secured *(Note (a))*	48,077	13,364
Others:		
Other loans – PRC, secured *(Note (b))*	–	935
	48,077	14,299
Total borrowings	69,250	14,299

Note:

(a) As at 31 December 2005, secured short term bank loans of HK$48,077,000 were secured by corporate guarantee of HK$48,077,000 from the Company.

As at 31 December 2004, secured short term bank loans of HK$13,364,000 were secured by corporate guarantee from a fellow subsidiary of the Company.

(b) As at 31 December 2004, other loans of HK$935,000 was obtained from Shenzhen Fu Tian Science Technology Bureau and secured by corporate guarantee from an independent third party.

The carrying amounts of financial liability portion of convertible preference shares issued by a subsidiary and short-term borrowings approximate their fair values.

The maturity of borrowings is as follows:

	Group					
	Bank borrowings		Financial liability portion of convertible preference shares issued by a subsidiary		Other loans	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	48,077	13,364	–	–	–	935
Over 5 years	–	–	21,173	–	–	–
	48,077	13,364	21,173	–	–	935

The effective interest rates at the balance sheet date were as follows:

	2005		2004	
	Hong Kong dollar per annum	**Renminbi per annum**	**Hong Kong dollar per annum**	**Renminbi per annum**
Financial liability portion of convertible preference shares issued by a subsidiary	8.27%	–	–	–
Short term bank borrowings	–	5.58%	–	5.58%

The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Hong Kong dollar	21,173	–
Renminbi	48,077	14,299
	69,250	14,299

The Group has the following undrawn borrowing facilities:

	2005	**2004**
	HK$'000	*HK$'000*
Floating rate		
– expiring within one year	–	11,500

As at 31 December 2004, the facilities expiring within one year are annual facilities subject to review at various dates during 2005. All the facilities have been terminated during the current year.

26. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Deferred tax assets to be recovered within 12 months	(56)	(28)
Deferred tax liabilities to be recovered within 12 months	56	28
	–	–

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Accelerated tax depreciation	
	2005	**2004**
	HK$'000	*HK$'000*
Deferred tax liabilities		
At 1 January	28	10
Charged to income statement	28	18
At 31 December	56	28

	Tax losses	
	2005	**2004**
	HK$'000	*HK$'000*
Deferred tax assets		
At 1 January	(28)	(10)
Credited to income statement	(28)	(18)
At 31 December	(56)	(28)

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related benefit through the future taxable profits is probable. The Group has unrecognised tax losses HK$36,731,000 (2004: HK$102,150,000) to carry forward against future taxable income. These tax losses have not been recognised for due to uncertainty of their future recoverability. The tax losses will expire according to the prevailing tax laws and regulations in the countries in which the Group operates.

27. CASH GENERATED FROM OPERATION

	2005	2004
	HK$'000	*HK$'000*
Operating profit/(loss)	70,940	(11,136)
Interest income	(1,403)	(175)
Subsidy income from Government	(926)	–
Issue of share options by the Company	4,220	–
Issue of share options by a subsidiary	273	–
Depreciation	9,884	8,623
Loss on disposal and write off of property, plant and equipment	319	3,378
Provision for doubtful debts	6,974	4,366
Write-off of inventories	1,008	–
Write-back of provision for obsolete inventories	–	(429)
Operating profit before working capital changes	91,289	4,627
Decrease/(increase) in trade and other receivables	6,275	(33,071)
Decrease/(increase) in inventories	7,236	(8,684)
(Decrease)/increase in trade payables, other payables and accruals	(5,328)	49,074
(Decrease)/increase in amount due to ultimate holding company	(24,638)	21,596
Decrease in amounts due to fellow subsidiaries	(233)	(2,531)
Cash generated from operating activities	74,601	31,011

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
	HK$'000	*HK$'000*
Net book amount *(Note 15)*	476	237
Loss on sale of property, plant and equipment	(319)	(183)
Proceeds from sale of property, plant and equipment	157	54

28. CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no other contingent liabilities (2004: Nil).

29. OPERATING LEASE COMMITMENTS

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	5,079	5,494	6,243	4,463
Later than one year and not later than five years	6,085	1,991	–	–
	11,164	7,485	6,243	4,463

30. RELATED PARTY TRANSACTIONS

The Group is controlled by Rich Global Limited (incorporated in British Virgin Islands), which owns 57% of the Company's shares. The remaining 43% of the shares are widely held. The ultimate parent of the Group is Hi Sun Limited (incorporated in British Virgin Islands).

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

	2005	**2004**
	HK$'000	*HK$'000*
Management fees received from a related company *(Note (i))*	150	200
Rental fees paid to a related company *(Note (ii))*	827	916

Note:

(i) A subsidiary, Hi Sun Development Management Limited, provided management services to Panorama Stock Limited, a company owned by a Director of the Company.

(ii) A subsidiary, Beijing Hi Sun Advanced Business Solutions Information Technology Limited, paid rental fees to Beijing Hi Sun Electric Power Information Technology Limited, a fellow subsidiary company owned by a Director, who is also a substantial shareholder, of the Company.

The above transactions were conducted in the normal course of business and charged at terms mutually agreed or in accordance with the terms of the underlying agreements, where appropriate.

(b) Year end balances with related parties are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Receivable from a related company		
Panorama Stock Limited	150	–
Payable to a fellow subsidiary		
Beijing Hi Sun Electric Power Information Technology Limited	390	623
Payable to the ultimate holding company		
Hi Sun Limited	–	24,638

31. SUBSEQUENT EVENTS

(i) Issue of new ordinary shares

On 21 March 2006, the Company entered into a subscription agreement with Huge Rising Limited (the "Subscriber"), a company incorporated in the British Virgin Islands, in relation to the subscription by the Subscriber at a price if HK$1.46 per share (the "Subscription Price") of an aggregate of 66,000,000 new ordinary shares of HK$0.01 each to be issued by the Company (the "Subscription Shares"). The Subscription Price is to be paid in cash on completion of the subscription agreement.

The Subscriber is an investment holding company and the ultimate beneficial owner of which is Mr. Che Fung, which are both third parties independent of the Company and connected persons of the Company.

The Subscription Shares represented approximately 19.73% of the issued share capital of the Company on 21 March 2006 and approximately 16.48% of the share capital as enlarged by the issue of the Subscription Shares.

The Subscription Prices was determined after arm's length negotiation between the Company and the Subscriber and with reference to the prevailing market prices of the shares of the Company. The Subscription Price represents (i) a discount of approximately 19.78% to the closing price of HK$1.82 per share as quoted on the Stock Exchange of Hong Kong Limited on 20 March 2006; (ii) a discount of approximately 19.25% to the average closing price of HK$1.808 per share for the last 5 trading days ended 20 March 2006 and (iii) a discount of approximately 8.98% to the average closing price of HK$1.604 per share for the last 20 trading days ended 20 March 2006. The subscription was completed on 31 March 2006.

As at the date of this report, the Company has 59,000,000 share options outstanding and the total issued number of ordinary shares is 406,354,030.

(ii) Exercise of share options of the Company

On 26 January 2006, Mr. Su Terry Lumin, a former director of the Company, exercised 1,500,000 share options at the exercise price of HK$0.374, which result in the issue of 1,500,000 additional ordinary shares of the Company.

Subsequent to year end and up to the date of this report, the employees of the Company exercised 7,300,000 share options at the exercise price of HK$0.374, which result in the issue of 7,300,000 additional ordinary shares of the Company.

(iii) Lapse of share options of the subsidiary

Subsequent to the year end and up to the date of this report, 780,000 share options of the subsidiary, had been lapsed, following the cessation of employment of certain employees.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The following is the unaudited financial statements of the Group for the six months ended 30 June 2006 together with the accompanying notes, extracted from the interim report of the Company for the six months ended 30 June 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		Unaudited Six months ended 30 June	
		2006	**2005**
	Note	*HK$'000*	*HK$'000*
Turnover	*4*	193,554	178,968
Cost of sales	*5*	(111,839)	(74,487)
Gross profit		81,715	104,481
Selling expenses	*5*	(15,451)	(15,968)
Administrative expenses	*5*	(37,713)	(47,115)
Operating profit		28,551	41,398
Other gains	*4*	19,377	558
Finance costs	*7*	(1,902)	(894)
Profit before income tax		46,026	41,062
Income tax expense	*8*	(3,805)	(2,494)
Profit attributable to the equity holders of the Company		42,221	38,568
			(Restated)
Earnings per share for profit attributable to the equity holders of the Company:			
– Basic	*10*	HK$0.028	HK$0.029
– Diluted	*10*	HK$0.025	HK$0.028

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006 and 31 December 2005

	Note	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	50,134	37,760
Leasehold land	*12*	204	208
		50,338	37,968
Current assets			
Inventories		23,822	21,607
Trade receivables	*13*	116,631	78,291
Prepayments, deposits and other receivables		25,879	19,146
Due from a related company	*16, 21*	67	150
Due from a fellow subsidiary	*16, 21*	49	–
Cash and cash equivalents		179,321	156,579
		345,769	275,773
Total assets		396,107	313,741
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	4,090	3,330
Other reserves		267,650	124,104
Total equity		271,740	127,434

	Note	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
LIABILITIES			
Non-current liabilities			
Financial liability portion of convertible preference shares issued by a subsidiary	*15, 19*	21,770	21,173
Current liabilities			
Trade payables	*14*	47,569	40,305
Other payables and accruals		52,421	75,647
Due to a fellow subsidiary	*21*	–	390
Taxation payable		2,607	715
Short term borrowings	*15*	–	48,077
		102,597	165,134
Total liabilities		124,367	186,307
Total equity and liabilities		396,107	313,741
Net current assets		243,172	110,639
Total assets less current liabilities		293,510	148,607

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Unaudited Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	(10,570)	342
Net cash outflow from investing activities	(18,229)	(7,404)
Net cash inflow from financing activities	51,541	77,929
Increase in cash and cash equivalents	22,742	70,867
Cash and cash equivalents at beginning of period	156,579	47,649
Cash and cash equivalents at end of period	179,321	118,516
Analysis of balances of cash and cash equivalents		
Bank balances and cash	179,321	118,516

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Unaudited Other reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	3,330	100,556	125,310	15,627	872	(118,261)	127,434
Profit for the period	–	–	–	–	–	42,221	42,221
Shares issued under share options scheme of the Company *(Note 17(c))*	100	3,640	–	–	–	–	3,740
Issue of new shares *(Note 17(a))*	660	95,700	–	–	–	–	96,360
Share issuance expenses	–	(60)	–	–	–	–	(60)
Share premium reduction *(Note 18)*	–	(100,556)	43,125	–	–	57,431	–
Employee share option scheme – value of employee services *(Note 17(c))*	–	–	–	1,612	–	–	1,612
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	–	433	–	433
At 30 June 2006	4,090	99,280	168,435	17,239	1,305	(18,609)	271,740
At 1 January 2005	3,330	100,556	125,310	–	–	(180,565)	48,631
Profit for the period	–	–	–	–	–	38,568	38,568
Issue of convertible preference shares by a subsidiary *(Note 19)*	–	–	–	11,134	–	–	11,134
At 30 June 2005	3,330	100,556	125,310	11,134	–	(141,997)	98,333

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The Company and its subsidiaries (together the "Group"), are principally engaged in the sales of electronic payment products and services, information technology products, provision of financial solutions and services, provision of telecommunications solutions and services, and information technology operation valued-added services. The Group has operations mainly in countries within the Peoples' Republic of China ("PRC"), Hong Kong and South East Asia.

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

The Company has its primary listing on the main board with The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements were approved for issue on 15 September 2006.

2. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements for the six months ended 30 June 2006 ("Condensed Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These Condensed Interim Accounts should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3. ACCOUNTING POLICIES

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

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

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

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

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

4. TURNOVER, OTHER GAINS AND SEGMENT REPORTING

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

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

The Group is organised into four main business segments:

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

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

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

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

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

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

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

	Unaudited Six months ended 30 June 2005					
	Financial solutions, services and information technology products HK$'000	Telecom-munications solutions, services and information technology products HK$'000	Electronic payment products and services HK$'000	Information technology operation value-added services HK$'000	Other operations HK$'000	Group HK$'000
Turnover	49,102	3,253	48,097	78,416	100	178,968
Segment results	757	2,224	5,704	48,274	(15,561)	41,398
Unallocated income						558
Finance costs						(894)
Profit before income tax						41,062
Income tax expense						(2,494)
Profit attributable to the equity holders of the Company						38,568

Secondary reporting format – Geographical segments

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

Hong Kong and South East Asia	–	financial solutions, services and information technology products, and electronic payment products and services
PRC	–	financial solutions, services and information technology products, telecommunications solutions, services and information technology products, electronic payment products and services, and information technology operation value-added services

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

	Unaudited Six months ended 30 June 2006	
	Turnover	Segment results
	HK$'000	*HK$'000*
Hong Kong and South East Asia	30,079	(2,578)
PRC	163,475	31,129
Operating profit	193,554	28,551

	Unaudited Six months ended 30 June 2005	
	Turnover	Segment results
	HK$'000	*HK$'000*
Hong Kong and South East Asia	26,381	(1,398)
PRC	152,587	42,796
Operating profit	178,968	41,398

5. EXPENSES BY NATURE

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

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

6. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Unaudited Six months ended 30 June 2006 *HK$'000*	 2005 *HK$'000*
Wages and salaries	34,454	43,658
Social security costs	2,905	2,596
Employee share option scheme – value of employee services *(Note 17(c))*	1,612	–
Pension costs – defined contribution plans	2,205	1,879
	41,176	48,133

7. FINANCE COSTS

	Unaudited Six months ended 30 June 2006 *HK$'000*	 2005 *HK$'000*
Interest on bank loans and overdrafts	883	791
Interest on financial liability portion of convertible preference shares issued by a subsidiary *(Note 19)*	1,019	103
	1,902	894

8. 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 period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

Note:

(a) Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the period (six months ended 30 June 2005: Nil).

(b) The PRC taxation has been provided on the profit of the Group's subsidiaries in the PRC and calculated at the applicable rates (six months ended 30 June 2005: HK$2,494,000).

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

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

9. DIVIDEND

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

10. EARNINGS PER SHARE

Basic

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

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

Diluted

Diluted earnings per share for the six months ended 30 June 2006 is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. The Company has two categories of dilutive ordinary shares: convertible preference shares issued by a subsidiary and share options. The convertible preference shares issued by a subsidiary are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above for the purpose of diluted earnings per share calculation is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

Note: The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the six months ended 30 June 2005 have been adjusted for the Company's share subdivision in June 2006, details of which are set out in note 17(b).

11. PROPERTY, PLANT AND EQUIPMENT

	HK$'000
Net book value as at 1 January 2006	37,760
Additions	18,229
Depreciation	(5,855)
Net book value as at 30 June 2006	50,134
Net book value as at 1 January 2005	21,135
Additions	7,967
Disposals	(11)
Depreciation	(4,352)
Net book value as at 30 June 2005	24,739
Exchange differences	605
Additions	18,413
Disposals	(465)
Depreciation	(5,532)
Net book value as at 31 December 2005	37,760

12. LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	Unaudited 30 June 2006 *HK$'000*	**Audited 31 December 2005** *HK$'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	208	208
Amortisation	(4)	–
Net book value	204	208

The movement of the lease prepayment for land is as follows:

	Unaudited 30 June 2006 *HK$'000*	**Audited 31 December 2005** *HK$'000*
Balance at beginning of period/year	208	–
Additions	–	208
Charge for the period/year	(4)	–
Balance at end of period/year	204	208

13. TRADE RECEIVABLES

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

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

14. TRADE PAYABLES

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

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

15. BORROWINGS

	Unaudited 30 June 2006 *HK$'000*	Audited 31 December 2005 *HK$'000*
Non-current		
– Financial liability portion of convertible preference shares issued by a subsidiary *(Note 19)*	21,770	21,173
Current		
Short term bank borrowings		
– Short term bank loans – PRC, secured *(Note)*	–	48,077
Total borrowings	21,770	69,250

Note: As at 31 December 2005, secured short term bank loans of HK$48,077,000 were secured by corporate guarantee of HK$48,077,000 from the Company. The short term bank borrowings were repaid on 11 May 2006 and the corporate guarantee from the Company has been released thereon.

The carrying amount of financial liability portion of convertible preference shares issued by a subsidiary approximates its fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
Hong Kong dollar	21,770	21,173
Renminbi	–	48,077
	21,770	69,250

16. DUE FROM A RELATED COMPANY AND A FELLOW SUBSIDIARY

The amounts due from a related company and a fellow subsidiary are interest free, unsecured and repayable on demand.

17. SHARE CAPITAL

	Ordinary shares of HK$0.01 each		Ordinary shares of HK$0.0025 each	
	Number of Shares	*HK$'000*	*Number of Shares*	*HK$'000*
Authorised:				
At 1 January 2006	1,000,000,000	10,000	–	–
Reduction of par value of ordinary shares *(Note (b))*	(1,000,000,000)	(10,000)	4,000,000,000	10,000
At 30 June 2006	–	–	4,000,000,000	10,000
Issued and fully paid:				
At 1 January 2006	333,054,030	3,330	–	–
Issue of new ordinary shares *(Note (a))*	66,000,000	660	–	–
Shares issued under share option scheme of the Company *(Note (c))*	10,000,000	100	–	–
Reduction of par value of ordinary shares *(Note (b))*	(409,054,030)	(4,090)	1,636,216,120	4,090
At 30 June 2006	–	–	1,636,216,120	4,090

Note:

(a) Issue of new ordinary shares

On 21 March 2006, the Company entered into a subscription agreement with Huge Rising Limited (the "Subscriber"), a company incorporated in the British Virgin Islands, in relation to the subscription by the Subscriber at a price of HK$1.46 per share (the "Subscription Price") of an aggregate of 66,000,000 new ordinary shares of HK$0.01 each to be issued by the Company pursuant to the subscription agreement (the "Subscription Shares"), for the purpose of providing the Group with additional working capital. The Subscription Price was paid in cash on completion of the subscription agreement on 31 March 2006.

The Subscriber is an investment holding company and the ultimate beneficial owner of which is Mr. Che Fung, which are both third parties independent of the Company and connected persons of the Company.

The Subscription Shares represented approximately 19.73% of the then existing issued share capital of the Company and approximately 16.48% of the share capital as enlarged by the issue of the Subscription Shares.

The Subscription Prices was determined after arm's length negotiation between the Company and the Subscriber and with reference to the prevailing market prices of the shares of the Company. The Subscription Price represents (i) a discount of approximately 19.78% to the closing price of HK$1.82 per share as quoted on the Stock Exchange of Hong Kong Limited on 20 March 2006; (ii) a discount of approximately 19.25% to the average closing price of HK$1.808 per share for the last 5 trading days ended 20 March 2006 and (iii) a discount of approximately 8.98% to the average closing price of HK$1.604 per share for the last 20 trading days ended 20 March 2006. The share issuance expense incurred amounted to HK$60,000. The subscription was completed on 31 March 2006. The shares issued rank pari passu with the existing ordinary shares of the Company.

(b) Share subdivision

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

(c) Share option scheme of the Company

The Company operates a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating talented employees in order to strive for future developments and expansion of the Group. Eligible participants of the Scheme include the Group's full-time employees, and executive and non-executive Directors. The Scheme became effective on 29 November 2001 and unless otherwise cancelled or amended, will remain valid and effective for a period of 10 years from that date.

The total number of shares in respect of which options may be granted shall not (together with all the other Schemes, if any) exceed 10% of the total issued capital of the Company as at date of approval of the Scheme unless the Company obtains a fresh approval from shareholders to renew the 10% limit.

The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time. On 18 March 2004, 33,000,000 share options were granted to certain directors and employees at HK$0.374 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

Pursuant to an ordinary resolution passed on 17 August 2005, a refreshment of the limit on grant of options under the Scheme was approved by the shareholders. Upon refreshing the 10 per cent limit on grant of options under the Scheme, 33,305,403 shares may be issued pursuant to the grant of further options under the Scheme.

On 26 September 2005, 33,300,000 share options were granted to certain directors and employees at HK$0.768 (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 26 September 2005) with an expiry date of 25 September 2015. The option period commences on 26 September 2005 and expires 10 years thereafter.

Options granted are vested as follows:

On 26 September 2005	Up to 50%
On 26 September 2006	Up to 100%

Share options outstanding (in thousands) have the following expiry date and exercise prices:

Expiry date	Exercise price HK$ per share	30 June 2006
17 March 2014	0.0935	92,000
25 September 2015	0.192	133,200
		225,200

Expiry date	Exercise price HK$ per share	31 December 2005
17 March 2014	0.374	33,000
25 September 2015	0.768	33,300
		66,300

For the six months ended 30 June 2006, 10,000,000 share options have been exercised at the exercise price of HK$0.374 per share, resulting in the issue of 10,000,000 additional ordinary shares of the Company. The weighted average closing price immediately before the dates on which the options were exercised was HK$2.27 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

(d) Employee incentive scheme of a subsidiary

On 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited ("Turbo Speed"), to adopt an employee incentive scheme (the "Employee Incentive Scheme") to motivate the employees of Turbo Speed and its subsidiary (the "Turbo Speed Group"). Eligible participants of the Employee Incentive Scheme include the full-time employees of Turbo Speed or any of its subsidiaries, including any directors of Turbo Speed or any of its subsidiaries (but excluding any person who is a Director of the Company) provided always that such term shall exclude any person who has tendered his resignation or who at the relevant time is working out his period of notice pursuant to his employment contract or otherwise. The Scheme became effective from 4 April 2005 to 31 December 2008, unless terminated by resolution of a remuneration committee formed by the Board to administer the Employee Incentive Scheme (the "Committee").

The total number of shares in respect of which options may be granted shall not exceed 4,682,275 ordinary shares of Turbo Speed ("Turbo Speed Shares"), representing approximately 13.0% of the existing issued share capital of Turbo Speed, currently held by a wholly-owned subsidiary of the Company. Options may be offered to any Employee determined by the Committee in its absolute discretion from time to time by reference to: (i) the performance of that Employee; and (ii) the financial performance of the Turbo Speed Group and the extent to which the Turbo Speed Group has achieved its intended business plans. The maximum number of the Turbo Speed Shares which may be offered to an employee who is also a director of companies within the Turbo Speed Group in any 12-month period may not exceed 1% of the entire issued share capital of Turbo Speed.

On 8 July 2005, 1,425,000 share options had been granted to certain directors and employees of its subsidiary to subscribe ordinary shares of Turbo Speed at an exercise price of HK$1.922 per share. The exercisable period of the above share options is from 8 July 2005 to 31 December 2008 (both dates inclusive).

Share options outstanding (in thousands) have the following expiry date and exercise price:

		Share options	
	Exercise price	30 June	31 December
Expiry date	HK$ per share	2006	2005
31 December 2008	1.922	180	1,425

During the six months ended 30 June 2006, no share options have been exercised and 1,245,000 share options have been lapsed. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

18. SHARE PREMIUM REDUCTION

In compliance with section 46 of the Companies Act 1981 of Bermuda and with effect from 28 June 2006 (the date of the passing of the special resolution), the entire amount standing to the credit of the share premium account of the Company as at 31 December 2005 was cancelled and the directors of the Company was authorised to apply part of the credit arising from the aforesaid reduction of the share premium account of the Company in the sum of HK$57,431,000 to offset the accumulated losses of the Company in full and the remaining balance of the credit arising therefrom in the sum of HK$43,125,000 was transferred to the contributed surplus account of the Company in accordance with the Bye-laws of the Company and all applicable laws.

19. CONVERTIBLE PREFERENCE SHARES ISSUED BY A SUBSIDIARY

On 9 November 2004, Turbo Speed Technology Limited ("Turbo Speed"), a wholly-owned 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 Subscription"). The subscription price had been received by Turbo Speed shortly after signing of the said subscription agreement and was held in jointly controlled bank account and would be released on completion of the Subscription.

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved the Subscription and the Subscription was completed on 29 April 2005. The deposit received from issue of convertible preference shares by a subsidiary as at 31 December 2004 included a balance of HK$50,000 which represented accrued interest income on the total subscription price of US$4 million (approximately HK$31.2 million). Such accrued interest income was recognised in the income statement as interest income for the year ended 31 December 2005.

According to the said subscription agreement, the rights attached to holders of convertible preference shares of Turbo Speed are summarised as follows:

(a) Income (assuming no conversion of convertible preference shares)

(i) A fixed cumulative preferred dividend equal to HK$624,000 for each financial year of Turbo Speed; and

(ii) Participation in part of dividends 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 to the holders of the convertible preference shares would be equal to 16% (on annual basis) of the total dividends payable by Turbo Speed.

(b) Conversion options

(i) Convertible at any time from the date of completion of the Subscription for a period of 24 months into new shares of the Company at a conversion price of HK$1.2 per share, subject to adjustment set out in the subscription agreement (the "Conversion"). The amount for the Conversion shall be US$4 million.

The Share subdivision of the Company on 29 June 2006 has led to an adjustment to the conversion price of the convertible preference shares from HK$1.2 to HK$0.30 per share.

(ii) Automatic conversion into ordinary shares of Turbo Speed at a ratio of 1:1 on the business day after Turbo Speed has paid total dividends on each convertible preference share which exceed its original issue price.

According to a shareholders' agreement entered into by the Company and the convertible preference shareholders of Turbo Speed on 29 April 2005, if the audited net profit after taxation of Beijing Hi Sunsray Technology Limited ("Beijing Hi Sunsray"), a wholly-owned subsidiary of Turbo Speed, for either of the financial year ending 31 December 2005 or 2006, as stated in the audited financial statements of Beijing Hi Sunsray for the relevant financial year is less than RMB40 million, the Company shall transfer an agreed percentage of shares in Turbo Speed to the then convertible preference shareholders of Turbo Speed for a consideration of HK$1.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible preference shares.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible convertible preference shares. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves.

The convertible preference shares issued recognised in the balance sheet is calculated as follows:

	Unaudited 30 June 2006 *HK$'000*	**Audited 31 December 2005** *HK$'000*
Face value of convertible preference shares issued on 29 April 2005	31,200	31,200
Equity component	(11,134)	(11,134)
Liability component on initial recognition at 29 April 2005	20,066	20,066
Interest expense for the year ended 31 December 2005	1,107	1,107
Interest expense for the six months ended 30 June 2006	1,019	–
Preferred dividend paid for the six months ended 30 June 2006	(422)	–
Liability component	21,770	21,173

Interest expense on convertible preference shares is calculated using the effective interest method by applying the effective interest rate of 8.27% (31 December 2005: 8.27%) per annum to the liability component.

The fair value of the liability component of convertible preference shares at 30 June 2006 amounted to HK$21,169,000 (31 December 2005: HK$21,023,000). The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.94% (31 December 2005: 7.32%) per annum.

20. OPERATING LEASE COMMITMENTS

At 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		**Equipment**	
	Unaudited 30 June 2006 *HK$'000*	**Audited 31 December 2005** *HK$'000*	**Unaudited 30 June 2006** *HK$'000*	**Audited 31 December 2005** *HK$'000*
Not later than one year	4,978	5,079	3,059	6,243
Later than one year and not later than five years	5,402	6,085	–	–
	10,380	11,164	3,059	6,243

21. RELATED PARTY TRANSACTIONS

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

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

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

Note:

(i) A subsidiary, Hi Sun Development Management Limited, provided management service to Panorama Stock Limited, a company owned by a Director of the Company.

(ii) A subsidiary, Beijing Hi Sun Advanced Business Solutions Information Technology Limited, paid rental fees to Beijing Hi Sun Electric Power Information Technology Limited, a fellow subsidiary company owned by a Director, who is also a substantial shareholder, of the Company.

The above transactions were conducted in the normal course of business and charged at terms mutually agreed or in accordance with the terms of the underlying agreements, where appropriate.

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

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

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

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

22. SUBSEQUENT EVENTS

Issue of convertible preference shares by a subsidiary

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

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

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

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

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

4. INDEBTEDNESS OF THE ENLARGED GROUP

(a) The Group

Indebtedness

As at the close of business on 31 January 2007, being the latest practicable date for the purpose of this indebtedness statement, the Group had (i) outstanding short term bank loan of RMB6.8 million (equivalent to approximately HK$6.9 million), which was secured by the leasehold land and the 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), and (ii) loan portion of the convertible preference shares issued by a wholly owned subsidiary of the Company recognized in the consolidated balance sheet of the Group as at 31 January 2007 amounted to approximately HK$11.3 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 January 2007, the Group did not have any other debt securities issued and outstanding or authorized or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or material contingent liabilities.

(b) Baifu Holding Group

Borrowings

As at the close of business on 31 January 2007, being the latest practicable date for the purpose of this indebtedness statement, Baifu Holding had secured bank borrowings of approximately RMB22,000,000 and unsecured borrowings of approximately RMB10,000,000.

Pledge of assets

As the close of business on 31 January 2007, Baifu Holding had pledged its land use rights and buildings with aggregate net book value of approximately RMB15,202,000 and certain property, plant and equipment to secure the general banking facilities granted to Baifu Holding.

(c) Pacific Sheen Group

Borrowings

As at the close of business on 31 January 2007, being the latest practicable date for the purpose of this indebtedness statement, Pacific Sheen had unsecured borrowings of bank loans of approximately RMB520,000.

Disclaimer

Saved as aforesaid and apart from intra-group liabilities, the Group, Baifu Holding and Pacific Sheen did not, at the close of business on 31 January 2007, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 January 2007.

5. WORKING CAPITAL

The Directors are of the opinion that, after taking into account of the Group's internal resources and the present available banking facilities, the Enlarged Group has sufficient working capital for its present requirements following the Completion, that is for at least the next 12 months from the date of this circular.

6. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in the sale of information technology products, provision of customized information system consultancy and integration services and information technology operation value-added services. Upon Completion, the Enlarged Group will also engage in the design, manufacture and sale of electronic power meters and provision of management and automation solutions for the electric power industry.

Looking forward, the Directors are very confident in the future prospect of the Enlarged Group.

Following completion of the construction of several commercial core banking systems in China and Hong Kong, the success of which enhanced the level of expertise and market position of the Enlarged Group in this niche market. The Enlarged Group will continue to strengthen its market position and technical expertise in the banking solution. Based on the established market position and experience, the Enlarged Group has been engaged in the initial preparation for the ATM and electronic fund transfer point-of-sale operation services as well as outsourcing for the financial institutions.

In the telecommunication front, the Enlarged Group 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 respect of the electronic power meters and electric power automation solutions business, given the rapid development of the PRC economy, it is expected that the demand for such services will continue to experience significant growth and the electronic power meters and solutions business of the Enlarged Group will further strengthen its revenue and profit base.

The following is the text of a report, prepared by the Company's auditors and reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the sole purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

30 March 2007

The Directors
Hi Sun Technology (China) Limited

Dear Sirs

We set out below our report on the financial information relating to 杭州百富控股有限公司 (Hangzhou Baifu Holding Company Limited) ("Baifu Holding") and its subsidiaries (hereinafter collectively referred to as the "Baifu Holding Group") for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of Hi Sun Technology (China) Limited (the "Company") dated 30 March 2007 (the "Circular"), in connection with the proposed acquisition of the entire registerd capital of Baifu Holding, the entire issued share capital of Pacific Sheen International Limited and their respective shareholders' loan, and the proposed disposal of 5% of the issued share capital of Hualong Holdings Company Limited, the then wholly owned subsidiary of the Company (collectively the "Transaction").

Baifu Holding was established in the People's Republic of China on 15 March 2007 as a limited liability company under the Companies Law of the People's Republic of China. No audited financial statements of Baifu Holding have been issued since its establishment. Pursuant to the group reorganisation (the "Reorganisation") which was completed on 15 March 2007, Baifu Holding became the holding company of the companies now comprising the Baifu Holding Group.

As at the date of this report, Baifu Holding has direct and indirect interests in the following subsidiaries:

Name	Place and date of establishment	Registered/ share capital	Percentage of equity interest attributable to Baifu Holding direct	indirect	Principal activities	*Notes*
杭州華隆電子技術有限公司 ("Hualong Electronics")	The People's Republic of China (the "PRC"), 4 December 1996	RMB24,000,000	100%	–	Manufacturing and sales of electronic power meters and provision of management and automation solutions	*(1)*

Name	Place and date of establishment	Registered capital	Percentage of equity interest attributable to Baifu Holding direct	indirect	Principal activities	*Notes*
杭州華隆信息技術有限公司 ("Hualong Information")	the PRC, 17 July 2003	RMB3,400,000	100%	–	Design of electronic power meters in the PRC	*(2)*
杭州安特電力電子技術有限公司 ("Ante")	the PRC, 3 August 2006	RMB1,000,000	–	70%	Researching and producing electric measuring instruments and relevant automation systems in the PRC	*(3), (4)*
河南華隆電力儀表有限公司	the PRC, 30 November 2006	RMB1,000,000	–	95%	Business not yet commenced	*(3), (4)*
北京華隆恒新電子產品銷售有限公司	the PRC, 30 November 2006	RMB1,000,000	–	95%	Business not yet commenced	*(3), (4)*
武漢華隆遠見電子工程有限公司	the PRC, 11 December 2006	RMB500,000	–	90%	Business not yet commenced	*(3), (4)*
濟南華隆電子設備有限公司	the PRC, 13 December 2006	RMB550,000	–	90.91%	Business not yet commenced	*(3), (4)*
南昌華隆電力科技有限公司	the PRC, 5 December 2006	RMB500,000	–	90%	Business not yet commenced	*(3), (4)*

Notes:

1. The financial statements of Hualong Electronics were prepared in accordance with accounting principles and relevant financial regulations of the PRC and were audited by 浙江天華會計師事務所 for the years ended 31 December 2004 and 2006 and by 杭州明德會師事務所有限公司 for the year ended 31 December 2005.

2. The financial statements of Hualong Information were prepared in accordance with accounting principles and relevant financial regulations of the PRC and were audited by 浙江天華會計師事務所 for the years ended 31 December 2004, 2005 and 2006.

3. As these companies were newly established, no audited financial statements have been prepared.

4. These companies are directly held by Hualong Electronics and regarded as subsidiaries of Hualong Electronics.

For the purpose of this report, the directors of Baifu Holding have prepared the financial statements of each of Hualong Electronics and its subsidiaries (as defined in note 4 above) (collectively the "Hualong Electronics Group") and Hualong Information for the years ended 31 December 2004, 2005 and 2006 (collectively the "HKFRS Financial Statements") in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out an independent audit on the HKFRS Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

Respective responsibilities of directors and reporting accountants

The financial information as set out in Sections I to IV below (the "Financial Information") has been prepared based on the HKFRS Financial Statements after making such adjustments as are appropriate, on the basis as set out in Note 2 of Section II below.

The directors of companies comprising the Baifu Holding Group, during the Relevant Periods, are responsible for preparing the HKFRS Financial Statements which give a true and fair view. In preparing the HKFRS Financial Statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the Financial Information which gives a true and fair view.

It is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Basis of opinion

We have examined the HKFRS Financial Statements for the Relevant Periods, and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the combined state of affairs of the Baifu Holding Group as at 31 December 2004, 2005 and 2006 and of its combined results and cash flows for the Relevant Periods.

I FINANCIAL INFORMATION

A. Combined Income Statements

		Years ended 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*6*	273,769	313,502	394,579
Cost of sales	*7*	(155,883)	(170,428)	(193,956)
Gross profit		117,886	143,074	200,623
Other gains	*6*	14,965	16,879	18,315
Selling expenses	*7*	(32,792)	(57,974)	(80,573)
Administrative expenses	*7*	(45,701)	(66,730)	(76,542)
Operating profit		54,358	35,249	61,823
Finance costs	*10*	(1,556)	(1,058)	(2,503)
Profit before income tax		52,802	34,191	59,320
Income tax (expense)/credit	*11*	(8,903)	2,481	(15,975)
Profit for the year		43,899	36,672	43,345
Attributable to:				
Equity holders		43,899	36,672	43,384
Minority interests		–	–	(39)
		43,899	36,672	43,345
Dividends	*12*	–	–	45,750
Earning per share	*13*	N/A	N/A	N/A

B. Combined Balance Sheets

		At 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*14*	18,980	41,805	46,509
Land use rights	*15*	2,511	6,846	7,734
Intangible assets	*16*	950	797	623
Deferred tax assets	*25*	–	2,481	–
		22,441	51,929	54,866
Current assets				
Inventories	*17*	43,083	114,981	94,966
Trade and bills receivables	*18*	96,970	103,106	130,422
Prepayments, deposits and other receivables		27,069	39,419	48,261
Tax recoverable		845	–	–
Due from a related company	*19,29*	–	23	–
Due from shareholders	*19,29*	4,615	12,453	50,100
Cash and cash equivalents	*20*	23,676	84,057	47,288
		196,258	354,039	371,037
Total assets		218,699	405,968	425,903
EQUITY				
Capital and reserves attributable to Baifu Holding's equity holders				
Capital	*23*	13,400	27,400	27,400
Retained earnings		89,916	123,826	120,450
Other reserves	*24*	12,663	15,425	16,435
		115,979	166,651	164,285
Minority interests		–	–	476
Total equity		115,979	166,651	164,761

		At 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Current liabilities				
Trade payables	*21*	42,034	124,339	47,041
Other payables and accruals		26,889	78,151	136,990
Taxation payable		–	1,827	13,398
Due to a related company	*19,29*	–	–	7,913
Short term borrowings	*22*	33,797	35,000	55,800
Total liabilities		102,720	239,317	261,142
Total equity and liabilities		218,699	405,968	425,903
Net current assets		93,538	114,722	109,895
Total assets less current liabilities		115,979	166,651	164,761

C. Combined Statements of Changes in Equity

	Attributable to the equity holders of Baifu Holding				
	Capital	**Statutory reserve**	**Retained earnings**	**Minority interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	13,400	4,657	54,023	–	72,080
Profit for the year	–	–	43,899	–	43,899
Transferred to statutory reserve	–	8,006	(8,006)	–	–
At 31 December 2004 and 1 January 2005	13,400	12,663	89,916	–	115,979
Profit for the year	–	–	36,672	–	36,672
Transferred to statutory reserve	–	2,762	(2,762)	–	–
Capital injections	14,000	–	–	–	14,000
At 31 December 2005 and 1 January 2006	27,400	15,425	123,826	–	166,651
Minority interests in relation to investment in subsidiaries	–	–	–	515	515
Profit for the year	–	–	43,384	(39)	43,345
Transferred to statutory reserve	–	1,010	(1,010)	–	–
Dividends paid in relation to 2006	–	–	(45,750)	–	(45,750)
At 31 December 2006	27,400	16,435	120,450	476	164,761

D. Combined Cash Flow Statements

		Years ended 31 December		
		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	*26*	11,864	67,648	4,730
Interest paid		(1,556)	(1,058)	(2,503)
Profits tax paid		(11,648)	(5,217)	(1,923)
Profits tax refunded		–	7,888	–
Net cash (used in)/generated from operating activities		(1,340)	69,261	304
Cash flows from investing activities				
Purchase of property, plant and equipment		(7,294)	(5,490)	(11,770)
Purchase of land use rights		–	(4,489)	(1,060)
Purchase of intangible assets		(241)	(220)	(158)
Interest received		109	116	350
Net cash used in investing activities		(7,426)	(10,083)	(12,638)
Cash flows from financing activities				
Inception of short term bank loans		33,797	35,000	55,800
Repayment of short term bank loans		(29,143)	(33,797)	(35,000)
Dividends paid to shareholders		–	–	(45,750)
Contribution from minority shareholders		–	–	515
Net cash generated from/(used in) financing activities		4,654	1,203	(24,435)
Net (decrease)/increase in cash and cash equivalents		(4,112)	60,381	(36,769)
Cash and cash equivalents at beginning of the year		27,788	23,676	84,057
Cash and cash equivalents at the end of the year		23,676	84,057	47,288

II. NOTES TO THE FINANCIAL INFORMATION

1. GROUP STRUCTURE, REORGANISATION AND PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, manufacturing and sales of electronic power meters and provision of management and automation solutions for companies in the electric power industry in the PRC.

The Company is a limited liability company established in the People's Republic of China (the "PRC") on 15 March 2007. The address of its registered office is Room 101-103, 1st Floor, Tower 3, No. 15, No. 12 Main Street, Economic and Technology Development District, Hangzhou, Zhejiang Province, the PRC.

On 15 March 2007, Mr. Wang Bing Ren, Mr. Wang Zong Fang, Mr. Jiang Jie Zhong, Mr. Li Ning Chuan and Mr. Zhao Shu Xun (also known as Zhao Li Bin), the owners of each of Hualong Electronics and Hualong Information as to 29.42%, 23.54%, 23.54%, 11.75% and 11.75% (collectively the "Shareholders"), established Baifu Holding by injecting their respective interests in each of Hualong Electronics and Hualong Information into Baifu Holding, in consideration of the interests in Baifu Holding as to 29.42%, 23.54%, 23.54%, 11.75% and 11.75%, respectively (the "Reorganisation"). Accordingly, Baifu Holding becomes the holding company of the Baifu Holding Group.

The Financial Information is presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

2. BASIS OF PRESENTATION

For the purpose of this report, the Financial Information has been prepared to reflect the Reorganisation of the business under common control, in which the companies comprising the Baifu Holding Group are ultimately controlled by the Shareholders as a result of a contractual arrangement made between them.

For the purpose of this report, the combined income statement, combined cash flow statements and combined statements of changes in equity of the Baifu Holding Group for the Relevant Periods have been prepared on a combined basis, and include the Financial Information of the companies now comprising the Baifu Holding Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of establishment where there is a shorter period. The combined balance sheets of the Baifu Holding Group as at 31 December 2004, 2005 and 2006 have been prepared to present the assets and liabilities of the companies now comprising the Baifu Holding Group as if the current group structure had been in existence at those dates or since their respective date of incorporation where they were not in existence at those dates.

All significant intra-group transactions and balances have been eliminated on combination.

3. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Financial Information has been prepared in accordance with those new standards, amendments and HK(IFRIC) interpretations issued and effective for accounting periods commencing from 1 January 2006 during the Relevant Periods.

The Financial Information set out in this report has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Baifu Holding Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Standards, amendments and interpretations to existing standards effective in 2006 but not relevant to the Baifu Holding Group's operations

The following standards, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Baifu Holding Group's operations:

• HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
• HKAS 21 (Amendment)	New Investment in a Foreign Operation
• HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
• HKAS 39 (Amendment)	The Fair Value Option
• HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
• HKFRS 6	Exploration for and Evaluation of Mineral Resources
• HKFRSs 1 and 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
• HKFRS-Int 4	Determining whether an Arrangement contains a Lease
• HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
• HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Baifu Holding Group

The following 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)	Capital Disclosures
• HKFRS 7	Financial instruments: Disclosures
• HKFRS 8	Operating Segments
• HK(IFRIC)-Int 7	Applying the Restatement Approach
• 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 Baifu Holding 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.

3.1 Consolidation

The Financial Information includes the financial statements of Baifu Holding and its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which Baifu Holding has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Baifu Holding controls another entity.

Except for the Reorganisation, subsidiaries are fully consolidated from the date on which control is transferred to the Baifu Holding Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Baifu Holding Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Baifu Holding Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the combined income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Baifu Holding Group.

(b) *Transactions and minority interests*

The Baifu Holding Group applies a policy of treating transactions with minority interests as transactions with parties external to the Baifu Holding Group. Disposals to minority interests result in gains and losses for the Baifu Holding Group that are recorded in the combined income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary.

3.2 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Financial Information of each of the Baifu Holding Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is Baifu Holding's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined income statement.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On combination, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the combined income statement as part of the gain or loss on sale.

3.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Baifu Holding Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	5%
Office furniture and equipment	18% – 25%
Plant and equipment	9% – 25%
Motor vehicles	18% – 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents buildings on which construction work has not been completed. It is carried at cost which included construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the combined income statement.

3.4 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

3.5 Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials and direct labour. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.7 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Baifu Holding Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the combined income statement.

3.8 Cash and cash equivalents

Cash and cash equivalents are carried in the combined balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the combined balance sheet.

3.9 Share capital

Ordinary shares are classified as equity.

3.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined income statement over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the combined income statement in the year in which they are incurred.

Borrowings are classified as current liabilities unless the Baifu Holding Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.11 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Baifu Holding Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.12 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

Pursuant to the government regulations in the PRC, the Baifu Holding Group is required to contribute to the defined contribution scheme established by the municipal government in the PRC an amount based on approximately 9% to 20% of the wages for the year of those workers in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those workers of the Baifu Holding Group. Contributions to these retirement benefits schemes are charged to the combined income statement as incurred.

3.13 Provisions

Provisions are recognised when: the Baifu Holding Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

3.14 Revenue recognition

Revenue comprises the fair value for the sales of goods, net of value-added tax, rebates and discounts and after eliminating sales within the Baifu Holding Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the Baifu Holding Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Sales are recorded based on the price specified in the sales contracts, net of returns at the time of sale. Accumulated experience is used to estimate and provide for the returns. No element of financing is deemed present as sales are made with a credit term of 90 days, which is consistent with the market practice.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3.15 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the combined income statement on a straight-line basis over the period of the lease.

3.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Baifu Holding Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the combined income statement over the period necessary to match them with the costs that they are intended to compensate.

3.17 Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3.18 Dividends distribution

Dividend distribution to Baifu Holding's shareholders is recognised as a liability in the Baifu Holding Group's Financial Information in the period in which the dividends are approved by Baifu Holding's shareholders.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Baifu Holding Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest-rate risk.

Risk management is carried out by the management of the Baifu Holding Group. Management identify, evaluate and hedge financial risks in close co-operation within the operating units of the Baifu Holding Group.

(a) Foreign exchange risk

The Baifu Holding Group operates mainly in the PRC. The exchange rate of Renminbi to HK dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. At present, the Baifu Holding Group does not have any financial instruments for hedging purposes.

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Management are responsible for managing the net position in each foreign currency.

(b) Credit risk

The credit risk of the Baifu Holding Group mainly arises from trade receivables, amounts due from shareholders, other receivables and cash and cash equivalents placed with banks. Management consider that the Baifu Holding Group's exposure to bad debts is not significant since the Baifu Holding Group primarily trades with reputable and creditworthy customers. In addition, the Baifu Holding Group has credit policies in place to ensure that sales of products are made to customers with appropriate credit history. Collection of outstanding receivable balances and authorised credit limits to individual customers are closely monitored on an ongoing basis.

Exposure to credit risk arising from bank deposits is managed by placing the deposits to reputable banks and through regular analysis of the financial performance of the banks.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the ability to apply for bank loan facilities when necessary.

(d) Cash flow and fair value interest rate risk

The Baifu Holding Group's income and operating cash flows are substantially independent of changes in market interest rates. The Baifu Holding Group has no significant interest-bearing assets, except for the cash placed with banks.

The interest rate risk of the Baifu Holding Group arises from borrowings. Borrowings issued at variable rates expose the Baifu Holding Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Baifu Holding Group to fair value interest-rate risk. At the year end, all borrowings were at a fixed rate.

4.2 Fair value estimation

The nominal value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Baifu Holding Group for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Baifu Holding Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of receivables

Management determine the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassess the provision each balance sheet date.

(b) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Baifu Holding Group expects to generate from the future use of the asset, plus the asset's residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecasts of future performance and long-term growth rates and the selection of discount rates. If these forecasts and assumptions prove to be incorrect or circumstances change, write down of the carrying value of the non-current assets may be required.

(c) Income taxes and deferred taxes

The Baifu Holding Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. TURNOVER AND OTHER GAINS

The Baifu Holding Group is principally engaged in the design, manufacturing and sales of electronic power meters and provision of management and automation solutions for companies in the electric power industry in the PRC. Turnover and other gains recognised during the Relevant Periods are as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Turnover			
Sales of products	273,599	310,404	394,244
Provision of management and automation solutions	170	3,098	335
	273,769	313,502	394,579
Other gains			
Interest income	109	116	350
Government grant	6,370	1,709	8,492
Value added tax ("VAT") refund	8,485	14,700	8,106
Other income	1	354	1,367
	14,965	16,879	18,315
Turnover and other gains	288,734	330,381	412,894

7. EXPENSES BY NATURE

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

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cost of inventories sold	155,883	170,428	193,956
Auditors' remuneration	231	255	249
Depreciation	3,142	6,084	6,321
Amortisation of land use rights	57	154	172
Amortisation of intangible assets	238	373	332
Employee benefit expense (including directors' emoluments) *(Note 9)*	19,778	34,005	61,235
Sales commission	2,237	7,570	12,687
Travelling expenses	6,593	8,795	8,333
Insurance expenses	679	3,621	6,520
Operating lease rentals for land and buildings	74	1,715	2,012
Research and development costs	2,436	2,757	5,277
Loss on disposal of property, plant and equipment	10	20	745
Write-off of inventories	5,821	4,547	–
Provision for impairment of trade receivables	5,323	13,257	–

8. NET FOREIGN EXCHANGE LOSS

The net foreign exchange loss recognised in the combined income statements and included as administrative expenses for the years ended 31 December 2004, 2005 and 2006 amounted to RMB17,000, RMB19,000 and RMB58,000 respectively.

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) AND FIVE HIGHEST PAID INDIVIDUALS

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonus	15,295	22,845	47,299
Pension costs	679	3,453	6,018
Sales commission	3,804	7,539	7,416
Other staff costs	–	168	502
	19,778	34,005	61,235

(a) Directors' emoluments *(continued)*

The aggregate amounts of the emoluments paid and payable to the directors of Baifu Holding by companies comprising the Baifu Holding Group during the Relevant Periods were as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and social security costs	332	547	598
Pension costs	8	9	20
	340	556	618

The remuneration of every director is set out below:

	Year ended 31 December 2004		
Name of director	**Wages and salaries**	**Pension**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Wang Bing Ren	121	2	123
Mr. Wang Zong Fang	51	2	53
Mr. Jiang Jie Zhong	51	2	53
Mr. Li Ning Chuan	109	2	111
Mr. Zhao Shu Xun	–	–	–

	Year ended 31 December 2005		
Name of director	**Wages and salaries**	**Pension**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Wang Bing Ren	165	2	167
Mr. Wang Zong Fang	99	2	101
Mr. Jiang Jie Zhong	99	2	101
Mr. Li Ning Chuan	144	2	146
Mr. Zhao Shu Xun	40	1	41

	Year ended 31 December 2006		
Name of director	**Wages and salaries**	**Social security costs**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Wang Bing Ren	184	4	188
Mr. Wang Zong Fang	141	4	145
Mr. Jiang Jie Zhong	141	4	145
Mr. Li Ning Chuan	174	4	178
Mr. Zhao Shu Xun	132	4	136

There was no arrangement under which directors had waived or agreed to waive any emolument during the years ended 31 December 2004, 2005 and 2006.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Baifu Holding Group included two directors for the years ended 31 December 2004, 2005 and 2006, respectively, whose emoluments are reflected in the analysis presented in Note 9(a). Details of remuneration of the remaining three highest paid individuals are as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries, social security costs and bonus	326	468	806
Pension costs	8	8	10
Other staff costs	–	–	10
	334	476	826

The emoluments fell within the following bands:

	Number of individuals		
	2004	**2005**	**2006**
Nil – RMB1,000,000	3	3	3

10. FINANCE COSTS

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank borrowings	1,556	1,058	2,503

11. INCOME TAX EXPENSE/(CREDIT)

No provision for Hong Kong profits tax has been made as Baifu Holding and its subsidiaries have no assessable profit arising in or derived from Hong Kong for each of the Relevant Periods.

Baifu Holding and its subsidiaries are established in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 33%, unless preferential rates are applicable in the cities where the subsidiaries are located.

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
– PRC enterprise income tax	8,903	–	13,494
Deferred income tax *(Note 25)*	–	(2,481)	2,481
Income tax expense/(credit)	8,903	(2,481)	15,975

Note: A subsidiary in the PRC is entitled to the following preferential tax treatment made available to software enterprises engaged in production or business operations in a special economic zone as follows:

Name of subsidiary	**Details of preferential tax treatment**	**For the year starting**
Hualong Information	Preferential tax rate of 15%. Tax exemption for two years followed by a 75% deduction in tax rate in the next three years.	First profit making year-2004

The taxation on the Baifu Holding Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of Baifu Holding as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	52,802	34,191	59,320
Calculated at a taxation rate of 33%	17,425	11,283	19,576
Preferential tax rates on profit before taxation	(14,633)	(30,071)	(6,333)
Income not subject to taxation	(3,544)	(5,415)	(3,325)
Expenses not deductible for taxation proposes	9,655	21,722	6,057
Income tax expense/(credit)	8,903	(2,481)	15,975

12. DIVIDENDS

No dividend has been paid or declared by Baifu Holding since its incorporation.

The following dividends were declared by subsidiaries out of their retained earnings to their then shareholders in respect of the years ended 31 December 2004, 2005 and 2006:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Hualong Electronics	–	–	5,125
Hualong Information	–	–	40,625
	–	–	45,750

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

13. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful given the preparation of the results for the Relevant Periods is on a combined basis as described in Note 2.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Office furniture and equipment *RMB'000*	Plant and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2004						
Cost	4,227	2,186	6,240	5,022	450	18,125
Accumulated depreciation	(115)	(793)	(1,560)	(819)	–	(3,287)
Net book amount	4,112	1,393	4,680	4,203	450	14,838
Year ended 31 December 2004						
Opening net book amount	4,112	1,393	4,680	4,203	450	14,838
Additions	150	2,072	819	3,953	300	7,294
Reclassification	750	–	–	–	(750)	–
Disposals	–	(10)	–	–	–	(10)
Depreciation	(269)	(689)	(1,033)	(1,151)	–	(3,142)
Closing net book amount	4,743	2,766	4,466	7,005	–	18,980
At 31 December 2004						
Cost	5,127	4,248	7,059	8,975	–	25,409
Accumulated depreciation	(384)	(1,482)	(2,593)	(1,970)	–	(6,429)
Net book amount	4,743	2,766	4,466	7,005	–	18,980
Year ended 31 December 2005						
Opening net book amount	4,743	2,766	4,466	7,005	–	18,980
Additions	14,654	3,813	6,915	3,542	5	28,929
Disposals	–	(20)	–	–	–	(20)
Depreciation	(1,265)	(1,745)	(1,678)	(1,396)	–	(6,084)
Closing net book amount	18,132	4,814	9,703	9,151	5	41,805
At 31 December 2005						
Cost	19,781	8,041	13,974	12,517	5	54,318
Accumulated depreciation	(1,649)	(3,227)	(4,271)	(3,366)	–	(12,513)
Net book amount	18,132	4,814	9,703	9,151	5	41,805
Year ended 31 December 2006						
Opening net book amount	18,132	4,814	9,703	9,151	5	41,805
Additions	5,295	1,081	4,552	608	234	11,770
Disposals	–	(222)	(6)	(517)	–	(745)
Depreciation	(1,159)	(1,678)	(1,643)	(1,841)	–	(6,321)
Closing net book amount	22,268	3,995	12,606	7,401	239	46,509
At 31 December 2006						
Cost	25,076	8,900	18,520	12,608	239	65,343
Accumulated depreciation	(2,808)	(4,905)	(5,914)	(5,207)	–	(18,834)
Net book amount	22,268	3,995	12,606	7,401	239	46,509

Depreciation expenses of RMB1,586,000, RMB2,584,000 and RMB1,872,000 have been expensed in cost of inventories sold, RMB477,000, RMB604,000 and RMB845,000 in selling expenses and RMB1,079,000, RMB2,896,000 and RMB3,604,000 in administrative expenses for the years ended 31 December 2004, 2005 and 2006 respectively.

The carrying amount of buildings pledged to secured bank facilities of the Baifu Holding Group amounted to approximately RMB3,797,000, RMB15,137,000 and RMB14,258,000 as at 31 December 2004, 2005 and 2006, respectively.

15. LAND USE RIGHTS

The Baifu Holding Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

		As at 31 December	
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Outside Hong Kong, held on:			
Leases of between 10 to 50 years	2,511	6,846	7,734

		As at 31 December	
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Beginning of the year	2,568	2,511	6,846
Additions	–	4,489	1,060
Amortisation of land use rights	(57)	(154)	(172)
End of the year	2,511	6,846	7,734

Amortisation of land use rights for the years ended 31 December 2004, 2005 and 2006 have been included in cost of inventories sold in the combined income statements.

The carrying amount of land use rights pledged to secured bank facilities of the Baifu Holding Group amounted to approximately RMB2,511,000, RMB6,846,000 and RMB6,691,000 as at 31 December 2004, 2005 and 2006 respectively.

16. INTANGIBLE ASSETS

	Computer software licence *RMB'000*
At 1 January 2004	
Cost	947
Accumulated amortisation	–
Net book amount	947
Year ended 31 December 2004	
Opening net book amount	947
Additions	241
Amortisation	(238)
Closing net book amount	950
At 31 December 2004	
Cost	1,188
Accumulated amortisation	(238)
Net book amount	950
Year ended 31 December 2005	
Opening net book amount	950
Additions	220
Amortisation	(373)
Closing net book amount	797
At 31 December 2005	
Cost	1,408
Accumulated amortisation	(611)
Net book amount	797
Year ended 31 December 2006	
Opening net book amount	797
Additions	158
Amortisation	(332)
Closing net book amount	623
At 31 December 2006	
Cost	1,566
Accumulated amortisation	(943)
Net book amount	623

Amortisation expenses of RMB238,000, RMB373,000 and RMB332,000 have been expensed in administrative expenses for the years ended 31 December 2004, 2005 and 2006 respectively.

17. INVENTORIES

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	13,770	27,426	20,305
Work in progress	80	12,461	17,710
Finished goods	29,233	75,094	56,951
	43,083	114,981	94,966

The cost of inventories recognised as an expense and included in cost of inventories sold amounted to RMB155,883,000, RMB170,428,000 and RMB193,956,000 during the years ended 31 December 2004, 2005 and 2006 respectively.

18. TRADE AND BILLS RECEIVABLES

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	102,293	121,686	135,086
Less: provision for impairment of trade receivables	(5,323)	(18,580)	(18,580)
	96,970	103,106	116,506
Bills receivables	–	–	13,916
	96,970	103,106	130,422

The Baifu Holding Group's credit terms to trade debtors range from 0 to 90 days. At 31 December 2004, 2005 and 2006, the ageing analysis of the trade receivables was as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Current to 1 year	96,374	103,106	110,331
1 year to 2 years	596	–	6,175
	96,970	103,106	116,506

The Baifu Holding Group has recognised a loss of RMB5,323,000 and RMB13,257,000 for the impairment of its trade receivables during the years ended 31 December 2004 and 2005 respectively. The loss has been included in administrative expenses in the combined income statement of the respective year.

19. DUE FROM/TO A RELATED COMPANY AND SHAREHOLDERS

The amounts due from/to a related company and shareholders are unsecured, non-interest bearing and repayable on demand (Note 29).

The carrying amounts of the amounts due from/to a related company and shareholders approximate their fair values.

At a meeting held on 1 February 2007, the directors of Baifu Holding declared and approved a special dividend amounted to RMB50,100,000. This special dividend is not reflected as dividend payable in the Financial Information, but will be set off against the amounts due from shareholders in the year ending 31 December 2007.

20. CASH AND CASH EQUIVALENTS

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	23,676	84,057	37,288
Short term bank deposits	–	–	10,000
	23,676	84,057	47,288

At 31 December 2004, 2005 and 2006, funds of the Baifu Holding Group amounting to RMB23,676,000, RMB84,057,000 and RMB47,288,000, respectively, were kept in bank accounts opened with banks in the PRC where the remittance of funds was subject to foreign exchange controls.

The effective interest rate on short-term bank deposits is 0.72%; these deposits have an average maturity of 7 days.

21. TRADE PAYABLES

At 31 December 2004, 2005 and 2006, the ageing analysis of the trade payables was as follows:

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Current to 1 year	41,914	124,097	46,799
1 year to 2 years	35	141	–
Over 2 years	85	101	242
	42,034	124,339	47,041

22. SHORT TERM BORROWINGS

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Short term bank loans – PRC, secured *(Note (a))*	33,797	35,000	55,800

All bank loans are due within one year.

Note (a): At 31 December 2004, bank loan of RMB12,000,000 was secured by the Baifu Holding Group's land use rights and buildings with a net book amount of RMB2,511,000 and RMB3,797,000 respectively. In addition, bank loan of RMB19,000,000 was secured by land use rights and buildings of a company beneficially owned by the Shareholders, 華隆電力儀表有限公司 ("Hualong Electric Instrument").

At 31 December 2005, bank loan of RMB25,000,000 was secured by the Baifu Holding Group's land use rights and buildings with a net book amount of RMB6,846,000 and RMB15,137,000 respectively. In addition, bank loan of RMB10,000,000 was guaranteed by an independent third party, Zhong Cheng Technology Limited.

At 31 December 2006, bank loan of RMB26,800,000 was secured by the Baifu Holding Group's land use rights and buildings with a net book amount of RMB6,691,000 and RMB14,258,000 respectively. In addition, banks loan of RMB10,000,000, RMB19,000,000 and RMB4,800,000 were guaranteed by 浙江華隆電力儀器制造有限公司("Zhejiang Hualong Electric"), Hualong Electronics and a shareholder, Mr Li Ning Chuan respectively.

The borrowings are denominated in RMB. The effective interest rate per annum at each balance sheet date was as follows:

	At 31 December		
	2004	**2005**	**2006**
Short term bank loans – PRC, secured	5.58%	5.58%	6.12%

At 31 December 2004, 2005 and 2006, the Group has no undrawn borrowing facilities.

The carrying amounts of the short term bank loans approximate their fair values.

23. CAPITAL

As Baifu Holding was not established prior to 31 December 2006 and the Reorganisation was not completed as at 31 December 2006, the capital in the combined balance sheets as at 31 December 2004, 2005 and 2006 represented the combined capital of Hualong Electronics and Hualong Information.

24. OTHER RESERVES

	Statutory reserve *RMB'000*
At 1 January 2004	4,657
Transferred from retained earnings	8,006
At 31 December 2004 and 1 January 2005	12,663
Transferred from retained earnings	2,762
At 31 December 2005 and 1 January 2006	15,425
Transferred from retained earnings	1,010
At 31 December 2006	16,435

25. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets to be recovered within 12 months	–	2,481	–

The movement in deferred tax assets during the years ended 31 December 2004, 2005 and 2006 is as follows:

		Tax losses	
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets			
At 1 January	–	–	2,481
Credited to income statement *(Note 11)*	–	2,481	(2,481)
At 31 December	–	2,481	–

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% for all of the Relevant Periods.

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related benefit through the future taxable profits is probable. The Baifu Holding Group has unrecognised tax losses to carry forward against future taxable income. These tax losses have not been recognised for due to uncertainty of their future recoverability. The tax losses will expire according to the prevailing tax laws and regulations in the countries in which the Baifu Holding Group operates.

26. CASH GENERATED FROM OPERATIONS

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	52,802	34,191	59,320
Interest income	(109)	(116)	(350)
Interest paid	1,556	1,058	2,503
Depreciation	3,142	6,084	6,321
Amortisation of land use rights	57	154	172
Amortisation of intangible assets	238	373	332
Loss on disposal of property, plant and equipment	10	20	745
Operating profit before working capital changes	57,696	41,764	69,043
Increase in trade and bills receivables	(37,580)	(6,136)	(27,316)
Increase in prepayments, deposits and other receivables	(16,846)	(12,350)	(8,842)
(Increase)/decrease in inventories	(9,311)	(71,898)	20,015
(Increase)/decrease in due from a related company	–	(23)	23
Increase/(decrease) in trade payables	15,940	82,305	(77,298)
Increase in other payables and accruals	6,554	41,824	58,839
Increase in due to a related company	–	–	7,913
Increase in due from shareholders	(4,589)	(7,838)	(37,647)
Cash generated from operating activities	11,864	67,648	4,730

In the combined cash flow statements, proceeds from sale of property, plant and equipment comprise:

	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Net book amount *(Note 14)*	10	20	745
Loss on sale of property, plant and equipment	(10)	(20)	(745)
Proceeds from sale of property, plant and equipment	–	–	–

27. CONTINGENT LIABILITIES

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Guarantees for banking facilities granted to an independent third party – Zhong Cheng Technology Limited	–	10,000	12,000

It is anticipated that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

28. COMMITMENTS

(a) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	Land and buildings At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Not later than one year	–	800	1,358
Later than one year and not later than five years	–	4,000	4,439
Over five years	–	1,567	767
	–	6,367	6,564

(b) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for	220	234	–

29. RELATED PARTY TRANSACTIONS

At the date of this report, Baifu Holding is directly owned by Mr. Wang Bing Ren, Mr. Wang Zhong Fang, Mr. Wang Jie Zhong, Mr. Zhao Shu Xun and Mr. Li Ning Chuan as to 29.42%, 23.54%, 23.54%, 11.75% and 11.75% respectively.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) During the Relevant Periods, the Baifu Holding Group's directors are of the view that the following companies were related parties of the Baifu Holding Group:

Name of related party	Relationship with the Baifu Holding Group
Pacific Sheen International Limited	Company beneficially owned by the Shareholders
杭州富順信息技術有限公司 ("Fushun Information")	Company beneficially owned by the Shareholders
Hualong Electric Instrument	Company beneficially owned by the Shareholders
Zhejiang Hualong Electric	Company beneficially owned by the Shareholders

Apart from those disclosed elsewhere in this report, the following transactions were carried out with the related parties:

(b) Purchase of assets

	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*
Hualong Electric Instrument	–	14,000	–

On 21 November 2005, the equity owners of Hualong Electronics increased the registered capital in Hualong Electronics by injecting all assets and liabilities of Zhenjiang Hualong Electric at their respective carrying values, totalling RMB14,000,000. Zhejiang Hualong Electric was dissolved upon the completion of the transaction.

(c) Provision of management services

	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*
Fushun Information	108	144	100

Provision of services primarily related to the recharge of general and administrative expenses to the related company on a cost basis.

(d) Year end balances with related parties are as follows:

	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*
Receivable from related parties and shareholders:			
Fushun Information *(Note 19)*	–	23	–
Shareholders *(Note 19)*	4,615	12,453	50,100
Payable to a related party:			
Fushun Information *(Note 19)*	–	–	7,913

During the year ended 31 December 2006, Fushun Information paid administrative expenses of RMB7,913,000 on behalf of a subsidiary, Haulong Electronics.

(e) **Key management compensation**

	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*
Basic salaries, other allowances and benefits in kinds	340	556	618

III. SUBSEQUENT EVENTS

At a meeting held on 1 February 2007, the directors of Baifu Holding declared and approved a special dividend amounted to RMB50,100,000. This special dividend is not reflected as dividend payable in the Financial Information, but will be set off against the amounts due from the Shareholders in the year ending 31 December 2007.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Baifu Holding Group or any of the companies comprising the Baifu Holding Group in respect of any period subsequent to 31 December 2006. Besides, save as disclosed in Section III of this report, no dividend or distribution has been declared, made or paid by the Baifu Holding Group in respect of any period subsequent to 31 December 2006.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared by the Company's auditors and reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the sole purpose of incorporation in this circular.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

30 March 2007

The Directors
Hi Sun Technology (China) Limited

Dear Sirs

We set out below our report on the financial information relating to Pacific Sheen International Limited ("Pacific Sheen") and its subsidiary (hereinafter collectively referred to as the "Pacific Sheen Group") for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of Hi Sun Technology (China) Limited (the "Company") dated 30 March 2007 (the "Circular"), in connection with the proposed acquisition of the entire registerd capital of Hangzhou Baifu Holding Company Limited ("Baifu Holding"), the entire issued share capital of Pacific Sheen and their respective shareholders' loan, and the proposed disposal of 5% of the issued share capital of Hualong Holdings Company Limited, the then wholly owned subsidiary of the Company (collectively the "Transaction").

Pacific Sheen was established in Hong Kong on 3 November 2003 as a limited liability company under the Hong Kong Companies Ordinance. No audited financial statements of Pacific Sheen have been issued since its incorporation.

As at the date of this report, Pacific Sheen has direct interests in the following subsidiary:

Name	Place and date of establishment	Registered capital	Percentage of equity interest attributable to Pacific Sheen	Principal activities	*Note*
杭州富順信息技術有限公司 ("Fushun Information")	The People's Republic of China (the "PRC"), 26 February 2004	US$3,500,000	100%	Properties holdings in the PRC	*(1)*

Note:

1. The financial statements of Fushun Information were prepared in accordance with accounting principles and relevant financial regulations of the PRC and were audited by 浙江天華會計師事務所 for the years ended 31 December 2004, 2005 and 2006.

For the purpose of this report, the directors of Pacific Sheen have prepared the consolidated financial statements of the Pacific Sheen Group for the years ended 31 December 2004, 2005 and 2006 (the "HKFRS Financial Statements") in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out independent audit on the HKFRS Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

Respective responsibilities of directors and reporting accountants

The financial information as set out in Sections I to IV below (the "Financial Information") has been prepared based on the HKFRS Financial Statements on the basis as set out in Note 2 of Section II below.

The directors of Pacific Sheen, during the Relevant Periods, are responsible for preparing the HKFRS Financial Statements which give a true and fair view. In preparing the HKFRS Financial Statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the Financial Information which gives a true and fair view.

It is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Basis of opinion

We have examined the HKFRS Financial Statements for the Relevant Periods, and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Pacific Sheen and of the Pacific Sheen Group as at 31 December 2004, 2005 and 2006, and of the Pacific Sheen Group's results and cash flows for the Relevant Periods.

I FINANCIAL INFORMATION

A. Consolidated income statements

		Years ended 31 December		
		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Turnover		–	–	–
Cost of sales		–	–	–
Gross profit		–	–	–
Other gains	*5*	1	5	1
Administrative expenses	*6*	(415)	(304)	(620)
Loss before income tax		(414)	(299)	(619)
Income tax expense	*8*	–	–	–
Loss attributable to the equity holders		(414)	(299)	(619)
Loss per share attributable to the equity holders (expressed in RMB per share) – basic	*11*	(0.106)	(0.077)	(0.159)

B. Consolidated Balance Sheets

	Note	At 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	*14*	315	7,770	16,979
Land use rights	*12*	–	2,315	2,268
		315	10,085	19,247
Current assets				
Prepayments, deposits and other receivables		2,362	238	5
Due from a related company	*16, 22*	–	–	7,913
Cash and cash equivalents	*15*	3,672	4,108	835
		6,034	4,346	8,753
Total assets		6,349	14,431	28,000
EQUITY				
Capital and reserves attributable to the Pacific Sheen's equity holders				
Share capital	*17*	4,173	4,173	4,173
Other reserves	*18*	(471)	(695)	(358)
Total equity		3,702	3,478	3,815
LIABILITIES				
Current liabilities				
Other payables		–	–	359
Due to a related company	*16, 22*	–	23	–
Due to shareholders	*16, 22*	2,647	10,930	23,826
Total liabilities		2,647	10,953	24,185
Total equity and liabilities		6,349	14,431	28,000
Net current assets/(liabilities)		3,387	(6,607)	(15,432)
Total assets less current liabilities		3,702	3,478	3,815

C. Company Balance Sheets

		At 31 December		
		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current asset				
Investment in a subsidiary	*13*	6,885	28,585	28,585
Current asset				
Cash and cash equivalents	*15*	1,065	50	7
Total assets		7,950	28,635	28,592
EQUITY				
Capital and reserves attributable to the Pacific Sheen's equity holders				
Share capital	*17*	4,173	4,173	4,173
Other reserves	*18*	(344)	(438)	593
Total equity		3,829	3,735	4,766
LIABILITIES				
Current liabilities				
Due to shareholders	*16*	4,121	24,900	23,826
Total liabilities		4,121	24,900	23,826
Total equity and liabilities		7,950	28,635	28,592
Net current liabilities		(3,056)	(24,850)	(23,819)
Total assets less current liabilities		3,829	3,735	4,766

D. Consolidated Statements of Changes In Equity

	Share capital	Exchange reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	4,173	–	–	4,173
Exchange differences arising on translation of financial statements of a foreign subsidiary	–	(57)	–	(57)
Loss for the year	–	–	(414)	(414)
At 31 December 2004 and 1 January 2005	4,173	(57)	(414)	3,702
Loss for the year	–	–	(299)	(299)
Exchange differences arising on translation of financial statements of a foreign subsidiary	–	75	–	75
At 31 December 2005 and 1 January 2006	4,173	18	(713)	3,478
Loss for the year	–	–	(619)	(619)
Exchange differences arising on translation of financial statements of a foreign subsidiary	–	956	–	956
At 31 December 2006	4,173	974	(1,332)	3,815

E. Consolidated Cash Flow Statements

		Years ended 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash (used in)/generated from operations	*19*	(130)	10,170	4,979
Cash flows from investing activities				
Purchase of property, plant and equipment		(315)	(7,455)	(9,209)
Purchase of land use rights		–	(2,359)	–
Interest received		1	5	1
Net cash generated from/(used in) investing activities		(314)	(9,809)	(9,208)
Net (decrease)/increase in cash and cash equivalents		(444)	361	(4,229)
Exchange gains on cash and cash equivalents		208	75	956
Cash and cash equivalents at beginning of the year		3,908	3,672	4,108
Cash and cash equivalents at the end of the year		3,672	4,108	835

II NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The principal activities of Pacific Sheen is investment holding. The principal activity and particulars of its subsidiary are set out in note 13 to the Financial Information.

Pacific Sheen is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 615, 6th Floor, Hollywood Plaza, 610 Nathan Road, Kowloon, Hong Kong.

The Financial Information is presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Financial Information has been prepared in accordance with those new standards, amendments and HK(IFRIC) interpretations issued and effective for accounting periods commencing from 1 January 2006 during the Relevant Periods.

The Financial Information set out in this report has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Pacific Sheen Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) *Standards, amendments and interpretations to existing standards effective in 2006 but not relevant to the Pacific Sheen Group's operations*

The following standards, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

• HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
• HKAS 21 (Amendment)	New Investment in a Foreign Operation
• HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
• HKAS 39 (Amendment)	The Fair Value Option
• HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
• HKFRS 6	Exploration for and Evaluation of Mineral Resources
• HKFRSs 1 and 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
• HKFRS-Int 4	Determining whether an Arrangement contains a Lease
• HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
• HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Pacific Sheen Group*

The following 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) Capital Disclosures
- HKFRS 7 Financial instruments: Disclosures
- HKFRS 8 Operating Segments
- HK(IFRIC)-Int 7 Applying the Restatement Approach
- 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 Pacific Sheen 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 in operations and financial position.

As at 31 December 2006, the Pacific Sheen Group had net current liabilities of RMB15,432,000. Based on its working capital forecast in the next twelve months, the financial support from shareholders and the purchase of shareholders' loan owed from Pacific Sheen Group to its shareholders by the Company pursuant to the Transaction, the directors consider that there are sufficient financial resources available to the Pacific Sheen Group to meet its liabilities as and when they fall due and to carry on its business in the foreseeable future. Accordingly, the directors of Pacific Sheen have prepared the Financial Information on a going concern basis.

2.2 Consolidation

The Financial Information includes the financial information of Pacific Sheen and its subsidiary made up to 31 December.

Subsidiary

Subsidiary is an entity over which the Pacific Sheen Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Pacific Sheen Group controls another entity.

Subsidiary is fully consolidated from the date on which control is transferred to the Pacific Sheen Group. It is de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary by the Pacific Sheen Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Pacific Sheen Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statements.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of a subsidiary has been changed where necessary to ensure consistency with the policies adopted by the Pacific Sheen Group.

In Pacific Sheen's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses. The result of a subsidiary is accounted for by Pacific Sheen on the basis of dividend received and receivable.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the Financial Information of each of the Pacific Sheen Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"). The functional currency of Pacific Sheen's operations is RMB.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statements.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statements as part of the gain or loss on sale.

2.4 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statements during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	5%
Office furniture and equipment	18% – 25%
Plant and equipment	9% – 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.5).

Construction in progress represents buildings on which construction work has not been completed. It is carried at cost which included construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the consolidated income statements.

2.5 Impairment of investment in a subsidiary and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.6 Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Pacific Sheen Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statements.

2.7 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.8 Share capital

Ordinary shares are classified as equity.

2.9 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investment in a subsidiary, except where the timing of the reversal of the temporary difference is controlled by the Pacific Sheen Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.10 Revenue recognition

Interest income is recognised on a time-proportion basis using the effective interest method.

2.11 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statements on a straight-line basis over the period of the lease.

2.12 Dividend distribution

Dividend distribution to Pacific Sheen's shareholders is recognised as a liability in the Pacific Sheen Group's Financial Information in the period in which the dividends are approved by Pacific Sheen's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Pacific Sheen Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest-rate risk.

Risk management is carried out by the management of the Pacific Sheen Group.

(a) Foreign exchange risk

The Pacific Sheen Group operates mainly in the PRC. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Management are responsible for managing the net position in each foreign currency.

(b) Credit risk

The credit risk of the Pacific Sheen Group mainly arises from amount due from a related company and cash and cash equivalents placed with banks.

Exposure to credit risk arising from receivable from a related company is not significant since the related company is also beneficially owned by Pacific Sheen's shareholders.

Exposure to credit risk arising from bank deposits is managed by placing the deposits to reputable banks and through regular analysis of the financial performance of the banks.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the ability to apply for bank loan facilities when necessary.

(d) Cash flow and fair value interest rate risk

The Pacific Sheen Group's income and operating cash flows are substantially independent of changes in market interest rates. The Pacific Sheen Group has no significant interest-bearing assets, except for the cash placed with banks.

3.2 Fair value estimation

The nominal value less impairment provision of receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Pacific Sheen Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Pacific Sheen Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxes

The Pacific Sheen Group is subject to income taxes in the PRC and Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. There was no triggering event occurs indicating that the carrying amount of an asset may not be recoverable during the Relevant Periods.

5. OTHER GAINS

The Group is principally engaged in investment holding. Other gains recognised during the Relevant Periods are as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	1	5	1

6. EXPENSES BY NATURE

Expenses included in administrative expenses are analysed as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Auditors' remuneration	–	–	–
Amortisation of land use rights	–	44	47
Management fee paid to a related company *(Note 22(a))*	108	144	100
Operating lease rentals for land and buildings	70	8	8

Auditors' remuneration was borne by the shareholders of Pacific Sheen for the Relevant Periods.

7. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

The Directors of Pacific Sheen did not receive any fees or emoluments in respect of their services to the Pacific Sheen Group during the years ended 31 December 2004, 2005 and 2006.

There was no arrangement under which a Director waived or agreed to waive any emolument during the years ended 31 December 2004, 2005 and 2006.

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as Pacific Sheen and its subsidiary have no assessable profit arising in or derived from Hong Kong for each of the Relevant Periods.

The subsidiary is established in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 33%.

The taxation on the Pacific Sheen Group's loss before income tax differs from the theoretical amount that would arise using the applicable taxation rate as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax	(414)	(299)	(619)
Calculated at a taxation rate of 33%	(137)	(99)	(204)
Effect of different taxation rate in other countries	53	28	15
Unrecognised tax losses	84	71	189
Income tax expense	–	–	–

There was no material unprovided deferred taxation as at the years ended 31 December 2004, 2005 and 2006.

Deferred income tax assets are not recognised for tax losses carried forward as the realisation of the related tax benefit through the future taxable profits is not probable. As at 31 December 2004, 2005 and 2006, the Pacific Sheen Group had unrecognised tax losses of RMB84,000, RMB71,000 and RMB189,000 to carry forward to set off against future taxable income respectively. The tax losses will expire according to the prevailing tax laws and regulations in the countries in which the Pacific Sheen Group operates.

9. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF PACIFIC SHEEN

The loss attributable to equity holders of Pacific Sheen is dealt with in the Financial Information of the Company to the extent of RMB344,000, RMB180,000 and RMB100,000 for the years ended 31 December 2004, 2005 and 2006 respectively.

10. DIVIDENDS

No dividend has been paid or declared by Pacific Sheen during each of the Relevant Periods.

11. LOSS PER SHARE

The calculation of basic loss per share is calculated by dividing the loss attributable to equity holders by the number of ordinary shares in issue during each of the Relevant Periods.

	Years ended 31 December		
	2004	**2005**	**2006**
Loss attributable to equity holders (RMB'000)	414	299	619
Number of ordinary shares in issue (thousands)	3,900	3,900	3,900
Basic loss per share (RMB per share)	0.106	0.077	0.159

12. LAND USE RIGHTS

The Pacific Sheen Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Outside Hong Kong, held on:			
Leases of between 10 to 50 years	–	2,315	2,268

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	–	–	2,315
Additions	–	2,359	–
Amortisation of land use rights	–	(44)	(47)
At 31 December	–	2,315	2,268

Amortisation of prepaid operating lease payments for the years ended 31 December 2004, 2005 and 2006 has been included in administrative expenses in the consolidated income statements.

13. INVESTMENT IN A SUBSIDIARY

	At 31 December Company		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investment, at cost	6,885	28,585	28,585

At 31 December 2006, particulars of the subsidiary are as follows:

Name	**Place of incorporation and type of legal entity**	**Principal activities and place of operation**	**Particulars of registered share capital**	**Direct interest held**
Fushun Information	The PRC, limited liability company	Properties holdings in the PRC	USD3,500,000	100%

During the year ended 31 December 2005, the registered capital of Fushun Information was increased from RMB825,000 to RMB3,500,000. The issued and fully paid up capital of the subsidiary amounted to RMB3,500,000 as at 31 December 2005 and 2006.

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress
	RMB'000
At 1 January 2004	
Cost	–
Accumulated depreciation	–
Net book amount	–
Years ended 31 December 2004	
Opening net book amount	–
Additions	315
Closing net book amount	315
At 31 December 2004	
Cost	315
Accumulated depreciation	–
Net book amount	315
Years ended 31 December 2005	
Opening net book amount	315
Additions	7,455
Closing net book amount	7,770
At 31 December 2005	
Cost	7,770
Accumulated depreciation	–
Net book amount	7,770
Years ended 31 December 2006	
Opening net book amount	7,770
Additions	9,209
Closing net book amount	16,979
At 31 December 2006	
Cost	16,979
Accumulated depreciation	–
Net book amount	16,979

15. CASH AND CASH EQUIVALENTS

	At 31 December					
	Group			Company		
	2004	2005	2006	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	3,672	4,108	835	1,065	50	7

At 31 December 2004, 2005 and 2006, funds of the Pacific Sheen Group amounting to RMB2,607,000, RMB4,058,000 and RMB828,000 respectively were kept in bank accounts opened with banks in the PRC where the remittance of funds was subject to foreign exchange controls.

16. DUE FROM/TO A RELATED COMPANY AND SHAREHOLDERS

The amounts due from/to a related company and shareholders are unsecured, non-interest bearing and repayable on demand (Note 22).

The carrying amounts due from/to a related company and shareholders approximate their fair values.

17. SHARE CAPITAL

	Authorised ordinary shares of HK$1 each	
	No. of shares	*RMB'000*
At 31 December 2004, 31 December 2005 and 31 December 2006	3,900,000	4,173

	Issued and fully paid ordinary shares of HK$1 each	
	No. of shares	*RMB'000*
At 31 December 2004, 31 December 2005 and 31 December 2006	3,900,000	4,173

18. OTHER RESERVES

(a) Group

	Exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2004	–	–	–
Loss for the year	–	(414)	(414)
Exchange differences arising on translation of financial statements of a foreign subsidiary	(57)	–	(57)
At 31 December 2004 and 1 January 2005	(57)	(414)	(471)
Loss for the year	–	(299)	(299)
Exchange differences arising on translation of financial statements of a foreign subsidiary	75	–	75
At 31 December 2005 and 1 January 2006	18	(713)	(695)
Loss for the year	–	(619)	(619)
Exchange differences arising on translation of financial statements of a foreign subsidiary	956	–	956
At 31 December 2006	974	(1,332)	(358)

(b) Company

	Exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2004	–	–	–
Loss for the year	–	(344)	(344)
At 31 December 2004 and 1 January 2005	–	(344)	(344)
Loss for the year	–	(180)	(180)
Exchange differences arising on translation of financial statements	86	–	86
At 31 December 2005 and 1 January 2006	86	(524)	(438)
Loss for the year	–	(100)	(100)
Exchange differences arising on translation of financial statements	1,131	–	1,131
At 31 December 2006	1,217	(624)	593

19. CASH (USED IN)/GENERATED FROM OPERATION

	Years ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax	(414)	(299)	(619)
Interest income	(1)	(5)	(1)
Amortisation of land use rights	–	44	47
Operating profit before working capital changes	(415)	(260)	(573)
Decrease/(increase) in prepayments, deposits and other receivables	(2,362)	2,124	233
Increase in due from a related company	–	–	(7,913)
Increase in other payables	–	–	359
Increase/(decrease) in due to a related company	–	23	(23)
Increase in due to shareholders	2,647	8,283	12,896
Cash (used in)/generated from operating activities	(130)	10,170	4,979

20. CONTINGENT LIABILITIES

As at 31 December 2004, 2005 and 2006, the Pacific Sheen Group had no contingent liabilities.

21. CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for	18,910	9,508	–

22. RELATED PARTY TRANSACTIONS

The Pacific Sheen Group is owned by Mr. Wang Bing Ren, Mr. Wang Zhong Fang, Mr. Wang Jie Zhong, Mr. Zhao Shu Xun (also known as Mr. Zhao Li Bin) and Mr. Li Ning Chuan as to 27.94%, 27.35%, 22.35%, 11.18% and 11.18% respectively.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) During the Relevant Periods, the directors of Pacific Sheen are of the view that the following companies were related parties of the Pacific Sheen Group:

Name of related party	Relationship with the Pacific Sheen Group
杭州華隆電子技術有限公司 ("Hualong Electronics")	Company beneficially owned by shareholders
杭州華隆信息技術有限公司 ("Hualong Information")	Company beneficially owned by shareholders
杭州安特電力電子技術有限公司 ("Ante")	Company beneficially owned by shareholders
浙江華隆電力儀器制造有限公司 ("Zhejiang Hualong Electric")	Company beneficially owned by shareholders

Apart from those disclosed elsewhere in this report, the following transactions were carried out with the related parties:

(a) Purchase of management services

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Hualong Electronics	108	144	100

Purchase of services primarily related to the recharge of general and administrative expense to the related company on a cost basis.

(b) Year end balances with related parties are as follows:

	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Receivable from a related company			
Hualong Electronics *(Note 16)*	–	–	7,913
Payables to related parties:			
Hualong Electronics *(Note 16)*	–	23	–
Shareholders *(Note 16)*	2,647	10,930	23,826

During the year ended 31 December 2006, the Pacific Sheen Group paid administrative expenses of RMB7,913,000 on behalf of Haulong Electronics.

III. SUBSEQUENT EVENTS

There are no subsequent events which would have significant impact to the financial position of the Pacific Sheen Group up to the date of this report.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Pacific Sheen Group in respect of any period subsequent to 31 December 2006. Besides, no dividend or distribution has been declared, made or paid by the Pacific Sheen Group in respect of any period subsequent to 31 December 2006.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and pro forma statement of assets and liabilities of the Enlarged Group which has been prepared based on the unaudited condensed consolidated balance sheet of the Group as set out in the published interim report for the six months ended 30 June 2006 after making pro forma adjustments as set out in note 2 below.

This unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effects of the Acquisition and Disposal, as if the Acquisition and Disposal had taken place on 30 June 2006. It has been presented in a manner consistent with both the format and accounting policies adopted by the Group. It has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Transaction been completed as at 30 June 2006 or at any future date.

	Unadjusted statement of assets and liabilities of the Group as at 30 June 2006	Pro forma adjustments Baifu Holding Group	Pacific Sheen Group	Other pro forma adjustments				Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(i)*	*Note 2(i)*	*Note 2(ii)*	*Note 2(iii)*	*Note 2(iv)*	*Note 2(v)*	
ASSETS								
Non-current assets								
Property, plant and equipment	50,134	46,852	17,104		6,500			120,590
Leasehold land and land use rights	204	7,791	2,285		5,549			15,829
Intangible assets	–	628	–		56,413			57,041
Goodwill	–	–	–		70,927	(3,546)		67,381
	50,338	55,271	19,389					260,841
Current assets								
Inventories	23,822	95,666	–					119,488
Trade and bills receivables	116,631	131,384	–					248,015
Prepayments, deposits and other receivables	25,879	48,617	5					74,501
Due from shareholders	–	50,469	–					50,469
Due from related companies	67	–	7,971				(7,971)	67
Due from a fellow subsidiary	49	–	–					49
Cash and cash equivalents	179,321	47,637	841	(202,130)		15,143		40,812
	345,769	373,773	8,817					533,401
Total assets	396,107	429,044	28,206					794,242

	Unadjusted statement of assets and liabilities of the Group as at 30 June 2006	Pro forma adjustments Baifu Holding Group	Pacific Sheen Group	Other pro forma adjustments				Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(i)*	*Note 2(i)*	*Note 2(ii)*	*Note 2(iii)*	*Note 2(iv)*	*Note 2(v)*	
EQUITY								
Capital and reserve attributable to the Company's equity holders								
Share Capital	4,090	27,603	4,204	92	(31,807)			4,182
Retained earnings and other reserves	267,650	137,894	(361)	100,645	(138,011)			367,817
	271,740	165,497	3,843					371,999
Minority Interest		480				11,597		12,077
Total equity	271,740	165,977	3,843					384,076
LIABILITIES								
Non-current liabilities								
Financial liability portion of convertible preference shares issued by a subsidiary	21,770	–	–					21,770
Deferred tax liabilities	–	–	–		22,592			22,592
	21,770	–	–					44,362
Current liabilities								
Trade payables	47,569	47,388	–					94,957
Other payables and accruals	52,421	138,000	361	7,750				198,532
Taxation payable	2,607	13,497	–					16,104
Due to shareholders	–	–	24,002	(24,002)				–
Due to related company	–	7,971	–				(7,971)	–
Short term borrowings	–	56,211	–					56,211
	102,597	263,067	24,363					365,804
Total liabilities	124,367	263,067	24,363					410,166
Total equity and liabilities	396,107	429,044	28,206					794,242
Net current assets	243,172	110,706	(15,546)					167,597
Total assets less current liabilities	293,510	165,977	3,843					428,438

1. The unadjusted statement of assets and liabilities of the Group is extracted from the unaudited condensed consolidated balance sheet of the Group as at 30 June 2006 set out in the published interim report for the six months ended 30 June 2006.

2. Details of the pro forma adjustments are set out as follows:

   (i) The balances are extracted from the combined balance sheet of Baifu Holding and consolidated balance sheet of Pacific Sheen as at 31 December 2006 set out in Appendix II and III to this circular. For the purpose of the pro forma financial information, the figures stated in Renminbi as set out in Appendix II and III to this circular have been translated into HK$ at an exchange rate of RMB0.99268 to HK$1.00.

   (ii) In accordance with the terms of the Agreement, the consideration of RMB300,650,000 (equivalent to approximately HK$302.9 million) will be satisfied by the Company in form of cash payment of RMB200,650,000 (equivalent to approximately HK$202.1 million), and to the remaining balance of RMB100,000,000 (equivalent to approximately HK$100.7 million) by way of the Consideration Shares. Accordingly, the adjustment represents the cash consideration of RMB200,650,000 (equivalent to approximately HK$202.1 million), the Consideration Shares issued by the Company and the acquisition of Shareholders' Loans from the Vendors of RMB23,826,000 (equivalent to approximately HK$24.0 million), and the estimated transaction costs for the Acquisition of approximately HK$7.8 million.

   For the purpose of the pro forma financial information, the fair values of the Consideration Shares is based on the market price of HK$2.73 per Share as adopted by the Company in the Agreement and disclosed in the announcement of the Company dated 13 February 2007.

   (iii) This represents fair value adjustment resulting from the acquisition as well as recognition of the corresponding estimated deferred tax liabilities and the goodwill on Acquisition. The fair value adjustments represent the recognition of intangible assets ascribed to certain customer lists, patents and brand name of Baifu Holding and revaluation of fixed assets, which has been assessed by an independent valuer as at 31 December 2006. The goodwill of approximately HK$70.9 million represents the excess of consideration as set out in note 2(ii) above over the fair value of the net assets of Baifu Holding and Pacific Sheen including the deferred tax liabilities recognised as aforesaid.

   Since the closing market price of the Consideration Shares upon the completion and the fair values of Baifu Holding Group and Pacific Sheen Group at Completion may be substantially different from their fair value used in the pro forma financial information, the final amounts of the fair values of the assets and liabilities of Baifu Holding Group and Pacific Sheen Group and intangible assets (including goodwill) will be different from those amounts presented above.

   (iv) As part of the transaction in relation to the Acquisition, the Company will dispose of 5% of the issued share capital of Hualong Holdings, the then wholly-owned subsidiary of the Company and immediate holding company of Baifu Holding and Pacific Sheen upon Completion, to the Vendors for a cash consideration of RMB15,032,500 (equivalent to approximately HK$15.1 million).

   (v) The unaudited pro forma adjustments reflect the elimination of balances between the Baifu Holding Group and the Pacific Sheens Group as at 31 December 2006.

3. Since the closing market price of the Consideration Shares may be different from the market price of HK$2.73 per Share used in the pro forma financial information, the disposal consideration of RMB15,032,500 may not be equal to 5% of the Consideration at Completion, in which case the Group may record excess of the consideration over the net book value of the assets on disposal of 5% interest in Baifu Holding and Pacific Sheen should the closing market price of the Consideration Shares be below HK$2.73 per Share, and vice versa.

4. Subsequent to the year ended 31 December 2006, Baifu Holding Group declared a dividend of RMB50,100,000, which was not reflected in this pro forma financial information. Beside, no adjustments have been made to reflect any results or transactions of the Group, Baifu Holding Group and Pacific Sheen Group entered into subsequent to 30 June 2006 and 31 December 2006 respectively.

B. REPORT FROM ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared by the Company's auditors and reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group for the sole purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT FROM ACCOUNTANTS ON
UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF HI SUN TECHNOLOGY (CHINA) LIMITED

We report on the unaudited pro forma financial information of Hi Sun Technology (China) Limited (the "Company") and its subsidiaries (together referred to as the "Group") set out on pages 144 to 146 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix IV to the Company's circular dated 30 March 2007 (the "Circular") in connection with the proposed acquisition of the entire registered capital of Hangzhou Baifu Holding Company Limited, the entire issued share capital of Pacific Sheen International Limited and their respective shareholders' loan, and the proposed disposal of 5% of the issued share capital of Hualong Holdings Company Limited (collectively the "Transaction"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 144 to 146 of the Circular.

Respective responsibilities of the directors of the Company and the Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted statement of assets and liabilities of the Group as at 30 June 2006 with the unaudited condensed consolidated balance sheet of the Group as at 30 June 2006, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2006 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 March 2007

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this circular misleading.

2. SHARE CAPITAL

Authorised		*HK$*
4,000,000,000	Shares	10,000,000

Issued and to be issued, fully paid or credited as fully paid

1,948,167,787	Shares in issue as at the Latest Practicable Date	4,870,419
36,900,146	Consideration Shares to be issued upon Completion	92,250
180,579,902	Shares to be issued upon full conversion of the Preference Shares	451,450
2,165,647,835		5,414,119

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Interests in ordinary shares of the Company

Name of Director	**Capacity in which such interests are held**	**Number of Shares held** *(Note 1)*	**Approximate percentage of the issued share capital**
Mr. KUI Man Chun	Corporate *(Note 2)*	757,083,636 (L)	38.86
Mr. XU Wensheng	Personal	13,200,000 (L)	0.68
Mr. LI Wenjin	Personal	26,400,000 (L)	1.36
Mr. XU Chang Jun	Personal	13,200,000 (L)	0.68
Mr. CHAN Yiu Kwong	Personal	4,728,000 (L)	0.24
Mr. XU Sitao	Personal	600,000 (L)	0.03

(ii) Interests in ordinary shares of the associated corporations

Name of Director	**Capacity in which such interests are held**	**Name of associated corporation**	**Number of shares held** *(Note 1)*
Mr. KUI Man Chun	Corporate	Rich Global Limited	2 (L)
Mr. KUI Man Chun	Personal	Hi Sun Limited	30,245,000 (L)
Mr. LI Wenjin	Personal	Hi Sun Limited	255,000 (L)

Notes:

1. The letter "L" denotes a long position in shares.

2. These shares are held by Mr. KUI Man Chun through Hi Sun Limited, a company which Mr. KUI Man Chun holds a 99.16% interest, and Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.

(iii) Interests in share options of the Company

Name of Director	Number of options outstanding	Date of grant	Exercise price *(HK$)*
Mr. KUI Man Chun	12,000,000	18 March 2004 *(Note 1)*	0.0935
	13,200,000	26 September 2005 *(Note 2)*	0.192
Mr. XU Wensheng	13,200,000	26 September 2005 *(Note 2)*	0.192
Mr. XU Chang Jun	13,200,000	26 September 2005 *(Note 2)*	0.192
Mr. CHAN Yiu Kwong	4,000,000	26 September 2005 *(Note 2)*	0.192

Notes:

1. The exercisable period of the share options of the Company is from 18 March 2004 to 17 March 2014 (both dates inclusive).

2. The option period commences on 26 September 2005 and expires 10 years thereafter. Share options of the Company granted are vested as follows:

On 26 September 2005	Up to 50%
On 26 September 2006	Up to 100%

3. The consideration paid by the grantee for the acceptance of each grant of options was HK$1.00.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short position in the shares, underlying shares and debentures of the Company and its associated corporations.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any option in respect of such capital:

(i) Interests in 10% or more of Shares

Name of Shareholder	Number of Shares held *(Note 1)*	Approximately % of the issued share capital
Rich Global Limited	757,083,636 (L)	38.86%
Hi Sun Limited	757,083,636 (L) *(Note 2)*	38.86%

Notes:

1. The letter "L" denotes a long position in shares.

2. Hi Sun Limited, the share capital of which is held as to 99.16% by Mr. KUI Man Chun, an executive Director, is interested in the share capital of the Company by virtue of its 100% shareholding in Rich Global Limited.

3. Mr. KUI Man Chun, Mr. LI Wenjin, Mr. XU Wensheng, Mr. CHAN Yiu Kwong are directors of Hi Sun Limited. Mr. KUI Man Chun, Mr. LI Wenjin are directors of Rich Global Limited.

(ii) Interest in 10% or more of the equity interests in member(s) of the Enlarged Group

Name of member of the Enlarged Group	**Name of shareholder**	**Amount of registered capital attributable to the shareholder**	**Percentage (%) of holding of the total registered capital of the member**
杭州安特電力電子技術有限公司 *(Note 1)*	梁一橋	RMB900,000 *(Note 2)*	30
南昌華隆電力科技有限公司 *(Note 3)*	蔣寶宣	RMB50,000	10
武漢華隆遠見電子工程有限公司 *(Note 3)*	戴曉華	RMB50,000	10

Notes:–

1. An equity joint venture enterprise established under the laws of the PRC and a subsidiary of Hualong Electronic.

2. Based on public records, of the RMB900,000 registered capital (representing approximately USD112,500) attributable to the named shareholder, only USD40,000 was paid up.

3. A private limited company established under the laws of the PRC and a subsidiary of Hualong Electronic.

Save as disclosed herein, according to the register of interests kept by the Company under section 336 of the SFO and so far as was known to the Directors, there is no other person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had notified to the Company any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Enlarged Group or in any options in respect of such capital.

4. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered by members of the Enlarged Group after the date falling two years prior to the issue of this circular and up to the Latest Practicable Date and which are or may be material:

(a) the shareholders' agreement dated 29 April 2005 entered into between Comtel Development Limited and Acme Partner International Limited as subscribers, Turbo Speed Technology Limited ("Turbo Speed"), a wholly owned subsidiary of the Company and the Company in relation to the rights and obligations of the shareholder of Turbo Speed;

(b) the equity transfer agreement dated 22 November 2005 entered into between Hualong Electronic and Hangzhou Hualong Electric Instruments Co., Ltd. in relation to the acquisition by Hualong Electronic of all assets and liabilities in Hangzhou Hualong Electric Instruments Co., Ltd. for a consideration represented by the increase in registered capital of Hualong Electronic of RMB17,430,000 upon completion of such acquisition;

(c) the subscription agreement dated 21 March 2006 entered into between the Company and the Huge Rising Limited as subscriber in relation to the subscription of 66,000,000 new shares of the Company at HK$1.46 per new share;

(d) the subscription agreement dated 21 August 2006 entered into between HTSS ET Capital Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. as subscribers, Emerging Technology Limited ("Emerging Technology"), a wholly owned subsidiary of the Company and the Company in relation to the issue of convertible preference shares in the capital of Emerging Technology for a total subscription price of US$18 million, resulting in possible deemed disposal of approximately 9% Company's equity interest in Emerging Technology;

(e) the subscription agreement dated 27 September 2006 entered into between the Company and Mr. KUOK Hock Nien as subscriber in relation to the subscription of 20,000,000 new shares of the Company at HK$1.50 per share;

(f) the subscription agreement dated 27 September 2006 entered into between the Company and Joyce M. Kuok Foundation as subscriber in relation to the subscription of 10,000,000 new shares of the Company at HK$1.50 per share;

(g) the subscription agreement dated 27 September 2006 entered into between the Company and Zheng Ge Ru Foundation as subscriber in relation to the subscription of 10,000,000 new shares of the Company at HK$1.50 per share;

(h) the subscription agreement dated 27 September 2006 entered into between the Company and OZ Master Fund, Ltd, OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. as subscribers in relation to the subscription of total 30,000,000 new shares of the Company at HK$1.50 per share;

(i) the subscription agreement dated 27 September 2006 entered into between the Company and Tree Line Asia Master Fund as subscriber in relation to the subscription of 10,000,000 new shares of the Company at HK$1.50 per share;

(j) the subscription agreement dated 27 September 2006 entered into between the Company and Joyful Business Limited as subscriber in relation to the subscription of 20,000,000 new shares of the Company at HK$1.50 per share;

(k) the shareholders' agreement dated 12 October 2006 entered into between HTSS ET Capital Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. as subscribers, Emerging Technology and the Company in relation to the rights and obligations of the shareholders of Emerging Technology;

(l) the acquisition agreement dated 2 November 2006 entered into between 北京高陽萬為電力信息技術有限公司 (Beijing Hi Sun Electric Power Information Technology Limited) as vendor and the Company in relation to the acquisition of property located at 北京海淀區阜成路67號銀都大廈15-17樓 (the "Property") for a consideration of RMB34,500,000;

(m) the sale and purchase agreement dated 6 November 2006 entered into between the Company, Keen Ambition Enterprise Limited and Mr. Mo Ying San in relation to the disposal of the entire issued share capital of Pax Technology Limited by the Company for a consideration of HK$200,000,000;

(n) the shareholders' agreement dated 8 December 2006, entered into between the Company, Comtel Development Limited, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P., Turbo Speed and Acme Partner International Ltd., in relation to the rights and obligations of the Shareholder of Turbo Speed;

(o) the deed of confirmation between Pacific Sheen and its shareholders, including, *inter alia*, the Vendors, dated 9 February 2007 confirming their respective amounts of United States dollars unsecured interest-free loans provided by such shareholders to Pacific Sheen at the material times and the nil outstanding balances thereof at the date of execution of the deed; and

(p) the Agreement.

Save as disclosed above, none of the members of the Enlarged Group has entered into any contracts after the date falling two years prior to the issue of this circular and up to the Latest Practicable Date which are not in the ordinary course of business and which are or may be material in nature.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation).

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letters or advice contained in this circular:

Name	**Qualifications**
PricewaterhouseCoopers	Certified Public Accountants

PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, PricewaterhouseCoopers is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did that have any interest, direct or indirect, in the assets which have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claims which is in the opinion of the Directors of material importance and no litigation or claims which is in the opinion of the Directors of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any circumstance or event which may give rise to material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors or their respective associates has any interests in a business, which competes or may compete with the business of the Group.

10. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed herein, the Directors confirm that there is no contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested which was significant in relation to the business of the Enlarged Group.

11. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has any interest, direct or indirect, in any assets which had been, since 31 December 2005, being the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

12. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The head office and principal office of the Company is at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

(c) The secretary of the Company is Mr. CHAN Yiu Kwong, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Chartered Association of Certified Accountants in the United Kingdom.

(d) The qualified accountant of the Company is Mr. CHAN Yiu Kwong, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Chartered Association of Certified Accountants in the United Kingdom (as required under Rule 3.24 of the Listing Rules).

(e) The branch share registrar of the Company in Hong Kong is Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(f) The English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company in Hong Kong at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during 10:00 a.m. to 4:00 p.m. on any business day (excluding public and statutory holidays and Saturdays), from the date of this circular up to and including the date of the SGM:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Board, the text of which is set out on pages 4 to 19 of this circular;

(c) the Agreement;

(d) the material contracts referred to in the section headed "Material contracts" in this appendix;

(e) the written consent of the expert referred to in the paragraph headed "Expert and consent" in this appendix;

(f) the accountants' report of the Baifu Holding Group for the three years ended 31 December 2006 as set out in Appendix II to this circular and the related statement of adjustments;

(g) the accountants' report of the Pacific Sheen Group for the three years ended 31 December 2006 as set out in Appendix III to this circular;

(h) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular;

(i) the interim report of the Company for the six months ended 30 June 2006;

(j) the annual reports of the Company for the two years ended 31 December 2004 and 2005;

(k) the circular issued by the Company dated 8 September 2006 in relation to the issue of convertible preference shares by a major subsidiary of the Company resulting in a possible deemed disposal of equity interest in such subsidiary;

(l) the circular issued by the Company dated 27 November 2006 in relation to the acquisition of the Property from 北京高陽萬為電力信息技術有限公司 (Beijing Hi Sun Electric Power Information Technology Limited), a connected person of the Company; and

(m) the circular issued by the Company dated 27 November 2006 in relation to the disposal of the entire issued share capital of Pax Technology Limited by the Company.

HI SUN TECHNOLOGY (CHINA) LIMITED
高陽科技（中國）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 818)

NOTICE IS HEREBY GIVEN that a special general meeting of Hi Sun Technology (China) Limited (the "Company") will be held at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 16 April 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modification) the following as an ordinary resolution of the Company: –

ORDINARY RESOLUTION

"**THAT**:

(a) the conditional acquisition by the Company of enterprise(s) in the People's Republic of China (the "PRC"), directly or through acquisition of their holding company(ies), including or otherwise through the acquisition of Pacific Sheen International Limited (富順國際有限公司) and Hangzhou Baifu Holding Company Limited (杭州百富控股有限公司), a PRC corporation incorporated as the sole direct parent to Hangzhou Hualong Electronic Technology Company Limited (杭州華隆電子技術有限公司) and Hangzhou Hualong Information Technology Company Limited (杭州華隆信息技術有限公司), at an aggregate consideration of RMB300,650,000 (equivalent to approximately HK$302.9 million) to be satisfied in cash and by the issue of ordinary shares of the Company (the "Shares"), subject to the terms and conditions of the agreement dated 10 February 2007 entered into between the Company and the vendors named therein (the "Acquisition Agreement") (together, the "Acquisition") and the transactions incidental thereto or in connection therewith be approved, confirmed and ratified;

(b) the allotment and issue of consideration Shares pursuant to the Acquisition and subject to the terms of the Acquisition Agreement be approved, without prejudice to the existing authority of the board of directors of the Company to issue new Shares under the general mandate granted by the shareholders of the Company at the annual general meeting of 23 May 2006; and

* *For identification purpose only*

(c) any one director of the Company, so far as permissible under the bye-laws of the Company, be authorised to perform and execute all such matters and documents, with or without amendment and affixation of the common seal of the Company, relating, incidental to or in connection with the Acquisition, the Acquisition Agreement and the transactions contemplated thereunder (including, without limitation, execution of the Acquisition Agreement, a copy of which marked "A" has been produced to the meeting and initialed by the Chairman of the meeting for purpose of identification and the approval for which is hereby confirmed and ratified) as such director may deem appropriate, necessary or expedient."

By Order of the Board
LI Wenjin
Executive Director

Hong Kong, 30 March 2007

Head office and principal place of business of the Company:
Room 2416, 24th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed with the circular despatched on 30 March 2007 to the members of the Company.

2. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the principal place of business of the Company at Room 2416, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote.

5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.