HI SUN GROUP LIMITED

高陽集團有限公司*

(incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2002

The Board of Directors (the "Board") of Hi Sun Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2002 together with the unaudited comparative figures for the corresponding period as follows:–

		Unaudited Six months ended 30th June	
		2002	**2001**
	Notes	*HK$'000*	*HK$'000*
Turnover	*2*	124,012	19,419
Cost of sales		(76,982)	(16,211)
Gross profit		47,030	3,208
Other revenue and gains		1,818	283
Selling and distribution expenses		(4,999)	(6)
Administrative expenses		(59,079)	(11,304)
Write-back of doubtful debts		1,939	1,887
Write-back of contract work in progress		4,111	3,391
Other operating expenses		(2,472)	(489)
Loss from operation	*3*	(11,652)	(3,030)
Finance costs		(536)	(4,998)
Non-operating income		366	357,638
(Loss)/profit before taxation		(11,822)	349,610
Taxation	*4*	(5)	–
(Loss)/profit after taxation		(11,827)	349,610
Minority interests		–	694
(Loss)/profit attributable to shareholders		(11,827)	350,304
(Loss)/earnings per share – basic	*5*	HK$(0.06)	HK$2.08

Notes:

1. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new/revised standards are set out in further details in the 2002 interim report.

Subsequent to acquisitions of subsidiaries on 28th February 2002, the Group has adopted new accounting policy in the valuation of inventories in the preparation of these condensed accounts, as set out in further details in the 2002 interim report.

2 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

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 segments is as follows:

	Unaudited Six months ended 30th June 2002				
	Financial solutions, services and related products	**Telecom-munication solutions, services and related products**	**Electronic Payment Products and Services**	**Construction/ installation of curtain wall systems**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	99,811	14,048	6,245	3,908	124,012
Segment results	(1,159)	(635)	(5,243)	(4,769)	(11,806)
Unallocated income					154
Loss from operation					(11,652)
Finance costs					(536)
Non-operating income, net					366
Loss before taxation					(11,822)
Taxation					(5)
Loss attributable to shareholders					(11,827)

	Unaudited Six months ended 30th June 2001		
	Construction/ installation of curtain wall systems	**Sale and distribution of sanitary-ware and kitchen cabinets**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	19,419	–	19,419
Segment results	(2,917)	(113)	(3,030)
Finance costs			(4,998)
Non-operating income, net			357,638
Profit before taxation			349,610
Minority interests			694
Profit attributable to shareholders			350,304

There are no sales or other transactions between the business segments. Unallocated income represents interest income.

An analysis of the Group's turnover and contribution to operating loss for the period by geographical segment is as follows:

	Unaudited Turnover Six months ended 30th June		Unaudited Loss from operation Six months ended 30th June	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Geographical segment:				
Hong Kong	11,206	16,919	(5,351)	(2,678)
Mainland China	112,806	2,500	(6,301)	(352)
	124,012	19,419	(11,652)	(3,030)

Sales are based on the country in which the customer is located. There are no sales between the segments.

3 Loss from operation

Loss from operation is stated after crediting and charging the following:

	Unaudited Six months ended 30th June	
	2002	**2001**
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of fixed assets	34	5
Charging		
Auditors' remuneration	263	270
Depreciation:		
Owned fixed assets	2,974	643
Leased fixed assets	–	8
Less: depreciation capitalised into contract work in progress	–	(101)
Net depreciation charge	2,974	550
Staff cost (excluding directors' remuneration):		
Wages and salaries	35,611	6,713
Pension contributions	710	332
Less: staff costs capitalised into contract work in progress	(381)	(643)
	35,940	6,402
Operating lease rentals for land and buildings	3,690	142
Provision for impairment of fixed assets	2,460	380
Fixed assets written off	12	109
Provision for doubtful debt	–	283
Provision for contract work in progress	178	–

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) 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.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Unaudited Six months ended 30th June	
	2002	**2001**
	HK$'000	*HK$'000*
Hong Kong profits tax		
Current year	(4)	–
Overseas taxation	9	–
	5	–

5 (Loss)/earnings per share

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK$11,827,000 (2001: profit of HK$350,304,000) and on the weighted average number of 202,036,020 (2001: 168,436,020) ordinary shares in issue during the period.

The weighted average number of shares for the purposes of calculation of basic loss per share for the six months ended 30th June 2002 and 2001 has been adjusted for the effect of the Company's bonus issue on 30th May 2002 of 101,018,010 shares made on the basis of one bonus share for every one share held.

There were no dilutive effects on the basic (loss)/earnings per share for the periods ended 30 June 2002 and 2001.

6. Related party transactions

(a) On 28th February 2002, the Group acquired 62.1% equity interest in Hi Sun Technology Holding Limited from Hi Sun Limited, a company in which through its wholly owned subsidiary, Rich Global Limited, is the controlling shareholder of the Company holding at that time 63,090,303 shares representing approximately 62.45% of the issued share capital of the Company. Hi Sun Limited is in turn beneficially owned as to approximately 99.16% by Mr. Kui Man Chun, an executive director of the Company and Hi Sun Technology Holding Limited, and approximately 0.84% by Mr. Li Wenjin, an executive director of the Company.

(b) On 28th February 2002, the Group acquired 1.21% equity interest in Hi Sun Technology Holding Limited from Chan Yiu Kwong, an executive director of the Company.

(c) Management fee of HK$280,000 is paid to a fellow subsidiary for the provision of administrative and support services. The terms are agreed by the parties involved.

7. Subsequent events

(a) In August 2002, the Group disposed certain of its land and buildings situated in Hong Kong to independent third parties for cash consideration of approximately HK$9.39 million. There was no material gain or loss on disposals.

(b) On 17th July 2002, 20,000,000 shares of HK$0.01 each were issued at a premium of HK$0.81 each, for a total of cash consideration of HK$16,400,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

In the current financial year, the Group has continued to take steps to reorganise its businesses with a view to provide a solid foundation for the Group's long term development, as well as to strengthen its capital base to achieve such objective.

The Group recorded a turnover of HK$124 million in the first half of 2002, representing a more than 5-fold increase from the same period last year. This was mainly due to the acquisition of IT businesses in the period, which contributed 97% of the turnover. The remaining turnover of HK$3.9 million was derived from the curtain wall business. Turnover from this business dropped by 80% from the same period last year, which was mainly due to the depressed property market.

Overall gross margin was 37.9% in the first half of 2002, as compared to 16.5% in the same period last year. Comparing like with like, the curtain wall business has suffered a gross loss of 7.1% in the first half of 2002, as compared to a gross margin of 16.5% in 2001, which was mainly due to difficult market conditions, resulting in increasingly stringent quality requirements which lead to increase in construction cost. Gross margin of IT business was 39.4% in the first half of 2002.

However, since the IT business is still at a developing and expanding stage which requires relatively large fixed overheads to expand the Group's capacity and to establish its market position, a small operating loss of HK$7 million was incurred in this business. Operating loss from the curtain wall business was HK$4.8 million in the first half of 2002, up from an operating loss of HK$3 million in the same period last year. The loss included a provision for impairment of the Group's properties of HK$2.5 million and a gain of HK$6.1 million from recovery of bad debts and contract work in progress.

Net loss for the first half of 2002 was HK$11.8 million, as compared to net profit of HK$350.3 million in the same period last year, such profit being largely contributed by a one-off gain of HK$357.5 million arising from waiver of loan balance from the Group's former holding company.

Following the successful acquisition of Hi Sun Technology Holding Limited and its subsidiaries ("Hi Sun Tech") in February this year, the Group is now focusing on the development of Business Consulting-Oriented IT Solutions and related businesses. Two years of determined efforts by Hi Sun Tech has witnessed its transformation from a traditional system integrator into a sophisticated IT service provider in the field of business consulting, application software and solutions.

Managed by professionals of both international and Chinese background with proven track records and in depth understanding of China's IT industry, Hi Sun Tech is endeavored to develop a new business model in China. The sub-Group is well positioned as a pioneer to provide its financial and telecommunication clients with integrated business consulting and IT services which includes Strategic, Management and Business Consulting; Core IT Systems Design and Execution; Application Services and System Services and Electronic Fund Transfer POS Terminal Design, Production and Services.

Segmental Review

Financial solutions, services and related products

Hi Sun Tech supports IT systems for bank customers through its banking business consulting, mainframe based integrated banking system, credit card business consulting and system implementation and personal banking business consulting and system. This makes Hi Sun Tech one of the most influential IT players for China's banking industry.

It also offers solutions to insurance and securities client that include core business operation systems, insurance policy imaging management system, securities integrated business processing system and customers relations management systems.

During the period under review, this segment contributed 80% of the Group's turnover. Out of this, the traditional "box moving" business and the solution and related service accounted for 64% and 36% of this segment's turnover respectively. The average gross profit margin of box moving business was 13% while that of solution and related services was 86%.

Despite the comparatively lower margin, the Group engaged in the product-oriented business, moving boxes to our target end users, which includes major banks in China. By doing so, we are paving the way to capture the growth in solution and services oriented businesses.

Telecommunication solutions, services and related products

The telecommunication market is a big pie in which IT solutions providers are vying for a slice. The telecommunication service division plays a critical role in providing customers with the most sophisticated technology and services. The division focuses on billing systems and customer service systems. It provides solutions that include local telecommunication billing systems, provincial level billing clearing systems, telecommunication customer service systems, commercial customer service system, call centers, and office automation systems. Major customers include member companies of China Telecom, China Mobile Telecom and China Unicom that span over 10 major provinces in China.

During the period under review, the telecommunication segment contributed 11% of the Group's turnover. This segment faces stiff competition from our peers in China. The telecommunication unit is in a process of transforming itself into a consulting-oriented solution team. Meanwhile, we have kept the scale of operation at a size suitable for the initial development of this line of business.

Electronic Payment Products and Services

As electronic payment becomes more important to e-banking, the team has conducted research and development for many years resulting in a series of innovative electronic payment terminal products for credit cards, debit cards and smart cards under the PAX brandname. Having first introduced its products, which is well received in China, Hong Kong and Southeast Asia, PAX is now emerging as one of the most aggressive e-payment terminal product vendor and service provider in Asia Pacific.

During the period under review, the unit contributed 5% of the Group's turnover. The gross profit margin was 35%. The high expenses and overheads were explained by the expenses incurred in research and development and expenses related to marketing and certification of the products for further expansion into Asia Pacific. During the period, the new product design had been awarded the EMV certification, which is a global recognition of approved vendors for this product. In the same period, the unit successfully secured several large contracts, which are expected to be completed towards the year-end.

Curtain wall systems

Faced with a depressed property market, the Group's business in the installation and construction of curtain wall systems and aluminium windows (the "curtain wall business") was confined to completing existing projects which have now been substantially completed. Presently, the Group is mainly involved in the maintenance of completed projects.

Others

In addition, to rationalise the Group's resources, the Group had entered into agreements to dispose of one of its office, previously used for its curtain wall business and being in excess of its need, in June 2002. The disposal was completed in August 2002. Subsequent to 30th June 2002, the Group had also disposed of an office unit originally held for investment purpose. Total net proceeds from these disposals of approximately HK$9.2 million were applied to strengthen the working capital of the Group.

To allow shareholders to participate in the growth of the Company, the Company issued bonus shares on the basis of one new share for every one existing share held in May 2002 by way of capitalisation of a portion of the share premium account. In addition, to further strengthen the Group's capital base, in July 2002, the Group issued 20 million new shares to raise net proceeds of approximately HK$16 million, which will be applied as working capital of the Group.

Liquidity and financial resources

The Group generally finances its operations with internally generated cash flows and facilities from its bankers. As at 30th June 2002, the Group had cash of HK$28.2 million and bank borrowings of HK$65.7 million. All the borrowings are short term loans and overdrafts utilised to fund Group's working capital requirements. Although the Group has quite high gearing ratio (defined as total interest bearing debts net of cash balance and divided by shareholders' equity) of 4.4 times as at 30th June 2002, the subsequent placement of new shares and disposal of properties, raising total net proceeds of approximately HK$25 million, results in the gearing ratio now returning to a much more comfortable level.

Capital structure of the Group

The Group's bank borrowings are short term trade loans and overdrafts with interests charged at floating rates. Approximately 16.7%, 26.4% and 56.9% of the Group's borrowings are denominated in Hong Kong dollar, U.S. dollar and Renminbi, respectively, and approximately 74.9%, 0.8%, 23.7% and 0.6% of the Group's cash balances are denominated in Hong Kong dollar, U.S. dollar, Renminbi and Australian dollar respectively.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

The total number of employees of the Group as at 30th June 2002 was 835, as compared to 32 at 30th June 2002. The increase was due to the acquisition of Hi Sun Tech in the current period. Total staff costs (excluding directors' remuneration) amounted to HK$36.3 million in the first half of 2002, as compared to HK$7 million in the same period last year.

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

Share Options

To provide further incentive to attract, motivate and retain talented employees, the Company adopted a new share option scheme in November 2001. As at the date hereof, no option has been granted under the scheme.

Details of the charges on Group assets

As at 30th June 2002, cash on hand of approximately HK$17 million and certain leasehold land and buildings in Hong Kong with net book value of approximately HK$9 million were pledged to banks to secure banking facilities granted to certain subsidiaries.

Contingent Liabilities

Two of the Company's subsidiaries are named defendants in certain lawsuits regarding certain completed construction projects and a proposed acquisition of 2 companies several years ago and the Company has provided a counter-guarantee to an independent third party for a bank loan of a subsidiary, further details of which are set out in the 2002 interim report.

Future plans

After a series of restructuring and consolidation, the Group is on the right path towards enhancing shareholders' value in the long term.

The management strongly believes that the IT industry in China will undergo a transformation from product-oriented to services-oriented industry. Hi Sun Tech is the trend-setter and first mover of revolutionary business model, which provides Business Consulting Oriented IT solutions. With endless challenges and business opportunities in the IT market in China, Hi Sun Tech is on the right track. We will continue to pursue our goal of setting the trend of this business model which we have been doing in the past two and a half years.

In the future, with our core asset of the pool of talent, the management will continue to pursue our corporate mission to create greater value for our customer and to generate better investment returns for our shareholders.

Exposure to fluctuations in exchange rates and related hedges

Income and expenditure streams as well as monetary assets and liabilities of the Group are primarily denominated in Hong Kong dollar, U.S. dollar or Renminbi. Although the Group does not normally hedge against its foreign exchange exposures, since the Hong Kong dollar is pegged to the U.S. dollar and the exchange rate of Renminbi against U.S. dollar is stabilised by the Mainland government to within a very narrow range, the Group does not consider that it has significant risk exposure to foreign exchange fluctuations.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the period (2001: Nil).

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee, which comprises the two independent non-executive directors of the Company, has reviewed the 2002 interim report and accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters with management.

PUBLICATION OF INTERIM REPORT

The 2002 Interim Report containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be submitted for publication on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
Li Wenjin
Director

Hong Kong, 20th September 2002

* *for identification purpose only*

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