



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 2003

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 2003 together with the unaudited comparative figures for the corresponding period as follows: –

		Unaudited Six months ended 30th June	
	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Turnover	2	131,165	124,012
Cost of sales		(86,571)	(76,982)
		<hr/>	<hr/>
Gross profit		44,594	47,030
Other revenue		199	1,818
Selling and distribution expenses		(19,198)	(4,999)
Administrative expenses		(33,191)	(59,079)
Write-back of doubtful debts		–	1,939
Write-back of contract work in progress		–	4,111
Other operating expenses		–	(2,472)
		<hr/>	<hr/>
Loss from operation	3	(7,596)	(11,652)
Finance costs		(964)	(536)
Non-operating income		–	366
		<hr/>	<hr/>
Loss before taxation		(8,560)	(11,822)
Taxation	4	–	(5)
		<hr/>	<hr/>
Loss attributable to shareholders		(8,560)	(11,827)
		<hr/>	<hr/>
Basic loss per share	5	HK\$(0.03)	HK\$(0.06)
		<hr/>	<hr/>

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 2002 annual accounts.

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 2002 except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 “Income Taxes” issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group’s accounting policies and the effect of adopting this new standard is set out below.

(a) *Deferred taxation*

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Segment reporting

The Group is organised into four main business segments:

- (a) Financial solutions, services and related products – provisions of customised information system consultancy and integration services and sales of computer hardware to financial institutions and banks;
- (b) Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of computer hardware to the telecommunication industries;
- (c) Electronic payment products and services – sales of point-of-sale (“POS”) terminals; and
- (d) Construction and installation of curtain wall system – construction and installation of curtain wall system and aluminium windows. This segment was disposed of on 30th September 2002.

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 2003				
	Financial solutions, services and related products	Telecom- munication solutions, services and related products	Electronic payment products and services	Other operations	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>98,582</u>	<u>10,524</u>	<u>22,059</u>	<u>–</u>	<u>131,165</u>
Segment results	<u>1,123</u>	<u>(1,158)</u>	<u>(2,731)</u>	<u>(5,002)</u>	(7,768)
Unallocated income					<u>172</u>
Loss from operation					(7,596)
Finance costs					(964)
Non-operating income					<u>–</u>
Loss before taxation					(8,560)
Taxation					<u>–</u>
Loss attributable to shareholders					<u>(8,560)</u>

	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	Discontinuing operations	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>99,811</u>	<u>14,048</u>	<u>6,245</u>	<u>3,908</u>	<u>124,012</u>
Segment results	<u>(1,159)</u>	<u>(635)</u>	<u>(5,243)</u>	<u>(4,769)</u>	(11,806)
Unallocated income					<u>154</u>
Loss from operation					(11,652)
Finance costs					(536)
Non-operating income					<u>366</u>
Loss before taxation					(11,822)
Taxation					<u>(5)</u>
Loss attributable to shareholders					<u>(11,827)</u>

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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong, Korea and South East Asia	20,312	11,206	(5,642)	(5,351)
Mainland China	110,853	112,806	(1,954)	(6,301)
	<u>131,165</u>	<u>124,012</u>	<u>(7,596)</u>	<u>(11,652)</u>

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

3. Loss from operation

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

	Unaudited Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Crediting		
Gain on disposal of fixed assets	<u>–</u>	<u>34</u>
Charging		
Auditors' remuneration	600	263
Depreciation	4,276	2,974
Staff costs (excluding directors' remuneration):		
Wages and salaries	42,668	35,611
Pension contributions	1,240	710
Less: staff costs capitalised into contract work in progress	<u>(2,036)</u>	<u>(381)</u>
Operating lease rentals for land and buildings	41,872	35,940
Provision for impairment of fixed assets	4,601	3,690
Loss on disposal and write off of fixed assets	–	2,460
Provision for doubtful debts	320	12
	<u>1,646</u>	<u>–</u>

4. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the current period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. 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	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax Current year	–	(4)
Overseas taxation	–	9
	<hr/>	<hr/>
	–	5
	<hr/>	<hr/>

There was no material unprovided deferred taxation for the six months ended 30th June 2003 (For the six months ended 30th June 2002: Nil).

5. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$8,560,000 (2002: loss of HK\$11,827,000) and on the weighted average number of 333,054,030 (2002: 203,450,272) ordinary shares in issue during the period.

The weighted average number of shares in issue used to calculate the basic loss per share for the six months ended 30th June 2002 has been adjusted for the effect of the Company's bonus issue and rights issue as set out in note 11(a) and (c) to the accounts respectively.

There were no dilutive effects on the basic loss per share for the periods ended 30th June 2003 and 2002.

6. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		Unaudited	Audited
		30th June	31st December
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Management fees paid to a related company	(a)	280	700
Consultancy fees paid to a related company	(b)	74	288
		<hr/>	<hr/>

(a) Two subsidiaries, Hi Sun Technology Holding Limited and Pax Technology Limited, received management services from Hi Sun Management Limited ("HSML"), a company owned by a director, who is also a substantial shareholder, of the Company, on terms mutually agreed between the subsidiaries and HSML.

(b) A subsidiary, Pax Technology Limited, received consultancy services from Hi Sun Information Technology Services Limited ("HSITSL"), a company owned by a director, who is also a substantial shareholder, of the Company, on terms mutually agreed between the subsidiary and HSITSL.

MANAGEMENT DISCUSSION AND ANALYSIS

This financial period is the first in which the Group reports its performance as a pure information technology consulting services and products provider (“IT businesses”). The management is delighted that the first half of the current financial year has witnessed a strong business development in both the areas of IT consulting services and hardware products. This solid trend carries the positive signal that the Group is decisively ahead of its local competitors who are mainly traditional system integration players.

Business and Financial Review

The Group recorded a turnover of HK\$131.17 million in the first half year of 2003, representing approximately 6% increase over the same period last year. Net loss attributable to the shareholders amounted to HK\$8.56 million as compared to HK\$11.83 million of the same period last year. As a result of the Group shifting its business direction from “box-moving” system integration into high value-added and high margin IT businesses, the Group saw an increase in the profit margin in a manner which matched with the Group’s new development direction.

The Group’s comparative figures for the period ended 30th June 2002 included turnover and loss of the discontinued operation, namely, construction and installation of curtain wall systems. The turnover and loss of the curtain wall systems recorded in the same period of last year were HK\$3.9 million and HK\$4.8 million respectively. Excluding the turnover contribution of the curtain wall systems, the IT and consulting businesses recorded a growth of approximately 9% over the same period of last year.

Financial solutions, application, services and related products

The Group’s flagship division continues to be the main source of its sales revenues and its banking solutions and services have proven to be a great success. Apart from our committed and strong performances in a series of applications and solutions which led to the growth in profit, we have also landed lucrative strategic deals with some of the most prominent banking institutions in China and Hong Kong for upgrading of their core banking systems and servicing to their mainframe computer systems.

During the period under review, this division achieved a turnover of HK\$98.58 million (2002 Interim: HK\$99.81 million) and profit of HK\$1.12 million (2002 Interim: loss of HK\$1.16 million).

The commencement of the two contracts of upgrading core banking systems for Industrial and Commercial Bank of China (Asia) Limited (“ICBC (Asia)”) and Bank of Communications of China with our Integrated Banking System (“IBS”) marked our booming transformation from a traditional system integrator to a leading high value-added IT service provider. The benefits of the two contracts cannot be overstated as they laid the foundation for our buoyant IT businesses outlook.

During the period under review, we have also completed the first stage of contractual works. These contributed approximately 34% of the turnover and the overall segment’s gross margin was improved. Other consultancy and IT services also contributed 21% to the turnover. These two high margin business categories accounted for 55% of this segment’s turnover in total and contributed 91% of the gross profit of this segment.

The system integration and hardware product business accounted for the remaining 45% as compared to 64% of the segment’s turnover of the same period last year, with an average gross margin comparable to the same period of last year.

The outbreak of Severe Acute Respiratory Syndrome (“SARS”) during the period did not have a major negative impact on our dedication to the new business direction. The negative impact of SARS can be felt in the deferment of contract execution and thus, the recognition of income according to the progress of the contracts.

The division endeavored to catch up with the progress of the execution of contracts and to further enhance our leading competitive stronghold in high value-added IT services. In addition, our consolidation and realignment exercises will continue. During the period, the Group conducted retrenchment and departmental realignment exercises and the headcount was consequently reduced by 23%. After taking into account of the cost of retrenchment, the cost-saving benefits will only be reflected in the second half of the year.

Electronic payment solutions and products

The Group’s Electronic Fund Transfer Point of Sales (EFT POS) terminal business under the PAX brand name advanced remarkably in the first half of the current financial year. The market is increasingly receptive to the high quality of the PAX products and as a result, the market share of the PAX products is growing steadily in both China and South East Asia.

The division recorded a turnover of HK\$22.06 million (2002 Interim: HK\$6.25 million) and a loss of HK\$2.73 million (2002 Interim: HK\$5.24 million). The growth was brought about by market acceptance of the products and the expansion of the Chinese market. The overall gross margin achieved was 39% which is 4% higher than that of the same period last year and can be attributed to the healthy sales growth in China.

The expected turnover growth was delayed by the outbreak of SARS, which disrupted the progress of business negotiation, production and delivery during the second quarter of the year. Despite the delay, we strongly believe that the division will accomplish profitability in the full year result given the continuous strong growth of the Chinese market and the successful certifications including the EPS certification in HK, Europay International, Mastercard International and Visa International (“EMV”) Level I and II Certification, Proton World certification in Malaysia, Singapore NETS Cash Card certification. In order to maintain its cost competitiveness, cost-saving programme was ratified and the headcount was reduced by 10% during the period.

Telecommunication solutions, services and related products

The current trend in China market is such that IT service providers in the industry are vying for telecommunication companies’ shrinking IT budget. As such, the Group is facing immense difficulty in breaking through the China market. Moreover, the intensified competition also meant that the Group is finding it arduous to maintain a strong presence in China. To maintain competitiveness, the Group’s telecom service division implemented cost-saving policies while adhering to the Group’s overall strategic objective in positioning itself as a forerunner in business consulting oriented solutions and services.

The turnover for the period under review was HK\$10.52 million (2002 Interim: HK\$14.05 million) while the loss was HK\$1.16 million (2002 Interim: HK\$0.64 million). The average gross margin achieved was in the range of 24%. The management will continue to monitor the operation closely and will also strive to be commercially flexible on the mode of operation of this division. During the period, the number of employees was reduced by 15% and the exercise was accompanied with the benefit of reducing the overall costs of the operation. The lowered cost of the operation will place the Group in a sturdy position for the next take off of the industry.

Liquidity and Financial Resources

As at 30th June 2003, the Group recorded a total assets of HK\$180.27 million which were financed by liabilities of HK\$124.62 million and equity of HK\$55.65 million. The net assets value was HK\$55.65 million (31st December 2002: HK\$64.21 million). It amounted to HK\$0.167 per share as compared to HK\$0.193 per share as at 31st December 2002.

As at 30th June 2003, the Group had cash of HK\$45.29 million and bank borrowings of HK\$31.39 million. The net cash position as at that date was HK\$13.90 million as compared to HK\$36.07 million as at 31st December 2002. All the borrowings are short-term loans and overdrafts utilised to fund the Group's working capital requirements. The gearing ratio (defined as total interest bearing debts divided by shareholders' equity) was 0.56 compared to 0.89 as at 31st December 2002 due to the repayment of certain bank borrowings after the rights issue exercise. The gearing ratio is considered healthy and suitable for the continued growth of the Group's business.

Capital Structure and Details of Charges

The Group's bank borrowings are short term loans and overdrafts with interests charged at floating rates. As at 30th June 2003, bank loans amounting to Renminbi 17.85 million (equivalent to HK\$16.68 million) are denominated in Renminbi with average interest rates of 5.31%. Bank loans amounted to USD0.08 million (equivalent to HK\$0.61 million) and HK\$14.10 million are denominated in US dollar and Hong Kong dollar respectively. The Hong Kong dollar and US dollar denominated loans were charged at Hong Kong Prime Lending rate and floating interest rate respectively.

Approximately HK\$9.03 million, HK\$35.95 million and HK\$0.31 million of the Group's cash balances are denominated in Renminbi, Hong Kong dollar and US dollar respectively.

The bank loans were secured by fixed deposits of HK\$21 million, deposits in bank guaranteed funds of HK\$2.03 million and a personal guarantee of HK\$7 million from a director of the Company.

Exchange Rates Exposure

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

Contingent Liabilities

The Group had no contingent liability as at 30th June 2003.

Employees

The total number of employees of the Group as at 30th June 2003 was 653. The breakdown of employees by division is as follows:

Financial solutions, services and related products	495
Electronic payment solutions and products	66
Telecommunication solutions, services and related products	82
Corporate office	10
	<hr/>
	653

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

Share Options

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

Use of Proceeds

The net proceeds of HK\$68 million raised from the Rights Issue completed in December 2002 had already been utilised. As at 30th June 2003, the application of the net proceeds are as follows:

Intended application of Proceeds as disclosed in The Company's Circular Dated 4th December 2002	Intended application HK\$ million	Utilised HK\$ million
Expansion of the Group's IT Business	15	10
Expansion of the Group's electronic payment products and services	10	14
Reduction of the Group's indebtedness	25	26
General working capital	18	18
	<hr/>	<hr/>
	68	68

Prospects

The financial services division will continue to execute its IBS implementation for ICBC (Asia) and Bank of Communications of China and the implementation of the credit card system for Bank of Communication of China. Meanwhile, the Group has secured some application service deals with multinational banks operating in Hong Kong and China, which will undoubtedly strengthen its market reputation and position. The Group has also planned to strive harder in its marketing and sales drives in China and South East Asia.

The prospect for the Group's EFT POS terminal business is encouraging. On the basis of its successful big-ticket sales to South Korea and its solid market share of China in the last financial year, the EFT POS terminal division has secured its position as one of the top three in China. Furthermore, there has been substantial market acceptance by prestigious multinational and regional banks in Hong Kong, Singapore and other South East Asia markets. The Group expects its EFT POS terminal business to prosper well into the years to come.

The Telecom services will continue to face a tough market situation towards the end of the year but the Group believes that there is still demand for post-hardware build-up consulting and application services in China's telecommunication market since China's entry into WTO. We will therefore maintain our core telecom service team, endeavours to secure more rewarding consulting and application service deals and persists in our cost-saving approaches. In the meantime, we will also seek opportunities for partnership for this segment where and when deemed appropriate.

The Group also aims to broaden and strengthen its market share in the regional IT service market. In particular, the Group will keep an eye on prospects in China for new business growth and one possible options for that purpose include business cooperation.

To conclude, the Group has achieved a pronounced development as a leading IT service and product provider in China and the South East Asian markets in the first half of the current financial year. Having ushered in the new IT businesses direction in the course of last financial year, the Group is now on solid path to establishing its leading position in the market. The Group is dedicated to maintaining its competitive and innovative edge over other and potential competitors by keeping its first-mover advantage and turning it into bigger market share, revenue sales and enhanced shareholder value.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the period (2002: Nil).

AUDIT COMMITTEE

The Audit Committee, which comprises two independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th June 2003 with the directors.

PUBLICATION OF INTERIM REPORT

The 2003 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, 24th September 2003

* *for identification purpose only*

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