



**HI SUN GROUP LIMITED**

**高陽集團有限公司**

*(incorporated in Bermuda with limited liability)*

**HISUN**

INTERIM REPORT

**2003**

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30th June 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2003, and the consolidated balance sheet as at 30th June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 10 to 22 of this report.

## 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.

**Financial solutions, application, services and related products** *(continued)*

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.

### **Electronic payment solutions and products** *(continued)*

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.

## Liquidity and Financial Resources *(continued)*

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/>
	<b>653</b>

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:

<b>Intended application of Proceeds as disclosed in The Company's Circular Dated 4th December 2002</b>	<b>Intended application <i>HK\$ million</i></b>	<b>Utilised <i>HK\$ million</i></b>
	<hr/>	<hr/>
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/>
	<b>68</b>	<b>68</b>
	<hr/>	<hr/>

## 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.

## Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures

At 30th June 2003, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

### (a) Ordinary shares of HK\$0.01 each in the Company

Name of director	Number of shares held	
	Personal interest	Corporate interest
		<i>(Note)</i>
Kui Man Chun	–	189,270,909

#### *Note:*

These shares are held by Kui Man Chun through Hi Sun Limited, a company which Kui Man Chun holds a 99.16% interest, and Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.

### (b) Ordinary shares in associated corporations

<u>Name of director</u>	<u>Name of associated corporation</u>	<u>Number of shares held</u>	<u>Category of interest</u>
Kui Man Chun	Rich Global Limited	2 ordinary shares	Corporate
Kui Man Chun	Hi Sun Limited	30,245,000 ordinary shares	Personal
Li Wenjin	Hi Sun Limited	255,000 ordinary shares	Personal

Save as disclosed above, none of the directors or chief executive had any interests or short positions in the shares, or underlying shares in, or debentures, of the Company or any of its associated corporations.



## Directors' rights to acquire shares or debentures

Save for the Share Option Scheme adopted by the Company on 29th November 2001, at no time during the period was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. As at 30th June 2003, no share options had been granted.

## Substantial shareholders' interests and short positions in the shares and underlying shares

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30th June 2003, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares
Rich Global Limited ("RGL")	189,270,909
Hi Sun Limited ("HSL")	189,270,909 <i>(Note 1)</i>
Kui Man Chun	189,270,909 <i>(Note 2)</i>
Pacific Pilot Limited	30,000,000

### *Note:*

- (1) HSL is interested in the Company's share capital by virtue of its 100% shareholding in RGL.
- (2) Kui Man Chun is interested in the Company's share capital by virtue of his 99.16% shareholding in HSL.

## Compliance with the Code of Best Practice of the Listing Rules

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

**Purchase, sale or redemption of shares**

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

**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.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
 FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Note	Unaudited Six months ended 30th June	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	131,165	124,012
Cost of sales		(86,571)	(76,982)
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)
Loss from operation	3	(7,596)	(11,652)
Finance costs		(964)	(536)
Non-operating income		-	366
Loss before taxation		(8,560)	(11,822)
Taxation	4	-	(5)
Loss attributable to shareholders		(8,560)	(11,827)
Basic loss per share	5	HK\$(0.03)	HK\$(0.06)

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30TH JUNE 2003 AND 31ST DECEMBER 2002

	<i>Note</i>	<b>Unaudited 30th June 2003 HK\$'000</b>	<b>Audited 31st December 2002 HK\$'000</b>
Non current assets			
Fixed assets	<i>6</i>	<b>22,421</b>	25,760
Current assets			
Inventories		<b>25,896</b>	25,518
Trade receivables	<i>7</i>	<b>66,146</b>	143,467
Prepayments, deposits and other receivables		<b>20,520</b>	24,292
Pledged bank deposits		<b>23,028</b>	20,014
Cash and bank balances		<b>22,260</b>	73,261
		<b>157,850</b>	286,552
Current liabilities			
Trade payables	<i>8</i>	<b>31,259</b>	65,963
Other payables and accruals		<b>56,416</b>	114,682
Short term bank borrowings	<i>9</i>	<b>31,389</b>	57,206
Due to ultimate holding company		-	3,839
Due to fellow subsidiaries	<i>10</i>	<b>5,514</b>	6,369
Taxation payable		<b>41</b>	41
		<b>124,619</b>	248,100
Net current assets		<b>33,231</b>	38,452
Total assets less current liabilities		<b>55,652</b>	64,212
Financed by:			
Share capital	<i>11</i>	<b>3,330</b>	3,330
Reserves	<i>12</i>	<b>52,322</b>	60,882
		<b>55,652</b>	64,212

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
 FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited	
	Six months ended 30th June	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash flow from operating activities	<u>(19,961)</u>	<u>(68,070)</u>
Net cash flow from investing activities	<u>(5,223)</u>	<u>7,574</u>
Net cash flow from financing activities	<u>(26,464)</u>	<u>42,406</u>
Decrease in cash and cash equivalents	<b>(51,648)</b>	(18,090)
Cash and cash equivalents at 1st January	<u>59,809</u>	<u>18,316</u>
Cash and cash equivalents at 30th June	<u><b>8,161</b></u>	<u>226</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>22,260</b>	11,226
Bank overdrafts	<u>(14,099)</u>	<u>(11,000)</u>
	<u><b>8,161</b></u>	<u>226</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*FOR THE SIX MONTHS ENDED 30TH JUNE 2003*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus (note 12(a)) <i>HK\$'000</i>	Reserve funds (note 12(b)) <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2003	3,330	100,556	125,310	-	-	(164,984)	64,212
Loss for the period	-	-	-	-	-	(8,560)	(8,560)
<b>At 30th June 2003</b>	<b>3,330</b>	<b>100,556</b>	<b>125,310</b>	<b>-</b>	<b>-</b>	<b>(173,544)</b>	<b>55,652</b>
At 1st January 2002	1,010	18,661	125,310	273	(825)	(124,156)	20,273
Loss for the period	-	-	-	-	-	(11,827)	(11,827)
Bonus issue of shares	1,010	(1,010)	-	-	-	-	-
Exchange adjustment	-	-	-	-	2	-	2
<b>At 30th June 2002</b>	<b>2,020</b>	<b>17,651</b>	<b>125,310</b>	<b>273</b>	<b>(823)</b>	<b>(135,983)</b>	<b>8,448</b>

## NOTES TO CONDENSED ACCOUNTS

### 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.

## 2. Segment reporting *(continued)*

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				Group HK\$'000
	Financial solutions, services and related products HK\$'000	Telecom- munication solutions, services and related products HK\$'000	Electronic payment products and services HK\$'000	Other operations HK\$'000	
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>	<u>(7,768)</u>
Unallocated income					<u>172</u>
Loss from operation					<u>(7,596)</u>
Finance costs					<u>(964)</u>
Non-operating income					<u>-</u>
Loss before taxation					<u>(8,560)</u>
Taxation					<u>-</u>
Loss attributable to shareholders					<u>(8,560)</u>



**2. Segment reporting (continued)**

	Unaudited Six months ended 30th June 2002				Group HK\$'000
	Financial solutions, services and related products HK\$'000	Telecom- munication solutions, services and related products HK\$'000	Electronic payment products and services HK\$'000	Discontinuing operations 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					366
Loss before taxation					(11,822)
Taxation					(5)
Loss attributable to shareholders					(11,827)

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 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 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)
	131,165	124,012	(7,596)	(11,652)

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 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<b>Crediting</b>		
Gain on disposal of fixed assets	-	34
<b>Charging</b>		
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
<i>Less: staff costs capitalised into contract         work in progress</i>	<i>(2,036)</i>	<i>(381)</i>
	<b>41,872</b>	35,940
Operating lease rentals for land and buildings	4,601	3,690
Provision for impairment of fixed assets	-	2,460
Loss on disposal and write off of fixed assets	320	12
Provision for doubtful debts	1,646	-

#### 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 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong profits tax		
Current year	-	(4)
Overseas taxation	-	9
	<u>-</u>	<u>5</u>

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. Fixed assets

	<i>HK\$'000</i>
Net book value as at 1st January 2003	25,760
Additions	1,396
Disposals	(459)
Depreciation	<u>(4,276)</u>
Net book value as at 30th June 2003	<u>22,421</u>

## 7. Trade receivables

The Group's credit term to trade debtors ranges from 0 to 180 days. An ageing analysis of the Group's trade receivables is as follows:

	Unaudited 30th June 2003 <i>HK\$'000</i>	Audited 31st December 2002 <i>HK\$'000</i>
Current to 90 days	34,058	118,510
91 to 180 days	3,444	14,451
181 to 365 days	25,787	8,871
Over 365 days	2,857	1,635
	<u>66,146</u>	<u>143,467</u>

## 8. Trade payables

An ageing analysis of the Group's trade payables is as follows:

	Unaudited 30th June 2003 <i>HK\$'000</i>	Audited 31st December 2002 <i>HK\$'000</i>
Current to 90 days	15,499	53,822
91 to 180 days	5,349	8,568
181 to 365 days	8,085	3,573
Over 365 days	2,326	-
	<u>31,259</u>	<u>65,963</u>

## 9. Short term bank borrowings

	Unaudited 30th June 2003 <i>HK\$'000</i>	Audited 31st December 2002 <i>HK\$'000</i>
Bank overdrafts, secured <i>(note (a))</i>	14,099	13,452
Trust receipt loans, secured <i>(note (a))</i>	608	2,960
Short term bank loans, secured <i>(note (a))</i>	16,682	12,757
Short term bank loans, unsecured <i>(note (b))</i>	-	28,037
	<u>31,389</u>	<u>57,206</u>

## 9. Short term bank borrowings (continued)

Note:

- (a) As at 30th June 2003, bank overdrafts, trust receipt loans and short term bank loans of HK\$31,389,000 were secured by fixed deposits at banks of HK\$21,000,000, deposits in bank guaranteed funds of HK\$2,028,000, personal guarantee of HK\$7,000,000 from a director of the Company, and corporate guarantee of HK\$30,000,000 by the Company in accordance with the banking facility terms provided to certain subsidiaries of the Group for trading arrangement with their suppliers.
- (b) Prior period unsecured short term bank loans of RMB30,000,000 (approximately HK\$28,037,000) had been repaid by the Group during the period.

## 10. Due to fellow subsidiaries

The amounts due to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 11. Share capital

	Unaudited		Audited	
	Six months ended 30th June 2003	30th June 2003	Year ended 31st December 2002	31st December 2002
	No. of shares	HK\$'000	No. of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	<u>1,000,000,000</u>	<u>10,000</u>	<u>1,000,000,000</u>	<u>10,000</u>
<i>Issued and fully paid:</i>				
At beginning of the period/year	333,054,030	3,330	101,018,010	1,010
Bonus issue of shares (note (a))	-	-	101,018,010	1,010
Issue of shares (note (b) and (c))	-	-	131,018,010	1,310
	<u>333,054,030</u>	<u>3,330</u>	<u>333,054,030</u>	<u>3,330</u>
At end of the period/year	<u>333,054,030</u>	<u>3,330</u>	<u>333,054,030</u>	<u>3,330</u>

Note:

- (a) On 30th May 2002, a bonus issue of 101,018,010 ordinary shares of HK\$0.01 each was made on the basis of one bonus share for every one share held on 23rd May 2002 by applying HK\$1,010,180 standing to the credit of share premium account. These shares rank pari passu in all respects with the existing share capital of the Company.
- (b) On 17th July 2002, 20,000,000 shares of HK\$0.01 each were issued at HK\$0.82 per share by way of placing for a total cash consideration, before expenses, of HK\$16,400,000. These shares rank pari passu in all respects with the existing share capital of the Company.
- (c) On 24th December 2002, 111,018,010 shares of HK\$0.01 each were issued at HK\$0.63 per share by way of rights issue for a total cash consideration, before expenses, of HK\$69,941,000, on the basis of one rights share for every two shares held on that date. These shares rank pari passu in all respects with the existing share capital of the Company.

## 12. Reserves

- (a) 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 acquired pursuant to the Reorganisation as set out in 2001 annual accounts, over the nominal value of the Company's shares issued in exchange therefor.
- (b) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Company's subsidiary and jointly controlled entity established in the People's Republic of China has been transferred to reserve funds which are restricted as to use.

## 13. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

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

	<b>Accelerated tax depreciation Six months ended 30th June 2003 <u>HK\$'000</u></b>	<b>Accelerated tax depreciation Year ended 31st December 2002 <u>HK\$'000</u></b>
<b>Deferred tax liabilities</b>		
At beginning of the period/year	44	72
Credited to profit and loss account	<u>(28)</u>	<u>(28)</u>
At end of the period/year	<u>16</u>	<u>44</u>
	<b>Tax losses Six months ended 30th June 2003 <u>HK\$'000</u></b>	<b>Tax losses Year ended 31st December 2002 <u>HK\$'000</u></b>
At beginning of the period/year	(44)	(72)
Charged to profit and loss account	<u>28</u>	<u>28</u>
At end of the period/year	<u>(16)</u>	<u>(44)</u>

#### 14. Commitments under operating leases

As at 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Unaudited 30th June 2003 HK\$'000</b>	<b>Audited 31st December 2002 HK\$'000</b>
Not later than one year	<b>4,487</b>	2,469
Later than one year and not later than five years	<b>8,237</b>	2,743
	<b><u>12,724</u></b>	<b><u>5,212</u></b>

#### 15. Related party transactions

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

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

(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.

On behalf of the Board  
**Li Wenjin**  
Director

Hong Kong, 24th September 2003