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## HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技(中國)有限公司\*

(incorporated in Bermuda with limited liability)

(Stock Code: 818)

### ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

<b>RESULTS</b>	<b>1H2010</b> <i>HK\$'000</i>	<b>1H2009</b> <i>HK\$'000</i>	<b>Change</b> + / (-)
Revenue	<b>676,278</b>	485,596	+39%
Gross profit	<b>206,021</b>	224,628	-8%
Other income	<b>10,549</b>	14,333	-26%
Other gains	<b>6,100</b>	450	+1256%
Segmental EBITDA	<b>32,697</b>	84,769	-61%
Profit before income tax	<b>6,451</b>	59,925	-89%
(Loss)/profit for the period	<b>(8,068)</b>	39,617	N/A
(Loss)/profit attributable to:			
– Equity holders of the Company	<b>(22,558)</b>	32,490	
– Non-controlling interests	<b>14,490</b>	7,127	
	<b>(8,068)</b>	<b>39,617</b>	
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company:			
– Basic (HK\$)	<b>(0.008)</b>	0.014	
– Diluted (HK\$)	<b>(0.008)</b>	0.014	
	<b>30 June 2010</b> <i>HK\$'000</i>	<b>31 December 2009</b> <i>HK\$'000</i>	<b>Change</b> + / (-)
<b>KEY BALANCE SHEET ITEMS</b>			
Total equity	<b>2,496,785</b>	1,915,776	+30%
Net current assets	<b>2,033,029</b>	1,609,370	+26%
Total assets	<b>2,838,488</b>	2,318,330	+22%
Net assets per share (HK\$)	<b>0.934</b>	0.717	+30%

\* For identification purpose only

The Board of Directors (the “Board”) of Hi Sun Technology (China) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 together with the unaudited comparative figures for the corresponding period in 2009 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2010</b>	<b>2009</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	4	676,278	485,596
Cost of sales	6	<u>(470,257)</u>	<u>(260,968)</u>
Gross profit		206,021	224,628
Other income	4	10,549	14,333
Other gains	4	6,100	450
Selling expenses	6	(72,185)	(59,454)
Administrative expenses	6	<u>(144,034)</u>	<u>(119,689)</u>
Operating profit		6,451	60,268
Finance costs	8	–	<u>(343)</u>
Profit before income tax		6,451	59,925
Income tax expense	9	<u>(14,519)</u>	<u>(20,308)</u>
(Loss)/profit for the period		<u><b>(8,068)</b></u>	<u>39,617</u>
(Loss)/profit attributable to:			
Equity holders of the Company		(22,558)	32,490
Non-controlling interests		<u>14,490</u>	<u>7,127</u>
		<u><b>(8,068)</b></u>	<u>39,617</u>
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company:			
– Basic (HK\$)	11(a)	<u><b>(0.008)</b></u>	<u>0.014</u>
– Diluted (HK\$)	11(b)	<u><b>(0.008)</b></u>	<u>0.014</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
(Loss)/profit for the period	<b>(8,068)</b>	39,617
Other comprehensive income		
Exchange differences arising on translation of the financial statements of foreign subsidiaries	<b>19,063</b>	(108)
Total comprehensive income for the period	<b><u>10,995</u></b>	<b><u>39,509</u></b>
Total comprehensive income attributable to:		
Equity holders of the Company	<b>(7,132)</b>	32,382
Non-controlling interests	<b>18,127</b>	7,127
	<b><u>10,995</u></b>	<b><u>39,509</u></b>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2010</b>	2009
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties		1,772	1,827
Property, plant and equipment		127,636	125,734
Leasehold land		41,714	42,007
Intangible assets		282,498	116,064
Available-for-sale financial assets		23,400	23,400
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>477,020</b>	309,032
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current assets</b>			
Inventories		287,420	167,558
Trade and other receivables, prepayments and deposits	12	522,298	437,805
Financial assets at fair value through profit or loss		523	480
Restricted cash		882	1,740
Short-term bank deposits		276,445	261,741
Cash and cash equivalents		1,273,900	1,139,974
		<hr/>	<hr/>
<b>Total current assets</b>		<b>2,361,468</b>	2,009,298
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total assets</b>		<b>2,838,488</b>	2,318,330
		<hr/>	<hr/>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		6,684	6,684
Reserves		2,162,910	1,746,156
		<hr/>	<hr/>
		<b>2,169,594</b>	1,752,840
<b>Non-controlling interests</b>		<b>327,191</b>	162,936
		<hr/>	<hr/>
<b>Total equity</b>		<b>2,496,785</b>	1,915,776
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2010</b>	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>13,264</u>	<u>2,626</u>
<b>Total non-current liabilities</b>		<u>13,264</u>	<u>2,626</u>
<b>Current liabilities</b>			
Trade and other payables	<i>13</i>	316,004	363,402
Taxation payable		<u>12,435</u>	<u>36,526</u>
<b>Total current liabilities</b>		<u>328,439</u>	<u>399,928</u>
<b>Total liabilities</b>		<u>341,703</u>	<u>402,554</u>
<b>Total equity and liabilities</b>		<u>2,838,488</u>	<u>2,318,330</u>
<b>Net current assets</b>		<u>2,033,029</u>	<u>1,609,370</u>
<b>Total assets less current liabilities</b>		<u>2,510,049</u>	<u>1,918,402</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							Total <i>HK\$'000</i>
	Attributable to equity holders of the Company							
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	
<b>At 1 January 2010</b>	6,684	930,020	168,434	108,785	81,675	457,242	162,936	1,915,776
<hr style="border-top: 1px dashed black;"/>								
<b>Comprehensive income</b>								
(Loss)/profit for the period	-	-	-	-	-	(22,558)	14,490	(8,068)
<b>Other comprehensive income</b>								
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	-	-	15,426	-	3,637	19,063
<hr style="border-top: 1px solid black;"/>								
<b>Total comprehensive income for the period</b>	-	-	-	-	15,426	(22,558)	18,127	10,995
<hr style="border-top: 1px dashed black;"/>								
<b>Transactions with owners</b>								
Issue of convertible preference shares by a subsidiary (Note 15)	-	-	-	407,472	-	-	55,276	462,748
Acquisition of a subsidiary (Note 14(a))	-	-	-	16,414	-	-	90,852	107,266
<hr style="border-top: 1px solid black;"/>								
<b>Total transactions with owners</b>	-	-	-	423,886	-	-	146,128	570,014
<hr style="border-top: 1px dashed black;"/>								
<b>As 30 June 2010</b>	<u>6,684</u>	<u>930,020</u>	<u>168,434</u>	<u>532,671</u>	<u>97,101</u>	<u>434,684</u>	<u>327,191</u>	<u>2,496,785</u>

## Unaudited

## Attributable to equity holders of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 January 2009</b>	5,580	548,330	168,434	21,204	82,022	371,397	67,702	1,264,669
<b>Comprehensive income</b>								
Profit for the period	-	-	-	-	-	32,490	7,127	39,617
<b>Other comprehensive income</b>								
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	-	-	(108)	-	-	(108)
<b>Total comprehensive income for the period</b>	-	-	-	-	(108)	32,490	7,127	39,509
<b>Transactions with owners</b>								
Issue of new shares	1,000	299,000	-	-	-	-	-	300,000
Share issue expenses	-	(121)	-	-	-	-	-	(121)
Difference arising on disposal of 20% equity interest in a subsidiary	-	-	-	87,581	-	-	66,157	153,738
<b>Total transactions with owners</b>	1,000	298,879	-	87,581	-	-	66,157	453,617
<b>At 30 June 2009</b>	<u>6,580</u>	<u>847,209</u>	<u>168,434</u>	<u>108,785</u>	<u>81,914</u>	<u>403,887</u>	<u>140,986</u>	<u>1,757,795</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net cash outflow from operating activities</b>	<b>(271,510)</b>	<b>(7,800)</b>
<b>Net cash (used in)/generated from investing activities</b>	<b>(56,560)</b>	<b>126,724</b>
<b>Net cash generated from financing activities</b>	<b>448,902</b>	<b>222,414</b>
<b>Net increase in cash and cash equivalents</b>	<b>120,832</b>	<b>341,338</b>
Exchange gain/(loss) on cash and cash equivalents	<b>13,094</b>	<b>(108)</b>
Cash and cash equivalents at beginning of period	<b>1,139,974</b>	<b>517,261</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,273,900</b>	<b>858,491</b>



Notes:

## 1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the sales of electronic fund transfer point-of-sales (“EFT-POS”) terminal solutions, sales of electronic power meters and solutions, provision of telecommunication solutions and operation value-added services, provision of financial solutions, services and related products and provision of payment solutions and services.

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.

The Company is listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in thousands of Hong Kong dollar (HK\$’000) unless otherwise stated.

This condensed consolidated interim financial information was approved for issue on 12 August 2010.

This condensed consolidated interim financial information has not been audited.

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standard (“HKFRSs”).

## 3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning 1 January 2010, but do not have material impact to the condensed consolidated interim financial information of the Group.

- HK(IFRIC) 17, ‘Distributions of non-cash assets to owners’
- Amendment to HKFRS 1, ‘Additional exemptions for first-time adopters’
- Amendment to HKFRS 2, ‘Group cash-settled share-based payment transaction’

- Amendment to HKFRS 5, ‘Non-current assets held for sale and discontinued operations’
- Amendment to HKFRS 8, ‘Operating segments’
- Amendment to HKAS 1, ‘Presentation of financial statements’
- Amendment to HKAS 7, ‘Statement of cash flows’
- Amendment to HKAS 17, ‘Lease’
- Amendment to HKAS 36, ‘Impairment of assets’
- Amendment to HKAS 38, ‘Intangible assets’
- Amendment to HKAS 39, ‘Eligible hedged items’
- Amendment to HK(IFRIC) 9, ‘Reassessment of embedded derivatives’
- Amendment to HK(IFRIC) 16, ‘Hedges of a net investment in a foreign operation’

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKAS 24 (Revised), ‘Related party disclosures’<sup>2</sup>
- HKFRS 9, ‘Financial instruments’<sup>1</sup>
- HK(IFRIC) 19, ‘Extinguishing financial liabilities with equity instruments’<sup>4</sup>
- Amendments to HKAS 1, ‘Presentation of Financial Statements’<sup>2</sup>
- Amendments to HKAS 34, ‘Interim Financial Reporting’<sup>2</sup>
- Amendments to HKAS 32, ‘Classification of rights issues’<sup>3</sup>
- Amendments to HKFRS 1, ‘Limited exemption from comparative HKFRS 7 disclosures for first-time adopters’<sup>4</sup>
- Amendments to HKFRS 1, ‘First-time Adoption of Hong Kong Financial Reporting Standards’<sup>2</sup>
- Amendments to HKFRS 3, ‘Business Combinations’<sup>4</sup>
- Amendments to HKFRS 7, ‘Financial Instruments: Disclosures’<sup>2</sup>
- Amendments to HK(IFRIC) 13, ‘Customer Loyalty Programmes’<sup>2</sup>
- Amendments to HK(IFRIC) 14, ‘Prepayments of a minimum funding requirement’<sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>3</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2010.

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

#### 4. REVENUE, OTHER INCOME AND OTHER GAINS

The Group is principally engaged in the sales of EFT-POS terminal solutions, sales of electronic power meters and solutions, provision of telecommunication solutions and operation value-added services, provision of financial solutions, services and related products and provision of payment solutions and services. Revenue, other income and other gains recognised during the period are as follow:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>		
Sales of EFT-POS terminal solutions	267,698	196,221
Sales of electronic power meters and solutions	104,679	91,515
Provision of telecommunication solutions and operation value-added services	256,994	165,711
Provision of financial solutions, services and related products	29,525	24,211
Provision of payment solutions and services	16,907	7,458
Rental income	475	480
	676,278	485,596
	676,278	485,596
<b>Other income</b>		
Interest income	4,896	5,486
Value added tax refund ( <i>Note below</i> )	4,931	6,025
Others	722	2,822
	10,549	14,333
	10,549	14,333
<b>Other gains</b>		
Gain on disposal of financial assets at fair value through profit or loss	6,049	294
Dividend income on financial assets at fair value through profit or loss	8	11
Fair value gain on financial assets at fair value through profit or loss	43	145
	6,100	450
	6,100	450
Revenue, other income and other gains	692,927	500,379

Note:

The amount represents the Group's entitlement to value added tax refund in relation to sales of self-developed software products in the People's Republic of China (the "PRC").

## 5. SEGMENT INFORMATION

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions. Management has determined the operating segments based on the internal reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board of Directors considers the business from a product perspective.

The Group is organised into five main operating segments in these internal reports:

- (a) EFT-POS terminal solutions – sales of EFT-POS terminals, consumer activated devices, contactless devices and related accessories and provision of maintenance services;
- (b) Electronic power meters and solutions – manufacturing and sales of electronic power meters, data collection terminals and provision of information system consultancy services;
- (c) Telecommunication solutions and operation value-added services – provision of telecommunication platform operation services;
- (d) Financial solutions, services and related products – provision of information system consultancy and integration services and sales of information technology products to financial institutions and banks; and
- (e) Payment solutions and services – provision of mobile payment solutions and services.

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

	Unaudited Six months ended 30 June 2010						
	EFT-POS terminal solutions HK\$'000	Electronic power meters and solutions HK\$'000	Telecomm- unication solutions and operation value-added services HK\$'000	Financial solutions, and related products HK\$'000	Payment solutions and services HK\$'000	Others HK\$'000	Group HK\$'000
Segment revenue	267,698	104,679	256,994	48,417	16,907	475	695,170
Inter-segment revenue	–	–	–	(18,892)	–	–	(18,892)
Revenue from external customers	<u>267,698</u>	<u>104,679</u>	<u>256,994</u>	<u>29,525</u>	<u>16,907</u>	<u>475</u>	<u>676,278</u>
Segmental earnings/(loss) before interest, taxes, depreciation and amortisation ("EBITDA")	60,022	(27,392)	61,120	(11,858)	(33,569)	(15,626)	32,697
Depreciation	(1,227)	(4,339)	(5,712)	(8,217)	(478)	(729)	(20,702)
Amortisation	(3)	(3,144)	–	–	(2,017)	(380)	(5,544)
Segmental operating profit/(loss)	<u>58,792</u>	<u>(34,875)</u>	<u>55,408</u>	<u>(20,075)</u>	<u>(36,064)</u>	<u>(16,735)</u>	<u>6,451</u>
Finance costs							–
Profit before income tax							6,451
Income tax expense							(14,519)
Loss for the period							<u>(8,068)</u>

Unaudited  
Six months ended 30 June 2009

	EFT-POS terminal solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Telecomm- unication solutions and operation value-added services <i>HK\$'000</i>	Financial solutions, services and related products <i>HK\$'000</i>	Payment solutions and services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment revenue	196,221	91,515	165,711	42,494	7,458	480	503,879
Inter-segment revenue	–	–	–	(18,283)	–	–	(18,283)
Revenue from external customers	196,221	91,515	165,711	24,211	7,458	480	485,596
Segmental EBITDA	30,592	191	93,681	(6,504)	(18,719)	(14,472)	84,769
Depreciation	(915)	(5,638)	(5,426)	(7,647)	(49)	(415)	(20,090)
Amortisation	(3)	(4,029)	–	–	–	(379)	(4,411)
Segmental operating profit/(loss)	29,674	(9,476)	88,255	(14,151)	(18,768)	(15,266)	60,268
Finance costs							(343)
Profit before income tax							59,925
Income tax expense							(20,308)
Profit for the period							<u>39,617</u>

Note:

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Finance costs are not allocated to segment as this type of activity is driven by the central treasury function.

The segment assets and liabilities at 30 June 2010 and additions to non-current assets for the six months ended 30 June 2010 are as follows:

	EFT-POS terminal solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Telecomm- unication solutions and operation value-added services <i>HK\$'000</i>	Financial solutions, services and related products <i>HK\$'000</i>	Payment solutions and services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Unaudited Segment assets	<u>585,382</u>	<u>599,046</u>	<u>589,703</u>	<u>87,647</u>	<u>101,525</u>	<u>875,185</u>	<u>2,838,488</u>
Segment liabilities	<u>(97,254)</u>	<u>(166,350)</u>	<u>(25,022)</u>	<u>(18,027)</u>	<u>(6,460)</u>	<u>(28,590)</u>	<u>(341,703)</u>
Unaudited Additions to non-current assets	<u><u>2,885</u></u>	<u><u>9,939</u></u>	<u><u>6,011</u></u>	<u><u>4,252</u></u>	<u><u>162,566</u></u>	<u><u>2,900</u></u>	<u><u>188,553</u></u>

The segment assets and liabilities at 31 December 2009 and additions to non-current assets for the six months ended 30 June 2009 are as follows:

	EFT-POS terminal solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Telecomm- unication solutions and operation value-added services <i>HK\$'000</i>	Financial solutions, services and related products <i>HK\$'000</i>	Payment solutions and services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Audited Segment assets	<u>565,707</u>	<u>458,404</u>	<u>494,383</u>	<u>153,929</u>	<u>33,646</u>	<u>612,261</u>	<u>2,318,330</u>
Segment liabilities	<u>(128,234)</u>	<u>(104,826)</u>	<u>(72,193)</u>	<u>(39,478)</u>	<u>(6,015)</u>	<u>(51,808)</u>	<u>(402,554)</u>
Unaudited Additions to non-current assets	<u><u>1,128</u></u>	<u><u>351</u></u>	<u><u>4,455</u></u>	<u><u>2,066</u></u>	<u><u>1,178</u></u>	<u><u>23,422</u></u>	<u><u>32,600</u></u>

Additions to non-current assets comprises additions to available-for-sale financial assets, property, plant and equipment and intangible assets including additions resulting from acquisition through business combinations.

The amounts provided to the Board of Directors with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the condensed consolidated income statement.

## 6. EXPENSES BY NATURE

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Auditor's remuneration	1,378	1,096
Depreciation of property, plant and equipment	20,647	20,035
Depreciation of investment properties	55	55
Amortisation of leasehold land	539	548
Amortisation of intangible assets	5,005	3,863
Employee benefit expense (including Directors' emoluments) (Note 7)	139,196	95,002
Costs of inventories sold	248,559	179,459
Operating lease rentals in respect of land and buildings	13,782	8,376
Operating lease rentals in respect of equipment	6,060	7,027
Research and development costs	43,917	24,238
Loss on disposal of property, plant and equipment	203	59
Provision for impairment of trade receivables	658	5,760
Write-back of provision for impairment of trade receivables	(269)	–
Provision for obsolete inventories	–	5
Write-back of provision for obsolete inventories	–	(3,408)
	<b>—————</b>	<b>—————</b>

## 7. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Wages and salaries	119,927	83,290
Social security costs	11,760	6,238
Pension costs – defined contribution plans	7,509	5,474
	<b>—————</b>	<b>—————</b>
	<b>139,196</b>	<b>95,002</b>
	<b>—————</b>	<b>—————</b>

## 8. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans	–	343
	<u>                    </u>	<u>                    </u>

## 9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the period (six months ended 30 June 2009: 16.5%). 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	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current Income tax		
– Hong Kong profits tax	3,000	366
– Overseas taxation	13,900	21,116
Deferred income tax	(1,107)	(1,174)
Over provision in previous year	(1,274)	–
	<u>                    </u>	<u>                    </u>
Income tax expense	<u>14,519</u>	<u>20,308</u>

During the period, the PRC tax rate applicable to the Group is 25% (six months ended 30 June 2009: 25%), unless preferential rates are applicable.

Therefore, the PRC profits tax has been provided in advance based on the estimated profits of the Group's subsidiaries operating in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 25%, unless preferential rates are applicable.

Operating subsidiaries which are qualified as High & New Technology Enterprises will be eligible to enjoy a reduced income tax rate of 15%.

## 10. DIVIDEND

No dividend on ordinary share has been paid or declared by the Company for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).



## 11. (LOSS)/EARNINGS PER SHARE

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/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	
	2010	2009
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	<u>(22,558)</u>	<u>32,490</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,673,430</u>	<u>2,320,371</u>
Basic (loss)/earnings per share (HK\$ per share)	<u>(0.008)</u>	<u>0.014</u>

### (b) Diluted

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

Diluted loss (2009: earnings) per share for the six months ended 30 June 2010 is the same (2009: same) as the basic loss (2009: earnings) per share as the Group was loss (2009: profit) making during the period and the conversion of both potential ordinary shares in relation to the outstanding convertible preference shares issued by a subsidiary and share options would have an anti-dilutive effect to the basic (loss)/earnings per share (2009: same).

## 12. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<b>Unaudited</b> <b>30 June</b> <b>2010</b> <i>HK\$'000</i>	Audited 31 December 2009 <i>HK\$'000</i>
Trade receivables ( <i>Note (a)</i> )	435,327	291,455
Bills receivables ( <i>Note (b)</i> )	38,690	107,142
Less: provision for impairment of receivables	(13,550)	(13,380)
	<hr/>	<hr/>
	460,467	385,217
Prepayments, deposits and other receivables	61,831	52,588
	<hr/>	<hr/>
	<b>522,298</b>	<b>437,805</b>
	<hr/> <hr/>	<hr/> <hr/>

Note (a): Trade receivables

The Group's credit terms to trade debtors range from 0 to 180 days. At 30 June 2010 and 31 December 2009, the ageing analysis of the trade receivables was as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2010</b> <i>HK\$'000</i>	Audited 31 December 2009 <i>HK\$'000</i>
Current to 90 days	207,850	189,770
91 to 180 days	101,189	44,547
181 to 365 days	100,524	24,102
Over 365 days	25,764	33,036
	<hr/>	<hr/>
	<b>435,327</b>	<b>291,455</b>
	<hr/> <hr/>	<hr/> <hr/>

Note (b): Bills receivables

The balance represents bank acceptance notes with maturity dates of less than six months.

The maturity profile of the bills receivables is as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2010</b> <i>HK\$'000</i>	Audited 31 December 2009 <i>HK\$'000</i>
Falling within 90 days	6,349	87,606
Falling within 91 to 180 days	32,341	19,536
	<hr/> <b>38,690</b> <hr/>	<hr/> 107,142 <hr/>

### 13. TRADE AND OTHER PAYABLES

	<b>Unaudited</b> <b>30 June</b> <b>2010</b> <i>HK\$'000</i>	Audited 31 December 2009 <i>HK\$'000</i>
Trade payables ( <i>Note (a)</i> )	226,033	201,782
Other payables and accruals	80,322	133,296
Pension obligations	851	5,245
Social security and other taxes	8,798	23,079
	<hr/> <b>316,004</b> <hr/>	<hr/> 363,402 <hr/>

Note (a): Trade payables

At 30 June 2010 and 31 December 2009, the ageing analysis of the trade payables was as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2010</b> <i>HK\$'000</i>	Audited 31 December 2009 <i>HK\$'000</i>
Current to 90 days	203,132	180,642
91 days to 180 days	14,714	12,657
181 days to 365 days	5,370	988
Over 365 days	2,817	7,495
	<hr/> <b>226,033</b> <hr/>	<hr/> 201,782 <hr/>

## 14. BUSINESS COMBINATION

### (a) Acquisition of Mega Hunt Investments Limited

On 26 January 2010, a then wholly-owned subsidiary of the Company, New Concept Services Limited (“New Concept”), entered into a sale and purchase agreement with two independent parties (the “Mega Hunt Vendor” and the “Guarantor”), pursuant to which Mega Hunt Vendor agreed to sell and New Concept agreed to purchase the entire issued share capital of Mega Hunt Investments Limited (“Mega Hunt”) for a consideration of 25 new shares of New Concept. The new shares represent 20% of the issued share capital of New Concept as enlarged by the allotment and issue of shares.

The acquisition is expected to enhance the Group’s research in relation to PLC technology, a low voltage power line carrier wave communication technology, with a view to developing PLC modules into the development of the Group’s electronic power meters.

The acquisition was completed on 5 March 2010.

There was no revenue recognised by the acquired business for the period from 5 March 2010 to 30 June 2010. The acquired business recorded net loss of HK\$9,000 for the Group for the period from 5 March 2010 to 30 June 2010. There would be no significant financial impact on the Group’s revenue and net loss for the period had the acquisition occurred on 1 January 2010.

Details of the purchase consideration, the net assets acquired and goodwill were as follows:

Purchase consideration:

	<i>HK\$’000</i>
– Fair value of shares issued	107,266
	<hr/>
<b>Total purchase consideration</b>	<b>107,266</b>
	<hr/> <hr/>

The assets and liabilities as of 5 March 2010 arising from the acquisition were as follows:

	<b>Fair value</b> <b>HK\$'000</b>	<b>Acquiree's</b> <b>carrying</b> <b>amount</b> <b>HK\$'000</b>
Cash and cash equivalents	100,000	100,000
In-progress technology (included in intangible assets)	6,094	–
Deferred tax liabilities	(1,523)	–
	<u>104,571</u>	<u>100,000</u>
Goodwill (included in intangible assets)	<u>2,695</u>	
Net cash inflow arising on acquisition		
Cash and cash equivalents in subsidiary acquired	100,000	
Transaction costs relating to the acquisition	(166)	
<b>Net cash inflow arising on acquisition</b>	<u><u>99,834</u></u>	

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of the subsidiary. Goodwill arising from the acquisition has been determined based on the preliminary values assigned to the acquiree's assets and liabilities, and will be finalised upon completion of management's assessment by the end of 2010. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition related costs of HK\$166,000 are included in the condensed consolidated income statement.

As a result of this acquisition, the Group's shareholding in New Concept has been diluted to 80%. An amount of HK\$16,414,000, being the difference between the fair value of shares issued and the amount transferred to non-controlling interest of HK\$90,852,000 has been recognised directly in equity.

#### **(b) Acquisition of JIM Holdings International Company Limited**

On 19 March 2010, a subsidiary of the Company, Success Bridge Limited ("Success Bridge"), entered into a sale and purchase agreement with several independent third parties (the "JIM Vendors"), pursuant to which the JIM Vendors agreed to sell and Success Bridge agreed to purchase the entire registered capital of JIM Holdings International Company Limited, a company incorporated in British Virgin Islands, and its subsidiaries for the cash consideration of US\$22,000,000 (approximately HK\$171,600,000).

The acquisition allows the Group to strengthen its telecom value-added services business in the PRC.

The acquisition was completed on 29 March 2010.

The acquired business contributed revenues of HK\$1,172,000 and net loss of HK\$4,117,000 for the Group for the period from 29 March 2010 to 30 June 2010. If the acquisition had occurred on 1 January 2010, the consolidated revenue of the Group for the six months ended 30 June 2010 would have been HK\$678,280,000 and consolidated loss would have been HK\$11,049,000.

Details of the purchase consideration, the net assets acquired and goodwill were as follows:

Purchase consideration:

	<i>HK\$'000</i>
– Cash paid	171,600
<b>Total purchase consideration</b>	<b>171,600</b>

The assets and liabilities as of 29 March 2010 arising from the acquisition were as follow:

	<b>Fair value <i>HK\$'000</i></b>	<b>Acquiree's carrying amount <i>HK\$'000</i></b>
Cash and cash equivalents	23,084	23,084
Property, plant and equipment	1,988	1,988
Other current assets	6,317	6,317
Other current liabilities	(8,599)	(8,599)
Patents (included in intangible assets)	154	–
Customer contracts (included in intangible assets)	40,181	–
Deferred tax liabilities	(10,084)	–
<b>Fair value of net assets</b>	<b>53,041</b>	<b>22,790</b>
Goodwill (included in intangible assets)	118,559	
Net cash outflow arising on acquisition		
Purchase consideration settled in cash	171,600	
Less: cash and cash equivalents in subsidiaries acquired	(23,084)	
Transaction costs relating to the acquisition	165	
<b>Net cash outflow arising on acquisition</b>	<b>148,681</b>	

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of these subsidiaries. Goodwill arising from the acquisition has been determined based on the preliminary values assigned to the acquiree's assets and liabilities, and will be finalised upon completion of management's assessment by the end of 2010. None of the goodwill recognised is expected to be deductible for income tax purpose.

The fair value of trade and other receivables was HK\$5,728,000. This included trade receivables with a total fair value of HK\$1,064,000. The gross contractual amount for these trade receivables was HK\$1,064,000.

Acquisition related costs of HK\$165,000 are included in the condensed consolidated income statement.

## **15 TRANSACTION WITH NON-CONTROLLING INTERESTS**

On 24 December 2009, the Company and Wise World Group Limited, an independent party (the "Subscriber") entered into a conditional subscription agreement, pursuant to which Success Bridge a then wholly-owned subsidiary of the Company, shall issue and the Subscriber shall subscribe for 600 convertible preference shares of US\$0.001 each in the share capital of Success Bridge (the "SBL Preference Shares") at a total consideration of US\$60 million (equivalent to approximately HK\$465 million) (the "Subscription"). The SBL Preference Shares represent 6.0% of the issued share capital of Success Bridge as enlarged by the Subscription.

The Subscription was completed on 29 January 2010.

As a result of the issuance of the SBL Preference Shares, the Group's shareholding in Success Bridge has been diluted to 94%. An amount of HK\$407,472,000, being the difference between the net proceeds received from the issuance of the SBL Preference Shares after deducting the transaction costs and the amount transferred to non-controlling interests of HK\$55,276,000, has been recognised directly in equity.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Highlights

<b>RESULTS</b>	<b>IH 2010</b> <i>HK\$'000</i>	IH 2009 <i>HK\$'000</i>	Change +/(–)
Revenue	<b>676,278</b>	485,596	+39%
Gross profit	<b>206,021</b>	224,628	–8%
Other income	<b>10,549</b>	14,333	–26%
Other gains	<b>6,100</b>	450	+1256%
Segmental EBITDA	<b>32,697</b>	84,769	–61%
Profit before income tax	<b>6,451</b>	59,925	–89%
(Loss)/profit for the period	<b>(8,068)</b>	39,617	N/A
 (Loss)/ profit attributable to:			
– Equity holders of the Company	<b>(22,558)</b>	32,490	
– Non-controlling interests	<b>14,490</b>	7,127	
	<b>(8,068)</b>	39,617	
 (Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company:			
– Basic (HK\$)	<b>(0.008)</b>	0.014	
– Diluted (HK\$)	<b>(0.008)</b>	0.014	

<b>KEY BALANCE SHEET ITEMS</b>	<b>30 June</b> <b>2010</b> <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>	Change +/(–)
Total equity	<b>2,496,785</b>	1,915,776	+30%
Net current assets	<b>2,033,029</b>	1,609,370	+26%
Total assets	<b>2,838,488</b>	2,318,330	+22%
Net assets per share (HK\$)	<b>0.934</b>	0.717	+30%



	Revenue*			EBITDA		
	1H 2010 HK\$'000	1H 2009 HK\$'000	Change +/(-) %	1H 2010 HK\$'000	1H 2009 HK\$'000	Change +/(-) %
EFT-POS terminal solutions	267,698	196,221	+36%	60,022	30,592	+96%
Electronic power meters and solutions	104,679	91,515	+14%	(27,392)	191	N/A
Telecommunication solutions and operation value-added services	256,994	165,711	+55%	61,120	93,681	-35%
Financial solutions, services and related products	29,525	24,211	+22%	(11,858)	(6,504)	+82%
Payment solutions and services	16,907	7,458	+127%	(33,569)	(18,719)	+79%
Others	475	480	-1%	(15,626)	(14,472)	+8%
Segmental results	676,278	485,596	+39%	32,697	84,769	-61%
Depreciation				(20,702)	(20,090)	+3%
Amortisation				(5,544)	(4,411)	+26%
Operating profit				6,451	60,268	-89%
Finance cost				-	(343)	N/A
Profit before income tax				6,451	59,925	-89%
Income tax expense				(14,519)	(20,308)	-29%
(Loss)/profit for the period				(8,068)	39,617	N/A

\* Revenue from external customers

During the six months ended 30 June 2010 (“1H2010”), the Group’s revenue amounted to HK\$676.28 million, representing an increase of 39% compared to 1H2009. Segmental EBITDA amounted to HK\$32.70 million, representing a decrease of 61% compared to 1H2009. Profit before income tax dropped by HK\$53.47 million as compared to 1H2009.

With regard to our balance sheet, the total assets as at 30 June 2010 amounted to HK\$2,838.49 million, compared with HK\$2,318.33 million as at 31 December 2009. As at 30 June 2010 net current assets amounted HK\$2,033.03 million, compared with HK\$1,609.37 million as at 31 December 2009.

## INVESTING AND FINANCING ACTIVITIES

In January 2010, Success Bridge Limited (“SBL”) allotted 600 SBL preference shares at a total subscription price of US\$60 million (equivalent to approximately HK\$465 million) to a subscriber. The SBL preference shares shall represent 6% of the total issued share capital of SBL as enlarged by the subscription. The SBL preference shareholders may require the Company to acquire all SBL preference shares and SBL ordinary shares then in issue and held by the SBL preference shareholders in consideration of the issue of such number of new shares of the Company to be calculated by US\$60 million divided by the exchange price of HK\$4.5 per Share (subject to adjustments). Net proceeds from the subscription of approximately HK\$463 million will be utilized as to approximately HK\$200 million for the development of 3G mobile value-added solutions and services; and approximately HK\$200 million for the development of wireless payment operation services in the PRC; and the remaining balance as general working capital of SBL and its subsidiaries.

In March 2010, New Concept Services Limited (“New Concept”), a then wholly-owned subsidiary of the Company purchased the entire issued share capital of Mega Hunt Investments Limited from an independent third party. The consideration was satisfied by the allotment and issue of the New Concept ordinary shares, representing 20% of the issued share capital of New Concept as enlarged by such allotment and issue. The subscriber shall procure that New Concept can secure the employment of the technical experts for the research and development of low voltage power line carrier wave communication technology (“PLC”) and shall also procure certain intellectual property rights in respect of PLC to be transferred to New Concept at nil consideration. PLC is a kind of communication system specifically designed for electricity system, whereby analog and digital data are transmitted by carrier wave through the power lines in the existing electricity system. It has the advantage of wide coverage of communication by utilizing the power lines in the existing electricity system. With the acquisition, New Concept is able to leverage on the technology developed by the technical experts and have synergy effects with the electronic power meters and solutions business.

In March 2010, SBL entered into a sale and purchase agreement with several independent third parties (the “JIM Vendors”), pursuant to which the JIM Vendors agreed to sell and SBL agreed to purchase the entire registered capital of JIM Holdings International Company Limited, a company incorporated in British Virgin Islands, and its subsidiaries for the cash consideration of US\$22 million (approximately HK\$171.6 million). The acquisition allows the Group to strengthen its telecom value-added services business in the PRC.

On 15 March 2010, the Company announced its intention to spin-off the EFT-POS terminal solutions business and electronic power meter and solutions business on the Main Board of the Hong Kong Stock Exchange Limited. In view of the conditions of the equity market, the Company is currently reviewing when (if at all) it should proceed with implementing any spin-off and what businesses should comprise the spin-off proposal.

## EFT-POS terminal solutions

	<b>1H2010</b> <b>HK\$'000</b>	1H2009 HK\$'000	Change +/(-)
Revenue	<b>267,698</b>	196,221	+36%
EBITDA	<b>60,022</b>	30,592	+96%
Operating profit	<b>58,792</b>	29,674	+98%

The segmental revenue increased by 36% as compared with last 1H2009 while total shipments for the period amounted to over 170,000 units, increase by more than 50% as compared with 1H2009. Notwithstanding the keen competition in the markets, we managed to maintain our gross profit margin at about 40%, through introducing new product designs, maintaining effective cost controls and leveraging volume growth.

By first quarter of 2010 (“1Q2010”), the total number of EFT-POS terminals in Mainland China amounted to approximately 2.6 million, reflecting a relatively low penetration rate as compared to most developed countries. It provides ample room for the expansion of the EFT-POS terminal solutions business. On the other hand, bank payment cards issuance in Mainland China continued to surge with the total number exceeding 2.1 billion by the end of 1Q2010. During 1Q2010, card payment transaction volume amounted to over 1.0 billion transactions, totalling over RMB2.1 trillion. In 2010, PAX Technology’s EFT-POS terminal solutions business in Mainland China are expected to keep its momentum, as fueled by the rising acceptance of card payments from the incessant improvement of the payment transactions and processing infrastructure.

In addition, PAX Technology further strengthened its foothold in the international market where revenue increased by 98% as compared to 1H2009, representing 20% of total sales of this segment. Currently, our products are sold to Vietnam, Singapore, Japan as well as certain European countries, such as Austria, Denmark, France. Markets in the Middle East included Saudi Arabia while in Africa, our market covered South Africa and Ghana. Looking ahead, we will look for new opportunities and further delve into the Asia and American markets as well as the Oceania countries. With the first class products and services, we endeavor to make PAX Technology an international brand symbolizing top quality EFT-POS terminal solutions.

## Electronic power meters and solutions

	<b>1H2010</b> <b>HK\$'000</b>	1H2009 HK\$'000	Change +/(%)
Revenue	<b>104,679</b>	91,515	+14%
EBITDA	<b>(27,392)</b>	191	N/A
Operating loss	<b>(34,875)</b>	(9,476)	+268%

During 1H2010, segmental revenue increased by 14% as compared with 1H2009 following the first centralized tendering conducted by the State Grid in November 2009. The tendering process at provincial level has ceased since June 2009 and was replaced by centralized tendering. To maximize our market share and to secure a position to benefit from the potential rapid growth of the electronic meter market, we strategically increased our competitiveness in terms of pricing. In the first three centralized tenderings of the State Grid, we are one of the top five winners and ranked second in bidding of three phase electronic power meters in terms of volume. With the change in tendering process and the new standards of smart meters conforming to the smart grid infrastructure, intensive competition is enforcing market consolidation of the electronic meter industry. Our market share increased substantially with the enhanced industry concentration. However, due to the drop in gross profit margin and total product shipment was lower than anticipated in 1H2010, we experienced a decline in EBITDA during the period. We will increase our R&D effort with more exertion placed to streamline product cost through better design, improve the quality of existing products and development of new series so as to be in line with the needs of the development of power grids. Our margin is expected to improve in 2H2010.

## Telecommunication solutions and operation value-added services

	<b>1H2010</b> <b>HK\$'000</b>	1H2009 HK\$'000	Change +/(%)
Revenue	<b>256,994</b>	165,711	+55%
EBITDA	<b>61,120</b>	93,681	-35%
Operating profit	<b>55,408</b>	88,255	-37%

During the current period, we continued to be the sole provider of the nation-wide interactive voice response (“IVR”) and interactive video and voice response (“IVVR”) platform for China Mobile. Our service of MDO platform started to generate income in 2009. During 1H2010, there was a significant increase of 55% in segmental revenue to HK\$256.99 million as compared with 1H2009. The rise was primarily due to the significant revenue growth of MDO business in 2010. However, telecommunication solutions and operation value-added services were affected by certain restriction measures and policies changes in 1Q2010, leading to a decline in EBITDA during the current period.

We anticipate provision of nationwide IVR platform to China Mobile will continue to be one of the major revenue contributors of this segment with more modest growth in the traditional IVR business after years of significant increase in traffic volume since 2005. Additional revenue growth has been generating from MDO business since 2009, and the market size of the MDO business continued to expand further. Having considered the situation in 1H2010, the entire industry is impacted by certain changes in the wireless value-added services sector, therefore 2010 will continue to be a challenging year for us. Management considers that following the continuous expansion of the business scale and the migration of the MDO platform, the MDO business will be able to achieve outstanding performance in the long run. Looking ahead, we will continue to develop other innovative wireless value-added solutions and services to meet the ever-changing technology and market demand.

### Financial solutions, services and related products

	1H2010			1H2009			Change + / (-)
	Financial solutions <i>HK\$'000</i>	Other value- added services <i>HK\$'000</i>	Total <i>HK\$'000</i>	Financial solutions <i>HK\$'000</i>	Other value- added services <i>HK\$'000</i>	Total <i>HK\$'000</i>	
Revenue*	17,724	11,801	29,525	12,349	11,862	24,211	+22%
EBITDA	(18,099)	6,241	(11,858)	(12,371)	5,867	(6,504)	+82%
Operating loss	(18,821)	(1,254)	(20,075)	(12,908)	(1,243)	(14,151)	+42%

\* Revenue from external customers

In 1H2010, the segmental revenue increased by 22% to HK\$29.53 million. Our financial solutions segment recorded an operating loss of HK\$20.08 million. With the aim to create a more stable, sustainable and recurring income streams, we have developed the foundation for profitability in 2010 by focusing certain measures to extend our underlying strength and expertise in providing cross-industry value-added solutions. Our value-added solutions services include industrial advisory, business operation solutions, system development and operation services, and other outsourcing services.

### Payment solutions and services

	1H2010 <i>HK\$'000</i>	1H2009 <i>HK\$'000</i>	Change + / (-)
Revenue	16,907	7,458	+127%
EBITDA	(33,569)	(18,719)	+79%
Operating loss	(36,064)	(18,768)	+92%

In March 2009, we established a subsidiary, Hunan Hisun Mobile Pay IT Ltd (“Mobile Pay”), which is principally engaged in the operation and development of the first nation-wide mobile payment platform and solutions with China Mobile, promoting mobile payment to be the most common mean of payment.

Trial run of mobile payment commenced in 10 provinces in the third quarter of 2009 and was successfully launched in 2010 in all provinces in China. Coverage of mobile phone payment is gradually extended to the bus, lottery tickets, books and other fields. Currently, over 8,000 merchants have already joined the mobile phone payment network, which is also applied at the Shanghai World Expo, 11 rails of Shanghai Metro Line as well as other public transportation. Operating loss of HK\$36.06 million was recorded during the period, as we await for accumulation of transaction volume. Payment solution business is anticipated to bring additional growth impetus to the Group.

## **OUTLOOK**

It is anticipated that the business environment in 2010 will continue to be challenging. However, we believe that given the enormous room for growth in various businesses and our strong financial position, the Group is going to regain its momentum with existing business opportunities ahead.

### **EFT-POS terminal solutions**

Currently, we are one of the dominant market leaders in China. China’s huge commercial businesses, relatively low EFT-POS penetration rate compared with developed countries and increasing acceptance of card payment have formed a concrete foundation for EFT-POS industry in China. Persistent force from the Chinese government to modernize the country’s payment infrastructure, to improve the acceptance of card payments with specific measures for the development of the payment service environment in the rural area and emerging payment markets of mobile phone payment terminals and contactless terminals, are expected to drive the demand of our products. Meanwhile, our foothold in the international market, particularly in South and North America and Europe has been further strengthened as the development of our subsidiaries overseas become more mature, laying a solid foundation for Hi Sun’s further overseas market expansion to capture the enormous business opportunities in the overseas market. In 1H2010, overseas sales increased by 98% as compared to 1H2009.

### **Electronic power meters and solutions**

Market outlook remains strong with current industry trends supporting an increase in demand for advanced power meter solutions. In view of the escalating awareness on energy-saving solutions, the State Grid and the China Southern Power Grid are looking out for environmental-friendly, effective and efficient electricity network and energy system.

During the 2010 working conference of the State Grid, the State Grid emphasised the need to comprehensively reinforce the construction of distribution network, improvement and transformation of the distribution networks in urban and rural area and the quality of power supply. Year 2010 will be an important year for steady progression of research and construction of the smart grid. With the further development of smart grid construction, the demand for electronic power meters will increase progressively. From now to 2013, growth in demand of information collection systems and electronic power meters will experience faster growth. Investment on power grid construction will create robust market demand for electronic power meters.

With the change in tendering process and the new standards of smart meters conforming to the smart grid infrastructure, intensive competition is enforcing market consolidation of the electronic meter industry. It is anticipated that only the strong enterprises will survive. In the early stage of the market restructuring, the profit margin of this segment is expected to diminish in order to secure market share. Currently, we successfully become one of the top five winners and ranked second in the bidding of three phase electronic power meters in terms of volume in the first three centralized tenderings of the State Grid. Looking ahead, profit margin will gradually improve with our continuous effort in R&D.

### **Telecommunication solutions and operation value-added services**

Hi Sun continues to benefit from its agreement with China Mobile to provide nation-wide IVR and IVVR platforms as well as the new MDO platform which bring to the Group a constant revenue stream. Subsequent to the restructuring of the telecommunication industry in the PRC and 3G licenses were officially issued in 2009. It is anticipated that telecommunication operators in China will further expand their operation. We will keep innovating to adapt to the ever-changing environment in order to provide first class value-added platform operation for our partners. New technology based on 3G communication are well prepared and several new products and services for mobile service delivery are also under development. Apart from the existing businesses, we will continue to develop other inventive wireless value-added solutions and services in the PRC.

### **Financial solutions, services and related products**

With the aim to create a more stable, sustainable and recurring income streams, we have refocused certain measures to extend our underlying strength and expertise in providing cross-industry value-added solutions including industrial advisory, business operation solutions, system development and operation services, and other outsourcing services. On the other hand, our mission is to enhance our position and become a significant service provider to financial institutions in Mainland China. The banks and other financial institutions worldwide are increasingly outsourcing certain non-core management functions to simplify operations and lower costs. However, financial outsourcing services market in China is still at an early stage. Taking advantage of our relatively significant experience in deploying financial solutions, we are able to leverage upon our expertise to take advantage of the future business opportunities. As such, financial solutions will remain our core competencies and will continue to create values and synergy to the Group.

## **Payment solutions and services**

In the application of the emerging mobile e-commerce, mobile payment has always been considered by the industry as an important aspect of future development. Mobile payment refers to an integration of payment card, online banking, payment on behalf, third-party payment and other electronic payment. Being the largest mobile phone market in the world, China has more than 740 million mobile phone users, with mobile phones permeating all spheres of people's social life. The huge base of mobile phone user has established a foundation for the development of mobile payment in China. Looking to examples abroad, the development of the mobile payment business in Japan and South Korea has developed rapidly. The mobile payment business will grow into another brand new e-commerce platform, following the example of personal computer.

Currently, mobile phone payment market is undergoing high growth status. The evolution of the mobile phone payment market is mainly attributable to the development of application of 3G mobile communications and favorable payment environment, coupled with the determination of promoting the mobile phone payment market by telecom operators, banks, third-party payments and other players in the industry.

In "New Financial Forum 2009", People's Bank of China identified that mobile payment can effectively enhance the convenience to public with less infrastructure; it also helps to improve the payment environment in rural areas with lower cost payment network. Currently, the PRC government is proceeding with a number of projects to increase usage in this regard, such as mobile mass traffic, mobile tickets and shopping, etc. The aim is to promote the application of all types of products to make the people's livelihood better, thus laying a solid foundation for the smooth implementation of mobile payment.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2010, the Group reported total assets of HK\$2,838.49 million (31 December 2009: HK\$2,318.33 million), which were financed by total liabilities of HK\$341.70 million (31 December 2009: HK\$402.55 million) and equity of HK\$2,496.79 million (31 December 2009: HK\$1,915.78 million). The net asset value was HK\$2,496.79 million (31 December 2009: HK\$1,915.78 million). The net asset value per share amounted to HK\$0.934 per share as compared to HK\$0.717 per share as at 31 December 2009.

As at 30 June 2010, the Group had cash and short-term bank deposit of HK\$1,550.35 million (31 December 2009: HK\$1,401.72 million). The net cash position as at 30 June 2010 was HK\$1,550.35 million as compared to HK\$1,401.72 million as at 31 December 2009.



## **CAPITAL STRUCTURE AND DETAILS OF CHARGES**

Approximately HK\$187.21 million, HK\$482.78 million, HK\$1.06 million and HK\$602.85 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar, Euro and US dollar respectively as at 30 June 2010.

## **EXCHANGE RATES EXPOSURE**

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

## **CONTINGENT LIABILITIES**

The Group had no material contingent liability as at 30 June 2010.

## **EMPLOYEES**

The total number of employees of the Group as at 30 June 2010 was 2,905. The breakdown of employees by division is as follows:

EFT-POS terminal solutions	420
Electronic power meters and solutions	1,249
Telecommunication solutions	367
Financial solutions	468
Payment solutions	365
Corporate office	36
	<hr/>
	2,905
	<hr/> <hr/>

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.

Disclaimer:

*Non-GAAP measures*

Certain non-GAAP (generally accepted accounting principles) measures, such as EBITDA, are used for assessing the Group's performance. These non-GAAP measures are not expressly permitted measures under GAAP in Hong Kong and may not be comparable to similarly titled measures for other companies. Accordingly, such non-GAAP measures should not be considered as an alternative to operating income as an indicator of the operating performance of the Group or as an alternative to cash flows from operating activities as a measure of liquidity. The use of non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. Additionally because the Group has historically reported certain non-GAAP results to investors, the Group considers the inclusion of non-GAAP measures provides consistency in our financial reporting.

**SHARE CAPITAL**

	<b>Ordinary shares of HK\$0.0025 each</b>	
	<b>Number of shares</b>	<b>HK\$'000</b>
Authorised:		
At 1 January 2009, 30 June 2009, 1 January 2010 and 30 June 2010	4,000,000,000	10,000
Issued and fully paid:		
At 1 January 2009	2,231,972,835	5,580
Issuance of new ordinary shares during the six months ended 30 June 2009	400,000,000	1,000
At 30 June 2009	2,631,972,835	6,580
Shares issued under share options scheme of the Company during the six months ended 31 December 2009	41,457,000	104
At 1 January 2010 and 30 June 2010	2,673,429,835	6,684

**(a) 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 the 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 an exercise price of HK\$0.374 per share (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

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% 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 per share (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 26 September 2005) with an expiry date of 25 September 2015. 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%

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

The Share Subdivision has led to an adjustment to the exercise price of then outstanding options and the number of shares to be issued by the Company upon exercise of then outstanding options.

Pursuant to an ordinary resolution passed on 11 December 2006, a refreshment of the limit on grant of options under the Scheme was approved by the shareholders. Upon the refreshment of the limit on grant of options under the Scheme, an additional 43,000,000 shares may be issued pursuant to the grant of further options under the Scheme.

On 2 January 2007, 43,000,000 share options were granted to certain employees at an exercise price of HK\$2.00 per share (the average closing price of the shares as quoted in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding 2 January 2007) with an expiry date of 1 January 2010.

During the six months ended 30 June 2010, 1,000 share options had lapsed and no share option was granted. As at 30 June 2010 and the date of this announcement, there is no outstanding share option.

#### **(b) Share Option Scheme of PAX Technology Limited**

On 29 April 2009, PAX adopted a PAX Share Option Scheme for the issuance of such number of PAX Ordinary Shares representing no more than 5% of the total number of PAX Shares in issue.

The PAX Share Option Scheme is designed to provide the directors, employees, advisors and consultants of the PAX Group with the opportunity to acquire proprietary interests in the PAX Group, which will encourage the grantees of such options to work towards enhancing the value of the PAX Group and benefit the PAX Group as a whole. The board of directors of PAX or a duly authorised committee thereof shall administer the PAX Share Option Scheme to achieve the purpose of the PAX Share Option Scheme and have the rights at its discretion to determine (i) the minimum period for which the options under the scheme must be held before it can be exercised; (ii) the performance targets; and (iii) the subscription price per PAX Ordinary Share at which a grantee may subscribe for the PAX Ordinary Shares on the exercise of an option pursuant to the terms of the PAX Share Option Scheme.

As at 30 June 2010 and the date of this announcement, no share option in relation to the PAX Share Option Scheme was granted.

#### **CONVERTIBLE PREFERENCE SHARES ISSUED BY A SUBSIDIARY**

As disclosed in the announcement of the Company dated 30 December 2009 and the circular of 8 January 2010, the Company and Wise World Group Limited (the “Subscriber”) entered into a conditional subscription agreement (the “Subscription Agreement”) on 24 December 2009, pursuant to which the Company shall procure the issue and allotment by Success Bridge Limited (“Success Bridge”) (a then wholly-owned subsidiary of the Company) of, and the Subscriber shall subscribe for 600 preference shares of US\$0.001 each in the share capital of Success Bridge (“SBL Preference Shares”) at a total consideration of US\$60 million (equivalent to approximately HK\$465 million) (the “Subscription”). The 600 SBL Preference Shares represent 6.0% of the issued share capital of Success Bridge as enlarged by the Subscription. The 600 SBL Preference Shares have been issued on 29 January 2010.

On completion of the Subscription Agreement (“Completion”), the Company, the Subscriber and Success Bridge would enter into a shareholders’ agreement, pursuant to which the Company agreed to grant the rights to shareholders of SBL Preference Shares (other than the Company) (“SBL Preference Shareholders”) to, within a prescribed time frame, transfer to the Company all SBL Preference Shares together with all ordinary shares of Success Bridge (“SBL Ordinary Shares”) (that have arisen from the conversion of the SBL Preference Shares) then in issue and held by such SBL Preference Shareholders in consideration of the issue of new ordinary shares of the Company (“Shares”) at the initial exchange price of HK\$4.5 per Share (subject to adjustments). The Company will also agree, (i) if the audited consolidated net profit after taxation of the Success Bridge and its subsidiaries for the financial year ending 31 December 2010 (the “2010 SBL Net Profit”) is less than RMB450,000,000, the Company shall transfer to the SBL Preference Shareholders such aggregate number of additional SBL Ordinary Shares equal to up to 3% of the aggregate number of ordinary and preference shares of Success Bridge (“SBL Shares”) in issue as at Completion at a consideration of HK\$1.00 (the “Ratchet Disposal”); and (ii) if the 2010 SBL Net Profit is RMB500,000,000 or more, the SBL Preference Shareholders shall transfer to the Company such aggregate number of SBL Preference Shares and/or SBL Ordinary Shares equal to up to 2% of the aggregate number of SBL Shares in issue as at Completion at a consideration of HK\$1.00 (the “Ratchet Acquisition”).

Pursuant to the Shareholders’ Agreement, at any time during a period from (and including) the day falling nine months after the date of the first issue of the SBL Preference Shares to (and excluding) the date falling on the third anniversary thereof and subject to the number of SBL Preference Shares then outstanding exceeding 50% in number of the aggregate number of such SBL Preference Shares and SBL Ordinary Shares (that have arisen on the conversion of the SBL Preference Shares), the majority SBL Preference Shareholders may, at their sole option, require the Company to acquire all SBL Preference Shares then in issue and SBL Ordinary Shares (that have arisen from the conversion of the SBL Preference Shares) and held by the SBL Preference Shareholders (other than the Company) in consideration of the issue to the relevant SBL Preference Shareholder or the person (not being a connected person of the Company) designated by it of such number of new Shares to be calculated by US\$60 million (or its HK\$ equivalent calculated at the exchange rate of US\$1: HK\$7.7553) divided by the initial exchange price of HK\$4.5 per Share (subject to adjustments) (“Exchange Rights”). There will be no Ratchet Disposal or Ratchet Acquisition if the Exchange Rights are exercised in full.

The Subscriber was wholly-owned by Hao Capital Fund II L.P.. Hao Capital Fund II L.P. and Hao Capital China Fund L.P. (being funds under common control) through their wholly owned subsidiaries were substantial shareholders of the Company’s non-wholly owned subsidiary. Accordingly, each of the Subscription, the Ratchet Disposal, the Ratchet Acquisition, the purchase of SBL Shares on exercise of the Exchange Rights, constituted a connected transaction of the Company, subject to reporting, announcement and Independent Shareholders approval requirement under Chapter 14A of the Listing Rules. The Completion took place on 29 January 2010.

The convertible preference shares issued were initially recognized in the consolidated balance sheet, as at 29 January 2010, is calculated as follows:

	<i>HK\$'000</i>
Consideration received from the Subscriber	465,318
Legal and professional fees directly attributable to the Subscription included in the condensed consolidated income statement	(2,570)
Fair value of convertible preference shares as at Completion Date recognised in non-controlling interests	(55,276)
Fair value of Ratchet Disposal and Ratchet Acquisition as at Completion Date recognised directly in equity	(10,622)
	<hr/>
Differences recognised directly in equity	<u>396,850</u>

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive Directors, namely Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Xu Sitao. The Audit Committee 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 consolidated interim financial report for the six months ended 30 June 2010 with the Directors.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

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

## **PENSION SCHEME**

The subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme of the Group or Company set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "Mandatory Contributions"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement at the age of 65 years old, death or total incapacity.

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.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules throughout the six months ended 30 June 2010.

By Order of the Board

**Li Wenjin**

*Executive Director*

Hong Kong, 12 August 2010

*As at the date of this announcement, the Board comprises five executive Directors namely Mr. Cheung Yuk Fung, Mr. Kui Man Chun, Mr. Xu Wensheng, Mr. Li Wenjin and Mr. Xu Chang Jun; two non-executive Directors, namely Mr. Yung Lei, Raymond and Mr. Chang Kai-Tzung, Richard and three independent non-executive Directors, namely Mr. Tam Chun Fai, Mr. Xu Sitao and Mr. Leung Wai Man, Roger.*