HI SUN GROUP LIMITED

高 陽 集 團 有 限 公 司

(incorporated in Bermuda with limited liability)

INTERIM REPORT 2002

The directors are pleased to present the Group's Interim Report and condensed accounts for the six-months ended 30th June 2002. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six-months ended 30th June 2002, and the consolidated balance sheet as at 30th June 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 18 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

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

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

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

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

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

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

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

Segmental Review

Financial solutions, services and related products

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

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

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

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

Telecommunication solutions, services and related products

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

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

Electronic Payment Products and Services

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

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

Curtain wall systems

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

Others

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

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

Liquidity and financial resources

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

Capital structure of the Group

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

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

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

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

Share Options

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

Details of charges on Group assets

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

Contingent Liabilities

Two of the Company's subsidiaries are named defendants in certain lawsuits regarding certain completed construction projects and a proposed acquisition of 2 companies several years ago. In addition, the Company had provided a counter-guarantee to an independent third party for a bank loan of a subsidiary. Details of these contingent liabilities are set out in note 15 to the condensed consolidated financial statements below.

Future plans

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

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

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

Exposure to fluctuations in exchange rates and related hedges

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

Directors' and chief executive's interest in equity or debt securities

At 30th June 2002 the interests of the directors and chief executive in the shares of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Ordinary shares

(a) Interest in the Company

	Number of shares	
Name of director	**Personal interest**	**Corporate interest**
		(Note)
Kui Man Chun	–	126,180,606

Note:

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

(b) Interest in associated corporations

Name of Director	Name of associated corporation	Name and class of securities	Category of interest
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 their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporation as defined in the SDI Ordinance.

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 2002, no share options had been granted.

Substantial shareholders

At 30th June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. Details of the interests are also disclosed above under directors' and chief executive's interest in equity or debt securities.

Name of shareholder	**Number of ordinary shares**
Rich Global Limited ("RGL")	126,180,606
Hi Sun Limited ("HSL")	126,180,606 *(Note 1)*
Kui Man Chun	126,180,606 *(Note 2)*

Notes:

(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 interest in HSL.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

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 except that non-executive directors of the Company are not appointed for specific terms. According to the Company's Bye-laws, non-executive directors are subject to retirement by rotation and re-election at the Annual General Meeting of the Company. In the opinion of the directors, this meets the same objective as the Code of Best Practice.

Purchase, Sale or Redemption of Listed Securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Audit Committee

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

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

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2002 AND 31ST DECEMBER 2001

	Notes	**Unaudited 30th June 2002 HK$'000**	Audited 31st December 2001 HK$'000
Fixed assets	6	**38,631**	18,663
Interest in a jointly-controlled entity		**(2,335)**	(2,335)
Current assets			
Inventories		**59,155**	–
Construction/installation contract receivables		**–**	4,120
Trade receivables	7	**116,856**	4,734
Prepayments, deposits and other receivables		**27,877**	944
Pledged bank deposits		**17,000**	–
Cash and bank balances		**11,226**	20,205
		232,114	30,003
Current liabilities			
Trade payables, other payables and accruals	8	**139,698**	22,154
Interest-bearing bank borrowings – secured	9	**65,753**	1,889
Provisions	10	**2,707**	2,015
Due to ultimate holding company	11	**45,841**	–
Due to a director	11	**968**	–
Due to fellow subsidiaries	11	**4,995**	–
		259,962	26,058
Net current (liabilities)/assets		**(27,848)**	3,945
Total assets less current liabilities		**8,448**	20,273
Financed by:			
Share capital	12	**2,020**	1,010
Reserves	13	**6,428**	19,263
		8,448	20,273

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Unaudited Six months ended 30th June	
	2002	2001
	HK$'000	*HK$'000*
Net cash flow from operating activities	**(68,070)**	(8,033)
Net cash flow from investing activities	**7,574**	(1)
Net cash flow from financing activities	**42,406**	(96)
Decrease in cash and cash equivalents	**(18,090)**	(8,130)
Cash and cash equivalents at 1st January	**18,316**	12,451
Effect of foreign exchange rate changes	**–**	(16)
Cash and cash equivalents at 30th June	**226**	4,305
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**11,226**	4,305
Bank overdrafts	**(11,000)**	–
	226	4,305

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Unaudited						
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus (note 13(a)) *HK$'000*	Reserve funds (note 13(b)) *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
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
At 30th June 2002	**2,020**	**17,651**	**125,310**	**273**	**(823)**	**(135,983)**	**8,448**
At 1st January 2001	84,218	41,934	–	269	(816)	(467,121)	(341,516)
Profit for the period	–	–	–	–	–	350,304	350,304
Exchange adjustment	–	–	–	–	(140)	–	(140)
At 30th June 2001	84,218	41,934	–	269	(956)	(116,817)	8,648

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 2001 annual financial statements.

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

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

The changes to the Group's accounting policies and the effect of adopting these new/revised standards are set out in (b) to (d) below.

Subsequent to acquisitions of subsidiaries on 28th February 2002, the Group have adopted new accounting policies in the preparation of these condensed accounts. These accounting policies are set out in note (a) below.

(a) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

1 Basis of preparation and accounting policies *(continued)*

(b) SSAP 1 (revised) and SSAP 15 (revised): Presentation of financial statements and cash flow statements

Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. In addition, the revised SSAPs have introduced revised disclosure requirements which have been adopted in these condensed interim accounts. Comparative amounts and disclosure for the prior period have been restated in order to achieve a consistent presentation. However, none of the amendments outlined above has affected the results for the current or prior periods.

(c) SSAP 11 (revised): Foreign currency translation

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

(d) SSAP 34: Employee benefits

In 2002, the Group has adopted the provisions of SSAP34 "Employee Benefits". The effect of such change to the results for the period is not material and details of this change in accounting policy will be given in the 2002 annual accounts.

2 Segment reporting

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

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

(a) Construction/installation of curtain wall systems – construction and installation of curtain wall systems and aluminium windows;

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

(c) Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of computer hardware to telecommunication industries; and

(d) Electronic Payment Products and Services – sales of point-of-sale ("POS") terminal.

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

2 Segment reporting *(continued)*

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

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

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

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

2 Segment reporting *(continued)*

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

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

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

3 Loss from operation

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

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

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

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

5 (Loss)/earnings per share

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

The weighted average number of shares for the purposes of calculation of basic (loss)/earnings per share for the six months ended 30th June 2002 and 2001 has been adjusted for the effect of the Company's bonus issue as set out in note 12 (a).

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

6 Fixed assets

	HK$'000
Net book value as at 1st January 2002	18,663
Acquisition of subsidiary	26,087
Additions	2,048
Disposals	(2,733)
Provision for impairment	(2,460)
Depreciation	(2,974)
	38,631

7 Trade receivables

The Group's average credit term to trade debtors is zero to 180 days. An aged analysis of the Group's trade receivables as at 30th June 2002 is as follows:

	Unaudited 30th June 2002	Audited 31st December 2001
	HK$'000	*HK$'000*
Current to 90 days	**70,388**	1,625
91 days to 180 days	**21,814**	435
181 to 365 days	**23,570**	1,073
Over 365 days	**1,084**	1,601
	116,856	4,734

The Group maintains a defined credit policy. Sales proceed receivables in respect of provision of information technology solutions and consultancy services are settled in accordance with the schedules as stipulated in the service contract.

8 Trade payables, other payables and accruals

Included in trade payables, other payables and accruals are trade payables and their ageing analysis is as follows:

	Unaudited 30th June 2002 *HK$'000*	Audited 31st December 2001 *HK$'000*
Current to 90 days	**26,023**	1,126
91 days to 180 days	**2,814**	129
181 to 365 days	**6,802**	1,033
Over 365 days	**8,975**	6,184
	44,614	8,472

9 Interest-bearing bank borrowings – secured

At 30th June 2002, included in the Group's interest-bearing bank borrowings was a short-term bank loan of RMB30,000,000 (equivalent to HK$28,038,000) repayable on 21st February 2003, in which RMB30,000,000 (equivalent to HK$28,038,000) was guaranteed by an independent third party and RMB20,000,000 (equivalent to HK$18,692,000) was counter-guaranteed by the Company to the independent third party.

10 Provisions

	Warranties *HK$'000*
Balance at 1st January 2002	2,015
Provision made during the period	1,243
Amount utilised during the period	(415)
Write-back of unutilised amounts	(136)
Balance at 30th June 2002	**2,707**

The Group generally provides 10-year warranties to its customers on the construction/installation of curtain wall systems, under which faulty systems are repaired or replaced at the Group's expense. The amount of the provision for warranties is estimated based on the past experience of repairs and maintenance, and the remaining number of years under warranty. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

11 Due to ultimate holding company, a director and fellow subsidiaries

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

12 Share capital

	Unaudited Six months ended 30th June 2002	
	No. of shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each	1,000,000,000	10,000
	No. of shares	HK$'000
Issued and fully paid:		
At 1st January 2002	101,018,010	1,010
Issue of shares *(note (a))*	101,018,010	1,010
At 30th June 2002	202,036,020	2,020

(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 shares held on 23rd May 2002. These shares rank pari passu with the existing shares.

13 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 financial statements, 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/jointly-controlled entity established in Mainland China has been transferred to reserve funds which are restricted as to use.

14 Acquisitions

On 28th February 2002 the Group acquired 100% of the share capital of Hi Sun Technology Holding Limited which is principally engaged in the provision of customized information system consultancy and integration services and is incorporated in Bermuda. The consideration of HK$9,600,000 was settled in cash. The fair value of the net identifiable assets of the Company at the date of acquisition was HK$9,600,000. The acquired business contributed revenues of HK$120,000,000 and operating loss of HK$7,000,000 to the Group for the period from 28th February 2002 to 30th June 2002.

The assets and liabilities arising from the acquisition are as follows:

	HK$'000
Fixed assets	26,087
Interest-bearing bank borrowings	(18,751)
Other assets less liabilities	2,264
Fair value of net assets and total purchase consideration	9,600

15 Contingent liabilities

(a)

	Group		Company	
	Unaudited 30th June 2002	Audited 31st December 2001	**Unaudited 30th June 2002**	Audited 31st December 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Counter-guarantee to an independent third party for a bank loan of a subsidiary *(note 9)*	**–**	–	**18,692**	–

(b) In 1997, Full Arts Metal Works Limited ("Full Arts"), an indirect wholly-owned subsidiary of the Company, commenced proceedings against a sub-contractor claiming approximately HK$34,000,000 as damages for the non-performance of a sub-contract by the sub-contractor, and against one of its directors as guarantor for the performance of the contractual obligations by the subcontractor.

The sub-contractor also commenced proceedings against Full Arts, claiming approximately HK$25,000,000 for the alleged non-payment of monies due under the sub-contract and for the costs of the alleged supply of extra materials. Both actions were consolidated by an order of the court.

After mutual discovery of documents by the parties, the sub-contractor was liquidated in 2000 and no further action was pursued by Full Arts or the sub-contractor against each other thereafter. Based on legal advice, the directors are of the opinion that it is premature to give any reliable indication as to the likely outcome of these proceedings. Accordingly, because the directors considered that the Group had no present obligation towards the sub-contractor as at 30th June 2002, no provision has been made in the Group's financial statements in respect of the damages claimed by the sub-contractor in liquidation.

15 Contingent liabilities *(continued)*

(c) Full Arts commenced proceedings in 1999 against a sub-contractor claiming damages of approximately HK$7,200,000 for the alleged non-performance of a sub-contract. The sub-contractor then commenced proceedings against Full Arts counterclaiming approximately HK$10,033,000 as damages for breach of contract. Summonses for the direction of these proceedings were heard in 1999 and mutual discoveries were completed. As at 30th June 2002, these legal proceedings were still in progress.

Both parties are exploring the possibility of consolidating the two actions. Based on legal advice, the directors are of the opinion that it is premature to give any reliable indication as to the likely outcome on these proceedings. Accordingly, because the directors considered that the Group had no present obligation towards the sub-contractor as at 30th June 2002, no provision has been made in the Group's financial statements in respect of the damages claimed.

(d) Full Arts terminated a sub-contract for the non-performance of a sub-contractor responsible for glass fabrication and installation for a project in Hong Kong. Full Arts commenced proceedings in 1999 against the sub-contractor claiming approximately HK$16,500,000 as damages for such non-performance and the amount over-paid by Full Arts. The sub-contractor commenced proceedings against Full Arts in the same year, claiming approximately HK$4,800,000 for the alleged non-payment of monies due under the sub-contract and loss of profit. In July 1999, Full Arts filed a reply and defence to counterclaim. As at 30th June 2002, the legal proceedings were still in progress.

Based on legal advice, the directors are of the opinion that it is premature to give any reliable indication as to the likely outcome of these proceedings. Accordingly, because the directors considered that the Group had no present obligation as at 30th June 2002, no provision has been made in the Group's financial statements in respect of the damages claimed by the sub-contractor.

(e) A main contractor and an employer commenced proceedings against Full Arts claiming damages for the alleged non-performance of a sub-contract in 2000. Full Arts intended to file a defence and counterclaim against the main contractor for the unpaid contract sum of approximately HK$28,000,000. The directors consider that the employer had no merits in its claim against Full Arts and intend to apply to the Court to strike out such claim.

Based on legal advice, the directors are of the opinion that it is premature to give any reliable indication as to the likely outcome of these proceedings. Accordingly, because the directors considered that the Group had no present obligation as at 30th June 2002, no provision has been made in the Group's financial statements in respect of the damages claimed.

(f) In July 2001, three plaintiffs issued a writ of summons and subsequently a statement of claim in November 2001 in Hong Kong against Hi Sun Holdings Limited, an indirectly wholly-owned subsidiary of the Company, as one of the two defendants. The plaintiffs sought declarations that the plaintiffs acted as agents for the defendants in respect of the acquisition of two companies and that the loan of HK$40,000,000 borrowed by the first plaintiff from the other defendant and guaranteed by the second and third plaintiffs was used for the aforesaid acquisition as directed by the defendants. The plaintiffs also claimed against the defendants for such amount to be assessed in respect of all losses and disbursements incurred by the plaintiffs as a result of having acted as the agent for the defendants. In January 2002, Hi Sun Holdings Limited filed a statement of defence and denied all claims.

Based on legal advice, the directors are of the opinion that the plaintiffs' cases have no merit and hence no provision has been made in the Group's financial statements on account of the amount claimed.

(g) In 2002, the main contractor of a sub-contract for curtain wall and aluminium cladding project in Hong Kong, in which Full Arts acted as sub-contractor, issued a notice of arbitration to Full Arts seeking, inter alia, arbitration on whether Full Arts should indemnify the main contractor for any losses or damages it incurred in respect of alleged defective sub-contract work done by Full Arts. No statement of claim has yet been served on Full Arts nor has the quantum of claims been mentioned. The directors are of the opinion that it is premature to give any reliable indication as to the likely outcome of the arbitration and thus no provision has been made in the Group's financial statements in respect of the claims alleged by the main contractor.

16 Commitments

(a) Capital commitments for fixed assets

	Group	
	Unaudited 30th June 2002	Audited 31st December 2001
	HK$'000	*HK$'000*
Contracted but not provided for	**897**	–

(b) Commitments under operating leases

As at 30th June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	Unaudited 30th June 2002	Audited 31st December 2001
	HK$'000	*HK$'000*
Within one year	**3,705**	–

17 Related party transactions

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

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

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

18 Subsequent events

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

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

On behalf of the Board
Li Wenjin
Director

Hong Kong, 20th September 2002