

### 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of Directors; or to cast majority of votes at the meetings of the board of Directors.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

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

### (d) Fixed assets

#### (i) Fixed assets

Leasehold improvements, office furniture and equipment, plant and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

#### (ii) Depreciation

All fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Office furniture and equipment	18% – 25%
Plant and equipment	9% – 25%
Motor vehicles	18% – 25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (f) Inventories

Inventories comprise raw materials, work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials and direct labour. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (j) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Employee benefits (continued)

#### (ii) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Pension Scheme”) set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated profit and loss account as they become payable in accordance with the rules of the Pension Scheme. The assets of the Pension Scheme are held separately from those of the Group in an independently administrated fund. The Group’s employer contributions vest fully with the employees when contributed to the Pension Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the Pension Scheme.

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. Contributions to these retirement benefits schemes are charged to the consolidated profit and loss account as incurred.

#### (iii) Equity compensation benefits

Share options are granted to directors and to employees at a price determined in accordance to the Company’s share options scheme on the date of the grant and are exercisable at that price, no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

### (k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (m) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (n) **Revenue recognition**

Revenue from the sales of designed information technology products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Information system consultancy and integration service income and information technology value-added service income are recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (o) **Related parties**

Related parties included companies in which the Directors of the Company have beneficial interests or parties which are subject to common control or common significant influence in making significant financial and operating decisions.

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (p) 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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the sales of designed information technology products, provision of information system consultancy and integration services, and information technology value-added services. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of designed information technology products	166,377	240,295
Provision of information system consultancy and integration services	81,041	119,495
Information technology value-added services	32,277	–
	279,695	359,790
Other revenue		
Interest income	175	291
Others	283	37
	458	328
Total revenue	280,153	360,118

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Primary reporting format – Business segments

The Group is organised into four main business segments:

- (a) Financial solutions, services and related products – provision of customised information system consultancy and integration services and sales of designed information technology products to financial institutions and banks;
- (b) Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of designed information technology products to the telecommunication industries;
- (c) Electronic payment products and services – sales of electronic fund transfer point-of-sale (“EFT-POS”) terminals; and
- (d) Information technology value-added services – provision of Interactive Voice Response (“IVR”) services.

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

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

### Secondary reporting format – Geographical segments

The Group’s four business segments operate in two main geographical areas:

- |                                      |   |
|--------------------------------------|---|
| Hong Kong, Korea and South East Asia | – financial solutions, services and designed information technology products, and electronic payment products and services  |
| Mainland China                       | – financial solutions, services and designed information technology products, telecommunication solutions, services and designed information technology products, electronic payment products and services, and information technology value-added services |

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

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary reporting format – Business segments

	Financial solutions, services and related products 2004 HK\$'000	Telecom- munication solutions, services and related products 2004 HK\$'000	Electronic payment products and services 2004 HK\$'000	Information technology value- added services 2004 HK\$'000	Other operations 2004 HK\$'000	Group 2004 HK\$'000
Turnover	129,785	21,438	95,995	32,277	200	279,695
Other revenue	87	59	307	–	5	458
Segment results	(16,986)	(661)	9,664	8,598	(11,751)	(11,136)
Finance costs						(1,031)
Loss before taxation						(12,167)
Taxation credit						40
Loss attributable to shareholders						(12,127)
Segment assets	101,922	20,280	60,065	25,529	32,925	240,721
Segment liabilities	(81,432)	(26,081)	(30,063)	(16,338)	(38,176)	(192,090)
Other segment information:						
Depreciation	5,582	1,131	575	1,328	7	8,623
Provision for doubtful debts	4,366	–	–	–	–	4,366
Write-back of provision for obsolete inventories	–	–	(429)	–	–	(429)
Loss on disposal and write off of fixed assets	3,105	–	273	–	–	3,378
Capital expenditure	1,589	795	682	11,803	38	14,907



## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary reporting format – Business segments (continued)

	Financial solutions, services and related products 2003 HK\$'000	Telecom- munication solutions, services and related products 2003 HK\$'000	Electronic payment products and services 2003 HK\$'000	Other operations 2003 HK\$'000	Group 2003 HK\$'000
Turnover	260,545	29,238	69,957	50	359,790
Other revenue	161	7	159	1	328
Segment results	5,595	(2,162)	3,859	(9,121)	(1,829)
Finance costs					(1,625)
Loss before taxation					(3,454)
Taxation					–
Loss attributable to shareholders					(3,454)
Segment assets	83,383	23,168	52,488	4,637	163,676
Segment liabilities	(38,499)	(32,334)	(31,119)	(966)	(102,918)
Other segment information:					
Depreciation	6,977	1,160	677	2	8,816
Provision for doubtful debts	1,701	–	–	–	1,701
Provision for other receivables	1,196	–	–	–	1,196
Write-back of provision for obsolete inventories	–	–	(346)	–	(346)
Loss on disposal and write off of fixed assets	336	–	24	–	360
Capital expenditure	1,867	247	159	–	2,273

## NOTES TO THE ACCOUNTS

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Secondary reporting format – Geographical segments

	Turnover 2004 HK\$'000	Segment results 2004 HK\$'000	Total assets 2004 HK\$'000	Capital expenditure 2004 HK\$'000
Hong Kong, Korea and South East Asia	75,925	(7,104)	100,639	38
Mainland China	203,770	(4,267)	140,082	14,869
	<u>279,695</u>	<u>(11,371)</u>	<u>240,721</u>	<u>14,907</u>
Unallocated income, net		<u>235</u>		
Operating loss		<u>(11,136)</u>		

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Hong Kong, Korea and South East Asia	54,823	(3,855)	40,136	11
Mainland China	304,967	1,735	123,540	2,262
	<u>359,790</u>	<u>(2,120)</u>	<u>163,676</u>	<u>2,273</u>
Unallocated income, net		<u>291</u>		
Operating loss		<u>(1,829)</u>		

## NOTES TO THE ACCOUNTS

### 3. OPERATING LOSS

The Group's operating loss is stated after crediting and charging the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<u>Crediting</u>		
Refund of value-added tax	2,844	3,355
Write-back of provision for obsolete inventories	429	346
Waiver of payment to a sub-contractor	468	–
<u>Charging</u>		
Auditors' remuneration	1,221	1,152
Depreciation	8,623	8,816
Staff costs (Note 5)	74,848	86,335
Operating lease rentals for land and buildings	9,927	10,717
Loss on disposal and write off of fixed assets	3,378	360
Provision for doubtful debts	4,366	1,701
Provision for other receivables	–	1,196
Net exchange losses	118	218

### 4. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans and overdrafts	1,031	1,625

### 5. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Wages and salaries	71,359	80,874
Pension costs – defined contribution plan	3,489	5,461
	74,848	86,335

## 6. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to Directors of the Company during the year are as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Fees	<b>273</b>	372
Other emoluments:		
Basic salaries, other allowances and benefits in kind	<b>3,684</b>	280
Contributions to pension schemes for Directors	<b>90</b>	10
	<b>4,047</b>	662

Directors' fees disclosed above include HK\$153,000 (2003: HK\$252,000) paid to independent non-executive Directors.

The emoluments of the Directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
<b>Emolument bands</b>		
Nil – HK\$1,000,000	<b>14</b>	11

There was no arrangement under which a Director of the Company waived or agreed to waive any emolument during the year.

## NOTES TO THE ACCOUNTS

### 6. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS (continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three Directors (2003: none). The emoluments payable to the remaining two (2003: five) individuals during the year are as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>1,161</b>	4,081

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
<b>Emolument bands</b>	<b>2004</b>	2003
Nil – HK\$1,000,000	<b>2</b>	4
HK\$1,500,001 – HK\$2,000,000	–	1

- (c) During the year ended 31 December 2004, 33,000,000 share options (2003: Nil) were granted to the Directors and employees at HK\$0.374 (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. None of the share options granted has been exercised during the year.

### 7. TAXATION

The amount of taxation credited to the consolidated profit and loss account represents:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current taxation:		
– Hong Kong profits tax	–	–
– Overseas taxation	–	–
Over-provision in prior years	<b>(40)</b>	–
Taxation credit	<b>(40)</b>	–

## 7. TAXATION (continued)

Hong Kong profits tax has not been provided in these accounts as the Group has no estimated assessable profit for the year (2003: Nil).

The People's Republic of China (the "PRC") taxation has been provided on the profit of the Group's subsidiaries in the PRC and calculated at the applicable rates. No provision for the PRC income tax has been provided for current year as there is allowable tax losses brought forward from prior years (2003: Nil).

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follow:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Loss before taxation	<b>(12,167)</b>	(3,454)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>(2,129)</b>	(604)
Effect of different taxation rates in other countries	<b>123</b>	1,450
Effect of tax holiday	<b>(26)</b>	(3,832)
Income not subject to taxation	<b>(19)</b>	(4)
Expenses not deductible for taxation proposes	<b>93</b>	401
Utilisation of previously unrecognised tax losses	<b>(1,118)</b>	–
Unrecognised tax losses	<b>3,076</b>	2,589
Over-provision in prior years	<b>(40)</b>	–
Taxation credit	<b>(40)</b>	–

## 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$8,281,000 (2003: HK\$23,813,000).

## 9. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2003: Nil).

## 10. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$12,127,000 (2003: HK\$3,454,000) and 333,054,030 (2003: 333,054,030) ordinary shares in issue during the year.

## NOTES TO THE ACCOUNTS

### 10. LOSS PER SHARE (continued)

Diluted loss per share has not been presented for the year ended 31 December 2004 as the conversion of potential ordinary shares would have anti-dilutive effect to the basic loss per share.

There were no dilutive effects on the basic loss per share for the year ended 31 December 2003.

### 11. FIXED ASSETS

	Group				
	Leasehold improve- -ments HK\$'000	Office furniture and equipment HK\$'000	Plant and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1 January 2004	7,701	21,571	506	3,630	33,408
Additions	698	13,920	80	209	14,907
Disposals	–	(664)	–	–	(664)
Write-off	(1,896)	(8,041)	–	–	(9,937)
<b>At 31 December 2004</b>	<b>6,503</b>	<b>26,786</b>	<b>586</b>	<b>3,839</b>	<b>37,714</b>
Accumulated depreciation and impairment:					
At 1 January 2004	4,964	8,417	130	1,614	15,125
Charge for the year	997	6,541	109	976	8,623
Disposals	–	(427)	–	–	(427)
Write-off	(593)	(6,149)	–	–	(6,742)
<b>At 31 December 2004</b>	<b>5,368</b>	<b>8,382</b>	<b>239</b>	<b>2,590</b>	<b>16,579</b>
Net book value:					
<b>At 31 December 2004</b>	<b>1,135</b>	<b>18,404</b>	<b>347</b>	<b>1,249</b>	<b>21,135</b>
At 31 December 2003	2,737	13,154	376	2,016	18,283

## NOTES TO THE ACCOUNTS

### 11. FIXED ASSETS (continued)

	<b>Company Office furniture and equipment HK\$'000</b>
Cost:	
At 1 January 2004 and 31 December 2004	12
Accumulated depreciation:	
At 1 January 2004	3
Charge for the year	3
<b>At 31 December 2004</b>	<b>6</b>
Net book value:	
<b>At 31 December 2004</b>	<b>6</b>
At 31 December 2003	9

### 12. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	4,136	4,136
Due from subsidiaries	93,547	92,471
Due to a subsidiary	(500)	–
Less: Provision for diminution in value	(20,000)	(20,000)
	77,183	76,607

As at 31 December 2004, the balances with subsidiaries were unsecured, interest free, and had no fixed terms of repayment, except for an amount due from a subsidiary of HK\$2,400,000 which was unsecured, interest free, and repayable within one year.

As at 31 December 2003, the balances with subsidiaries were unsecured, interest free, and had no fixed terms of repayment, except for amounts due from subsidiaries of HK\$5,900,000 which were unsecured, bore interest at Hong Kong Dollar Prime Lending Rate plus 2% per annum, and were repayable within one year.



## NOTES TO THE ACCOUNTS

### 12. INTERESTS IN SUBSIDIARIES (continued)

The following is a full list of the subsidiaries at 31 December 2004:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
北京高陽金信信息技術有限公司 (Beijing Hi Sun Advanced Business Solutions Information Technology Limited)	PRC, limited liability company	Provision of financial and banking solutions and services in the PRC	HK\$60,000,000	100%
北京高陽聖思園信息技術有限公司 (Beijing Hi Sunray Information Technology Limited)	PRC, limited liability company	Provision of telecommunication solutions and services and information technology value-added services in the PRC	HK\$27,000,000	100%
Emerging Technology Limited	British Virgin Islands ("BVI"), limited liability company	Investment holding in the PRC	7,692,308 ordinary shares of US\$1 each	100%
Hi Sun (BVI) Limited	BVI, limited liability company	Investment holding in Hong Kong and the PRC	2 ordinary shares of US\$1 each	100% <sup>1</sup>
Hi Sun Development Management Limited	Hong Kong, limited liability company	Provision of management services in Hong Kong	2 ordinary shares of HK\$1 each	100%
Hi Sun Technology Holding Limited	Bermuda, limited liability company	Provision of financial and banking solutions and services in Hong Kong	168,070,000 ordinary shares of HK\$0.1 each	100%

## NOTES TO THE ACCOUNTS

### 12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Pax Technology Limited	Hong Kong, limited liability company	Sale of EFT-POS terminals in Hong Kong	35,000,000 ordinary shares of HK\$1 each	100%
Turbo Speed Technology Limited	BVI, limited liability company	Investment holding in the PRC	3,589,744 ordinary shares of US\$1 each	100%
百富計算機技術(深圳)有限公司 (Pax Technology (Shenzhen) Limited)	PRC, limited liability company	Sale of EFT-POS terminals in the PRC	HK\$10,000,000	100%

<sup>1</sup> Shares held directly by the Company

### 13. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	7,475	7,608
Work in progress	3,871	5,401
Finished goods	18,505	7,729
	<b>29,851</b>	20,738

At 31 December 2004, the carrying amount of inventories that were carried at net realisable value amounted to nil (2003: HK\$2,693,000).

## NOTES TO THE ACCOUNTS

### 14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables, net of provisions (Note)	101,202	64,812	—	—
Prepayments, deposits and other receivables	9,634	17,319	860	1,056
	110,836	82,131	860	1,056

*Note:* The Group's credit terms to trade debtors range from 0 to 180 days. At 31 December 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	90,087	40,614
91 to 180 days	4,866	18,820
181 to 365 days	2,914	1,861
Over 365 days	3,335	3,517
	101,202	64,812

## NOTES TO THE ACCOUNTS

### 15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables (Note)	46,331	23,303	–	–
Other payables and accruals	74,949	48,903	774	819
	121,280	72,206	774	819

Note: At 31 December 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	33,927	17,834
91 to 180 days	10,605	503
181 to 365 days	120	2,309
Over 365 days	1,679	2,657
	46,331	23,303

### 16. RESTRICTED CASH AND DEPOSIT RECEIVED FROM ISSUE OF CONVERTIBLE PREFERENCE SHARES BY A SUBSIDIARY

On 9 November 2004, Turbo Speed Technology Limited ("Turbo Speed"), a wholly-owned subsidiary of the Company, entered into a subscription agreement with independent third parties in relation to the subscription of 6,837,608 convertible preference shares of US\$0.10 each of Turbo Speed for a total subscription price of US\$4 million (approximately HK\$31.2 million) ("the Subscription"). The convertible preference shares represent approximately 19% of the total existing number of issued shares of Turbo Speed and approximately 16% of the total number of issued shares of Turbo Speed as enlarged by the Subscription.

The subscription price had been received by Turbo Speed shortly after signing of the said agreement and is held in jointly controlled bank accounts and will be released on completion of the Subscription. The completion of the Subscription is conditional upon the completion of (a) a written confirmation from China Mobile Communications Corporation that the IVR Contract has been renewed; (b) amendment to the Memorandum of Association of Turbo Speed for sub-division of and reclassify its authorised share capital into 93,000,000 ordinary shares of US\$0.10 each and 7,000,000 convertible preference shares of US\$0.10 each; and (c) the necessary approvals obtained from relevant authorities for the Subscription. If the conditions set out in the above are not fulfilled or waived in writing prior to 30 April 2005, the Subscription shall terminate and none of the parties shall have any claims against the others.

## NOTES TO THE ACCOUNTS

### 17. SHORT TERM BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
<b>Short term bank borrowings</b>		
Bank overdrafts – Hong Kong, secured ( <i>Note (a)</i> )	–	8,693
Trust receipt loans – Hong Kong, secured ( <i>Note (a)</i> )	–	7,184
Short term bank loans – PRC, secured ( <i>Note (a)</i> )	13,364	8,598
<b>Others</b>		
Other loans – PRC, secured ( <i>Note (b)</i> )	935	–
	<b>14,299</b>	24,475

*Note:*

- (a) As at 31 December 2004, secured short term bank loans of HK\$13,364,000 were secured by corporate guarantee from a fellow subsidiary of the Company.

As at 31 December 2003, bank overdrafts, trust receipt loans and secured short term bank loans of HK\$24,475,000 were secured by fixed deposits at banks of HK\$14,459,000, deposits in a bank guaranteed fund of HK\$4,420,000, personal guarantee of HK\$7,000,000 from a Director of the Company, and corporate guarantee of HK\$30,000,000 by the Company in accordance with the banking facility terms provided to certain subsidiaries of the Group for trading arrangement with their suppliers.

- (b) As at 31 December 2004, other loans of HK\$935,000 was obtained from Shenzhen Fu Tian Science Technology Bureau and secured by corporate guarantee from an independent third party.

### 18. DUE TO FELLOW SUBSIDIARIES AND ULTIMATE HOLDING COMPANY

The amounts due to fellow subsidiaries and ultimate holding company were unsecured, interest free, and had no fixed terms of repayment.

### 19. PENSION OBLIGATIONS

	Group	
	2004 HK\$'000	2003 HK\$'000
Obligations on:		
– pensions – defined contribution plan ( <i>Note</i> )	3,850	3,097

*Note:* No contribution was forfeited during the year (2003: Nil).

## 20. SHARE CAPITAL

	<b>Authorised Ordinary shares of HK\$0.01 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 31 December 2003 and 2004	1,000,000,000	10,000
	<b>Issued and fully paid Ordinary shares of HK\$0.01 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 31 December 2003 and 2004	333,054,030	3,330

### Share option scheme

- (i) Pursuant to an ordinary resolution passed on 29 November 2001, a share option scheme (the "Scheme") was adopted. The Board of Directors is authorised to grant options to eligible employees including full time employees, and executive and non-executive directors of the Group. The total number of shares in respect of which options may be granted shall not (together with all the other share option schemes, if any) exceed 10% of the total issued share capital of the Company. 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.
- (ii) On 18 March 2004, the Company had granted 33,000,000 share options to certain Directors and employees at HK\$0.374 (the average closing price of the shares as quoted in the daily quotations sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

The exercisable period of the above share options is from 18 March 2004 to 17 March 2014 (both dates inclusive). No share options have been exercised during the year ended 31 December 2004.

## NOTES TO THE ACCOUNTS

### 21. RESERVES

	<b>Group</b>			
	<b>Share premium</b>	<b>Contributed surplus (Note)</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	100,556	125,310	(164,984)	60,882
Loss for the year	–	–	(3,454)	(3,454)
At 31 December 2003	100,556	125,310	(168,438)	57,428
At 1 January 2004	100,556	125,310	(168,438)	57,428
Loss for the year	–	–	(12,127)	(12,127)
<b>At 31 December 2004</b>	<b>100,556</b>	<b>125,310</b>	<b>(180,565)</b>	<b>45,301</b>

*Note:* 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 (“HSHL”) acquired pursuant to the group reorganisation (the “Reorganisation”) on 17 October 2001 as set out in the circular to the shareholders of HSHL dated 9 August 2001, over the nominal value of the Company’s shares issued in exchange therefor.

	<b>Company</b>			
	<b>Share premium</b>	<b>Contributed surplus (Note)</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	100,556	3,293	(3,639)	100,210
Loss for the year	–	–	(23,813)	(23,813)
At 31 December 2003	100,556	3,293	(27,452)	76,397
At 1 January 2004	100,556	3,293	(27,452)	76,397
Loss for the year	–	–	(8,281)	(8,281)
<b>At 31 December 2004</b>	<b>100,556</b>	<b>3,293</b>	<b>(35,733)</b>	<b>68,116</b>

*Note:* The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company’s shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus under certain circumstances.

## 22. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$102,150,000 (2003: HK\$85,087,000) to carry forward against future taxable income. These tax losses have not been recognised for due to uncertainty of their future recoverability. The tax losses will expire according to the prevailing tax laws and regulations in the countries in which the Group operates.

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

	<b>Accelerated tax depreciation</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Deferred tax liabilities		
At 1 January	<b>10</b>	44
Charged/(credited) to profit and loss account	<b>18</b>	(34)
At 31 December	<b>28</b>	10

  

	<b>Tax losses</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Deferred tax assets		
At 1 January	<b>(10)</b>	(44)
(Credited)/charged to profit and loss account	<b>(18)</b>	34
At 31 December	<b>(28)</b>	(10)



## NOTES TO THE ACCOUNTS

### 22. DEFERRED TAXATION (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Deferred tax assets	<b>(28)</b>	(10)
Deferred tax liabilities	<b>28</b>	10
	<b>—</b>	—

### 23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating loss to net cash inflow/(outflow) generated from operations

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating loss	<b>(11,136)</b>	(1,829)
Interest income	<b>(175)</b>	(291)
Depreciation	<b>8,623</b>	8,816
Loss on disposal and write off of fixed assets	<b>3,378</b>	360
Provision for doubtful debts	<b>4,366</b>	1,701
Provision for other receivables	<b>—</b>	1,196
Write-back of provision for obsolete inventories	<b>(429)</b>	(346)
Operating profit before working capital changes	<b>4,627</b>	9,607
(Increase)/decrease in trade and other receivables	<b>(33,071)</b>	82,731
(Increase)/decrease in inventories	<b>(8,684)</b>	5,126
Increase/(decrease) in trade payables, other payables and accruals	<b>49,074</b>	(108,439)
Increase/(decrease) in amount due to ultimate holding company	<b>21,596</b>	(797)
Decrease in amounts due to fellow subsidiaries	<b>(2,531)</b>	(3,215)
Net cash inflow/(outflow) generated from operations	<b>31,011</b>	(14,987)

## NOTES TO THE ACCOUNTS

### 23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing during the year

	Issued capital (including share premium account and contributed surplus) <i>HK\$'000</i>	Short term bank loans (including trust receipts loans) <i>HK\$'000</i>	Other loans <i>HK\$'000</i>
At 1 January 2003	229,196	43,754	–
Repayment of short term bank loans	–	(27,972)	–
At 31 December 2003	229,196	15,782	–
Inception of other loans	–	–	935
Inception of short term bank loans	–	13,364	–
Repayment of short term bank loans	–	(15,782)	–
<b>At 31 December 2004</b>	<b>229,196</b>	<b>13,364</b>	<b>935</b>

### 24. CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no other contingent liabilities (2003: Nil).

## NOTES TO THE ACCOUNTS

### 25. OPERATING LEASE COMMITMENTS

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	5,494	6,383	4,463	–
Later than one year and not later than five years	1,991	2,366	–	–
	7,485	8,749	4,463	–

### 26. RELATED PARTY TRANSACTIONS

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

		Group	
		2004 HK\$'000	2003 HK\$'000
Management fees received from a related company	(a)	200	–
Management fees paid to a related company	(b)	–	280
Consultancy fees paid to a related company	(c)	–	74
Rental fees paid to a related company	(d)	916	–

- (a) A subsidiary, Hi Sun Development Management Limited, provided management services to Panorama Stock Limited, a company owned by a Director of the Company.
- (b) Two subsidiaries, Hi Sun Technology Holding Limited and Pax Technology Limited, received management services from Hi Sun Management Limited, a company owned by a Director, who is also a substantial shareholder, of the Company.
- (c) A subsidiary, Pax Technology Limited, received consultancy services from Hi Sun Information Technology Services Limited, a company owned by a Director, who is also a substantial shareholder, of the Company.
- (d) A subsidiary, Beijing Hi Sun Advanced Business Solution Information Technology Limited, paid rental fees to Beijing Hi Sun Electric Power Information Technology Limited, a company owned by a Director, who is also a substantial shareholder, of the Company.

The above transactions were conducted in the normal course of business and charged at terms mutually agreed or in accordance with the terms of the underlying agreements, where appropriate.

## 27. SUBSEQUENT EVENTS

### (a) Change of company name

Pursuant to a special resolution passed on 28 February 2005, the English name of the Company was changed from Hi Sun Group Limited to Hi Sun Technology (China) Limited and the Chinese name of the Company was changed from “高陽集團有限公司” to “高陽科技(中國)有限公司”, with effect from 28 February 2005.

### (b) Issue of convertible preference shares by a subsidiary

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed, to issue 6,837,608 convertible preference shares of US\$0.10 each for a total subscription price of US\$4 million (approximately HK\$31.2 million) under the subscription agreement entered into with independent third parties on 9 November 2004 (the “Subscription”). Details of the Subscription are summarised in note 16.

### (c) Adoption of employee incentive scheme of a subsidiary

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed, to adopt an employee incentive scheme to the employees of Turbo Speed and its subsidiaries to subscribe for a maximum of 4,682,275 ordinary shares of Turbo Speed, representing approximately 13% of the existing issued share capital of Turbo Speed and approximately 11% of the issued share capital of Turbo Speed as enlarged by the Subscription, with an exercisable period from 4 April 2005 to 31 December 2008 (both dates inclusive).

## 28. ULTIMATE HOLDING COMPANY

In the opinion of the Directors, the ultimate holding company is Hi Sun Limited, a company incorporated in the British Virgin Islands.

## 29. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 22 April 2005.