

1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively known as the “Group”), are principally engaged in the sales of information technology products, provision of information system consultancy and integration services, and information technology operation valued-added services. An analysis of the Group’s performance for the year by business and geographical segments is set out in note 5 to the financial statements.

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.

These consolidated financial statements are presented in thousands of units of HK dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Hi Sun Technology (China) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
(Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 10	Government Assistance – No Specific Relation to Operating Activities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 33, 36, 37, HKAS-Int 10 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 33, 36, 37, HKAS-Int 10 and HKFRS 3 had no material effect on the Group's policies; and
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements; and
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005; and
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

	2005 HK\$'000
The adoption of revised HKAS 17 resulted in:	
Decrease in property, plant and equipment	208
Increase in leasehold land	208

There is no impact on basic and diluted earnings per share from the adoption of revised HKAS 17.

	2005 HK\$'000
The adoption of HKASs 32 and 39 resulted in:	
Increase in financial liability portion of convertible preference shares issued by a subsidiary	21,173
Increase in other reserves	11,134
Increase in finance costs	1,107
Decrease in basic earnings per share (expressed in HK\$ per share)	0.003
Decrease in diluted earnings per share (expressed in HK\$ per share)	0.003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

	2005 HK\$'000
The adoption of HKFRS 2 resulted in:	
Increase in other reserves	4,493
Increase in administrative expenses	4,493
Decrease in basic earnings per share (expressed in HK\$ per share)	0.013
Decrease in diluted earnings per share (expressed in HK\$ per share)	0.012

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKASs 17, 32, 39 and HKFRS 2.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of new Standards and Interpretations but is not yet in a position to state whether these new Standards/Interpretations would have a significant impact of its results in operations and financial position.

HKAS 1 (Amendment), Capital disclosures
 HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures
 HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
 HKAS 39 (Amendment), The Fair Value Option
 HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts
 HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
 HKFRS 6, Exploration for and Evaluation of Mineral Resources
 HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures
 HKFRS-Int 4, Determining whether an Arrangement contains a Lease
 HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
 HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
 HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) *Group companies* (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.7 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.9).

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Investments (continued)

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises, raw materials and direct labour. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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 income statement in the year in which they are incurred.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Deferred income tax (continued)

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

2.14 Employee benefits

(a) *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.

(b) *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 income statement 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.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.14 Employee benefits** (continued)*(b) Pension obligations* (continued)

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 income statement as incurred.

(c) Share-based compensation

The Group operates two equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 Provisions

Provisions for environmental restoration, restructuring cost and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.15 Provisions** (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.16 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised when the services are rendered.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) Lease income

Lease income under finance lease is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Government grants

Grants from the government are recognised as income where there is a reasonable assurance that the grant will be received.

Government grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

2.19 Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.21 Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in current year.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the executive Directors. The executive Directors identify, evaluate and hedge financial risks in close co-operation within the operating units of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates mainly in the People's Republic of China (the "PRC") and Hong Kong. The exchange rate of Renminbi to HK dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. At present, the Group does not have any financial instruments for hedging purposes.

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The executive Directors are responsible for managing the net position in each foreign currency.

(ii) Price risk

The estimated fair value of the convertible preference shares issued by a subsidiary, share options issued by the Company and a subsidiary are affected by the changes in market prices.

(b) Credit risk

The Group has concentration of credit risk. Sales of goods and services to the top five customers constitute 65% of the Group's turnover for the year ended 31 December 2005.

The executive Directors consider that the Group's exposure to bad debts is not significant since the Group primarily trades with reputable and creditworthy customers. In addition, the Group has credit policies in place to ensure that sales of products and services are made to customers with appropriate credit history. Collection of outstanding receivable balances and authorised credit limits to individual customers are closely monitored on an ongoing basis.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the ability to apply for bank loan facilities when necessary.

(d) *Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets, except for the cash placed with banks.

The interest rate risk of the Group arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. At the year end, all borrowings were at a fixed rate.

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and made assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivable and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that was available to the Group for similar financial instruments. The fair values of share options granted by the Company and a subsidiary of the Company during the year are estimated by using the Black-Scholes-Merton option pricing model.

Details of the fair value estimation of convertible preference shares issued by a subsidiary are set out in Note 4(b).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Estimated fair value of the liability component of the convertible preference shares issued by Turbo Speed Technology Limited (“Turbo Speed”), a wholly-owned subsidiary of the Company

The fair value of the liability component is estimated by applying the Discounted Cash Flows Method. The Group makes significant assumptions of the future dividend payments to convertible preference shareholders of the subsidiary based on available latest financial information, business potential and plans, and recent market information of industry and sector performance.

According to the subscription agreement entered into by Turbo Speed, the holders of the convertible preference shares are entitled to a fixed cumulative preferred dividend equal to HK\$624,000 (the “Preferred dividend”). The holders of the convertible preference shares are also entitled to participate in part of dividends (the “Ordinary dividend”), declared and payable by Turbo Speed (after the Preferred dividend), calculated by applying an agreed formula so that the aggregate of the Preferred dividend and Ordinary dividend to the holders of convertible preference shares are equal initially to 16% (on an annual basis) of the total dividend payable by Turbo Speed. The Group has revised the assumptions of the dividend payment pattern used on the Discounted Cash Flows Method since interim. It is because the executive Directors are now in a better position to estimate the dividend payments in the future years since 2005 is the first full year result of IVR operation and the dividend in respect of 2005 to be proposed by Turbo Speed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Estimated fair value of the liability component of the convertible preference shares issued by Turbo Speed Technology Limited (“Turbo Speed”), a wholly-owned subsidiary of the Company (continued)

According to a shareholders’ agreement entered into by the Company and the convertible preference shareholders of Turbo Speed on 29 April 2005, if the audited net profit after taxation of Beijing Hi Sunray Technology Limited (“Beijing Hi Sunray”), a wholly-owned subsidiary of Turbo Speed, for either of the financial year ending 31 December 2005 or 2006, as stated in the audited financial statements of Beijing Hi Sunray for the relevant financial year is less than RMB40 million, the Company shall transfer an agreed percentage of shares in Turbo Speed to the then convertible preference shareholders of Turbo Speed for a consideration of HK\$1. The Group has considered the contingent value is minimal based on the available latest financial information and the financial forecast of Beijing Hi Sunray.

(c) Impairment of receivables

The executive Directors determine the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. The executive Directors reassess the provision on each of the balance sheet date.

5. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION

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

	For the year ended	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of information technology products	200,261	166,377
Provision of information system consultancy and integration services	102,261	81,041
Information technology operation value-added services	136,241	32,277
	438,763	279,695
Other revenue		
Interest income	1,403	175
Subsidy income from Government (<i>Note below</i>)	926	–
Other income	258	283
	2,587	458
Turnover and other revenue	441,350	280,153

5. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (continued)

Note: The Group obtained and recognised as income a government grant of HK\$0.93 million which was an incentive to the Group for the development of new technology and new products (2004: Nil). There is no obligation attached with such government subsidy.

Primary reporting format – business segments

As at 31 December 2005, 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 information technology products to financial institutions and banks; and
- (b) Telecommunication solutions, services and related products – provision of customised information system consultancy and integration services and sales of information technology products to the telecommunication industries; and
- (c) Electronic payment products and services – sales of electronic fund transfer point-of-sale (“EFT-POS”) terminals; and
- (d) Information technology operation value-added services – provision of Interactive Voice Response (“IVR”) platform operation services.

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

Turnover consists of sales from financial solutions, services and related products, telecommunication solutions, services and related products, electronic payment products and services and information technology operation value-added services, which are HK\$438.61 million and HK\$279.50 million for the years ended 31 December 2005 and 2004 respectively.

Other Group operations mainly comprise the management fees received from a related company. This does not constitute a separately reportable segment. Management fees received from a related company for the year ended 31 December 2005 is HK\$0.15 million (2004: HK\$0.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2005 and segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Financial solutions, services and information technology products <i>HK\$'000</i>	Telecom- munication solutions, services and information technology products <i>HK\$'000</i>	Electronic payment products and services <i>HK\$'000</i>	Information technology operation value-added services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	157,784	11,515	133,073	136,241	150	438,763
Other revenue	212	–	1,320	1,052	3	2,587
Segment results	13,315	(3,438)	14,232	72,514	(25,683)	70,940
Finance costs						(3,998)
Profit before taxation						66,942
Income tax expense						(4,638)
Profit attributable to equity holders of the Company						62,304
Segment assets	87,625	2,178	104,535	116,030	3,373	313,741
Segment liabilities	(76,338)	(19,957)	(48,903)	(30,695)	(10,414)	(186,307)
Other segment information:						
Depreciation	4,160	–	673	4,989	62	9,884
Provision for doubtful debts	1,586	3,477	1,911	–	–	6,974
Write-off of inventories	–	–	1,008	–	–	1,008
Loss on disposal of property, plant and equipment	188	–	5	126	–	319
Capital expenditure	418	–	6,816	18,619	527	26,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2004 and segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Financial solutions, services and information technology products <i>HK\$'000</i>	Telecom- munication solutions, services and information technology products <i>HK\$'000</i>	Electronic payment products and services <i>HK\$'000</i>	Information technology operation value-added services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
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)
Income tax credit						40
Loss attributable to equity holders of the Company						(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 of property, plant and equipment	183	–	–	–	–	183
Loss on write off of property, plant and equipment	2,922	–	273	–	–	3,195
Capital expenditure	1,589	795	682	11,803	38	14,907

5. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format – Geographical segments

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

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

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

	Turnover 2005 HK\$'000	Segment results 2005 HK\$'000	Total assets 2005 HK\$'000	Capital expenditure 2005 HK\$'000
Hong Kong and South East Asia	71,100	(26,392)	39,194	650
Mainland China	367,663	95,929	274,547	25,730
	438,763	69,537	313,741	26,380
Unallocated income, net		1,403		
Operating profit		70,940		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format – Geographical segments (continued)

	Turnover 2004 <i>HK\$'000</i>	Segment results 2004 <i>HK\$'000</i>	Total assets 2004 <i>HK\$'000</i>	Capital expenditure 2004 <i>HK\$'000</i>
Hong Kong 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>		

6. LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Outside Hong Kong, held on: Leases of between 10 to 50 years	208	–

During the year, Pax Technology (Shenzhen) Limited ("PAX SZ"), a subsidiary of the Company, has acquired leasehold land and building (the "Property") at a total consideration of HK\$5,714,000 from the PRC government as an incentive to PAX SZ for the development of new technology and new products.

6. LEASEHOLD LAND (continued)

The Property acquired by PAX SZ is limited to self-use on specific projects approved by the PRC government. The Property cannot be used for property trading or sub-leasing purposes. Any transfer of ownership of the Property is subject to approval from the PRC government, ruled by applicable laws and regulations.

	2005 HK\$'000
Acquisition cost of leasehold land	208
Acquisition cost of building (<i>Note 15</i>)	5,506
	5,714

7. EXPENSES BY NATURE

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

	2005 HK\$'000	2004 <i>HK\$'000</i>
Auditors' remuneration	1,620	1,221
Depreciation	9,884	8,623
Employee benefit expense (including directors' emoluments) (<i>Note 9</i>)	101,092	74,848
Changes in inventories of finished goods	185,572	142,990
Operating lease rentals for land and buildings	10,254	9,927
Operating lease rentals for equipment	7,212	2,576
Research and development costs	2,204	2,269
Loss on disposal of property, plant and equipment	319	183
Write off of property, plant and equipment	–	3,195
Provision for doubtful debts	6,974	4,366
Write-off of inventories	1,008	–
Write-back of provision for obsolete inventories	–	(429)
Refund of value-added tax	(4,816)	(2,844)
Waiver of payment to a sub-contractor	–	(468)

8. NET FOREIGN EXCHANGE GAINS/(LOSSES)

The net foreign exchange gains recognised in the income statement included as administrative expenses for the year ended 31 December 2005 amounted to HK\$500,000 (2004: net foreign exchange losses of HK\$118,000).

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Wages, salaries and bonus	86,920	66,477
Social security costs	6,574	4,882
Share options granted to directors and employees (Note 21)	4,493	–
Pension costs – defined contribution plans (Note (a))	3,105	3,489
	101,092	74,848

Note:

(a) Pensions – defined contribution plans

Contributions totalling HK\$4,284,000 (2004: HK\$3,850,000) were payable to the fund at the year end.

No contribution was forfeited during the year (2004: Nil).

(b) Directors' emoluments

There was no arrangement under which a Director waived or agreed to waive any emolument during the year (2004: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

(b) Directors' emoluments (continued)

The directors' emoluments for the year are equivalent to key management compensation. The remuneration of every Director for the year ended 31 December 2005, is set out below:

Name of Director	Fees <i>HK'000</i>	Salary <i>HK'000</i>	Discretionary bonus <i>HK'000</i>	Employer's	Other benefits –	Total <i>HK\$'000</i>	
				contribution to pension scheme <i>HK'000</i>	Share options (Note (c)) No. of share options Fair value – <i>HK'000</i>		
<i>Executive Directors</i>							
Cheung Yuk Fung	220	–	150	9	–	379	
Kui Man Chun	–	612	2,000	12	3,300,000	3,042	
Lo Siu Yu	–	425	1,200	12	3,300,000	2,055	
Xu Wensheng	–	425	1,000	12	3,300,000	1,855	
Li Wenjin	–	477	2,000	12	3,300,000	2,907	
Chan Yiu Kwong	–	852	450	12	1,000,000	1,441	
Xu Chung Jun	–	399	500	12	3,300,000	1,329	
Zhou Jian	–	–	–	–	–	–	
Su Terry Lumin (Note (a))	–	–	–	–	–	–	
	220	3,190	7,300	81	17,500,000	2,217	13,008
<i>Non-Executive Director</i>							
Liu Yangsheng, Charles (Note (b))	75	–	300	–	–	375	
<i>Independent Non-Executive Directors</i>							
Tam Chun Fai	60	–	–	–	–	60	
Leung Wai Man, Roger	60	–	–	–	–	60	
Xu Sitao	60	–	–	–	–	60	
	180	–	–	–	–	180	
	475	3,190	7,600	81	17,500,000	2,217	13,563

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

(b) Directors' emoluments (continued)

Note:

- (a) Mr. Su Terry Lumin has resigned as Director of the Company on 2 February 2005.
- (b) Mr. Liu Yangsheng, Charles was appointed as a Non-Executive Director of the Company on 17 May 2005 and resigned on 17 April 2006.
- (c) On 26 September 2005, 17,500,000 share options were granted to certain directors at HK\$0.768 (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%

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

(b) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees <i>HK'000</i>	Salary <i>HK'000</i>	Employer's contribution to pension scheme <i>HK'000</i>	Total <i>HK'000</i>	Other benefits – Share options (Note)
					No. of share options
<i>Executive Directors</i>					
Cheung Yuk Fung	120	–	6	126	–
Kui Man Chun	–	612	12	624	3,000,000
Lo Siu Yu	–	252	12	264	3,300,000
Xu Wen Sheng	–	252	12	264	3,300,000
Li Wen Jin	–	432	12	444	3,300,000
Chan Yiu Kwong	–	852	12	864	1,500,000
Su Terry Lumin	–	972	12	984	1,500,000
Xu Chung Jun	–	312	12	324	3,300,000
Zhou Jian	–	–	–	–	–
	120	3,684	90	3,894	19,200,000
<i>Independent Non-Executive Directors</i>					
Tam Chun Fai	35	–	–	35	–
Leung Wai Man, Roger	16	–	–	16	–
Xu Sitao	70	–	–	70	–
Lau Wai Kit	32	–	–	32	–
	153	–	–	153	–
	273	3,684	90	4,047	19,200,000

Note: On 18 March 2004, 19,200,000 share options of the Company were granted to certain directors 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. The exercisable period of the above share options is from 18 March 2004 to 17 March 2014 (both dates inclusive). These options have been fully vested at 1 January 2005.

9. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four Directors (2004: three). The emoluments payable to the remaining one (2004: two) individual during the year are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,432	1,161

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil – HK\$1,000,000	–	2
HK\$2,000,000 – HK\$2,500,000	1	–

10. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank loans and overdrafts	2,891	1,031
Interest on financial liability portion of convertible preference shares issued by a subsidiary (<i>Note 23</i>)	1,107	–
	3,998	1,031

11. INCOME TAX EXPENSE/(CREDIT)

The applicable profit tax rate in Hong Kong is 17.5% (2004: 17.5%). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	–	–
– Overseas taxation	4,638	–
Deferred income tax (<i>Note 26</i>)	–	–
Overprovision in previous year	–	(40)
Tax expense/(credit)	4,638	(40)

- (a) Hong Kong profits tax has not been provided in these financial statements as the Group has no estimated assessable profit for the year (2004: Nil).
- (b) The PRC taxation has been provided on the profits of the Group's subsidiaries in the PRC and calculated at the applicable rates (2004: Nil).

The subsidiaries in the PRC enjoy tax concessions made available to Foreign Investment Enterprises and Foreign Enterprises. Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises, the subsidiaries in the PRC are subject to tax rate and tax concessions as follows:

Name of subsidiaries	Applicable tax rate	Year of tax exemption/relief
Pax Technology (Shenzhen) Limited	15%	2004 to 2008
Beijing Hi Sun Advanced Business Solutions Information Technology Limited	15%	2000 to 2005
Beijing Hi Sunray Information Technology Limited	15%	2000 to 2005

11. INCOME TAX EXPENSE/(CREDIT) (continued)

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit/(loss) before taxation	66,942	(12,167)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	11,715	(2,129)
Effect of different taxation rates in other countries	(2,357)	123
Effect of tax holiday	(8,207)	(26)
Income not subject to taxation	(18)	(19)
Expenses not deductible for taxation proposes	2,862	93
Utilisation of previously unrecognised tax losses	(2,560)	(1,118)
Unrecognised tax losses	3,203	3,076
Over-provision in prior years	–	(40)
Tax expense/(credit)	4,638	(40)

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$21,698,000 (2004: HK\$8,281,000).

13. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2004: Nil).

14. EARNINGS/(LOSS) PER SHARE
Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the number of ordinary shares in issue during the year.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit/(loss) attributable to equity holders of the Company	62,304	(12,127)
Number of ordinary shares in issue (<i>thousands</i>)	333,054	333,054
Basic earnings/(loss) per share (<i>HK\$ per share</i>)	0.187	(0.036)

14. EARNINGS/(LOSS) PER SHARE (continued)

Diluted

Diluted earnings per share is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible preference shares issued by a subsidiary and share options. The convertible preference shares issued by a subsidiary are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to 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.

	2005 HK\$'000
Profit attributable to equity holders of the Company	62,304
Interest expense on convertible preference shares issued by a subsidiary	1,107
Profit used to determine diluted earnings per share	63,411
Weighted average number of ordinary shares in issue (<i>thousands</i>)	333,054
Adjustments for	
– assumed conversion of convertible preference shares issued by a subsidiary (<i>thousands</i>)	17,452
– share options (<i>thousands</i>)	18,926
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	369,432
Diluted earnings per share (<i>HK\$ per share</i>)	0.172

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Group					Total HK\$'000
	Buildings HK\$'000	Leasehold improvements HK\$'000	Office furniture and equipment HK\$'000	Plant and equipment HK\$'000	Motor vehicles HK\$'000	
At 1 January 2004						
Cost or valuation	–	7,701	21,571	506	3,630	33,408
Accumulated depreciation	–	(4,964)	(8,417)	(130)	(1,614)	(15,125)
Net book amount	–	2,737	13,154	376	2,016	18,283
Year ended 31 December 2004						
Opening net book amount	–	2,737	13,154	376	2,016	18,283
Additions	–	698	13,920	80	209	14,907
Disposals (Note 27)	–	–	(237)	–	–	(237)
Depreciation	–	(997)	(6,541)	(109)	(976)	(8,623)
Write-off	–	(1,303)	(1,892)	–	–	(3,195)
Closing net book amount	–	1,135	18,404	347	1,249	21,135
At 31 December 2004						
Cost or valuation	–	6,503	26,786	586	3,839	37,714
Accumulated depreciation	–	(5,368)	(8,382)	(239)	(2,590)	(16,579)
Net book amount	–	1,135	18,404	347	1,249	21,135
Year ended 31 December 2005						
Opening net book amount	–	1,135	18,404	347	1,249	21,135
Exchange differences	–	32	527	11	35	605
Additions	5,786	–	18,515	135	1,944	26,380
Disposals (Note 27)	–	–	(440)	–	(36)	(476)
Depreciation	–	(961)	(7,784)	(134)	(1,005)	(9,884)
Closing net book amount	5,786	206	29,222	359	2,187	37,760
At 31 December 2005						
Cost or valuation	5,786	6,698	42,043	740	5,695	60,962
Accumulated depreciation	–	(6,492)	(12,821)	(381)	(3,508)	(23,202)
Net book amount	5,786	206	29,222	359	2,187	37,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation expense of HK\$5,394,000 (2004: HK\$2,316,000) has been expensed in cost of goods sold, HK\$148,000 (2004: HK\$111,000) in selling expenses and HK\$4,342,000 (2004: HK\$6,196,000) in administrative expenses.

During the year, PAX SZ has acquired the Property at a total consideration of HK\$5,714,000 from the PRC government as an incentive to PAX SZ for the development of new technology and new products. The acquisition cost of the building amounted to HK\$5,506,000. Details are set out in note 31(ii).

	Company Office furniture and equipment <i>HK\$'000</i>
<hr/>	
At 1 January 2004	
Cost or valuation	12
Accumulated depreciation	(3)
	9
Net book amount	9
Year ended 31 December 2004	
Opening net book amount	9
Depreciation	(3)
	6
Closing net book amount	6
At 31 December 2004	
Cost or valuation	12
Accumulated depreciation	(6)
	6
Net book amount	6
Year ended 31 December 2005	
Opening net book amount	6
Depreciation	(2)
	4
Closing net book amount	4
At 31 December 2005	
Cost or valuation	12
Accumulated depreciation	(8)
	4
Net book amount	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES AND DUE FROM/(TO) SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted investments, at cost	4,136	4,136
Due from subsidiaries (Note below)	78,214	93,547
Less: Provision for diminution in value	(20,000)	(20,000)
	58,214	73,547
Due to a subsidiary (Note below)	–	(500)
	62,350	77,183

Note: As at 31 December 2005, the balances with subsidiaries are unsecured, interest free, and repayable on demand. As at 31 December 2004, the balances with subsidiaries are unsecured, interest free, and have no fixed terms of repayment, except for amount due from a subsidiary of HK\$2,400,000 which is unsecured, interest free, and repayable within one year.

The following is a full list of the subsidiaries at 31 December 2005:

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 operation value-added services in the PRC	HK\$27,000,000	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INVESTMENTS IN SUBSIDIARIES AND DUE FROM/(TO) 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
Emerging Technology Limited	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% ¹
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%
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	35,897,440 ordinary shares of US\$0.1 each and 6,837,608 convertible preference shares of US\$0.1 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%

¹ Shares held directly by the Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade receivables (<i>Note (a)</i>)	86,624	109,212	–	–
Finance leases receivables (<i>Note (b)</i>)	2,498	–	–	–
Less: provision for doubtful debts	(10,831)	(8,010)	–	–
Trade receivables – net	78,291	101,202	–	–
Prepayments, deposits and other receivables	19,146	9,634	997	860
Receivables from a related party (<i>Note 30</i>)	150	–	–	–
	97,587	110,836	997	860

Note (a): Trade receivables

The Group's credit terms to trade debtors range from 0 to 180 days. At 31 December 2005 and 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current to 90 days	66,594	90,127
91 to 180 days	6,700	4,866
181 to 365 days	3,200	2,914
Over 365 days	10,130	11,305
	86,624	109,212

The Group's sales are made to several major customers and there is concentration of credit risks. Collection of outstanding receivables are closely monitored on an ongoing basis to minimise credit risk.

The Group has recognised a loss of HK\$6,974,000 for the impairment of its trade receivables during the year ended 31 December 2005 (2004: HK\$4,366,000). The loss has been included in administrative expenses in the income statement.

17. TRADE AND OTHER RECEIVABLES (continued)

Note (b): **Finance leases receivables**

	Group 2005 HK\$'000
Current receivables	
Gross receivables from finance leases:	
Not later than 1 year	2,576
Unearned future finance income on finance leases	(78)
	2,498
Net investment in finance leases	2,498
The net investment in finance leases is analysed as follows:	
Not later than 1 year	2,498

18. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	5,780	7,475
Work in progress	7,586	3,871
Finished goods	8,241	18,505
	21,607	29,851

At 31 December 2005, the carrying amount of inventories that are carried at net realisable value amounted to nil (2004: Nil).

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$185,752,000 (2004: HK\$143,419,000).

The Group reversed HK\$429,000 of a previous inventory write-down for the year ended 31 December 2004 while the Group has sold the related goods that were written down to independent customers. The amount reversed has been included in administrative expenses in the income statement in prior year.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at bank and in hand	156,579	47,649	848	95

Funds of the Group amounting to HK\$114.63 million (2004: HK\$27.67 million) are kept in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange controls.

20. SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000
At 31 December 2004 and 2005	1,000,000,000	10,000

	Issued and fully paid Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000
At 31 December 2004 and 2005	333,054,030	3,330

On 21 March 2006, the Company entered into a subscription agreement with Huge Rising Limited (the "Subscriber"), a company incorporated in the British Virgin Islands, in relation to the subscription by the Subscriber at a price of HK\$1.46 per share (the "Subscription Price") for an aggregate of 66,000,000 new ordinary shares of HK\$0.01 each to be issued by the Company pursuant to the subscription agreement (the "Subscription"). The Subscription Price is to be paid in cash on completion of the subscription agreement. The Subscription was completed on 31 March 2006. Details of the subscription are set out in note 31(ii).

20. SHARE CAPITAL (continued)

Share options

(a) *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 date of approval of the Scheme unless the Company obtains a fresh approval from shareholders to renew the 10 per cent 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 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.

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 per cent 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 (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%

20. SHARE CAPITAL (continued)

Share options (continued)

 (a) *The Company* (continued)

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price HK\$ per share	Share options	
		2005	2004
17 March 2014	0.374	33,000	33,000
25 September 2015	0.768	33,300	–
		66,300	33,000

The fair values of options granted during the year determined using the Black-Scholes-Merton option pricing model were:

Options to be vested on	Number of options	Fair value (HK\$)
26 September 2005	16,650,000	3,356,000
26 September 2006	16,650,000	3,251,000

The significant inputs into the model were share price of HK\$0.75 at the grant date, exercise price shown above, standard deviation of expected share price returns of 82.11%, expected life of options of 2 years, expected dividend paid out rate of 0% and annual risk-free interest rate of 3.89%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the past 260 trading days prior to the grant date.

For the year ended 31 December 2005, no share options have been exercised or lapsed. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

On 26 January 2006, Mr. Su Terry Lumin, a former director of the Company, exercised 1,500,000 share options at the exercise price of HK\$0.374, result in the issue of 1,500,000 additional ordinary shares of the Company.

Subsequent to the year end and up to the date of this report, the employees of the Company exercised 7,300,000 share options at the exercise price of HK\$0.374, result in the issue of 7,300,000 additional ordinary shares of the Company.

20. SHARE CAPITAL (continued)

Share options (continued)

(b) *Employee incentive scheme of a subsidiary*

On 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited (“Turbo Speed”), to adopt an employee incentive scheme (the “Employee Incentive Scheme”) to motivate the employees of Turbo Speed and its subsidiary (the “Turbo Speed Group”). Eligible participants of the Employee Incentive Scheme include the full-time employees of Turbo Speed or any of its subsidiaries, including any directors of Turbo Speed or any of its subsidiaries (but excluding any person who is a Director of the Company) provided always that such term shall exclude any person who has tendered his resignation or who at the relevant time is working out his period of notice pursuant to his employment contract or otherwise. The duration of Scheme is from 4 April 2005 to 31 December 2008, unless terminated by resolution of a remuneration committee formed by the Board to administer the Employee Incentive Scheme (the “Committee”).

The total number of shares in respect of which options may be granted shall not exceed 4,682,275 ordinary shares of Turbo Speed (“Turbo Speed Shares”), representing approximately 11.0% of the existing issued share capital of Turbo Speed as enlarged by the subscription of convertible preference shares, currently held by a wholly-owned subsidiary of the Company. Options may be offered to any Employee determined by the Committee in its absolute discretion from time to time by reference to: (i) the performance of that Employee; and (ii) the financial performance of the Turbo Speed Group and the extent to which the Turbo Speed Group has achieved its intended business plans. The maximum number of the Turbo Speed Shares which may be offered to an employee who is also a director of companies within the Turbo Speed Group in any 12-month period may not exceed 1% of the entire issued share capital of Turbo Speed.

On 8 July 2005, 1,425,000 share options had been granted to certain directors and employees of its subsidiary to subscribe ordinary shares of Turbo Speed at an exercise price of HK\$1.922 per share. The exercisable period of the above share options is from 8 July 2005 to 31 December 2008 (both dates inclusive).

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise price:

Expiry date	Exercise price HK\$ per share	Share options	
		2005	2004
31 December 2008	1.922	1,425	–

20. SHARE CAPITAL (continued)**Share options** (continued)*(b) Employee incentive scheme of a subsidiary* (continued)

The fair value of options granted during the period determined using the Black-Scholes-Merton option pricing model was HK\$273,000. The significant inputs into the model were estimated share price of HK\$1.922 with reference to the market value of Turbo Speed, exercise price of HK\$1.922 shown above, standard deviation of expected share price returns of 56.41%, expected life of options of 3 years, expected dividend paid out rate of 12.17% and annual risk-free interest rate of 3.33%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the past 260 trading days prior to the grant date.

For the year ended 31 December 2005, no share options had been exercised or lapsed (2004: Nil). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Subsequent to the year end and up to the date of this report, 780,000 share options had been lapsed, following the cessation of employment of certain employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. OTHER RESERVES

(a) Group

	Share premium <i>HK\$'000</i>	Contributed surplus <i>(Note)</i> <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	100,556	125,310	-	-	(168,438)	57,428
Loss for the year	-	-	-	-	(12,127)	(12,127)
At 31 December 2004	100,556	125,310	-	-	(180,565)	45,301
At 1 January 2005	100,556	125,310	-	-	(180,565)	45,301
Profit for the year	-	-	-	-	62,304	62,304
Issue of convertible preference shares by a subsidiary <i>(Note 23)</i>	-	-	11,134	-	-	11,134
Issue of share options by the Company <i>(Note 20)</i>	-	-	4,220	-	-	4,220
Issue of share options by a subsidiary <i>(Note 20)</i>	-	-	273	-	-	273
Exchange differences arising on translation of the financial statements of foreign subsidiaries	-	-	-	872	-	872
At 31 December 2005	100,556	125,310	15,627	872	(118,261)	124,104

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. OTHER RESERVES (continued)

(b) Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>(Note)</i> <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	100,556	3,293	–	(27,452)	76,397
Loss for the year	–	–	–	(8,281)	(8,281)
At 31 December 2004	100,556	3,293	–	(35,733)	68,116
At 1 January 2005	100,556	3,293	–	(35,733)	68,116
Loss for the year	–	–	–	(21,698)	(21,698)
Issue of share options by the Company	–	–	4,220	–	4,220
At 31 December 2005	100,556	3,293	4,220	(57,431)	50,638

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 thereof. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus under certain circumstances.

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade payables	40,305	46,331	–	–
Other payables and accruals	67,671	67,817	10,231	774
Pension obligations	4,284	3,850	–	–
Social security and other taxes	3,692	3,282	–	–
	115,952	121,280	10,231	774

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (continued)

At 31 December 2005 and 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current to 90 days	32,373	33,927
91 to 180 days	2,463	10,605
181 to 365 days	3,704	120
Over 365 days	1,765	1,679
	40,305	46,331

23. CONVERTIBLE PREFERENCE SHARES ISSUED 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 subscription price had been received by Turbo Speed shortly after signing of the said subscription agreement and was held in jointly controlled bank account and would be released on completion of the Subscription.

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved the Subscription and the Subscription was completed on 29 April 2005. The deposit received from issue of convertible preference shares by a subsidiary as at 31 December 2004 included a balance of HK\$50,000 which represented accrued interest income on the total subscription price of US\$4 million (approximately HK\$31.2 million). Such accrued interest income was recognised in the income statement as interest income for the year ended 31 December 2005.

According to the said subscription agreement, the rights attached to holders of convertible preference shares of Turbo Speed are summarised as follows:

(a) Income (assuming no conversion of convertible preference shares)

- (i) A fixed cumulative preferred dividend equal to HK\$624,000 for each financial year of Turbo Speed; and
- (ii) Participation in part of dividends declared and payable by Turbo Speed (after the preferred dividend), calculated by applying an agreed formula so that the aggregate of the preferred dividend and ordinary dividend to the holders of the convertible preference shares would be equal to 16% (on annual basis) of the total dividends payable by Turbo Speed.

23. CONVERTIBLE PREFERENCE SHARES ISSUED BY A SUBSIDIARY (continued)

(b) Conversion options

- (i) Convertible at any time from the date of completion of the Subscription for a period of 24 months into new shares of the Company at a conversion price of HK\$1.2 per share, subject to adjustment set out in the subscription agreement (the "Conversion"). The amount for the Conversion shall be US\$4 million; and
- (ii) Automatic conversion into ordinary shares of Turbo Speed at a ratio of 1:1 on the business day after Turbo Speed has paid total dividends on each convertible preference share which exceed its original issue price.

According to a shareholders' agreement entered into by the Company and the convertible preference shareholders of Turbo Speed on 29 April 2005, if the audited net profit after taxation of Beijing Hi Sunray Technology Limited ("Beijing Hi Sunray"), a wholly-owned subsidiary of Turbo Speed, for either of the financial year ending 31 December 2005 or 2006, as stated in the audited financial statements of Beijing Hi Sunray for the relevant financial year is less than RMB40 million, the Company shall transfer an agreed percentage of shares in Turbo Speed to the then convertible preference shareholders of Turbo Speed for a consideration of HK\$1.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible preference shares.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible preference shares. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves.

The convertible preference shares recognised in the balance sheet is calculated as follows:

	2005 HK\$'000
Face value of convertible preference shares issued on 29 April 2005	31,200
Equity component	(11,134)
Liability component on initial recognition at 29 April 2005	20,066
Interest expense (<i>Note 10</i>)	1,107
Liability component at 31 December 2005 (<i>Note 25</i>)	21,173

23. CONVERTIBLE PREFERENCE SHARES ISSUED BY A SUBSIDIARY (continued)

The fair value of the liability component of convertible preference shares at 31 December 2005 amounted to HK\$21,023,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.32% per annum.

Interest expense on convertible preference shares is calculated using the effective interest method by applying the effective interest rate of 8.27% per annum to the liability component.

24. DUE TO FELLOW SUBSIDIARIES AND THE ULTIMATE HOLDING COMPANY

The amounts due to fellow subsidiaries and the ultimate holding company are interest free, unsecured, and repayable on demand.

25. BORROWINGS

	Group	
	2005 HK\$'000	2004 HK\$'000
Non-current		
Financial liability portion of convertible preference shares issued by a subsidiary (<i>Note 23</i>)	21,173	–
Current		
Short term bank borrowings:		
Short term bank loan – PRC, secured (<i>Note (a)</i>)	48,077	13,364
Others:		
Other loans – PRC, secured (<i>Note (b)</i>)	–	935
	48,077	14,299
Total borrowings	69,250	14,299

Note:

(a) As at 31 December 2005, secured short term bank loans of HK\$48,077,000 were secured by corporate guarantee of HK\$48,077,000 from the Company.

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. BORROWINGS (continued)

The carrying amounts of financial liability portion of convertible preference shares issued by a subsidiary and short-term borrowings approximate their fair values.

The maturity of borrowings is as follows:

	Group					
	Bank borrowings		Financial liability portion of convertible preference shares issued by a subsidiary		Other loans	
	2005	2004	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	48,077	13,364	-	-	-	935
Over 5 years	-	-	21,173	-	-	-
	48,077	13,364	21,173	-	-	935

The effective interest rates at the balance sheet date were as follows:

	2005		2004	
	Hong Kong dollar per annum	Renminbi per annum	Hong Kong dollar per annum	Renminbi per annum
Financial liability portion of convertible preference shares issued by a subsidiary	8.27%	-	-	-
Short term bank borrowings	-	5.58%	-	5.58%

The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollar	21,173	-
Renminbi	48,077	14,299
	69,250	14,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. BORROWINGS (continued)

The Group has the following undrawn borrowing facilities:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Floating rate – expiring within one year	–	11,500

As at 31 December 2004, the facilities expiring within one year are annual facilities subject to review at various dates during 2005. All the facilities have been terminated during the current year.

26. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax assets to be recovered within 12 months	(56)	(28)
Deferred tax liabilities to be recovered within 12 months	56	28
	–	–

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

	Accelerated tax depreciation	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax liabilities		
At 1 January	28	10
Charged to income statement	28	18
At 31 December	56	28

26. DEFERRED INCOME TAX (continued)

	Tax losses	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax assets		
At 1 January	(28)	(10)
Credited to income statement	(28)	(18)
At 31 December	(56)	(28)

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 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 HK\$36,731,000 (2004: HK\$102,150,000) 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.

27. CASH GENERATED FROM OPERATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Operating profit/(loss)	70,940	(11,136)
Interest income	(1,403)	(175)
Subsidy income from Government	(926)	–
Issue of share options by the Company	4,220	–
Issue of share options by a subsidiary	273	–
Depreciation	9,884	8,623
Loss on disposal and write off of property, plant and equipment	319	3,378
Provision for doubtful debts	6,974	4,366
Write-off of inventories	1,008	–
Write-back of provision for obsolete inventories	–	(429)
Operating profit before working capital changes	91,289	4,627
Decrease/(increase) in trade and other receivables	6,275	(33,071)
Decrease/(increase) in inventories	7,236	(8,684)
(Decrease)/increase in trade payables, other payables and accruals	(5,328)	49,074
(Decrease)/increase in amount due to ultimate holding company	(24,638)	21,596
Decrease in amounts due to fellow subsidiaries	(233)	(2,531)
Cash generated from operating activities	74,601	31,011

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net book amount (<i>Note 15</i>)	476	237
Loss on sale of property, plant and equipment	(319)	(183)
Proceeds from sale of property, plant and equipment	157	54

28. CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no other contingent liabilities (2004: Nil).

29. OPERATING LEASE COMMITMENTS

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Not later than one year	5,079	5,494	6,243	4,463
Later than one year and not later than five years	6,085	1,991	–	–
	11,164	7,485	6,243	4,463

30. RELATED PARTY TRANSACTIONS

The Group is controlled by Rich Global Limited (incorporated in British Virgin Islands), which owns 57% of the Company's shares. The remaining 43% of the shares are widely held. The ultimate parent of the Group is Hi Sun Limited (incorporated in British Virgin Islands).

(a) The following transactions were carried out with the related parties:

	2005 HK\$'000	2004 HK\$'000
Management fees received from a related company (Note (i))	150	200
Rental fees paid to a related company (Note (ii))	827	916

Note:

- (i) A subsidiary, Hi Sun Development Management Limited, provided management services to Panorama Stock Limited, a company owned by a Director of the Company.
- (ii) A subsidiary, Beijing Hi Sun Advanced Business Solutions Information Technology Limited, paid rental fees to Beijing Hi Sun Electric Power Information Technology Limited, a fellow subsidiary 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.

30. RELATED PARTY TRANSACTIONS (continued)
(b) Year end balances with related parties are as follows:

	2005 HK\$'000	2004 HK\$'000
Receivable from a related company Panorama Stock Limited	150	–
Payable to a fellow subsidiary Beijing Hi Sun Electric Power Information Technology Limited	390	623
Payable to the ultimate holding company Hi Sun Limited	–	24,638

31. SUBSEQUENT EVENTS
(i) Issue of new ordinary shares

On 21 March 2006, the Company entered into a subscription agreement with Huge Rising Limited (the “Subscriber”), a company incorporated in the British Virgin Islands, in relation to the subscription by the Subscriber at a price of HK\$1.46 per share (the “Subscription Price”) of an aggregate of 66,000,000 new ordinary shares of HK\$0.01 each to be issued by the Company (the “Subscription Shares”). The Subscription Price is to be paid in cash on completion of the subscription agreement.

The Subscriber is an investment holding company and the ultimate beneficial owner of which is Mr. Che Fung, which are both third parties independent of the Company and connected persons of the Company.

The Subscription Shares represented approximately 19.73% of the issued share capital of the Company on 21 March 2006 and approximately 16.48% of the share capital as enlarged by the issue of the Subscription Shares.

The Subscription Price was determined after arm’s length negotiation between the Company and the Subscriber and with reference to the prevailing market prices of the shares of the Company. The Subscription Price represents (i) a discount of approximately 19.78% to the closing price of HK\$1.82 per share as quoted on the Stock Exchange of Hong Kong Limited on 20 March 2006; (ii) a discount of approximately 19.25% to the average closing price of HK\$1.808 per share for the last 5 trading days ended 20 March 2006 and (iii) a discount of approximately 8.98% to the average closing price of HK\$1.604 per share for the last 20 trading days ended 20 March 2006. The subscription was completed on 31 March 2006.

As at the date of this report, the Company has 59,000,000 share options outstanding and the total issued number of ordinary shares is 406,354,030.

(ii) Exercise of share options of the Company

On 26 January 2006, Mr. Su Terry Lumin, a former director of the Company, exercised 1,500,000 share options at the exercise price of HK\$0.374, which result in the issue of 1,500,000 additional ordinary shares of the Company.

Subsequent to year end and up to the date of this report, the employees of the Company exercised 7,300,000 share options at the exercise price of HK\$0.374, which result in the issue of 7,300,000 additional ordinary shares of the Company.

(iii) Lapse of share options of the subsidiary

Subsequent to the year end and up to the date of this report, 780,000 share options of the subsidiary, had been lapsed, following the cessation of employment of certain employees.