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HI SUN GROUP LIMITED

高陽集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 818)

MAJOR TRANSACTION ISSUE OF CONVERTIBLE PREFERENCE SHARES BY A SUBSIDIARY AND ADOPTION OF EMPLOYEE INCENTIVE SCHEME BY A SUBSIDIARY

Financial adviser



As announced by the Company on 11 November 2004, on 9 November 2004, Turbo Speed, a wholly owned subsidiary of the Company, entered into the Subscription Agreement with the Subscribers in relation to the subscription by the Subscribers of the Convertible Preference Shares at a total subscription price of US\$4 million (approximately HK\$31.2 million). The Convertible Preference Shares represent approximately 19.1% of the existing total number of issued shares of Turbo Speed and approximately 16.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription. Given that Turbo Speed is a major subsidiary of the Company and the Subscription will result in a material dilution of the Company's interest in Turbo Speed under Rule 13.36(1)(a)(ii) of the Listing Rules, the Subscription is subject to approval of the Shareholders at a general meeting. The Company announced that a general meeting will be convened for the purpose of considering and, if thought fit, approving the Subscription and the issue of the Conversion Shares. As set out in the Announcement and the Circular, the Company intended to issue the Conversion Shares under the General Mandate. However, to allow greater flexibility to the Company given that under the terms of the Subscription Agreement, the number of Conversion Shares may exceed the maximum limit of the number of Shares issuable under the General Mandate, the Board decided to seek the Shareholders' approval for the issue of the Conversion Shares. This announcement sets out information relating to the Subscription and the issue of the Conversion Shares (including and in addition to those set out in the Circular).

Also, the Board intends Turbo Speed to adopt the Employee Incentive Scheme.

The Subscription, which represents a deemed disposal of the Company's interest in Turbo Speed, and the grant of the Option Shares, which represents a possible disposal of the Company's interest in Turbo Speed, when aggregated, constitutes a major transaction for the Company pursuant to the Listing Rules. Accordingly, the adoption of the Employee Incentive Scheme is subject to Shareholders' approval under the Listing Rules.

A circular setting out information relating to the above matters, notice of the SGM to be convened for the purpose of considering and, if thought fit, approving the Subscription Agreement and the transactions contemplated therein, including the issue of the Conversion Shares and the adoption of the Employee Incentive Scheme and the form of proxy will be despatched to the Shareholders on 18 March 2005.

* For identification purpose only

INTRODUCTION

As announced by the Company on 11 November 2004, on 9 November 2004, Turbo Speed, a wholly owned subsidiary of the Company, entered into the Subscription Agreement with the Subscribers in relation to the subscription by the Subscribers of the Convertible Preference Shares at a total subscription price of US\$4 million (approximately HK\$31.2 million). The Subscription will result in a material dilution of the Company's interest in Turbo Speed under Rule 13.36(1)(a)(ii) of the Listing Rules.

As set out in the Circular, a written approval has been obtained from Rich Global Limited, the controlling shareholder holding approximately 56.8% in the nominal value of the securities giving the right to attend and vote at a general meeting of the Company to approve the Subscription. Subsequent to the issue of the Circular, the Stock Exchange and the Company have agreed that the Subscription, which constitutes a material dilution of the Company's interest in Turbo Speed pursuant to Rule 13.36(1)(a)(ii) of the Listing Rules, is subject to Shareholders' approval in a general meeting. Accordingly, a general meeting will be convened for the Shareholders to consider and, if thought fit, approve the Subscription and the issue of the Conversion Shares pursuant to the Subscription Agreement.

As set out in the Announcement and the Circular, the Company intended to issue the Conversion Shares under the General Mandate. However, to allow greater flexibility to the Company given that under the terms of the Subscription Agreement, the number of Conversion Shares may exceed the maximum limit of the number of Shares issuable under the General Mandate, the Board decided to seek Shareholders' approval for the issue of the Conversion Shares.

Also, the Board intends Turbo Speed to adopt the Employee Incentive Scheme. The grant of the Option Shares, which represents a possible disposal of the Company's interest in Turbo Speed, when aggregated with the Subscription, which represents a deemed disposal of the Company's interest in Turbo Speed, constitutes a major transaction for the Company pursuant to the Listing Rules. Accordingly, the adoption of the Employee Incentive Scheme is subject to Shareholders' approval under the Listing Rules.

ISSUE OF THE CONVERTIBLE PREFERENCE SHARES BY TURBO SPEED

The Subscription Agreement

As disclosed in the Announcement and the Circular, on 9 November 2004, Turbo Speed, a wholly owned subsidiary of the Company, entered into the Subscription Agreement with the Subscribers in relation to the subscription by the Subscribers of the Convertible Preference Shares at a total subscription price of US\$4 million (approximately HK\$31.2 million). The Convertible Preference Shares represent approximately 19.1% of the existing total number of issued shares of Turbo Speed and approximately 16.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription. The details of the Subscription Agreement is set out below:

Date : 9 November 2004

Issuer : Turbo Speed, a wholly owned subsidiary of the Company

Subscribers : (i) Comtel Development
(ii) Acme Partner

To the Directors' best knowledge, information and belief having made all reasonable enquiry, each of the Subscribers and their respective ultimate beneficial shareholders are not connected (for the purpose of the Listing Rules) with any of the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates.

Warrantor : The Company

The Company has essentially guaranteed the performance by Turbo Speed of its obligations under the Subscription Agreement.

The Subscription : Pursuant to the Subscription Agreement, Turbo Speed will issue the Convertible Preference Shares to the Subscribers for a total consideration of US\$4 million (approximately HK\$31.2 million).

The Convertible Preference Shares represent approximately 16.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription and will be issued to the Subscribers in the following manner:–

- (i) 5,128,206 of the Convertible Preference Shares, which represent approximately 12.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription, will be issued to Comtel Development at an aggregate subscription price of US\$3 million (approximately HK\$23.4 million); and
- (ii) 1,709,402 of the Convertible Preference Shares, which represent approximately 4.0% of the total number of issued shares of Turbo Speed as enlarged by the Subscription, will be issued to Acme Partner at an aggregate subscription price of US\$1 million (approximately HK\$7.8 million).

Settlement of the subscription price : The total subscription price of US\$4 million (approximately HK\$31.2 million) will be settled in cash by the Subscribers in the following manner:–

- (i) as to a sum of US\$3 million (approximately HK\$23.4 million) by Comtel Development; and
- (ii) as to a sum of US\$1 million (approximately HK\$7.8 million) by Acme Partner.

The subscription monies, which have been paid by Comtel Development and Acme Partner on 12 November 2004 and 10 November 2004 respectively, are currently held in jointly controlled bank accounts and will be released to Turbo Speed on Completion.

Principal terms of the Convertible Preference Shares :

- The Convertible Preference Shares will rank in priority to any other class of shares in the capital of Turbo Speed to the return of an amount equal to the unpaid Preferred Dividend (as defined below) (if any) and the aggregate initial subscription price of the Convertible Preference Shares and thereafter with no entitlement to the return of capital on winding up of Turbo Speed or otherwise.
- Holders of the Convertible Preference Shares together will be entitled to a fixed cumulative preferred dividend equal to HK\$624,000 (the “Preferred Dividend”) (being the HK dollar equivalent of 2% of the initial subscription amounts) for each financial year of Turbo Speed, assuming no conversion of those Convertible Preference Shares.
- Holders of the Convertible Preference Shares shall be 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 the Convertible Preference Shares will be equal initially to 16% (on an annual basis) of the total dividends payable by Turbo Speed, assuming no conversion of those Convertible Preference Shares (*Note*).

Note: In the event when there has been a Conversion of the Convertible Preference Shares, the initial percentage of 16% will be adjusted downward to the percentage of the total number of the Convertible Preference Shares after the Conversion divided by the total number of the Turbo Speed Shares then in issue.

- Holders of the Convertible Preference Shares will be entitled to convert at a minimum value of US\$500,000 (approximately HK\$3.9 million) or integral multiples thereof at any time from the date of Completion for a period of 24 months into the Shares at a conversion price of HK\$1.2 per Share, subject to adjustment as set out below:–

1. on consolidation or sub-division of the Shares;

2. if, at any time prior to 31 December 2005, the Company shall issue any shares (otherwise than pursuant to the exercise of conversion rights under the Convertible Preference Shares and/or subscription rights attached to options or other securities already in issue before the date of the Subscription Agreement) at a price ("Alternative Price") which is lower than the then prevailing conversion price of the Convertible Preference Shares, then any holder of the Convertible Preference Shares shall be entitled to convert the Convertible Preference Shares into the Shares at the Alternative Price for a period of 20 Business Days after the holder of the Convertible Preference Shares is notified of the issue (*Note 1*); and
3. on issues of Shares by way of bonus or rights if the issue price is less than 90% of the market price of the Shares at the date of the announcement of the terms of the offer, to take into account the dilution effect resulting from such issues (*Note 1 & 2*).

Notes:

- (1) The price adjustment triggering events set out in paragraph 2 and 3 above may co-exist in the event that the Company issues Shares by way of bonus or rights prior to 31 December 2005 and the issue price is lower than both the then prevailing conversion price of the Convertible Preference Shares and 90% of the then market price of the Shares. Under such circumstances, the holder of the Convertible Preference Shares shall be entitled to convert the Convertible Preference Shares into Shares at the Alternative Price in the period of 20 Business Days pursuant to paragraph 2 above or if the holders take no such action to convert, the conversion price of the Convertible Preference Shares will be adjusted to take into account the dilution effect as contemplated in paragraph 3 above.
 - (2) The market price refers to the average of the closing prices for one Share for the five trading days ending on the last trading day immediately preceding the day on which such price is to be ascertained.
- On the Business Day after Turbo Speed has paid total dividends on each Convertible Preference Share which exceed its original issue price (i.e. Benchmark Price), Turbo Speed will be entitled to convert the Convertible Preference Shares into ordinary shares of Turbo Speed at a conversion ratio of 1:1, subject to adjustment on consolidation/sub-division of ordinary shares of Turbo Speed.
 - Holders of the Convertible Preference Shares shall have the right to receive notice of and to attend general meeting of Turbo Speed, but shall have no right to vote at such meetings except on matters that affect the rights of the Convertible Preference Shares.
 - Transfer of the Convertible Preference Shares is subject to certain pre-emptive rights set out in the Shareholders Agreement.

Conditions precedent : Completion is conditional upon the following conditions being fulfilled:–

- (a) provision by Turbo Speed a written confirmation from China Mobile that the IVR Contract has been renewed;
- (b) no event having occurred which could reasonably be construed as one that could prevent or impede China Mobile from performing its obligations under the IVR Contract on or before the Business Day immediately preceding the date of Completion;
- (c) no circumstances occurring which could frustrate the performance of the IVR Contract or make the performance of the IVR Contract illegal, unenforceable or impossible on or before the Business Day immediately preceding the date of Completion;

- (d) permission to deal in the Conversion Shares having been granted by the Listing Committee;
- (e) the approval of the Subscription Agreement and the transactions contemplated thereunder by the Shareholders (if required) in a manner as required under the Listing Rules; and
- (f) the amendment to the Memorandum of Association of Turbo Speed relating to the creation of the Convertible Preference Shares having been agreed by the parties.

If any of the conditions above has not been fulfilled or waived (save that item (d), (e) and (f) above shall not be capable of being waived) in writing by the Subscribers on or prior to 30 April 2005 (or such later date as the Company, Turbo Speed and the Subscribers may agree in writing), then the Subscription Agreement shall terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any prior breach of the Subscription Agreement).

- Undertakings in the Shareholders Agreement :
- On Completion, the Company is required to enter into the Shareholders Agreement which provides for the following:
1. If the audited net profit after taxation of Beijing Hi-Sunray (and its subsidiaries on a consolidated basis, if applicable) under the generally accepted accounting principles of Hong Kong for either the financial year ending 31 December 2005 or the financial year ending 31 December 2006 is less than RMB40 million (approximately HK\$37.6 million) (“Profit Target”) (*Note 1*), the Company is required to transfer to the Subscribers (pro rata to their initial equity interest in Turbo Speed) additional Turbo Speed Shares (“Additional Shares”) equivalent to 2% interest in the equity capital of Turbo Speed by the transfer of the relevant number of ordinary shares in Turbo Speed at a nominal consideration of HK\$1. The actual number of the Additional Shares will be determined based on the then equity capital of Turbo Speed which includes all outstanding Turbo Speed Shares and Convertible Preference Shares then in issue plus the Convertible Preference Shares which were in issue at the date of the Subscription Agreement and thereafter converted and less any Turbo Speed Shares issued after Completion at a price which is equal to or exceeds the Benchmark Price.
 2. If at any time for so long as Comtel Development and/or Acme Partner is/are holding any shares of Turbo Speed, Turbo Speed issues further shares at a price per share below the Benchmark Price, each of Comtel Development and Acme Partner shall be entitled to subscribe within 25 Business Days immediately after such issue at par such number of ordinary shares of Turbo Speed which maintains their interest in Turbo Speed before such issue (but after taking into account the Subscribers’ interest in the Convertible Preference Shares which they have by then converted or transferred). (*Note 2*)
- Moratorium : The Company has agreed and undertaken to the Subscribers that it shall not issue any Shares prior to 30 April 2005 (otherwise than pursuant to the exercise of conversion rights under the Convertible Preference Shares and/or subscription rights attached to options or other securities already in issue before the date of the Subscription Agreement). (*Note 3*)
- Completion : Completion shall take place on the third Business Day following the day on which the conditions of the Subscription Agreement set out in (a), (d), (e) and (f) under the paragraph headed “Conditions precedent” above have been satisfied or waived.

Notes:

1. The Profit Target was determined after commercial negotiations on pricing, a private transaction between the Subscribers and the Company having considered the business potential of Beijing Hi-Sunsray going forward and the financial budget of Beijing Hi-Sunsray ("Budget") for the two years ending 31 December 2006. The Directors do not intend to and did not in the Subscription Agreement nor the Shareholders Agreement give the Subscribers any assurance as to whether all or part of the Budget could be achieved, and the Budget just represents the financial target which the management of Beijing Hi-Sunsray would like it to achieve. The Directors consider that the Profit Target only represents one of the commercial terms for the pricing of the Subscription and does not quantify the anticipated level of future profits of Beijing Hi-Sunsray. Assuming that the Profit Target is not met and the Company is required to transfer 2% ordinary shares in Turbo Speed to the Subscribers and no Conversion has taken place, the aggregate number of ordinary shares in Turbo Speed and Convertible Preference Shares held by the Subscribers will represent a maximum of approximately 18% of the total issued share capital of Turbo Speed as enlarged by the Subscription. Given that the Company would only be required to transfer to the Subscribers up to 2% equity interest in Turbo Speed at nominal consideration and no cash compensation to the Subscribers would be required in the event that the Profit Target could not be met, the Directors consider the provision of the adjustment provision is commercially acceptable.

In the event that the Profit Target is not met and the Company is required to transfer additional equity interest in Turbo Speed to the Subscribers, the Company will make a further announcement.

2. Any issue of the Turbo Speed Shares to the Subscribers, if required under the Listing Rules, will be subject to compliance with applicable Listing Rules by the Company.
3. As at the date of this announcement, there were outstanding options granted under the share option scheme of the Company to issue up to 33,000,000 Shares.

Reason for the Subscription and proposed use of proceeds

The Directors consider that the Subscription will provide new funding to Turbo Speed for its business expansion, principally relating to the provision of telecommunication solutions and services, and working capital of Beijing Hi-Sunsray and is in the best interests of the Shareholders as a whole.

The Directors also consider that the terms of the Subscription Agreement, which were negotiated on an arm's length basis and agreed on normal commercial terms between the parties involved, to be fair and reasonable.

Following Completion, Turbo Speed will remain as a subsidiary of the Company and Beijing Hi-Sunsray will continue to engage in its existing businesses. Save for the transfer of shares in Turbo Speed pursuant to the Employee Incentive Scheme and the deemed disposal arising from the Subscription, the Directors' present intention is to retain the Company's interest in Turbo Speed.

Financial effects of the Subscription on the Group

Upon Completion, the Group is expected to record a gain on the deemed disposal amounting to approximately HK\$27 million after deducting the professional fees and all related expenses, which gain is subject to adjustment and review by the auditors of the Company. Such gain will be calculated by reference to the carrying value of Turbo Speed in the Company's accounts. Given there will be a gain on the deemed disposal in relation to the Subscription, the net asset value of the Group is expected to increase. Subsequent to Completion, the Group's net profit (loss) attributable to Shareholders will be adjusted by the minority shareholders' interest in Turbo Speed.

Material dilution

Given that Turbo Speed is a major subsidiary of the Company and the Subscription will result in a material dilution of the Company's interest in Turbo Speed under Rule 13.36(1)(a)(ii) of the Listing Rules, the Subscription is subject to approval of the Shareholders at a general meeting. As set out in the Circular, a written approval has been obtained from Rich Global Limited, the controlling shareholder of the Company holding approximately 56.8% in the nominal value of the securities giving the right to attend and vote at a general meeting of the Company to approve the Subscription. Subsequent to the issue of the Circular, the Stock Exchange and the Company have agreed that the Subscription, which constitutes a material dilution of the Company's interest in Turbo Speed pursuant to Rule 13.36(1)(a)(ii) of the Listing Rules, is subject to shareholders' approval in a general meeting. Accordingly, a general meeting will be convened for the Shareholders to consider and, if thought fit, approve the Subscription and the issue of the Conversion Shares pursuant to the Subscription Agreement.

Issue of the Conversion Shares

Pursuant to the Subscription Agreement, holders of the Convertible Preference Shares will be entitled to convert at a minimum value US\$500,000 (approximately HK\$3.9 million) or integral multiples thereof at any time from the date of Completion for a period of 24 months into the Shares at the initial conversion price of HK\$1.2 per Share, subject to adjustments. Based on the initial conversion price of HK\$1.2 per Share, a total of 26,000,000 Shares will be issued pursuant to the Conversion. As disclosed in the Announcement and the Circular, the Company intended to issue the Conversion Shares under the General Mandate. However, to allow greater flexibility to the Company, given that under the terms of the Subscription Agreement, the number of Conversion Shares may exceed the maximum limit of the number of Shares issuable under the General Mandate, the Board decided to seek the Shareholders' approval for the issue of the Conversion Shares.

According to the terms of the Subscription Agreement, the conversion price for the Conversion may be adjusted upon occurrence of certain triggering events (see paragraph headed "Principal terms of the Convertible Preference Shares" above for a detailed description of the triggering events and the relevant adjustment provisions). In the event of the occurrence of any of such triggering events, the Company will make a further announcement in relation to the adjustment of the conversion price and the potential dilution effect resulted therefrom. The following table sets out the shareholding structure of the Company before and after the Conversion assuming different conversion prices:

	Existing		After full Conversion assuming a conversion price of HK\$1.2 per Share		After full Conversion assuming a conversion price of HK\$0.36 per Share (Note 1&2)		After full Conversion assuming a conversion price of HK\$0.25 per Share (Note 1&3)		After full Conversion assuming a conversion price of HK\$0.01 per Share (Note 1&4)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Rich Global Limited	189,270,909	56.8	189,270,909	52.7	189,270,909	45.1	189,270,909	41.3	189,270,909	5.5
Holders of the Convertible Preference Shares	-	-	26,000,000	7.2	86,666,667	20.6	124,800,000	27.3	3,120,000,000	90.3
Public	143,783,121	43.2	143,783,121	40.1	143,783,121	34.3	143,783,121	31.4	143,783,121	4.2
	<u>333,054,030</u>	<u>100.0</u>	<u>359,054,030</u>	<u>100.0</u>	<u>419,720,697</u>	<u>100.0</u>	<u>457,854,030</u>	<u>100.0</u>	<u>3,453,054,030</u>	<u>100.0</u>

Notes:

- As disclosed in the preceding paragraph, the conversion price of the Convertible Preference Shares is subject to adjustment upon occurrence of certain triggering events. For illustrative purpose, it is set out in the above table the shareholding structure of the Company assuming the Conversion Shares are issued at prices (to be explained in the paragraphs 2,3 and 4 below) lower than the initial conversion price of HK\$1.2 per Share.
- Being the average closing price of the Shares for the 20 trading days ended on the date of this announcement.
- Being the lowest closing price of the Shares for the year ended on the date of this announcement.
- Being the lowest theoretical conversion price for the Conversion pursuant to the Subscription Agreement i.e. the par value of the Shares of HK\$0.01.

The Company will make further announcement in relation to any conversion, which announcement will include details on the amount of the Conversion, the number of shares to be converted and the actual conversion price per Share.

Application for Listing

The Convertible Preference Shares will not be listed on any stock exchange. No application will be made for the listing of the Convertible Preference Shares.

An application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

INFORMATION OF THE SUBSCRIBERS

Comtel Development is wholly-owned by On Capital China Tech Fund, a Cayman Islands regulated mutual fund company. The fund's investment objective is to seek medium to long term capital appreciation and superior returns, principally by means of investment in early stage high-growth technology enterprises in the PRC, with a focus on electronics and information technology.

Acme Partner is wholly-owned by The Yangtze Ventures Limited, a private investment fund company which aims to achieve superior returns for investors through investing in equity linked investments in technology-based and high growth enterprises along the Yangtze River Delta.

To the Directors' best knowledge, information and belief having made all reasonable enquiry, each of the Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

ADOPTION OF THE EMPLOYEE INCENTIVE SCHEME BY TURBO SPEED

The Board intends Turbo Speed to adopt the Employee Incentive Scheme. A summary of the principal terms of the Employee Incentive Scheme is set out below:

- Purpose of the Employee Incentive Scheme : To provide the Employees with the opportunity to share the pride of ownership in Turbo Speed and to reward them for their performance and contribution
- Eligible persons : The Employees
- Number of Scheme Shares : Up to 4,682,275 Turbo Speed Shares, representing approximately 13.0% of the existing issued share capital of Turbo Speed and approximately 11.0% of the issued share capital of Turbo Speed as enlarged by the Subscription, currently held by a wholly-owned subsidiary of the Company
- Duration of the Employee Incentive Scheme : From the date of adoption of the Employee Incentive Scheme by the shareholders of Turbo Speed or, the date of the SGM, whichever is later, to 31 December 2008, unless terminated by resolution of a remuneration committee formed by the Board to administer the Employee Incentive Scheme (the "Committee")
(*Note 1*)
- Grant of Options : 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 (*Note 2*)
- An Option may be exercised in whole or in part (in the number or integral multiples of 50,000 Turbo Speed Shares) in accordance with the terms of the Employee Incentive Scheme at any time during the option period as specified by the Committee, the last day of such period shall not fall after 31 December 2008 (the "Option Period")
- Purchase price : HK\$1.922 per Scheme Share, which is subject to adjustments on consolidation and/or subdivision of Turbo Speed Shares
- Lapse of Option : An Option shall lapse automatically and not be exercisable (to the extent not already exercised), among other things, on the earliest of:
1. the expiry of the Option Period;
 2. the expiry of the 12 months period following the death of a Selected Employee;

3. the expiry of the offer period in the event of a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) made to all holders of Turbo Speed Shares provided that if any court of competent jurisdiction makes an order the effect of which is to prohibit the offeror from acquiring the remaining Turbo Speed Shares in the offer, the relevant period within which Options may be exercised shall not begin to run until the discharge of the order in question or unless the offer lapses or is withdrawn before that date;
4. the date on which the Selected Employee ceases to be an Employee by reason of the termination of his employment or directorship for cause specified under the Employee Incentive Scheme;
5. the date on which the Selected Employee ceases to be an Employee for any reason other than death or circumstances described in (4) above;
6. the date on which any of company of the Turbo Speed Group by which the Selected Employee is employed ceases to be subsidiary of the Company; and
7. 10 Business Days before the date on which the pre-listing corporate reorganization of the Turbo Speed Group takes place for the purpose of a proposed listing of the Turbo Speed Group on the Stock Exchange or any overseas stock exchange (the "Listing") (*Note 3*).

Restriction of disposal of :
Option Shares

1. An Option shall be personal to the Selected Employee and shall not be transferable or assignable, subject to his personal representative on death.
2. No Selected Employee may sell, transfer or otherwise dispose of (including creating encumbrances over) more than 50% of Option Shares prior to the Listing, without the prior written consent of the Committee.
3. The Company shall have a right of first refusal over any Scheme Shares intended to be sold by a Selected Employee.

Alteration of the Employee:
Incentive Scheme

Terms of the Employee Incentive Scheme (except the number of Scheme Shares and the maximum number of Option Shares which may be granted to any director of the Turbo Speed Group) may be altered by a resolution of the Committee but no alteration may adversely affect the rights of Selected Employees under Options already granted except (i) with consent of the relevant Selected Employees in writing; or (ii) with the sanction of a special resolution passed at a meeting of the Selected Employees. In addition, any alteration to the purchase price such that it is less than HK\$1.922 per share will have to be approved by the shareholders of Turbo Speed in general meeting. In any event, any alteration of the principal terms of the Employee Incentive Scheme (including those as disclosed in this announcement) will be subject to Shareholders' approval and full compliance with any other applicable Listing Rules by the Company.

Notes:

1. The members of the Committee will be constituted by members of the Board (including independent non-executive Directors).
2. In the event that the Turbo Speed Shares will be offered to an Employee who is also a connected person (as defined in the Listing Rules) of the Company, the Company will ensure such offer to be made in full compliance with Chapter 14A of the Listing Rules.
3. The Directors do not have any definite plan to seek for the listing of the Turbo Speed Group at present. However, the Directors do not rule out the possibility of pursuing such exercise when appropriate circumstances arise.

The initial purchase price of HK\$1.922 per Scheme Share represents a premium of approximately HK\$2.279 per Turbo Speed Share over the unaudited consolidated net liabilities of HK\$0.357 per Turbo Speed Share as at 30 September 2004.

Exercise of Options offered to Employees depends on the performance of Turbo Speed and Options granted may or may not be exercised.

The transfer of the Scheme Shares to the Selected Employees will result in a disposal of the equity interest in Turbo Speed by the Company. The gain or loss arising from such disposal depends on the net assets per Scheme Share as at the time of the purchase of the Option Shares. For illustrative purposes, based on the unaudited net assets of Turbo Speed as at 30 September 2004 and the initial purchase price per Scheme Share of HK\$1.922, the Company is expected to record a gain of approximately HK\$11 million assuming all the Scheme Shares are granted to and purchased by the Selected Employees, which gain is subject to adjustment and review by the auditors of the Company and on this basis, the net asset value of the Group is expected to increase.

The net proceeds from the disposal of the Scheme Shares will be used for the working capital of the Group. The Directors consider that the terms of the Employee Incentive Scheme are fair and reasonable and in the interests of the Shareholders as a whole.

As at the date of this announcement, the Company owns the entire issued share capital of Turbo Speed. Following completion of the Subscription, the Company's equity interest in Turbo Speed will be reduced to approximately 84.0%.

The transfer of all the Scheme Shares to the Selected Employees will further reduce the Company's equity interest in Turbo Speed to approximately 73.0%. Subject to no further change to its share capital, Turbo Speed will continue to remain as a subsidiary of the Company.

INFORMATION OF THE GROUP AND TURBO SPEED

The Group is an IT solution provider with focus on the provision of IT related consultancy and services. Turbo Speed is a company incorporated in the British Virgin Islands on 28 January 2000 and is in the business of investment holding with its sole investment being its ownership of the 100% equity interest in Beijing Hi-Sunsray. Beijing Hi-Sunsray, a wholly foreign owned enterprise incorporated in the PRC on 24 May 2000, is engaged principally in the provision of telecommunication solutions and services and system integration services in the PRC. Management systems and value added systems for telecommunication carriers remain the two principal solutions of Beijing Hi-Sunsray. In December 2003, Beijing Hi-Sunsray entered into the IVR Contract with China Mobile, a leading mobile telecommunication carrier in the PRC, for a period of one year from 9 December 2003 to 8 December 2004, to run Interactive Voice Response (IVR) system service for China Mobile which involves the cooperative provision of a unified connection and interface platform for voice value added services and for the construction, development and maintenance of that platform and a user database by itself. Pursuant to the IVR Contract, the terms of the IVR Contract can be extended by one year upon mutual agreement between Beijing Hi-Sunsray and China Mobile, and Beijing Hi-Sunsray is in the process of renewing the IVR Contract subject to finalisation of the terms. The Directors expect that IVR business of the Turbo Speed Group will experience rapid growth in the coming years with China Mobile and other telecommunication carriers in the PRC pursuing their business expansion, and that it is the plan of the Turbo Speed Group to further develop other value added multi-media services to users through their mobile phone.

Based on the audited financial statements of Turbo Speed, which are prepared in accordance with accounting principles generally accepted in Hong Kong, the consolidated net loss (before and after taxation) for the two years ended 31 December 2003 and the consolidated net asset value of Turbo Speed as at 31 December 2002 and 2003 are as follows:

	For the year ended 31 December	
	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss before and after taxation (<i>Note</i>)	6,262	2,267
	As at 31 December	
	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net liabilities	7,990	10,257

Note: No tax was required to be paid by Turbo Speed for each of the two years ended 31 December 2003 since it incurred losses during such period. Pursuant to an approval from the Beijing Tax Bureau, the taxable income in respect of information technology products and services of certain subsidiaries of the Group, including Beijing Hi-Sunsray, are entitled to three years' PRC income tax exemption commencing from 1 January 2000. In addition, no provision for overseas profits tax has been provided in these accounts as the Group has no estimated assessable overseas profit for the year.

Based on the unaudited management accounts of Turbo Speed, the unaudited consolidated net loss (before and after taxation) for six months ended 30 June 2004 and the unaudited consolidated net liabilities of Turbo Speed as at 30 June 2004 are approximately HK\$7,081,000 and approximately HK\$17,339,000 respectively.

LISTING RULES IMPLICATIONS

Since Turbo Speed is a major subsidiary of the Company and the Subscription will result in a material dilution of the Company's interest in Turbo Speed under Rule 13.36(1)(a)(ii) of the Listing Rules, the Subscription is subject to the approval of the Shareholders at a general meeting.

Given the aggregate consideration for (i) the Subscription, which represents a deemed disposal of the Company's interest in Turbo Speed; and (ii) the grant of the Option Shares (based on the maximum number of Scheme Shares to be granted), which represents a possible disposal of the Company's interest in Turbo Speed, is over 25% but less than 100% of the Company's market capitalization, the Subscription and the grant of the Option Shares when aggregated constitutes a major transaction for the Company pursuant to the Listing Rules and is subject to approval of the Shareholders at the SGM. No shareholder is required to abstain from voting under the Listing Rules.

GENERAL

A circular setting out (i) information relating to the Subscription and the issue of the Convertible Preference Shares (including and in addition to those set out in the circular); (ii) information relating to the Employee Incentive Scheme; and (iii) notice of the SGM to be convened for the purpose of considering and, if thought fit, approving (i) the Subscription Agreement and the transactions contemplated therein, including the issue of the Conversion Shares; and (ii) the adoption of the Employee Incentive Scheme and the form of proxy will be despatched to the Shareholders on 18 March 2005.

As at the date of this announcement, the Board comprises eight executive Directors, namely Mr. CHEUNG Yuk Fung, Mr. KUI Man Chun, Mr. LO Siu Yu, Mr. XU Wensheng, Mr. LI Wenjin, Mr. CHAN Yiu Kwong, Mr. XU Chang Jun and Mr. ZHOU Jian, and three independent non-executive Directors, namely Mr. TAM Chun Fai, Mr. XU Sitao and Mr. LEUNG Wai Man, Roger.

DEFINITIONS

In this announcement, the following terms have the following meanings:

“Acme Partner”	Acme Partner International Limited, a company incorporated in the British Virgin Islands
“Announcement”	the announcement of the Company dated 11 November 2004 in relation to the issue of the Convertible Preference Shares by Turbo Speed
“associate”	has the meaning ascribed to it under the Listing Rules
“Beijing Hi-Sunsray”	北京高陽聖思園信息技術有限公司 (Beijing Hi-Sunsray Information Technology Limited), a wholly foreign owned enterprise incorporated in the PRC with limited liability and a wholly owned subsidiary of Turbo Speed
“Benchmark Price”	US\$0.58 (approximately HK\$4.5), being the price at which each Convertible Preference Share is to be issued pursuant to the Subscription Agreement
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for business
“China Mobile”	China Mobile Communications Corporation
“Circular”	the circular of the Company dated 3 December 2004 in relation to the issue of the Convertible Preference Shares by Turbo Speed

“Company”	Hi Sun Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription Agreement
“Comtel Development”	Comtel Development Limited, a company incorporated in the British Virgin Islands
“Conversion”	the exercise of the conversion rights under the Subscription Agreement to convert the Convertible Preference Shares into the Shares at an initial conversion price of HK\$1.2 per share, subject to adjustments
“Conversion Shares”	Shares falling to be issued upon the Conversion
“Convertible Preference Shares”	6,837,608 new convertible preference shares of US\$0.10 each in the share capital of Turbo Speed to be issued pursuant to the Subscription Agreement
“Directors”	the directors of the Company
“Employee”	any bona fide full-time employee of Turbo Speed or any of its subsidiaries, who has attained 21 years of age, including any director of Turbo Speed or any of its subsidiary (but excluding any person who is a Director) 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
“Employee Incentive Scheme”	the employee incentive scheme proposed to be adopted by Turbo Speed
“General Mandate”	the general mandate granted to the Board at the annual general meeting of the Company held on 28 May 2004
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IT”	information technology
“IVR Contract”	the contract entered into between Beijing Hi-Sunsray and China Mobile dated 9 December 2003 in relation to the cooperative provision of a unified connection and interface platform for voice value added services in the PRC and the construction, development and maintenance of, among other things, that platform and a user database, for a period of one year from 9 December 2003 to 8 December 2004
“Listing Committee”	the listing sub-committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer”	the offer of a grant of an Option to an Employee pursuant to the Employee Incentive Scheme
“Option”	an option to subscribe for Turbo Speed Shares granted pursuant to the Employee Incentive Scheme
“Option Shares”	the number of Scheme Shares to be offered to the Selected Employees
“PRC”	People’s Republic of China
“SGM”	the special general meeting of the Company to be held on 4 April 2005 to consider and approve (i) the Subscription Agreement and the transactions contemplated therein and the issue of the Conversion Shares; and (ii) the adoption of the Employee Incentives Scheme

“Scheme Shares”	up to 4,682,275 Turbo Speed Shares, which are currently held by a wholly-owned subsidiary of the Company, less the number of Turbo Speed Shares sold under the Employee Incentive Scheme to Selected Employees at any time
“Selected Employees”	those Employees who are granted Options pursuant to the terms of the Employee Incentive Scheme and who has accepted the grant of an Option in accordance with the terms of the Employee Incentive Scheme or (where the context so permits) a person entitled to any Option in consequence of the death of the original Selected Employee
“Shareholders”	holders of the Shares
“Shareholders Agreement”	the shareholders agreement to be entered into amongst the Company, Comtel Development, Acme Partner and Turbo Speed upon Completion
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Comtel Development and Acme Partner
“Subscription”	the subscription of the Convertible Preference Shares by the Subscribers pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 9 November 2004 and entered into between the Company, Turbo Speed and the Subscribers in relation to the Subscription
“Turbo Speed”	Turbo Speed Technology Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Turbo Speed Group”	Turbo Speed and its subsidiaries
“Turbo Speed Shares”	ordinary share(s) of US\$0.10 each in the share capital of Turbo Speed upon completion of the sub-division of the existing shares of US\$1.00 each in the share capital of Turbo Speed on or before the Completion
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

Unless the context requires otherwise, translation of US\$ into HK\$ is made in this announcement, for illustration purpose only, at the rate of US\$1.00 = HK\$7.80.

By Order of the Board
CHAN Yiu Kwong
Executive Director

Hong Kong, 16 March 2005