HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技(中國)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 818)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	2018	2017	Change
	HK$'000	*HK$'000*	+/(-)
RESULTS			
Revenue	**4,661,954**	2,909,978	+60%
Gross profit	**1,257,751**	744,029	+69%
Segmental EBITDA[#] (before unallocated items)	**862,647**	474,582	+82%
Fair values (losses)/gains on financial asset at fair value through profit or loss	**(16,971)**	16,357	N/A
Employees' incentive programme of subsidiaries	**201,447**	–	N/A
Gain on disposal of subsidiaries	**–**	63,262	N/A
Share of result of an investment accounted for using the equity method	**171,753**	134,531	+28%
Profit for the year	**337,290**	389,514	-13%
Profit attributable to:			
– Owners of the Company	**278,175**	346,144	-20%
– Non-controlling interests	**59,115**	43,370	+36%
	337,290	389,514	
	HK$ per share	*HK$ per share*	Change +/(-)
Earnings per share for profit attributable to the owners of the Company:			
Basic	**0.100**	0.125	-20%
Diluted	**0.095**	0.124	-23%

[#] *Excluding employees' incentive programme of subsidiaries and fair values (losses)/gains on financial asset at fair value through profit or loss*

* *For identification purpose only*

	As at 31 December		
	2018	2017	Change
	HK$'000	*HK$'000*	+/(-)
HIGHLIGHTS OF FINANCIAL POSITION			
Total equity	**4,571,275**	4,163,545	+10%
Net current assets	**1,606,115**	1,522,676	+5%
Total assets	**6,632,517**	5,657,451	+17%
			Change
	HK$ per share	*HK$ per share*	+/(-)
Net assets per share	**1.646**	1.499	+10%

The board of directors (the "Board") of Hi Sun Technology (China) Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017. The annual results have been reviewed by the audit committee of the Company (the "Audit Committee").

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group reported total assets of HK$6,632.5 million (2017: HK$5,657.5 million), which were financed by total liabilities of HK$2,061.2 million (2017: HK$1,493.9 million) and equity of HK$4,571.3 million (2017: HK$4,163.6 million). The net asset value was HK$4,571.3 million (2017: HK$4,163.6 million). Net assets per share amounted to HK$1.646 as at 31 December 2018 as compared to HK$1.499 per share as at 31 December 2017.

As at 31 December 2018, the Group had cash and cash equivalents of HK$2,681.5 million (2017: HK$2,541.5 million) and short term borrowing of HK$10.2 million (2017: HK$9.6 million). The net cash position as at 31 December 2018 was HK$2,671.3 million as compared to HK$2,531.9 million as at 31 December 2017. The gearing ratio (defined as total borrowing divided by total capital) was 0.2% (2017: 0.2%). The gearing ratio is considered healthy and suitable for the continuing growth of the Group's business.

CAPITAL STRUCTURE AND DETAILS OF CHARGES

As at 31 December 2018, the Group had bank borrowing of HK$10.2 million (2017: HK$9.6 million) and banking facilities of approximately HK$18.2 million (2017: HK$19.2 million). The bank borrowing was charged at an interest rate of 5.24% per annum (2017: 4.57%). As at 31 December 2018, the bank borrowing and banking facilities were secured by the leasehold land and buildings of a subsidiary of the Company, with a net carrying amount of HK$2.9 million (2017: HK$3.1 million) and HK$7.5 million (2017: HK$9.0 million), respectively.

Approximately HK$1,909.6 million, HK$380.3 million, HK$195.8 million, HK$193.2 million and HK$2.6 million of the Group's cash balances were denominated in Renminbi, Hong Kong Dollar, US Dollar, Japanese Yen and Macanese Pataca ("MOP") respectively as at 31 December 2018.

Approximately HK$1,820.7 million, HK$317.9 million, HK$211.5 million, HK$188.8 million and HK$2.6 million of the Group's cash balances were denominated in Renminbi, Hong Kong Dollar, US Dollar, Japanese Yen and MOP respectively as at 31 December 2017.

SIGNIFICANT INVESTMENT

Save as disclosed in this announcement, the Group had no significant investment held as at 31 December 2018.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Save as disclosed in this announcement, the Group did not have any material acquisition or disposal of subsidiaries during the year ended 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, there was no specific plan for material investments or capital assets as at 31 December 2018.

EXCHANGE RATES EXPOSURE

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

CONTINGENT LIABILITIES

(A) Performance Guarantee Agreement with a customer

In 2015, the Company entered into a performance guarantee agreement with a customer (the "Performance Guarantee Agreement"). Pursuant to the Performance Guarantee Agreement, the Company agreed to provide the customer with a guarantee in relation to the due and punctual performance of a service project by a subsidiary of the Group with a surety of not more than HK$60,000,000 and to indemnify the customer against any third-party claim of intellectual property right infringement resulting from the acts of the said subsidiary. As at 31 December 2018, the Company did not recognise any liability in relation to the Performance Guarantee Agreement as the Directors of the Company consider the possibility of reimbursement not probable.

(B) Guarantee Agreement with subsidiaries of the Group

In 2017, the Company entered into a guarantee agreement ("2017 Guarantee Agreement") with its wholly-owned subsidiary ("Subsidiary A"). Pursuant to the 2017 Guarantee Agreement, the Company shall guarantee to repay any due and unsettled debts of Subsidiary A of up to US$6,000,000 incurred in relation to such manufacturing orders placed by Subsidiary A against a named manufacturer, should it cease or fail to honour its payment obligations. As at 31 December 2018, the Company did not recognise any liability under the 2017 Guarantee Agreement as the Directors consider the possibility of reimbursement is not probable.

In respect of the further increasing credit limit of manufacturing orders placed by Subsidiary A and another wholly-owned subsidiary ("Subsidiary B") of the Company against the aforesaid manufacturer, the Company entered into a new guarantee agreement dated 3 July 2018 ("2018 Guarantee Agreement") with Subsidiary A and Subsidiary B. Pursuant to the 2018 Guarantee Agreement, the Company shall guarantee to repay the due and unsettled debts of Subsidiary A and/or Subsidiary B individually and/or collectively of up to US$10,000,000 incurred in relation to such manufacturing orders placed by Subsidiary A and/or Subsidiary B individually and/or collectively, should each of them individually and/or collectively cease or fail to honour its payment obligations.

The 2017 Guarantee Agreement was terminated on 3 July 2018 and the entirety of the Company's and the aforesaid manufacturer's rights, obligations and liability thereunder, if any, was effectively transferred to the 2018 Guarantee Agreement, subject to the terms and conditions of the 2018 Guarantee Agreement.

Save as disclosed above, the Group had no material contingent liability as at 31 December 2018.

EMPLOYEES

The total number of employees of the Group as at 31 December 2018 was 2,700. The breakdown of employees by division is as follows:

Payment processing solutions	1,016
Information security chips and solutions	109
Platform operation solutions	828
Financial solutions	480
Electronic power meters and solutions	220
Others	12
Corporate office	35
	2,700

The Group ensures that its employees' remuneration packages are comprehensive and competitive. Employees are remunerated with fixed monthly income plus annual performance related bonuses. The Group also operates certain share option schemes for the purpose of attracting, retaining and motivating the employees. The Group also sponsors selected employees to attend external training courses that suit the needs of the Group's businesses.

Disclaimer:

Non-GAAP measures

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

BUSINESS REVIEW
CONDENSED SEGMENT RESULTS ANALYSIS

		Turnover		EBITDA#	
	Note	**2018** **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Payment processing solutions	*1*	**3,744,922**	1,979,939	**884,448**	432,375
Information security chips and solutions	*2*	**291,567**	177,224	**26,475**	26,867
Platform operation solutions	*3*	**209,636**	209,683	**(24,148)**	(9,346)
Financial solutions	*4*	**311,549**	295,328	**12,054**	23,942
Electronic power meters and solutions	*5*	**105,347**	250,960	**(23,920)**	1,692
Others		**–**	–	**(12,262)**	(948)
Segmental results		**4,663,021**	2,913,134	**862,647**	474,582
Less: Inter-segment turnover		**(1,067)**	(3,156)	**–**	–
Total		**4,661,954**	2,909,978	**862,647**	474,582
Depreciation				**(297,496)**	(179,040)
Amortisation				**(434)**	(8,950)
Fair values (losses)/gains on financial asset at fair value through profit or loss				**(16,273)**	16,605
Employees' incentive programme of subsidiaries	*B*			**(201,447)**	–
Segmental operating profit				**346,997**	303,197
Unallocated other income				**5,145**	5,161
Unallocated corporate expenses				**(93,641)**	(71,443)
Gain on disposal of subsidiaries				**–**	63,262
Operating profit				**258,501**	300,177

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**2018** **HK$'000**	2017 HK$'000
Revenue	*A*	**4,661,954**	2,909,978
Cost of sales	*B*	**(3,404,203)**	(2,165,949)
Gross profit		**1,257,751**	744,029
Other income	*A*	**43,894**	46,721
Other (losses)/gains, net	*A*	**(16,922)**	21,139
Selling expenses	*B*	**(96,829)**	(113,394)
Administrative expenses	*B*	**(687,992)**	(461,580)
Employees' incentive programme of subsidiaries	*B*	**(201,447)**	–
Credit impairment loss		**(39,954)**	–
Gain on disposal of subsidiaries	*C*	**–**	63,262
Operating profit		**258,501**	300,177
Finance costs		**(89)**	(9)
Share of result of an investment accounted for using the equity method	*D*	**171,753**	134,531
Gain on dilution of interest in an investment accounted for using the equity method	*D*	**–**	113
Profit before income tax		**430,165**	434,812
Income tax expense		**(92,875)**	(45,298)
Profit for the year		**337,290**	389,514
Profit attributable to:			
– Owners of the Company		**278,175**	346,144
– Non-controlling interests		**59,115**	43,370
		337,290	389,514
		HK$ per share	*HK$ per share*
Earnings per share for profit attributable to the owners of the Company:			
Basic		**0.100**	0.125
Diluted		**0.095**	0.124

Represents earnings/(losses) before interest expenses, taxes, depreciation and amortisation, and excludes employees' incentive programme of subsidiaries and fair values (losses)/gains on financial asset at fair value through profit or loss.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS			
Investment properties, property, plant and equipment and leasehold land	*E*	**747,258**	540,904
Intangible assets		**1,884**	1,985
Investments accounted for using the equity method	*F*	**1,931,188**	1,823,245
Available-for-sale financial assets	*G*	**–**	178,385
Financial asset at fair value through other comprehensive income	*G*	**895**	–
Financial assets at fair value through profit or loss	*H*	**273,745**	96,187
Inventories	*I*	**162,275**	95,407
Trade and bills receivables	*J*	**149,178**	278,319
Other financial assets at amortised cost and other current assets	*J*	**131,625**	66,890
Loan receivables	*K*	**536,295**	2,205
Amounts due from investments accounted for using the equity method	*L*	**15,116**	16,289
Short-term bank deposits		**1,583**	16,153
Cash and cash equivalents		**2,681,475**	2,541,482
Total assets		**6,632,517**	5,657,451
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**6,942**	6,942
Reserves		**4,371,271**	4,052,400
		4,378,213	4,059,342
Non-controlling interests		**193,062**	104,203
Total equity		**4,571,275**	4,163,545
LIABILITIES			
Deferred income tax liabilities		**109**	163
Trade and bills payables	*M*	**251,043**	239,199
Payables for payment processing solutions business	*M*	**266,710**	292,587
Other payables and accruals	*M*	**1,376,874**	848,409
Amounts due to investments accounted for using the equity method	*L*	**114,190**	57,755
Current income tax liabilities		**42,069**	46,197
Borrowing		**10,247**	9,596
Total liabilities		**2,061,242**	1,493,906
Total equity and liabilities		**6,632,517**	5,657,451
		HK$ per share	*HK$ per share*
Net assets per share		**1.646**	1.499

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the year ended 31 December 2018 HK$'000	2017 HK$'000
Net cash generated from/(used in) operating activities	**699,043**	(153,447)
Net cash used in investing activities	**(469,991)**	(273,374)
Net cash generated from financing activities	**15,371**	12,808
Net increase/(decrease) in cash and cash equivalents	**244,423**	(414,013)
Cash and cash equivalents at beginning of the year	**2,541,482**	2,804,978
Exchange (loss)/gain on cash and cash equivalents	**(104,430)**	150,517
Cash and cash equivalents at end of the year	**2,681,475**	2,541,482

FINANCIAL REVIEW

During the year ended 31 December 2018 ("YEAR 2018"), the consolidated turnover of Hi Sun Technology (China) Limited (the "Company") and its subsidiaries (the "Group") amounted to HK$4,662.0 million, representing an increase of 60% when compared with the year ended 31 December 2017 ("YEAR 2017"). Profit for the year totaled HK$337.3 million as compared to HK$389.5 million in YEAR 2017.

With regard to the balance sheet, the total assets as at 31 December 2018 amounted to HK$6,632.5 million, when compared with HK$5,657.5 million as at 31 December 2017. As at 31 December 2018, net current assets amounted to HK$1,606.1 million, when compared with HK$1,522.7 million as at 31 December 2017.

SEGMENT PERFORMANCE REVIEW

(1) Payment processing solutions

Key performance indicators

	2018	2017	Change
	HK$'000	*HK$'000*	+/(-)
Turnover*	**3,744,922**	1,979,939	+89%
EBITDA#	**884,448**	432,375	+105%
Employees' incentive programme of a subsidiary	**195,300**	–	N/A
Operating profit	**397,001**	260,657	+52%

* Turnover from external customers

\# Represents earnings before interest expenses, taxes, depreciation and amortisation, and excludes employees' incentive programme of a subsidiary

Segmental turnover amounted to HK$3,744.9 million, as compared to HK$1,979.9 million in YEAR 2017. By end of YEAR 2018, there were over 4,200,000 accumulated active domestic merchants and the monthly transaction volume in December 2018 exceeded RMB170 billion. The increase in segmental operating profit was mainly due to increased scale of transaction operations. Despite the employees' incentive programme of a subsidiary expenses of approximately HK$195.3 million under the payment processing solutions segment attributable to the share options granted in February 2018 (Please refer to the circular of the Company dated 19 January 2018 and the announcement of the Company dated 5 February 2018 for further details), segmental operating profit amounted to HK$397.0 million, 52% up as compared to HK$260.7 million in YEAR 2017.

(2) Information security chips and solutions

Key performance indicators

	2018	2017	Change
	HK$'000	*HK$'000*	+/(-)
Turnover*	**291,567**	177,224	+65%
EBITDA#	**26,475**	26,867	-1%
Employees' incentive programme of a subsidiary	**6,147**	–	N/A
Operating profit	**19,699**	26,390	-25%

* Turnover from external customers

\# Represent earnings before interest expense, taxes, depreciation and amortisation, and excludes employees' incentive programme of a subsidiary

During the year, segmental turnover amounted to HK$291.6 million as compared to HK$177.2 million in YEAR 2017, increase by more than 65%. Sales of mag-stripe card security decoder chips was stable while that of security micro-controller (MCU) increased drastically. Segmental operating profit amounted to HK$19.7 million, as compared to HK$26.4 million in YEAR 2017. Decline in segmental operating profit in spite of an increase in segmental turnover was mainly due to (i) increased research & development ("R&D") expenses as compared to last year; and (ii) employees' incentive programme of a subsidiary expenses of approximately HK$6.1 million under the information security chips and solutions segment attributable to the share options granted in July 2018 (Please refer to the circular of the Company dated 11 July 2018 and the announcement of the Company dated 10 August 2018 for further details).

(3) Platform operation solutions

Key performance indicators

	2018	2017	Change
	HK$'000	*HK$'000*	+/(-)
Turnover*	**208,569**	206,527	+1%
EBITDA#	**(24,148)**	(9,346)	N/A
Fair values (losses)/gains on financial asset at fair value through profit or loss	**(16,273)**	16,605	N/A
Operating (loss)/profit	**(42,696)**	4,043	N/A

* Turnover from external customers

\# Represents earnings before interest expenses, taxes, depreciation and amortisation, and excludes fair values (losses)/gains on financial asset at fair value through profit or loss

In YEAR 2018, we continued to provide high-quality and efficient supporting services, such as product development, business operation and system maintenance, to the E-commerce Base of China Mobile, the IVR Base of China Mobile and the Animation Base of China Mobile. During the year, segmental turnover amounted to HK$208.6 million as compared to HK$206.5 million in YEAR 2017. Segmental operating loss amounted to HK$42.7 million, as compared to a segmental operating profit of HK$4.0 million in YEAR 2017. Segmental operating loss was primarily attributable to (i) fair value losses on financial assets through profit or loss amounted to HK$16.3 million; and (ii) increase in other operating expenses due to additional resources placed to a number of new projects under development such as online health care services, online educational programmes etc.

(4) Financial solutions

Key performance indicators

	2018	2017	Change
	HK$'000	*HK$'000*	+/(-)
Turnover*	**311,549**	295,328	+5%
EBITDA	**12,054**	23,942	-50%
Operating profit	**11,776**	14,862	-21%

* Turnover from external customers

During the year, segmental turnover amounted to HK$311.5 million, as compared to HK295.3 million in YEAR 2017. Segmental operating profit totaled HK$11.8 million, as compared to HK$14.9 million in YEAR 2017. Decrease in segmental operating profit was mainly due to an increase in R&D expenses during the year.

(5) Electronic power meters and solutions

Key performance indicators

	2018	2017	Change
	HK$'000	*HK$'000*	+/(-)
Turnover*	**105,347**	250,960	-58%
EBITDA	**(23,920)**	1,692	N/A
Operating loss	**(26,424)**	(1,688)	N/A

* Turnover from external customers

Segmental turnover amounted to HK$105.3 million, a 58% drop as compared to YEAR 2017. Decrease in turnover was mainly due to decline in shipment level as compared to YEAR 2017. Shrinkage of volume and size of tenders awarded in Year 2017 posed severe challenges to the operating environment during the year. Segmental operating loss amounted to HK$26.4 million, as compared to HK$1.7 million in YEAR 2017.

OVERALL FINANCIAL RESULTS AND POSITION

(A) Revenue and other revenue

The consolidated turnover amounted to HK$4,662.0 million, representing an increase of 60% over YEAR 2017. Such increase was mainly contributed by increase in segmental turnover of our payment processing solutions segment. Please also refer to Notes (1) to (5) above on segmental performance. Other revenue for YEAR 2018 mainly represented interest income.

(B) Cost of sales and operating expenses

Increase in cost of sales was primarily due to increase in turnover of the payment processing solutions segment.

Increase in operating expenses during the year was primarily due to (i) increase in employee benefit expenses given: (a) employees' incentive programme of subsidiaries expenses of approximately HK$201.4 million under the payment processing solutions segment and information security chips and solutions segment; and (b) increase in average headcounts and average salaries; (ii) increase in R&D expenses; (iii) increase in credit impairment loss and (iv) change from a net foreign exchange gain in YEAR 2017 to a net foreign exchange loss in YEAR 2018.

(C) Gain on disposal of subsidiaries

Amount in YEAR 2017 represented the gain on the disposal of Merchant Support Co., Ltd. ("MS"), a then wholly owned subsidiary of the Company, completed in June 2017.

(D) Share of profit of and gain on dilution of interests in investments accounted for using the equity method

The Group's shares of results of PAX Global Technology Limited ("PAX Global"), an associated company of the Company, the shares of which are listed on the Stock Exchange.

As an ordinary shareholder of Cloopen Group Holding Limited ("Cloopen"), an associated company of the Company, the Group's share of loss exceeded its interest in the ordinary shares of Cloopen, and there was no overall financial impact on the consolidated income statement from the investment for the year.

(E) Investment properties, property, plant and equipment and leasehold land

Balance mainly represented fixed assets of payment processing solutions and electronic power meter and solutions segments.

(F) Investments accounted for using the equity method

Balance mainly represented the Group's interests in PAX Global. As at 31 December 2018, the fair value of the Group's 33.1% effective interest in PAX Global was approximately HK1,030.1 million and the fair value of the investment was lower than its carrying value. An impairment test is performed to determine the recoverable amount of the investment. The recoverable amount, which was assessed by an independent valuer on a value-in-use basis calculated by a discounted cash flow model, exceeds the carrying value as at 31 December 2018.

The Group's effective interest in the ordinary shares of Cloopen, calculated based on all issued and outstanding ordinary shares of Cloopen which are held by the Group, was 50.5%. As at 31 December 2018, the Group's share of loss of Cloopen exceeded its interest in the ordinary shares of Cloopen, and there was no overall financial impact on the consolidated income statement from the investment for the year. As at 31 December 2018, the carrying amount of the Group's interest in the ordinary shares of Cloopen was zero and the fair value of the Group's interest in the ordinary shares of Cloopen was approximately HK$410.8 million.

The Group is optimistic about the future prospects of PAX Global and Cloopen and will continue to demonstrate prudence and resilience in assessing its investment strategy towards the enhancement of shareholders' value. Details of the performance of these investments are set out in Note 10 to the consolidated financial information.

(G) Financial asset at fair value through other comprehensive income/available-for-sale financial assets

As at 31 December 2018, the financial asset at fair value through other comprehensive income included interest in an unlisted equity investment in the People's Republic of China ("PRC") of HK$0.9 million. The decline in available-for-sale financial assets was due to a change in accounting policy. Please also refer to Note (H) below.

(H) Financial assets at fair value through profit and loss

The balances represented (i) the fair value of the Group's interest in the convertible series C preferred shares of Cloopen of HK$102.8 million; (ii) the fair value of the Group's interest in the convertible series D preferred shares of Cloopen of HK$39.0 million; (iii) the fair value of trading securities listed in Hong Kong of HK$2.0 million; and (iv) the fair value of interest in a venture capital fund of HK$129.9 million (which was reclassified to financial asset at fair value through profit or loss in 2018 due to the change in accounting policy).

On 28 February 2018, Main Access Limited ("Main Access"), a wholly-owned subsidiary of the Company, as one of the subscribers, entered into a share subscription agreement to subscribe for 2,434,015 series D preferred shares of Cloopen at the consideration of US$5 million. Completion of the series D Subscription Agreement took place on 19 March 2018. Please refer to the announcement of the Company dated 28 February 2018 for further details.

(I) Inventories

The amount mainly represented inventories of electronic power meters and solutions segment and information security chips and solutions segment. During the year, HK$1.3 million was recorded for provision on inventories with respect to slow-moving and obsolete stocks.

(J) Trade and bills receivables, other financial assets at amortised cost and other current assets

	2018	2017
	HK$'000	*HK$'000*
Trade receivables *(Note (i)(a))*	**148,173**	270,240
Bills receivables *(Note (i)(b))*	**11,468**	13,902
Less: provision for impairment of receivables	**(10,463)**	(5,823)
	149,178	278,319
Other receivables, prepayments and deposits *(Note (ii))*	**131,625**	66,890
Total	**280,803**	345,209

Note (i):

(a) The Group's credit terms to trade debtors normally range from 0 to 180 days. The ageing analysis of the trade receivables primarily based on invoice date was as follows:

	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**109,685**	188,974
91 to 180 days	**2,919**	27,060
181 to 365 days	**8,335**	19,564
Over 365 days	**27,234**	34,642
	148,173	270,240

Decline in trade receivables under all ageing classes was mainly due to decrease in account receivable balances under the electronic power meters and solutions segment.

(b) Bills receivables belonged to the information security chips and solutions segment and electronic power meters and solutions segment.

Note (ii):

The increase in balance was mainly due to increase in VAT receivables from the payment processing solutions segment and electronic power meters and solutions segment.

(K) Loan receivables

Loan receivables are amounts due from customers under the payment processing solutions segment in the ordinary course of business, unsecured and primarily denominated in RMB.

The ageing analysis of loan receivables based on the payment due date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Current	**553,676**	2,059
1 to 3 months past due	**9,365**	146
Over 3 months past due	**6,061**	–
Loan receivables, gross	**569,102**	2,205
Less: Provision for impairment of loan receivables	**(32,807)**	–
	536,295	2,205
Non-current	**479**	–
Current	**535,816**	2,205
	536,295	2,205

(L) Amounts due from/to investments accounted for using the equity method

The amounts due from/to investments accounted for using the equity method represent payables from/to PAX Global and Cloopen and its subsidiaries as at 31 December 2018. Amounts due from/to investments accounted for using the equity method are unsecured, interest-free and repayable on demand.

(M) Trade and bills payables, payables for payment processing solutions business and other payables and accruals

	2018	2017
	HK$'000	*HK$'000*
Trade payables *(Note (i)(a))*	**247,878**	218,178
Bills payables *(Note (i)(b))*	**3,165**	21,021
Payables for payment processing solutions business *(Note (ii))*	**266,710**	292,587
Other payables and accruals *(Note (iii))*	**1,376,874**	848,409
Total	**1,894,627**	1,380,195

Note (i):

(a) The credit period granted by the suppliers ranges from 0 to 180 days. The ageing analysis of the trade payables primarily based on invoice date was as follows:

	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**205,694**	141,038
91 to 180 days	**2,663**	33,096
181 to 365 days	**17,774**	30,344
Over 365 days	**21,747**	13,700
	247,878	218,178

– Increase in trade payables aged between 0 to 90 days was mainly due to outstanding balances from the payment processing solutions segment; partially net off by a decrease in outstanding balance from the electronic power meters and solutions segment.

– Decline in trade payables aged between 91 to 180 days and 181 to 365 days was mainly due to decrease in outstanding balances from the electronic power meters and solutions segment.

(b) Bills payables belong to the electronic power meters and solutions segment.

Note (ii):

This balance represents payables to merchants for the payment processing solutions business. The amounts are generally due for settlement with these customers within 30 days.

Note (iii):

	2018	2017
	HK$'000	*HK$'000*
Accrued staff costs and pension obligations*	**273,934**	219,370
Deposits and receipt in advance**	**790,958**	445,287
Accrued subcontracting cost	**115,888**	114,631
Others***	**196,094**	69,121
	1,376,874	848,409

* The increase in accrued staff costs and pension obligations was mainly due to the increase in year end bonus as compared to last year.

** The increase in deposits and receipt in advance was mainly due to increase in deposits and guarantees received from merchants and agents under the payment processing solutions business.

*** The increase was mainly due to increase in other payables on fixed assets acquisition and other accrued handling fees payable by the payment processing solution segment.

KEY INVESTING AND FINANCING ACTIVITIES

(A) Subscription for Series D Preferred Shares of Cloopen

As disclosed in the announcement of the Company dated 28 February 2018, Main Access, a wholly-owned subsidiary of the Company, had on 28 February 2018 as one of the subscribers, entered into a share subscription agreement (the "Series D Subscription Agreement") with (i) Cloopen Group Holding Limited ("Cloopen"), an investment of the Company accounted for using the equity method, two subsidiaries of Cloopen, namely Cloopen Limited and Anxun Guantong (Beijing) Technology Co., Ltd. ("Anxun"), Beijing Ronglian Yitong Information Technology Co. Ltd. ("Ronglian") (a company which Anxun exercises control and enjoys economic benefits through contractual arrangements, together the "Cloopen Group"); (ii) the founding shareholders, namely Mr. SUN Changxun and Mr. LI Xiaoguang and their respective investment holding companies, namely Cloopen Co., Ltd. and Slivo Co., Ltd.; and (iii) other subscribers. Pursuant to the Series D Subscription Agreement, Main Access conditionally agreed to subscribe for 2,434,015 series D preferred shares of Cloopen at the consideration of US$5 million. Upon completion of the Series D Subscription Agreement, Cloopen would have issued an aggregate of 12,462,157 series D preferred shares, representing approximately 6.02% of the enlarged issued share capital of Cloopen, to all subscribers of the series D preferred shares, including Main Access (assuming 21,119,408 ordinary shares of Cloopen having been reserved for issuance to officers, directors, employees or consultants of Cloopen pursuant to its employee share option plan (the "ESOP shares") would be allotted and issued), and Cloopen Group would have raised US$25.6 million (before deducting expenses) in this series D preferred shares issue pursuant to the Series D Subscription Agreement. As at 28 February 2018 and immediately before completion of the Series D Subscription Agreement, the Group was interested in approximately 27.34% equity interest in Cloopen (assuming all the ESOP shares and convertible preferred shares would be allotted and issued). Completion of the Series D Subscription Agreement took place on 19 March 2018 and the Group's equity interests in Cloopen was approximately 26.87% immediately subsequent thereto (assuming all the ESOP Shares and convertible preferred shares are allotted and issued).

Immediately after completion of the Series D Subscription Agreement and as at the date of this announcement, the Cloopen Group has remained and remains an investment of the Company accounted for using the equity method.

(B) Purchase of E-payment terminal products from PAX Global Group

In connection with the business of provision of payment processing solutions, the Group from time to time purchases E-payment Terminal products from PAX Global and its subsidiaries (collectively the "PAX Global Group").

During the 12-month period preceding 31 July 2018 and the period from 1 August 2018 to 31 December 2018 ("Relevant Period"), the Group purchased from PAX Global Group E-payment Terminal products in an aggregate amount of approximately HK$151.2 million and HK$140.2 million respectively (inclusive of tax payable by the Group).

The Group provides E-payment Terminal products to its merchant customers and in return receives a fee. The E-payment Terminal products the Group purchased from PAX Global Group during the Relevant Period have been recorded as fixed assets while the relevant depreciation charges have been recorded as cost of sales in the financial statements of the Group.

During the Relevant Period, relevant members of the Group and PAX Global Group have from time to time entered into individual agreements in respect of the relevant sales and purchases of E-payment Terminal products.

The prices payable for the E-payment Terminal products were agreed between the Group and PAX Global Group at arm's length by reference to the prevailing market prices of products with similar specifications at the relevant time. The Group generally settles the purchase cost with PAX Global Group every six months. Reference is made to the announcements of the Company dated 1 August 2018 and 2 January 2019 in relation to the purchases.

BUSINESS OUTLOOK

Payment processing solutions

By the end of 2018, the overall transaction size of payment business continued to grow steadily, with the accumulated number of active domestic merchants under VBill exceeding 4.2 million and the annual accumulated transaction volume reached over RMB1,630 billion. Driven by the convenience and accessibility of mobile QR code payment, payment processing solutions segment maintained its strong momentum throughout the year. The transaction size increased by more than 40% compared with last year while the merchants base grew by over 60%. Together with the advancement of product features and wider adoption of innovative channel, total segmental revenue has grown by 65%, while income from non-payment processing segment has also increased steadily.

Through the innovative Xinlianmeng channel, we have recruited a large number of sales personnels in China to provide strong driving forces for the expansion of the micro merchants market in second and third-tier cities. Meanwhile, we have, based on the smart payment platform, built an open platform for service providers, offering omni-channel payment solutions to various software service providers and system integrators having payment demand, including bank cards, QuickPass, WeChat, Alipay. Evolving into the most comprehensive offline payment platform, the smart payment platform will offer scenario-based payment and settlement services to an exclusive network of small to medium-sized micro merchants.

Our fintech business has expanded nationwide. Following more than a year of research on risk model, our risk prevention capability has been enhanced through a systematic approach and the amount of loans granted have accumulated to over RMB930 million. During the year, our supply chain financial asset management platform has utilized blockchain technology to complete the deployment of SAAS structure and introduced smart contract, attracting core enterprises, financial institutions and operating enterprises. Leveraging on the accumulated technology and risk control capability over recent years, we have successively obtained a number of awards from various associations, institutions and media. We ranked the number one acquirer in terms of the number of offline small-sized micro merchants and the second best acquirer in terms of overall scenario-based strength. Along with the progressively increasing supervision by the regulatory authorities of China, VBill will increase its effort in the establishment of various compliance systems, including anti-money laundering, and strengthen operational control and risk prevention. We believe that the Company will be able to offer less costly, more efficient and diversified payment and fintech services to a wider user base in the future.

Information security chips and solutions

Driven by the rapid development of the payment market in China, the information security chips business continuously expanded in the first half of 2018. However, the market stabilized and we faced more intense competition in the second half of 2018. The annual sales volume increased significantly, among which, the sales of mag-stripe card security decoder chips remained stable while that of security micro-controller (MCU) achieved remarkable growth. It is expected that the market will stabilize in 2019, nonetheless, the growth may be affected by the central bank policies targeting the payment market. Other research and development projects are progressing smoothly and cost reduction initiatives of various products are rolling out in an orderly manner.

Platform operation solutions

We have been positioning as a service provider of high-quality technology and products and business operation related to the communication, payment and e-commerce industries. Since 2018, the Company has successfully renewed the operational supporting services contracts with E-commerce Base of China Mobile, the IVR Base and the Animation Base of China Mobile. Meanwhile, with our employees' concerted effort, we successfully completed the operational supporting services and gained high recognition from Mobile in 2018. Looking ahead, we will continue to provide operational supporting services to "package（和包）" business, IVR voice business and animation business of China Mobile and strive to stabilize the incomes from supporting services. We will carry on exploring the market and industry other than domestic mobile operators, in particular, the overseas mobile payment market. In 2019, we look forward to the successful expansion of the overseas mobile payment technology service project. Moreover, we will strive to open up an entirely new market in three to five years to expand the share of revenue outside the communication industry, thereby achieving sustainable and steady business growth.

Financial solutions

In 2018, in respect of traditional customers markets, major tasks such as the operation of Huishang Bank's next-generation core banking system and the phase I operation of Dah Sing Bank's next-generation core banking system as scheduled. In addition, we won the bid for various projects such as the downward core shifting of China CITIC Bank, batch optimization consultation of Shandong City Commercial Banks Alliance and data transfer of Nanyang Commercial Bank (China). On the basis of consolidating the traditional customers market, new business expansion focuses on the following four aspects: (1) active expansion of new customers for traditional business lines; (2) expansion of product lines other than the traditional business lines; (3) continuous expansion of financial services market beyond banking customers, including the market of insurance and financial corporations; and (4) preparation of business layouts for Hong Kong virtual banking needs. During the year, we entered into the letter of intent with three clients in relation to the virtual banking core business system construction.

Electronic power meters and solutions

In 2019, it is expected that the total tender volume of State Grid electricity meters and electricity consumption data collection devices will approximate that of 2018 and the market situation will remain challenging. The State Grid continues to promote new technological development, in particular, DLT698.45 object-oriented interchangeable data exchange protocol. In respect of the tender of State Grid in 2018, the product qualification must comply with such protocal to be eligible for bidding. In 2019, more of our products are expected to qualify for tender based on the existing products that are already available eligible for bidding. Currently, the State Grid Power Research Institute is conducting the research on and constructing the GB standards for IR46 electronic power meter. We have been closely and actively monitoring the latest technological development of the State Grid.

Consolidated Income Statement

	Note	For the year ended 31 December 2018 HK$'000	2017 HK$'000
Revenue	*2, 3*	**4,661,954**	2,909,978
Cost of sales	*4*	**(3,404,203)**	(2,165,949)
Gross profit		**1,257,751**	744,029
Other income	*2*	**43,894**	46,721
Other (losses)/gains, net	*2*	**(16,922)**	21,139
Selling expenses	*4*	**(96,829)**	(113,394)
Administrative expenses	*4*	**(687,992)**	(461,580)
Employees' incentive programme of subsidiaries		**(201,447)**	–
Credit impairment loss	*4*	**(39,954)**	–
Gain on disposal of subsidiaries		**–**	63,262
Operating profit		**258,501**	300,177
Finance costs		**(89)**	(9)
Share of result of an investment accounted for using the equity method	*10*	**171,753**	134,531
Gain on dilution of interest in an investment accounted for using the equity method	*10*	**–**	113
Profit before income tax		**430,165**	434,812
Income tax expense	*5*	**(92,875)**	(45,298)
Profit for the year		**337,290**	389,514
Profit attributable to:			
Owners of the Company		**278,175**	346,144
Non-controlling interests		**59,115**	43,370
		337,290	389,514
		HK$ per share	*HK$ per share*
Earnings per share for profit attributable to the owners of the Company:			
Basic	*6*	**0.100**	0.125
Diluted	*6*	**0.095**	0.124

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**337,290**	389,514
Other comprehensive income/(loss), net of tax		
Items that have been reclassified or may be subsequently reclassified to profit or loss		
Exchange differences arising on translation of the financial statements of foreign subsidiaries	**(78,517)**	78,739
Share of other comprehensive (loss)/income of an investment accounted for using the equity method	**(38,567)**	54,179
Release of reserves upon dilution of interest in an investment accounted for using equity method – exchange differences arising on translation of the financial statements of foreign subsidiaries	**–**	315
Change in values of available-for-sale financial assets	**–**	61,635
Release of reserves upon disposal of subsidiaries	**–**	(1,699)
Release of reserves upon deregistration of a subsidiary	**–**	(4,782)
Items that will not be subsequently reclassified to profit or loss		
Change in value of a financial asset at fair value through other comprehensive income	**(14,384)**	–
Share of other comprehensive income/(loss) of an investment accounted for using the equity method	**461**	(23)
Total comprehensive income for the year, net of tax	**206,283**	577,878
Attributable to:		
– Owners of the Company	**156,406**	528,126
– Non-controlling interests	**49,877**	49,752
	206,283	577,878

Consolidated Balance Sheet

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Investment properties		**1,575**	1,906
Property, plant and equipment		**715,193**	507,024
Leasehold land		**30,490**	31,974
Intangible assets		**1,884**	1,985
Investments accounted for using the equity method	*10*	**1,931,188**	1,823,245
Available-for-sale financial assets	*7*	**–**	178,385
Financial asset at fair value through other comprehensive income	*7*	**895**	–
Other financial assets at amortised cost		**12,807**	3,028
Loan receivables	*9*	**479**	–
Financial assets at fair value through profit or loss	*8*	**271,741**	93,485
Total non-current assets		**2,966,252**	2,641,032
Current assets			
Inventories		**162,275**	95,407
Other current assets		**68,988**	31,696
Other financial assets at amortised cost		**49,830**	32,166
Amounts due from investments accounted for using the equity method		**15,116**	16,289
Loan receivables	*9*	**535,816**	2,205
Trade and bills receivables	*11*	**149,178**	278,319
Financial asset at fair value through profit or loss	*8*	**2,004**	2,702
Short-term bank deposits		**1,583**	16,153
Cash and cash equivalents		**2,681,475**	2,541,482
Total current assets		**3,666,265**	3,016,419
Total assets		**6,632,517**	5,657,451
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**6,942**	6,942
Reserves		**4,371,271**	4,052,400
		4,378,213	4,059,342
Non-controlling interests		**193,062**	104,203
Total equity		**4,571,275**	4,163,545

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**109**	163
Other payables	*12*	**983**	–
Total non-current liabilities		**1,092**	163
Current liabilities			
Trade and bills payables	*12*	**251,043**	239,199
Payables for payment processing solutions business	*12*	**266,710**	292,587
Other payables and accruals	*12*	**1,375,891**	848,409
Amounts due to investments accounted for using the equity method		**114,190**	57,755
Current income tax liabilities		**42,069**	46,197
Borrowing		**10,247**	9,596
Total current liabilities		**2,060,150**	1,493,743
Total liabilities		**2,061,242**	1,493,906
Total equity and liabilities		**6,632,517**	5,657,451

Note:

1 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, except for the financial asset at fair value through other comprehensive income ("FVOCI"), available-for-sale financial assets ("AFS") and financial assets at fair value through profit or loss ("FVPL"), which are measured at fair values.

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 accounting policies of the Company and its subsidiaries (together the "Group").

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for current reporting period. Of these, the following are relevant to the Group's consolidated financial statements.

- HKFRS 9 Financial Instruments, and

- HKFRS 15 Revenue from Contracts with Customers

The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 9 Financial Instruments ("HKFRS 9") and HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") on the Group's consolidated financial statements.

The adoption of HKFRS 15 did not have any material impact on the Group's consolidated financial statements.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements as described below. In accordance with the transitional provisions in HKFRS 9, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018.

Impact of adoption

Classification and measurement of financial instruments

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

	31 December 2017, as originally presented	Reclassify from available-for-sale financial asset to financial asset at fair value through other comprehensive income *(Note (i))*	Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss *(Note (ii))*	1 January 2018, as restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets				
– Unlisted equity security	15,536	(15,536)	–	–
– Unlisted investment fund	162,849	–	(162,849)	–
	178,385	(15,536)	(162,849)	–
Financial assets at fair value through profit or loss				
– Unlisted investment fund	–	–	162,849	162,849
– Unlisted convertible preference shares	93,485	–	–	93,485
– Listed trading securities	2,702	–	–	2,702
	96,187	–	162,849	259,036
Financial asset at fair value through other comprehensive income				
– Unlisted equity security	–	15,536	–	15,536

	Available-for-sale revaluation reserve	Financial asset at fair value through other comprehensive income reserve	Retained earnings
	HK$'000	*HK$'000*	*HK$'000*
Balance at 31 December 2017, as originally presented	84,369	–	2,131,971
Unlisted equity security			
– Reclassify from available-for-sale financial asset to financial asset at fair value through other comprehensive income *(Note (i))*	(8,172)	8,172	–
Unlisted investment fund			
– Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss *(Note (ii))*	(76,197)	–	76,197
Balance at 1 January 2018, as restated	–	8,172	2,208,168

Notes:

(i) Reclassification of available-for-sale financial asset to financial asset at fair value through other comprehensive income – unlisted equity security

The Group elected to present changes in the fair value of its equity security (previously classified as AFS) in other comprehensive income as it is a long-term and strategic investment that is not expected to be sold in the short to medium term. As a result, the AFS with fair value of HK$15,536,000 as at 1 January 2018 was reclassified to financial asset at FVOCI and the related cumulative fair value gain of HK$8,172,000 was reclassified from available-for-sale revaluation reserve to financial asset at fair value through other comprehensive income reserve on 1 January 2018.

(ii) Reclassification of available-for-sale financial asset to financial asset at fair value through profit or loss – unlisted investment fund

The unlisted investment fund of the Group with fair value of HK$162,849,000 at 1 January 2018 was reclassified from AFS to financial asset at FVPL. It does not meet the HKFRS 9 criteria for classification at amortised cost and FVOCI, because its cash flows do not represent solely payments of principal and interest and the unlisted investment fund has a definite life.

Related cumulative fair value gains of HK$76,197,000 were transferred from the available-for-sale revaluation reserve to retained earnings on 1 January 2018. During the year ended 31 December 2018, fair value loss of HK$25,660,000 relating to the investment was recognised in the consolidated income statement.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities.

Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss ("ECL") model:

– trade and bills receivables

– other financial assets carried at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash and cash equivalents and short-term bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(i) Trade and bills receivables

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL for all trade and bills receivables. ECL are estimated by grouping the trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its aging category. The expected loss rates are based on historical credit losses experienced up to 3 years and are adjusted to reflect current and forward looking information on factors affecting the ability of the customers to settle the receivables.

Management has closely monitored the credit qualities and the collectability of the trade and bills receivables. The adoption of the simplified ECL approach under HKFRS 9 has not resulted in any additional impairment loss for trade and bills receivables as at 1 January 2018. As at 31 December 2017, the expected loss rates are up to 12.4% applied on different groupings, which does not have a material impact to the consolidated financial statements of the Group.

(ii) Other financial assets carried at amortised cost

For other financial assets carried at amortised cost, including other financial assets at amortised cost, amounts due from investments accounted for using the equity method and loan receivables in the consolidated balance sheet, the ECL is based on the 12-month ECL. It is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the ECL is immaterial. As at 31 December 2017, the ECL is immaterial to the consolidated financial statements of the Group.

(b) Impact of standards issued but not yet applied by the Group

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$69,614,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards and interpretations that are not yet effective that would be expected to have a material impact on the entity's consolidated financial statements.

2 REVENUE, OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

Revenue, other income and other (losses)/gains, net recognised during the year are as follows:

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Turnover		
Provision of payment processing solutions	**3,744,922**	1,979,939
Sales of information security chips and solutions	**291,567**	177,224
Provision of platform operation solutions	**208,569**	206,527
Provision of financial solutions	**311,549**	295,328
Sales of electronic power meters and solutions	**105,347**	250,960
	4,661,954	2,909,978
Other income		
Interest income	**23,717**	27,807
Subsidy income	**16,423**	12,513
Rental income	**2,419**	2,210
Others	**1,335**	4,191
	43,894	46,721
Other (losses)/gains, net		
Fair values gains/(losses) on financial assets at FVPL		
– Unlisted convertible preference shares	**9,387**	16,605
– Unlisted investment fund	**(25,660)**	–
– Listed trading securities	**(698)**	(248)
Dividend income earned from financial asset at FVPL	**49**	–
Gain on deregistration of a subsidiary	**–**	4,782
	(16,922)	21,139

3 SEGMENT INFORMATION

Management has determined the operating segments based on the internal reports reviewed by the Board of Directors that are used to make strategic decisions.

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

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

(a) Payment processing solutions – principally engaged in provision of payment processing services, merchants recruiting and related products and solutions;

(b) Information security chips and solutions – principally engaged in the provision of information system consultancy services, the sales of mag-strip card security decoder chips and related products and solutions;

(c) Platform operation solutions – principally engaged in the provision of telecommunication and mobile payment platform operation services and operation value-added services;

(d) Financial solutions – principally engaged in the provision of information system consultancy, integration and operation services and sales of information technology products to financial institutions and banks; and

(e) Electronic power meters and solutions – principally engaged in the manufacturing and sales of electronic power meters, data collection terminals and related products and solutions.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted earnings/(losses) before interest expense, taxes, depreciation and amortisation ("EBITDA").

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

	Payment processing solutions *HK$'000*	Information security chips and solutions *HK$'000*	Platform operation solutions *HK$'000*	Financial solutions *HK$'000*	Electronic power meters and solutions *HK$'000*	Others *HK$'000*	Total Group *HK$'000*
Year ended 31 December 2018							
Segment turnover	**3,744,922**	**291,567**	**209,636**	**311,549**	**105,347**	**–**	**4,663,021**
Inter-segment turnover	**–**	**–**	**(1,067)**	**–**	**–**	**–**	**(1,067)**
Turnover from external customers	**3,744,922**	**291,567**	**208,569**	**311,549**	**105,347**	**–**	**4,661,954**
Segmental EBITDA (excluding fair values losses on financial assets at FVPL and employees' incentive programme of subsidiaries)	**884,448**	**26,475**	**(24,148)**	**12,054**	**(23,920)**	**(12,262)**	**862,647**
Depreciation	**(292,147)**	**(629)**	**(2,131)**	**(278)**	**(2,214)**	**(97)**	**(297,496)**
Amortisation	**–**	**–**	**(144)**	**–**	**(290)**	**–**	**(434)**
Fair values losses on financial assets at FVPL	**–**	**–**	**(16,273)**	**–**	**–**	**–**	**(16,273)**
Employees' incentive programme of subsidiaries	**(195,300)**	**(6,147)**	**–**	**–**	**–**	**–**	**(201,447)**
Segmental operating profit/(loss)	**397,001**	**19,699**	**(42,696)**	**11,776**	**(26,424)**	**(12,359)**	**346,997**
Unallocated other income							**5,145**
Unallocated corporate expenses							**(93,641)**
Finance costs							**(89)**
Share of result of an investment accounted for using the equity method							**171,753**
Profit before income tax							**430,165**
Income tax expense							**(92,875)**
Profit for the year							**337,290**

	Payment processing solutions *HK$'000*	Information security chips and solutions *HK$'000*	Platform operation solutions *HK$'000*	Financial solutions *HK$'000*	Electronic power meters and solutions *HK$'000*	Others *HK$'000*	Total Group *HK$'000*
Year ended 31 December 2017							
Segment turnover	1,979,939	177,224	209,683	295,328	250,960	–	2,913,134
Inter-segment turnover	–	–	(3,156)	–	–	–	(3,156)
Turnover from external customers	1,979,939	177,224	206,527	295,328	250,960	–	2,909,978
Segmental EBITDA (excluding fair values gains on financial assets at FVPL)	432,375	26,867	(9,346)	23,942	1,692	(948)	474,582
Depreciation	(171,718)	(477)	(3,075)	(525)	(3,126)	(119)	(179,040)
Amortisation	–	–	(141)	(8,555)	(254)	–	(8,950)
Fair values gains on financial assets at FVPL	–	–	16,605	–	–	–	16,605
Segmental operating profit/(loss)	260,657	26,390	4,043	14,862	(1,688)	(1,067)	303,197
Unallocated other income							5,161
Unallocated corporate expenses							(71,443)
Finance costs							(9)
Gain on disposal of subsidiaries							63,262
Share of result of an investment accounted for using the equity method							134,531
Gain on dilution of interest in an investment accounted for using the equity method							113
Profit before income tax							434,812
Income tax expense							(45,298)
Profit for the year							389,514

Unallocated corporate expenses represent costs that are used for all segments, including depreciation of property, plant and equipment of HK$1,981,000 (2017: HK$1,640,000), depreciation of investment properties of HK$198,000 (2017: HK$212,000) and amortisation of leasehold land of HK$760,000 (2017: HK$760,000), respectively.

The segment assets and liabilities at 31 December 2018 and additions to non-current assets for the year ended 31 December 2018 are as follows:

	Payment processing solutions *HK$'000*	**Information security chips and solutions** *HK$'000*	**Platform operation solutions** *HK$'000*	**Financial solutions** *HK$'000*	**Electronic power meters and solutions** *HK$'000*	**Others** *HK$'000*	**Unallocated** *HK$'000*	**Elimination** *HK$'000*	**Total Group** *HK$'000*
As at 31 December 2018									
Segment assets	**2,848,317**	**248,240**	**637,276**	**339,802**	**249,455**	**102,338**	**3,169,150**	**(962,061)**	**6,632,517**
Segment liabilities	**(1,768,738)**	**(193,738)**	**(318,483)**	**(321,434)**	**(175,311)**	**(158,290)**	**(87,309)**	**962,061**	**(2,061,242)**
Year ended 31 December 2018									
Additions to non-current assets (excluding investments accounted for using the equity method, financial asset at fair value through other comprehensive income, other financial assets at amortised cost, loan receivables and financial assets at fair value through profit or loss)	**537,266**	**2,612**	**1,647**	**161**	**296**	**6**	**1,311**	**–**	**543,299**

The segment assets and liabilities at 31 December 2017 and additions to non-current assets for the year ended 31 December 2017 are as follows:

	Payment processing solutions *HK$'000*	Information security chips and solutions *HK$'000*	Platform operation solutions *HK$'000*	Financial solutions *HK$'000*	Electronic power meters and solutions *HK$'000*	Others *HK$'000*	Unallocated *HK$'000*	Elimination *HK$'000*	Total Group *HK$'000*
As at 31 December 2017									
Segment assets	1,888,946	146,695	772,790	346,121	362,179	72,020	3,154,717	(1,086,017)	5,657,451
Segment liabilities	(1,263,715)	(110,624)	(380,191)	(315,595)	(261,928)	(170,130)	(77,740)	1,086,017	(1,493,906)
Year ended 31 December 2017									
Additions to non-current assets (excluding investments accounted for using the equity method, available-for-sale financial assets, other financial assets at amortised cost and financial assets at fair value through profit or loss)	388,523	287	2,099	1,341	464	4	–	–	392,718

Unallocated assets mainly include investments accounted for using the equity method of HK$1,931,188,000 (2017: HK$1,823,245,000) and cash and cash equivalents of HK$561,845,000 (2017: HK$527,339,000).

During the year, additions to non-current assets mainly comprise additions to property, plant and equipment and intangible assets (2017: same).

Information provided to the Board of Directors is measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment.

Sales between segments are carried out at normal commercial terms. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the consolidated income statement.

The Group is principally domiciled in Mainland China and Hong Kong (2017: Mainland China, Hong Kong and Japan). The Group's turnover by geographical locations, which is determined by the locations in which the turnover are generated from, is as follows:

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Mainland China	**4,556,117**	2,844,322
Hong Kong	**105,837**	55,651
Japan	**–**	10,005
	4,661,954	2,909,978

The Group's non-current assets (excluding other financial assets at amortised cost, loan receivables, investments accounted for using the equity method, financial asset at FVOCI and financial assets at FVPL (2017: AFS)) and current assets by geographical locations, which is determined by the geographical locations in which the asset is located, is as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Non-current assets		
Mainland China	**747,475**	542,071
Hong Kong	**1,667**	818
	749,142	542,889
Current assets		
Mainland China	**2,880,301**	2,293,956
Hong Kong	**783,310**	719,766
Others	**2,654**	2,697
	3,666,265	3,016,419

4 EXPENSES BY NATURE

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

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Auditor's remuneration		
– audit services	**3,103**	2,950
– non-audit services	**977**	800
Depreciation of property, plant and equipment	**299,477**	180,680
Depreciation of investment properties	**198**	212
Amortisation of leasehold land	**986**	981
Amortisation of intangible assets	**208**	8,729
Employee benefit expense (excluding employees' incentive programme of subsidiaries, including directors' emoluments)	**697,934**	513,482
Costs of inventories sold (including write-back of provision/provision for inventories)	**298,082**	315,022
Operating lease rentals in respect of land and buildings	**37,144**	31,980
Research and development costs (including staff cost)	**322,752**	185,609
Credit impairment loss		
– trade and bills receivables *(Note 11)*	**5,125**	–
– loan receivables *(Note 9)*	**34,829**	–
(Gain)/loss on disposals of property, plant and equipment	**(45)**	302
Provision for inventories	**1,253**	783

5 INCOME TAX EXPENSE

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Current tax		
– Hong Kong profits tax	**–**	–
– Overseas taxation	**92,925**	45,344
Deferred tax	**(50)**	(46)
Income tax expense	**92,875**	45,298

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. 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.

Subsidiaries in the PRC are subject to corporate income tax ("CIT") in accordance with the PRC CIT Law. According to the PRC CIT Law and the relevant regulations, the CIT tax rate applicable is 25% unless preferential rates are applicable in the cities where the subsidiaries are located.

If a subsidiary is subject to CIT and qualified as High and New Technology Enterprise ("HNTE"), the applicable CIT tax rate is 15%. If a subsidiary is subject to CIT and qualified as Software and Integrated Circuit Enterprise ("SICE"), the applicable CIT tax rate is 0% for the first two years of being qualified and 12.5% for the next three years.

Applicable corporate income tax rates of principal subsidiaries

Beijing Hi Sun Advanced Business Solutions Information Technology Limited ("ABS") was renewed as HNTE in 2015 under the PRC CIT Law. Hangzhou PAX Electronic Technology Limited ("Hangzhou Electronic Technology") was renewed as HNTE in 2018 under the PRC CIT Law. 隨行付支付有限公司 ("VBill OPCO") was renewed as HNTE in 2017 under the PRC CIT Law. Hunan Hisun Mobile Pay IT Limited ("HN Mobile Pay") was re-qualified as HNTE in 2017 under the PRC CIT Law. As such, the applicable corporate income tax rate for ABS, Hangzhou Electronic Technology, VBill OPCO and HN Mobile Pay was 15% for the year ended 31 December 2018 (2017: same).

Megahunt Microelectronics Technology (Beijing) Company Limited ("Megahunt Microelectronics Technology") was qualifieds as SICE in 2015 under the new PRC CIT Law. As such, the applicables corporate income tax rate for Megahunt Microelectronics Technology was 12.5% (2017: 12.5%) for the year ended 31 December 2018.

6 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	For the year ended 31 December	
	2018	2017
Profit attributable to owners of the Company *(HK$'000)*	**278,175**	346,144
Weighted average number of ordinary shares in issue *(thousands shares)*	**2,776,834**	2,776,834
Basic earnings per share attributable to owners of the Company *(HK$ per share)*	**0.100**	0.125

(b) Diluted

Diluted earnings per share is calculated by adjusting the net income and the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive shares.

For the year ended 31 December 2018, the Group has five categories (2017: three) of potentially dilutive shares: share options issued by an associated company – PAX Global Technology Limited ("PAX Global"), share options and convertible preference shares issued by an associated company – Cloopen Group Holdings Limited ("Cloopen") and share options issued by subsidiaries – VBill OPCO and Megahunt Microelectronics Technology (2017: share options issued by PAX Global, share options and convertible preference shares issued by Cloopen).

For the year ended 31 December 2018, the calculation of diluted earnings per share does not assume the exercise of the share options of PAX Global as they would have an anti-dilutive impact to the basic earnings per share.

Dilutive effects arise from share options issued by PAX Global for the year ended 31 December 2017.

For the year ended 31 December 2017, the exercise of the outstanding share options in PAX Global would have a dilutive effect. The exercise of the share options in PAX Global would be dilutive if the net profit attributable to the owners of the Company will decrease as a result of the decrease in the Group's share of profit of associated company and reduce in gain on dilution of interest in an associated company. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual fair value of the associated company's shares) based on the monetary value of the subscription rights attached to outstanding share options of PAX Global. 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 of PAX Global.

For share options and convertible preference shares issued by Cloopen, as at 31 December 2018, the carrying amount of the interest in Cloopen was zero (2017: same). As at 31 December 2018, the Group's share of loss exceeded its interest in the ordinary shares of Cloopen, the exercise of the abovementioned share options and convertible preference shares would not have any impact on the diluted earnings per share (2017: same).

For the year ended 31 December 2018, the exercise of the outstanding share options in VBill OPCO and Megahunt Microelectronics Technology would have a dilutive effect. The exercise of the share options in VBill OPCO and Megahunt Microelectronics Technology would be dilutive if the net profit attributable to the owners of the Company will decrease. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual fair value of the subsidiaries' shares) based on the monetary value of the subscription rights attached to outstanding share options of VBill OPCO. 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 of VBill OPCO and Megahunt Microelectronics Technology.

	For the year ended 31 December	
	2018	2017
Profit attributable to owners of the Company *(HK$'000)*	**278,175**	346,144
Assuming exercise of all outstanding dilutive share options issued by PAX Global *(HK$'000)*		
– Decrease in share of profit of PAX Global	**–**	(89)
– Reduce in gain on dilution of PAX Global	**–**	(2,316)
Assuming exercise of all outstanding dilutive share options issued by VBill OPCO and Megahunt Microelectronics Technology *(HK$'000)*		
– Decrease in net profit attributable to the owners of the Company	**(13,728)**	–
Adjusted profit attributable to owners of the Company used to determine diluted earnings per share *(HK$'000)*	**264,447**	343,739
Weighted average number of ordinary shares for diluted earnings per share *(thousands shares)*	**2,776,834**	2,776,834
Diluted earnings per share attributable to owners of the Company *(HK$ per share)*	**0.095**	0.124

7 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Financial asset at fair value through other comprehensive income

As at 31 December 2018, the Group's financial asset at FVOCI included unlisted equity security outside Hong Kong which is not held for trading, and which the Group has irrevocably elected at initial recognition in this category. This is a strategic investment and the Group considers the classification as equity instruments at FVOCI to be more relevant.

	HK$'000
Balance at 31 December 2017, as originally presented	–
Change in accounting policy *(Note 1)*	
– Reclassify from AFS to financial asset at FVOCI	15,536
Balance at 1 January 2018, as restated	15,536
Fair value losses on revaluation recognised in other comprehensive income	(14,384)
Exchange realignment	(257)
Balance at 31 December 2018	895

The carrying amount of the financial asset at FVOCI is denominated in Renminbi ("RMB").

(b) Available-for-sale financial assets

As at 31 December 2017, the Group's AFS included unlisted equity security and unlisted investment fund with following details:

	HK$'000
Balance at 1 January 2017	106,113
Fair value gains on revaluation recognised in other comprehensive income	61,635
Exchange realignment	10,637
Balance at 31 December 2017	178,385
Unlisted equity security outside Hong Kong	15,536
Unlisted investment fund outside Hong Kong	162,849
	178,385

The carrying amounts of the AFS are denominated in RMB.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial assets at FVPL represent investment in unlisted investment fund, unlisted convertible preference shares and listed trading securities (2017: unlisted convertible preference shares and listed trading securities). These financial assets are mandatory measured at FVPL and with following details.

	HK$'000
Balance at 31 December 2017, as originally presented	96,187
Change in accounting policy *(Note 1)*	
– Reclassify from AFS to financial asset at FVPL	162,849
Balance at 1 January 2018, as restated	259,036
Addition	39,000
Net fair value losses on revaluation recognised in the consolidated income statement	(16,971)
Exchange realignment	(7,320)
Balance at 31 December 2018	273,745
Balance at 1 January 2017	76,880
Addition	2,950
Net fair value gains on revaluation recognised in the consolidated income statement	16,357
Balance at 31 December 2017	96,187

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Non-current assets		
Unlisted investment fund outside Hong Kong *(Note (a))*	**129,869**	–
Unlisted convertible preference shares outside Hong Kong *(Note (b))*	**141,872**	93,485
	271,741	93,485
Current assets		
Listed trading securities in Hong Kong *(Note (c))*	**2,004**	2,702
	273,745	96,187

Notes:

(a) Unlisted investment fund outside Hong Kong

The carrying amount of the unlisted investment fund is denominated in RMB.

(b) Unlisted convertible preference shares outside Hong Kong

On 10 June 2016 and 28 February 2018, the Group subscribed 7,443,326 Convertible Series C Preferred Shares (the "Convertible Series C Preferred Shares") and 2,434,015 Convertible Series D Preferred Shares (the "Convertible Series D Preferred Shares") of Cloopen, respectively. The considerations for the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares subscribed by the Group were approximately HK$78,000,000 (equivalent to US$10,000,000) and HK$39,000,000 (equivalent to US$5,000,000), respectively.

The Group, as the holders of the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares have:

(i) options to request Cloopen to redeem the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares at the prices equal to the greater of the issue prices with an 8% compound interest per annum return plus any accrued but unpaid dividends or the fair values at the dates of redemptions after the earliest of 10 June 2020 for Convertible Series C Preferred Shares and 28 February 2021 for Convertible Series D Preferred Shares or the occurrences of other conditions as provided for under the definitive subscription agreements; and

(ii) options to convert the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares into ordinary shares of Cloopen at the conversion prices based on certain conditions on the dates of conversions as provided for under the definitive subscription agreements.

The Convertible Series C Preferred Shares and Convertible Series D Preferred Shares, together with the abovementioned options, were classified as financial assets at FVPL and recognised at fair values. The fair values of the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares were valued by an independent valuer at the date of initial inception and on 31 December 2018.

The carrying amounts of the unlisted convertible preference shares are denominated in US dollar.

(c) Listed trading securities in Hong Kong

The fair value of the listed trading securities is based on their current bid prices in an active market and their carrying amount is denominated in Hong Kong dollar.

Changes in fair value of financial assets at FVPL are recorded in 'other (losses)/gains, net' in the consolidated income statement.

9 LOAN RECEIVABLES

Loan receivables are amounts due from customers in the ordinary course of the micro-lending business, unsecured and primarily denominated in RMB.

(i) Aging analysis of loan receivables

The aging analysis of loan receivables based on the payment due date is as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Current	**553,676**	2,059
1 to 3 months past due	**9,365**	146
Over 3 months past due	**6,061**	–
Loan receivables, gross	**569,102**	2,205
Less: Provision for impairment of loan receivables *(Note (a))*	**(32,807)**	–
	536,295	2,205
Non-current	**479**	–
Current	**535,816**	2,205
	536,295	2,205

Note:

(a) Impairment and risk exposure

The Group applies HKFRS 9 to measure the ECL. The Group assesses whether the credit risk of loan receivables have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL, the management assesses impairment loss using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default and exposure at default.

During the year ended 31 December 2018, based on management's assessment, the Group recorded credit impairment loss of HK$34,068,000 (2017: none) in the consolidated income statement. Loan receivables of HK$761,000, which are still subject to enforcement activity, were determined as uncollectible and were written off against loan receivables during the year ended 31 December 2018 (2017: Nil).

The loan receivables are not collateralised.

(ii) Effective interest rates on loan receivables

The effective interest rates on loan receivables are normally as follows:

	As at 31 December	
	2018	2017
Loans to individual borrowers	**5% to 36% p.a.**	15% p.a.

10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The balance recognised in the consolidated balance sheet is as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Associated company:		
– PAX Global *(Note (a))*	**1,927,772**	1,823,245
– Good Chain (Chongqing) Technology Co., Ltd. ("Good Chain") *(Note (c))*	**3,416**	–
	1,931,188	1,823,245

The amount of share of result recognised in the consolidated income statement is as follows:

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Associated company:		
– PAX Global *(Note (a))*	**171,753**	134,531

The amount of gain on dilution of interest recognised in the consolidated income statement is as follows:

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Associated company:		
– PAX Global *(Note (a))*	**–**	113

(a) Investment in PAX Global

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
At 1 January	**1,823,245**	1,663,250
Share of profit	**171,753**	134,531
Share of other comprehensive income	**(38,106)**	54,156
Dilution of interest *(Note ii)*	**–**	428
Dividend received	**(29,120)**	(29,120)
At 31 December	**1,927,772**	1,823,245

Impairment test for interest in PAX Global

As at 31 December 2018, the fair value of the investment calculated based on the current bid price of PAX Global at the balance sheet date is less than its carrying value. An impairment test is performed to determine the recoverable amount of the investment. The recoverable amount, which was assessed by an independent valuer on a value-in-use basis calculated by a discounted cash flow model, exceeds the carrying value as at 31 December 2018.

As at 31 December 2018, the Group's interest in PAX Global was 33.09% (2017: 33.09%).

There are no contingent liabilities relating to the Group's interest in PAX Global.

Note i: PAX Global is principally engaged in the development and sales of electronic funds transfer point-of-sales ("E-payment Terminals") products, provision of payment solutions services and maintenance services (collectively, the "E-payment Terminals solution business").

Note ii: During the year ended 31 December 2018, no share options were exercised. During the year ended 31 December 2017, certain employees of PAX Global exercised their share options granted pursuant to a share option scheme set up on 1 December 2010. A gain on dilution of interest in an associated company of HK$113,000 was recognised in the consolidated income statement, including release of reserve debited to the consolidated income statement of HK$315,000. The Group's interest in PAX Global decreased from 32.86% to 32.70% accordingly.

Note iii: During the year ended 31 December 2018, no ordinary shares were repurchased by PAX Global (2017: repurchase of 13,000,000 ordinary shares) on the Stock Exchange of Hong Kong Limited. The Group's interest in PAX Global remains at 33.09% (2017: increased from 32.70% to 33.09%).

(b) Investment in Cloopen

Set out below is an associated company of the Group as at 31 December 2018 – Cloopen. As at 31 December 2018, the carrying value of Cloopen is nil (2017: same) which is not considered as material to the consolidated financial statements of the Group. Cloopen has share capital consisting of class A ordinary share, class B ordinary share, series A convertible preferred shares, series B convertible preferred shares, series C convertible preferred shares and series D convertible preferred shares.

As at 31 December 2018, the Group's effective interest in the ordinary shares of Cloopen, calculated based on all issued and outstanding ordinary shares of Cloopen which are held by the Group, is 50.51% (2017: 50.51%).

There are no contingent liabilities and commitments to provide funding relating to the Group's interest in Cloopen.

The interest in Cloopen was initially measured at fair value. The carrying amount was increased or decreased to recognise the Group's share of the profits or loss and movements in other comprehensive income or loss of the interest in Cloopen to the extent the carrying amount of the interest in Cloopen reduced to nil due to losses, after the initial recognition. As at 31 December 2018, the Group's share of loss of Cloopen exceeded its interest in the ordinary shares of Cloopen, there are no overall financial impact on the consolidated income statement from the investment for the year. As at 31 December 2018, the unrecognised share of loss of the interest in Cloopen is HK$413,475,000 (2017: HK$270,658,000).

(c) Investment in Good Chain

Good Chain was set up on 15 June 2018. The Group holds 30% equity interest in Good Chain. It does not have any material operation during the year ended 31 December 2018.

11 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Current portion		
Trade receivables *(Note (a))*	**148,173**	270,240
Bills receivables *(Note (b))*	**11,468**	13,902
Less: provision for impairment of receivables *(Note (c))*	**(10,463)**	(5,823)
	149,178	278,319

The carrying amounts approximate their fair values. The carrying amounts of the trade and bills receivables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
HK$	**7,086**	1,687
RMB	**139,941**	275,555
US$	**546**	–
Macanese pataca ("MOP")	**1,605**	1,077
	149,178	278,319

(a) Trade receivables

The Group's credit terms to trade debtors range from 0 to 180 days. The ageing analysis of the trade receivables primarily based on invoice date was as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**109,685**	188,974
91 to 180 days	**2,919**	27,060
181 to 365 days	**8,335**	19,564
Over 365 days	**27,234**	34,642
	148,173	270,240

(b) Bills receivables

The balance represents bank acceptance notes with maturity dates within six months. The maturity profile of the bills receivables of the Group is as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Falling within 90 days	**4,636**	13,902
Falling within 91 to 180 days	**6,832**	–
	11,468	13,902

(c) Impairment and risk exposure

Trade and bills receivables

The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and bills receivables. To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

Movement on the provision for impairment of receivables are as follows:

	For the year ended 31 December	
	2018	2017
At 1 January	**5,823**	5,397
Credit impairment loss	**5,125**	–
Exchange realignment	**(485)**	426
At 31 December	**10,463**	5,823

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

12 TRADE AND BILLS PAYABLES, PAYABLES FOR PAYMENT PROCESSING SOLUTIONS BUSINESS AND OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Current portion		
Trade payables *(Note (a))*	**247,878**	218,178
Bills payables *(Note (b))*	**3,165**	21,021
	251,043	239,199
Payables for payment processing solutions business *(Note (c))*	**266,710**	292,587
Other payables and accruals *(Note (d))*	**1,375,891**	848,409
	1,893,644	1,380,195
Non-current portion		
Other payables *(Note (d))*	**983**	–
	1,894,627	1,380,195

Notes:

(a) Trade payables

As at 31 December 2018 and 2017, the ageing analysis of the trade payables primarily based on invoice date was as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Current to 90 days	**205,694**	141,038
91 to 180 days	**2,663**	33,096
181 to 365 days	**17,774**	30,344
Over 365 days	**21,747**	13,700
	247,878	218,178

The credit period granted by the suppliers ranges from 0 to 180 days.

(b) Bills payables

The balance represents bank acceptance notes:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Due within 90 days	**1,099**	12,971
Due within 91 to 180 days	**2,066**	8,050
	3,165	21,021

(c) Payables for payment processing solutions business

This balance represents payables to merchants for the payment processing solutions business. The amounts are generally due for settlement within 30 days and is denominated in RMB.

(d) Other payables and accruals

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Accrued staff costs and pension obligations	**273,934**	219,370
Deposits	**84,556**	73,932
Receipt in advance *(Note i)*	**706,402**	371,355
Others	**311,982**	183,752
	1,376,874	848,409

Notes:

(i) A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under other payables and accruals as receipt in advance from customers in the consolidated balance sheet.

The Group has recognised the following liabilities related to contracts with customers:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Provision of payment processing solutions	**702,945**	357,407
Sales of electronic power meters and solutions	**2,374**	6,787
Others	**1,083**	7,161
	706,402	371,355

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Shares during the year ended 31 December 2018.

FINAL DIVIDEND

No dividend has been paid or declared by the Company for the year ended 31 December 2018 (2017: Nil).

RECORD DATE FOR DETERMINING ELIGIBILITY TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING

Record date (being the last date for registration of any share transfer given there will be no book closure) for determining the entitlement of the shareholders of the Company to attend and vote at the annual general meeting ("Annual General Meeting") to be held on Thursday, 2 May, 2019 will be Thursday, 25 April, 2019. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 April, 2019.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles (the "Principles") and code provisions (the "Code Provisions") in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

In formulating and implementing its corporate governance practices and standards, the Company has applied the Principles and complied with all applicable Code Provisions for the year ended 31 December 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted trading guidelines regulating directors' and senior management's transactions concerning securities of the Company, on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry had been made to all the directors of the Company and the directors have confirmed that they have complied with the required standard as set out in Model Code and the Group's trading guidelines through the year and up to the date of this announcement.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

SUBSEQUENT EVENTS

(a) Subscription agreement and deemed disposal

Subsequent to the reporting period, on 12 February 2019, the Company, Mr. Shen, Mr. Li, Mr. Xue and Ms. Ge, ELECTRUM B.V. (the "Investor"), VBill (Cayman) and VBill OPCO entered into a subscription agreement ("Subscription Agreement"), pursuant to which the Investor will be entitled to subscribe for, and be allotted, an aggregate of up to 15% of the issued ordinary shares of VBill (Cayman) ("VBill Shares") (on a fully diluted basis immediately after the Second Capital Increase Completion (as defined below)) at an aggregate subscription price of up to RMB588,000,000.

Pursuant to the Subscription Agreement, subscription of the VBill Shares by the Investor will be completed in two tranches. 1,263 VBill Shares will be subscribed by and allotted to the Investor, representing approximately 11.21% of the issued VBill Shares upon completion of the first subscription ("First Capital Increase Completion") at the subscription price of RMB378,000,000. The First Capital Increase Completion is conditional upon, among other things, completion of the restructuring of various existing group of companies in accordance with the Subscription Agreement. The First Capital Increase Completion is expected to take place 10 business days after the date of issuance of a notice of satisfaction of the last condition to be satisfied which cannot be later than the longstop date (being 30 June 2019) or such other date agreed among the parties to the Subscription Agreement.

Consideration for the second subscription will be determined with reference to the actual net profit figure of VBill OPCO in accordance with the Subscription Agreement and completion of the second capital subscription ("Second Capital Increase Completion") is expected to take place on a date no later than the later of (a) 15 business days after the First Capital Increase Completion or (b) 15 business days after the date on which the audited consolidated financial statements of VBill OPCO for the year ended 31 December 2018 is delivered to the Investor (or such other date as agreed among the parties to the Subscription Agreement). The final subscription price payable by the Investor and the final number of VBill Shares to be allotted and issued to the Investor is therefore subject to adjustment upon the Second Capital Increase Completion.

Immediately before the First Capital Increase Completion, VBill (Cayman) will be owned as to 80.04% by the Company, 9.96% by Delia and Grace Technology Limited, a special purpose vehicle wholly-owned by Mr. Shen for holding his VBill Shares ("Shen Holdco"), 4.80% by Kapok Technology Limited, a special purpose vehicle wholly-owned by Mr. Li for holding his VBill Shares ("Li Holdco"), 3.20% by Yuteng Technology Limited, a special purpose vehicle wholly-owned by Mr. Xue for holding his VBill Shares ("Xue Holdco") and 2.00% by Just Pay Technology Limited, a special purpose vehicle wholly-owned by Ms. Ge for holding her VBill Shares ("Ge Holdco"). Immediately after the First Capital Increase Completion, VBill (Cayman) will be owned as to approximately 71.07% by the Company, approximately 11.21% by the Investor, approximately 8.84% by Shen Holdco, approximately 4.26% by Li Holdco, approximately 2.84% by Xue Holdco and approximately 1.78% by Ge Holdco.

Immediately upon the Second Capital Increase Completion and on the assumption that the number of VBill Shares needs to be adjusted, the Company's shareholding in VBill (Cayman) may be diluted to the largest possible extent of approximately 68.03% (assuming the Investor has subscribed for 15% of the issued VBill Shares on a fully diluted basis). After completion of the transactions contemplated under the Subscription Agreement, the Company will be deemed to have disposed of a maximum of approximately 12.01% interest in VBill (Cayman) (ie. from 80.04% to 68.03%) ("Deemed Disposal"), but VBill (Cayman) will remain as a subsidiary of the Company.

As the highest applicable percentage ratio (as defined under the Listing Rules) under the Listing Rules in respect of the Deemed Disposal under Subscription Agreement exceeds 5% but all applicable percentage ratios are less than 25%, the Deemed Disposal under Subscription Agreement constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. However, as the grant of Put Option (described hereunder) constitutes a major transaction of the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules, the Company will convene a special general meeting ("SGM") for the Shareholders to consider, and if appropriate, approve the transactions contemplated in the transaction documents including the Subscription Agreement.

Due to the relationship between the parties, each of Mr. Shen, Mr. Li, Mr. Xue and Ms. Ge ("Management Shareholders", together with Shen Holdco, Li Holdco, Xue Holdco and Ge Holdco, each of which being an associate of Mr. Shen, Mr. Li, Mr. Xue and Ms. Ge respectively) is a connected person of the Company at subsidiary level. The entering into of the Subscription Agreement between the Company and the Management Shareholders, and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

Further details of the Subscription Agreement and the Deemed Disposal are set out in the Company's announcement dated 12 February 2019.

(b) Shareholders' Agreement and grant of put option

Upon the First Capital Increase Completion, the parties will enter into a shareholders' agreement ("Shareholders' Agreement") in respect of the management and ownership of VBill (Cayman), pursuant to which, among other things, VBill (Cayman) will grant a put option to the Investor and the exercise of which will be subject to the terms and conditions of the Shareholders' Agreement ("Put Option").

As the highest applicable percentage ratio (as defined under the Listing Rules) under the Listing Rules in respect of the grant and exercise of the Put Option (the exercise of which is not at the discretion of the Company) exceeds 25% but all applicable percentage ratios are less than 75%, the grant and the exercise of the Put Option constitutes a major transaction of the Company and is therefore subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company will convene the SGM for the Shareholders to consider, and if appropriate, approve the grant of the Put Option.

Further details of the Shareholders' Agreement and the Put Option are set out in the announcement of the Company dated 12 February 2019.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The announcement will be published on the Company's website at www.hisun.com.hk and the website of the Stock Exchange at www.hkexnews.hk. The Annual Report 2018 will be despatched to all shareholders and available on the above websites in due course.

By Order of the Board
Hi Sun Technology (China) Limited
Li Wenjin
Executive Director

Hong Kong, 6 March 2019

As at the date of this announcement, the Board consists of five Executive Directors, namely, Mr. Cheung Yuk Fung, Mr. Kui Man Chun, Mr. Xu Wensheng, Mr. Li Wenjin and Mr. Xu Changjun; and three Independent Non-Executive Directors, namely Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Chang Kai-Tzung, Richard.