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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 2017

FINANCIAL HIGHLIGHTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | Change +/(–) |
|---|-------------------------|-------------------------|-----------------|
| RESULTS | | | |
| Revenue | 2,909,978 | 1,921,237 | +51% |
| Gross profit | 744,029 | 592,695 | +26% |
| Segmental EBITDA (before unallocated items) | 491,187 | 297,073 | +65% |
| Operating profit | 300,177 | 132,323 | +127% |
| Profit for the year | <u>389,514</u> | <u>312,656</u> | +25% |
| Profit attributable to: | | | |
| – Owners of the Company | 346,144 | 283,964 | +22% |
| – Non-controlling interests | <u>43,370</u> | <u>28,692</u> | +51% |
| | <u>389,514</u> | <u>312,656</u> | |
| | <i>HK\$ per share</i> | <i>HK\$ per share</i> | Change +/(–) |
| Earnings per share for profit attributable to the owners of the Company: | | | |
| Basic | 0.125 | 0.102 | +23% |
| Diluted | <u>0.124</u> | <u>0.100</u> | +24% |

* For identification purpose only

| | As at 31 December | | Change +/(–) |
|---|-------------------------|-------------------------|-----------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | |
| HIGHLIGHTS OF FINANCIAL POSITION | | | |
| Total equity | 4,163,545 | 3,585,667 | +16% |
| Net current assets | 1,522,676 | 1,424,346 | +7% |
| Total assets | <u>5,657,451</u> | <u>5,499,041</u> | +3% |
| | <i>HK\$ per share</i> | <i>HK\$ per share</i> | Change +/(–) |
| Net assets per share | <u>1.499</u> | <u>1.291</u> | +16% |

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 2017 together with the comparative figures for the year ended 31 December 2016. 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 2017, the Group reported total assets of HK\$5,657.5 million (2016: HK\$5,499.0 million), which were financed by total liabilities of HK\$1,493.9 million (2016: HK\$1,913.3 million) and equity of HK\$4,163.6 million (2016: HK\$3,585.7 million). The net asset value was HK\$4,163.6 million (2016: HK\$3,585.7 million). Net assets per share amounted to HK\$1.499 as at 31 December 2017 as compared to HK\$1.291 per share as at 31 December 2016.

As at 31 December 2017, the Group had cash and cash equivalents of HK\$2,541.5 million (2016: HK\$2,726.7 million) and short term borrowing of HK\$9.6 million (2016: Nil). The net cash position as at 31 December 2017 was HK\$2,531.9 million as compared to HK\$2,726.7 million as at 31 December 2016. The gearing ratio (defined as total borrowing divided by total capital) was 0.2% (2016: zero). 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 2017, the Group had bank borrowing of HK\$9.6 million (2016: Nil) and banking facilities of approximately HK\$19.2 million (2016: HK\$17.8 million). The bank borrowing was charged at an interest rate of 4.57% per annum (2016: Nil). As at 31 December 2017, 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\$3.1 million (2016: HK\$2.9 million) and HK\$9.0 million (2016: HK\$9.3 million), respectively.

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 Macanese Pataca ("MOP") respectively as at 31 December 2017.

Approximately HK\$1,977.7 million, HK\$468.6 million, HK\$273.8 million, HK\$0.2 million and HK\$6.4 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 2016.

SIGNIFICANT INVESTMENT

Save as disclosed in this announcement, the Group had no significant investment held as at 31 December 2017.

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 2017.

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 2017.

EXCHANGE RATES EXPOSURE

The Group derives its revenue, makes purchases and incurs expenses denominated mainly in US Dollars, Renminbi, Hong Kong Dollars and Japanese Yen. 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 2017, the Company does 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 a subsidiary of the Group

In respect of the increased credit limit of manufacturing orders of semiconductor products to be placed by a subsidiary of the Group ("Subsidiary A") to manufacturer from US\$1,000,000 to US\$6,000,000, the Company, upon request of the manufacturer, had in 2017 entered into a guarantee agreement ("Guarantee Agreement") with Subsidiary A, pursuant to which the Company shall guarantee to repay the due and unsettled debts of Subsidiary A owed to the manufacturer to be incurred in relation to the aforesaid manufacturing orders, should Subsidiary A cease or fail to honour its obligations prescribed thereunder, subject to a surety of not more than US\$6,000,000. As at 31 December 2017, the Company does not recognise any liability in relation to the Guarantee Agreement as the Directors of the Company consider the possibility of reimbursement not probable.

Save as disclosed above, the Group had no material contingent liability as at 31 December 2017 and 2016 respectively.

EMPLOYEES

The total number of employees of the Group as at 31 December 2017 was 2,226. The breakdown of employees by division is as follows:

| | |
|--|-------------|
| Payment processing solutions | 713 |
| Financial solutions | 291 |
| Electronic power meters and solutions | 283 |
| Information security chips and solutions | 86 |
| Platform operation solutions | 806 |
| Others | 10 |
| Corporate office | 37 |
| | <hr/> |
| | 2,226 |
| | <hr/> <hr/> |

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

| | Note | Turnover | | EBITDA | |
|--|------|------------------|--|------------------|--|
| | | 2017 HK\$'000 | 2016 HK\$'000 (restated) (Note 4) | 2017 HK\$'000 | 2016 HK\$'000 (restated) (Note 4) |
| Payment processing solutions | 1 | 1,979,939 | 1,050,313 | 432,375 | 253,239 |
| Financial solutions | 2 | 295,328 | 351,407 | 23,942 | 26,473 |
| Electronic power meters and solutions | 3 | 250,960 | 258,239 | 1,692 | 16,374 |
| Information security chips and solutions | 4 | 177,224 | 56,539 | 26,867 | 6,370 |
| Platform operation solutions | 5 | 209,683 | 210,766 | 7,259 | 8,055 |
| Others | | – | – | (948) | (13,438) |
| Segmental results | | 2,913,134 | 1,927,264 | 491,187 | 297,073 |
| Less: Inter-segment turnover | | (3,156) | (6,027) | – | – |
| Total | | <u>2,909,978</u> | <u>1,921,237</u> | 491,187 | 297,073 |
| Depreciation | | | | (179,040) | (92,589) |
| Amortisation | | | | (8,950) | (10,504) |
| Segmental operating profit | | | | 303,197 | 193,980 |
| Unallocated other income | | | | 5,161 | 4,900 |
| Unallocated corporate expenses | | | | (71,443) | (66,557) |
| Gain on disposal of subsidiaries | | | | 63,262 | – |
| Operating profit | | | | <u>300,177</u> | <u>132,323</u> |

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------|-----------------------|-----------------------|
| Revenue | A | 2,909,978 | 1,921,237 |
| Cost of sales | B | (2,165,949) | (1,328,542) |
| Gross profit | | 744,029 | 592,695 |
| Other income | A | 46,721 | 46,205 |
| Other gains/(losses), net | A | 21,139 | (1,120) |
| Selling expenses | B | (113,394) | (101,631) |
| Administrative expenses | B | (461,580) | (403,826) |
| Gain on disposal of subsidiaries | C | 63,262 | – |
| Operating profit | | 300,177 | 132,323 |
| Finance costs | | (9) | – |
| Share of result of an investment accounted for using the equity method | D | 134,531 | 198,992 |
| Gain on dilution of interest in an investment accounted for using the equity method | D | 113 | 826 |
| Profit before income tax | | 434,812 | 332,141 |
| Income tax expense | | (45,298) | (19,485) |
| Profit for the year | | <u>389,514</u> | <u>312,656</u> |
| Profit attributable to: | | | |
| – Owners of the Company | | 346,144 | 283,964 |
| – Non-controlling interests | | 43,370 | 28,692 |
| | | <u>389,514</u> | <u>312,656</u> |
| | | <i>HK\$ per share</i> | <i>HK\$ per share</i> |
| Earnings per share for profit attributable to the owners of the Company: | | | |
| Basic | | <u>0.125</u> | <u>0.102</u> |
| Diluted | | <u>0.124</u> | <u>0.100</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|---|------|-----------------------|-----------------------|
| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
| ASSETS | | | |
| Investment properties, property, plant and equipment and leasehold land | E | 540,904 | 301,383 |
| Intangible assets | F | 1,985 | 10,466 |
| Investments accounted for using the equity method | G | 1,823,245 | 1,663,250 |
| Available-for-sale financial assets | H | 178,385 | 106,113 |
| Financial assets at fair value through profit or loss | I | 96,187 | 76,880 |
| Inventories | J | 95,407 | 74,972 |
| Trade and bills receivables | K | 278,319 | 243,534 |
| Other receivables, prepayments and deposits | K | 69,095 | 41,474 |
| Amounts due from investments accounted for using the equity method | L | 16,289 | 13,258 |
| Short-term bank deposits | | 16,153 | 18,388 |
| Cash and cash equivalents | | 2,541,482 | 2,726,733 |
| Assets of disposal group classified as held-for-sale | N | – | 222,590 |
| Total assets | | 5,657,451 | 5,499,041 |
| EQUITY | | | |
| Capital and reserves attributable to the owners of the Company | | | |
| Share capital | | 6,942 | 6,942 |
| Reserves | | 4,052,400 | 3,524,274 |
| | | 4,059,342 | 3,531,216 |
| Non-controlling interests | | 104,203 | 54,451 |
| Total equity | | 4,163,545 | 3,585,667 |
| LIABILITIES | | | |
| Deferred income tax liabilities | | 163 | 205 |
| Trade and bills payables | M | 239,199 | 266,270 |
| Payables for payment processing solutions business | M | 292,587 | 808,650 |
| Other payables and accruals | M | 848,409 | 625,417 |
| Amounts due to investments accounted for using the equity method | L | 57,755 | 81,468 |
| Current tax liabilities | | 46,197 | 34,884 |
| Borrowing | | 9,596 | – |
| Liabilities of disposal group classified as held-for-sale | N | – | 96,480 |
| Total liabilities | | 1,493,906 | 1,913,374 |
| Total equity and liabilities | | 5,657,451 | 5,499,041 |
| | | <i>HK\$ per share</i> | <i>HK\$ per share</i> |
| Net assets per share | | 1.499 | 1.291 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the year ended | |
|--|--------------------------|-----------------|
| | 31 December | |
| | 2017 | 2016 |
| <i>Note</i> | HK\$'000 | HK\$'000 |
| Net cash (used in)/generated from operating activities | (153,447) | 908,831 |
| Net cash used in investing activities | (273,374) | (291,445) |
| Net cash generated from financing activities | 12,808 | 3,879 |
| Net (decrease)/increase in cash and cash equivalents | (414,013) | 621,265 |
| Cash and cash equivalents at beginning of the year | 2,804,978 | 2,292,287 |
| Exchange gain/(loss) on cash and cash equivalents | 150,517 | (108,574) |
| Cash and cash equivalents at end of the year | 2,541,482 | 2,804,978 |
| | As at 31 December | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Analysis of cash and cash equivalents: | | |
| Cash and cash equivalents | 2,541,482 | 2,726,733 |
| Cash and cash equivalents included in disposal group classified as held-for-sale | <i>N</i> — | 78,245 |
| | 2,541,482 | 2,804,978 |

FINANCIAL REVIEW

During the year ended 31 December 2017 (“YEAR 2017”), the consolidated turnover of Hi Sun Technology (China) Limited (the “Company”) and its subsidiaries (the “Group”) amounted to HK\$2,910.0 million, representing an increase of 51% when compared with the year ended 31 December 2016 (“YEAR 2016”). Profit for the year totalled HK\$389.5 million as compared to HK\$312.7 million in YEAR 2016.

With regard to the balance sheet, the total assets as at 31 December 2017 amounted to HK\$5,657.5 million, when compared with HK\$5,499.0 million as at 31 December 2016. As at 31 December 2017, net current assets amounted to HK\$1,522.7 million, when compared with HK\$1,424.3 million as at 31 December 2016.

SEGMENT PERFORMANCE REVIEW

(1) Payment processing solutions

Key performance indicators

| | 2017 HK\$'000 | 2016 HK\$'000 | Change + / (-) |
|------------------|--------------------------------|------------------|-------------------|
| Turnover* | 1,979,939 | 1,050,313 | +89% |
| EBITDA | 432,375 | 253,239 | +71% |
| Operating profit | 260,657 | 169,652 | +54% |

* Turnover from external customers

Segmental turnover amounted to HK\$1,979.9 million, as compared to HK\$1,050.3 million in YEAR 2016. Segmental operating profit amounted to HK\$260.7 million, as compared to HK\$169.7 million in YEAR 2016. The increase in segmental operating profit was mainly due to increased scale of transaction operations. By end of YEAR 2017, there were over 2,500,000 accumulated domestic merchants and the monthly transaction volume in December 2017 exceeded RMB110 billion.

(2) Financial solutions

Key performance indicators

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | Change + / (-) |
|------------------|--------------------------------|-------------------------|-------------------|
| Turnover* | 295,328 | 348,079 | -15% |
| EBITDA | 23,942 | 26,473 | -10% |
| Operating profit | 14,862 | 14,757 | +1% |

* Turnover from external customers

During the current year, segmental turnover amounted to HK\$295.3 million, as compared to HK\$348.1 million in YEAR 2016. Segmental operating profit totaled HK\$14.9 million, as compared to HK\$14.8 million in YEAR 2016. Effect of decrease in segmental turnover was mitigated by decline in amortisation of intangible asset during the year.

(3) Electronic power meters and solutions

Key performance indicators

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> (restated) | Change + / (-) |
|-------------------------|--------------------------------|---------------------------------------|-------------------|
| Turnover* | 250,960 | 258,239 | -3% |
| EBITDA | 1,692 | 16,374 | -90% |
| Operating (loss)/profit | (1,688) | 12,688 | N/A |

* Turnover from external customers

Segmental turnover amounted to HK\$251.0 million, representing a 3% drop as compared to YEAR 2016. Decrease in turnover was mainly due to decline in shipment level as compared to YEAR 2016. During YEAR 2017, the State Grid invited two tender exercises for electronic power meters and data collection devices contracts and we were only awarded contracts for the second tender exercise. Shrinkage of successful tender volume and size has led to a challenging operating environment in YEAR 2017 and is expected to continue to impact YEAR 2018. Segmental operating loss amounted to HK\$1.7 million, as compared to a segmental operating profit of HK\$12.7 million in YEAR 2016.

(4) Information security chips and solutions

Key performance indicators

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> (restated) | Change + / (-) |
|------------------|--------------------------------|---------------------------------------|-------------------|
| Turnover* | 177,224 | 56,539 | +213% |
| EBITDA | 26,867 | 6,370 | +322% |
| Operating profit | 26,390 | 5,871 | +349% |

* Turnover from external customers

To promote better efficiency and effectiveness in management, during the year, we have split our “Information security chips and solutions” from the “Electronic power meters and solutions” segment. During the year, segmental turnover amounted to HK\$177.2 million as compared to HK\$56.5 million in YEAR 2016, increased by more than 213%. 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\$26.4 million, as compared to HK\$5.9 million in YEAR 2016.

(5) Platform operation solutions

Key performance indicators

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | Change + / (-) |
|------------------|--------------------------------|-------------------------|-------------------|
| Turnover* | 206,527 | 208,067 | -1% |
| EBITDA | 7,259 | 8,055 | -10% |
| Operating profit | 4,043 | 4,732 | -15% |

* Turnover from external customers

In YEAR 2017, 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\$206.5 million as compared to HK\$208.1 million in YEAR 2016. Segmental operating profit amounted to HK\$4.0 million, as compared to HK\$4.7 million in YEAR 2016.

OVERALL FINANCIAL RESULTS AND POSITION

(A) Revenue, other revenue and other gains/(losses), net

The consolidated turnover amounted to HK\$2,910.0 million, representing an increase of 51% from YEAR 2016. Such increase was mainly contributed by increase in segmental turnover of our payment processing solutions segment. Please refer to Notes (1) to (5) above.

Other revenue mainly represented interest income and subsidy income. Increase in other gains was mainly due to increase in fair value gain on a financial asset at fair value through profit and loss during the year.

(B) Cost of sales and operating expenses

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

Increase in operating expenses during the current period was primarily attributable to (i) increase in employee benefit expenses mainly due to the increase in headcounts and average salary; and (ii) increase in R&D expenses while partially offset by a net foreign exchange gain as compared to a net foreign exchange loss in prior year.

(C) Gain on disposal of subsidiaries

Amount represented the gain on the disposal of Merchant Support Co., Ltd. (“MS”), a then wholly owned subsidiary of the Company, completed in June 2017 (please refer to the announcement of the Company dated 18 May 2017 for further details).

(D) Share of result of and gain on dilution of interest in an investment accounted for using the equity method

The Group’s share of profit of PAX Global Technology Limited (“PAX Global”), an associated company, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) decreased in line with the decrease in profit of PAX Global. Gain on dilution of interest in an associated company of HK\$0.1 million (Year 2016: HK\$0.8 million) was due to the effect of exercise of share options of PAX Global by some of its employees during the year. As an ordinary shareholder of Cloopen Group Holding Limited (“Clopen”), an associated company of the Group, the Group’s share of loss exceeded its interest in the ordinary shares of Cloopen, there was no overall financial impact on the consolidated income statement from the investment for the current year.

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

Balance mainly represents fixed assets of payment processing solutions and electronic power meters and solutions segments.

(F) Intangible assets

Decrease in balance was due to amortisation charged during the year.

(G) Investments accounted for using the equity method

Balance mainly represents the Group's interest in PAX Global. As at 31 December 2017, the fair value of the Group's 33.1% effective interest in PAX Global was HK\$1,274.0 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 calculated based on value-in-use exceeded the carrying value as at 31 December 2017.

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 2017, 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 current period. As at 31 December 2017, the carrying amount of the Group's interest in the ordinary shares of Cloopen was zero. Meanwhile, the fair value of the Group's interest in the ordinary shares of Cloopen was approximately HK\$339.5 million.

(H) Available-for-sale financial assets

As at 31 December 2017, the available-for-sale financial assets included equity securities which are unlisted investments outside Hong Kong. As at 31 December 2017, the balance included interest in a venture capital fund of HK\$162.9 million and interest in an unlisted equity investment in the People's Republic of China ("PRC") of HK\$15.5 million.

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

Balance represents the fair value of the Group's interest in the Convertible Series C Preferred Shares of Cloopen of HK\$93.5 million and fair value of trading securities listed in Hong Kong of HK\$2.7 million.

(J) Inventories

Amount mainly represents inventories of electronic power meters and solutions segment and information security chips and solutions segment. During the year, HK\$0.8 million was recorded for provision on inventories with respect to slow-moving and obsolete stocks.

(K) Trade and bills receivables and other receivables, prepayments and deposits

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Trade receivables (<i>Note (i)(a)</i>) | 270,240 | 247,647 |
| Bills receivables (<i>Note (i)(b)</i>) | 13,902 | 1,284 |
| Less: provision for impairment of receivables | (5,823) | (5,397) |
| | 278,319 | 243,534 |
| Other receivables, prepayments and deposits (<i>Note (ii)</i>) | 69,095 | 41,474 |
| Total | 347,414 | 285,008 |

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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------|--------------------------------|-------------------------|
| Current to 90 days | 188,974 | 170,730 |
| 91 to 180 days | 27,060 | 18,925 |
| 181 to 365 days | 19,564 | 23,981 |
| Over 365 days | 34,642 | 34,011 |
| | 270,240 | 247,647 |

- Increase in trade receivables aged between current to 90 days was mainly due to increase in outstanding balances from the financial solutions segment.
 - Increase in trade receivables aged between 91 to 180 days was mainly due to increase in outstanding balances from the electronic power meters and solutions segment.
- (b) Bills receivables belonged to the electronic power meters and solutions segment.

Note (ii):

The increase in balance was mainly due to prepayment to suppliers of information security chips and solutions segment.

(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 2017. 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

| | 2017 | 2016 |
|---|------------------|-------------|
| | HK\$'000 | HK\$'000 |
| Trade payables (<i>Note (i)(a)</i>) | 218,178 | 230,566 |
| Bills payables (<i>Note (i)(b)</i>) | 21,021 | 35,704 |
| Payables for payment processing solutions business (<i>Note (ii)</i>) | 292,587 | 808,650 |
| Other payables and accruals (<i>Note (iii)</i>) | 848,409 | 625,417 |
| | <hr/> | <hr/> |
| Total | 1,380,195 | 1,700,337 |
| | <hr/> <hr/> | <hr/> <hr/> |

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:

| | 2017 | 2016 |
|--------------------|-----------------|-------------|
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 141,038 | 177,059 |
| 91 to 180 days | 33,096 | 33,503 |
| 181 to 365 days | 30,344 | 8,162 |
| Over 365 days | 13,700 | 11,842 |
| | <hr/> | <hr/> |
| | 218,178 | 230,566 |
| | <hr/> <hr/> | <hr/> <hr/> |

- Decline in trade payables aged between current to 90 days was mainly due to decrease in outstanding balances from the financial solutions segment and the electronic power meters and solutions segment; partially net-off by an increase in outstanding balances from the payment processing solutions segment.
- Increase in trade payables aged between 181 to 365 days was mainly due to 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. The decrease in balance was mainly due to increase in volume of early settlement financial services transactions.

Note (iii):

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Accrued staff costs and pension obligations* | 219,370 | 162,675 |
| Deposits and receipt in advance** | 445,287 | 332,501 |
| Accrued subcontracting cost | 114,631 | 93,166 |
| Others*** | <u>69,121</u> | <u>37,075</u> |
| | <u><u>848,409</u></u> | <u><u>625,417</u></u> |

* 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 other accrued handling fees payable by the payment processing solution segment.

(N) Assets and liabilities of disposal group classified as held-for-sale

During YEAR 2016, the Company, MS and an independent third party entered into a memorandum of understanding for the possible sale of the Group's entire interests in MS (the "Disposal"). As a result, the major classes of assets and liabilities (not including the booked amounts of the working capital provided by the Company to MS) of MS and its subsidiary were classified as held-for sale as at 31 December 2016. The Disposal was completed in June 2017. Please also refer to Note (C) above.

KEY INVESTING AND FINANCING ACTIVITIES

(A) 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 March 2017 (“Relevant Period”), the Group purchased from PAX Global Group E-payment Terminal products in an aggregate amount of approximately HK\$187.5 million (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 announcement of the Company dated 31 March 2017 in relation to the purchases.

(B) Disposal of the Merchant Support Co., Ltd and its subsidiary

On 18 May 2017, the Company entered into a deed of sale and purchase with MS, MS’s subsidiary and UnionPay Merchant Services International Holdings Limited (“UnionPay”), pursuant to which the Company conditionally agreed to sell and UnionPay conditionally agreed to acquire the entire issued shares of MS, at the aggregate consideration of JPY950,000,000 (subject to adjustment). The Disposal was completed on 27 June 2017. Further details of the Disposal are set out in the announcement of the Company dated 18 May 2017.

BUSINESS OUTLOOK

Payment processing solutions

By the end of 2017, the overall transaction size continued to grow steadily, with the accumulated number of active domestic merchants reaching 2.5 million and the annual transaction volume exceeded 1,100 billion. The internet payment business has commenced in the second half of the year and annual transaction size has exceeded RMB13 billion. During the year, we launched the “smart payment platform”, an integration of various payment methods, such as “UnionPay QuickPass”, “WeChat Pay”, “Alipay” and bank cards, and various terminals ranging from traditional POS, MPOS to APP Cashier, card accepting facilities, easy code-scanning terminals and Smart POS, to provide a comprehensive set of application solutions to industry players. In June 2017, we successfully passed the review of the People’s Bank of China, and renewed the licenses for bank card acquiring, internet payment and mobile payment until June 2022. While we were advancing the early settlement services based on merchants, we obtained the “internet micro-lending license” in September 2017, allowing us to commence lending business for online merchants and individuals. With our prudent operational strategy, extensive experience in technology and risk management in recent years, we have received numerous honors such as “The Best Comprehensive Third Party Financial Institution of the Year” by various associations, institutions and media. Since the beginning of the year, regulatory authorities such as the central bank and China Banking Regulatory Commission have published a series of announcements, which stated that license was required for operating financial businesses such as payment and lending. They also struck at illegal operations including operating without license or authorisation. We will benefit from the regulatory policy in favor of licensed institutions and enjoy better development opportunities under the business strategy of “Payment + Financial”.

Financial solutions

During the year of 2017, with regard to the traditional customer market, such as large state-owned banks, joint stock commercial banks and their overseas sub-branches, we have put into operation the core system construction project for China Everbright Bank (Luxembourg) and the operating system project for retail and other core businesses of China Minsheng Bank, Hong Kong branch. On the basis of strengthening our presence in the traditional customer market, we invested strategically in the three aspects simultaneously: (1) expanded mid-to small-size customers groups such as city commercial banks. During the year, we have completed the construction of the core system for the Bank of Suzhou, won the tender for the core system renovation project for Dongguan Rural Commercial Bank Co., Ltd., and entered into human resource outsourcing cooperation framework agreements with Sichuan Rural Credit Union, Fujian Rural Credit Union and CITIC aiBank Corporation Limited; (2) actively extended to foreign banks and overseas customers groups and achieved significant progress. During the year, we have put into operation the core system project for Dah Sing Bank (China) Limited and won the tender for the core system construction project for Nanyang Commercial Bank (China) Limited, as well as the system construction projects for Goopal International Limited, Well Link Bank and China Guangfa Bank Co., Ltd. (Macau Branch). In particular, we have launched the system for the Well Link Bank project during the period; (3) explored the financial services market other than banking customers. We secured our first deal in the insurance market during the period, and entered into IT service contracts with Taikang Life Insurance Co., Ltd. and Minsheng Life Insurance Co., Ltd.

Electronic power meters and solutions

In the second half of 2017, the State Grid conducted the second tender under which we were awarded contracts. However, the business environment will remain challenging in 2018. In 2018, it is expected the total tender volume and size of electronic power meters and data collection devices of the State Grid will approximate to that in 2017. As the State Grid continues to promote new technological development, in particular the DLT698.45 object-oriented interchangeable data exchange protocol, relevant products have been put into testing and are expected to be listed on the tender catalogue for the tender in 2018. In recent years, we have been closely monitoring the latest technological development of the State Grid. Currently, the development of our DLT698.45 protocol related products is progressing well, which is expected to provide us certain advantages in the tender in 2018.

Information security chips and solutions

Driven by the significant growth of the payment market in China, the information security chips business expanded rapidly in the second half of 2017 and the annual sales increased to approximately 3 times as compared with that for 2016. Sales of mag-stripe card security decoder chips was stable while that of security micro-controller (MCU) increased drastically. It is expected that, in 2018, the payment market condition will resemble that of 2017. Nonetheless, the growth may slow down due to the central bank policies targeting the payment market. Other research projects are progressing smoothly and cost reduction initiatives of various products are rolling out in an orderly manner.

Platform operation solutions

In 2018, we will continue 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. The contract value of the operational supporting services contracts signed and executed in 2017 remained roughly stable as compared to last year. We will be focusing on the field of communication operators while pursuing stable income. In particular, the business development of E-commerce Base of China Mobile will largely emphasise on bundling of “和包” users, expanding high-quality offline merchants and promoting user engagement. The base also launched innovative products such as the “和包” red pockets. Given the continuous investment of China Mobile and its rapid business development, the annual transaction volume of “和包” business hit a record high of over RMB2 trillion in 2017. The growth of “和包” business, along with the strong demand of the E-commerce Base for our product development, business operation and system maintenance services, will guarantee the long-term sustainability of the operational supporting services business. At the same time, we are actively exploring new opportunities for product innovation and business development in the areas of e-commerce, payment and internet finance.

Consolidated Income Statement

| | Note | For the year ended 31 December | |
|--|------|-----------------------------------|-----------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 |
| Revenue | 2, 3 | 2,909,978 | 1,921,237 |
| Cost of sales | 4 | (2,165,949) | (1,328,542) |
| Gross profit | | 744,029 | 592,695 |
| Other income | 2 | 46,721 | 46,205 |
| Other gains/(losses), net | 2 | 21,139 | (1,120) |
| Selling expenses | 4 | (113,394) | (101,631) |
| Administrative expenses | 4 | (461,580) | (403,826) |
| Gain on disposal of subsidiaries | | 63,262 | – |
| Operating profit | | 300,177 | 132,323 |
| Finance costs | | (9) | – |
| Share of result of an investment accounted for using the equity method | 9 | 134,531 | 198,992 |
| Gain on dilution of interest in an investment accounted for using the equity method | 9 | 113 | 826 |
| Profit before income tax | | 434,812 | 332,141 |
| Income tax expense | 5 | (45,298) | (19,485) |
| Profit for the year | | 389,514 | 312,656 |
| Profit attributable to: | | | |
| – Owners of the Company | | 346,144 | 283,964 |
| – Non-controlling interests | | 43,370 | 28,692 |
| | | 389,514 | 312,656 |
| | | <i>HK\$ per share</i> | <i>HK\$ per share</i> |
| Earnings per share for profit attributable to the owners of the Company: | | | |
| Basic | 6 | 0.125 | 0.102 |
| Diluted | 6 | 0.124 | 0.100 |

Consolidated Statement of Comprehensive Income

| | For the year ended 31 December | |
|--|-----------------------------------|-----------------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the year | 389,514 | 312,656 |
| Other comprehensive income/(loss), net of tax | | |
| <i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i> | | |
| Exchange differences arising on translation of the financial statements of foreign subsidiaries | 78,739 | (47,920) |
| Share of other comprehensive income/(loss) of an investment accounted for using the equity method – exchange differences arising on translation of the financial statements of foreign subsidiaries | 56,207 | (41,132) |
| – change in values of available-for-sale financial assets | (2,028) | – |
| 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 | 116 |
| Change in values of available-for-sale financial assets | 61,635 | 22,755 |
| Release of reserves upon disposal of subsidiaries | (1,699) | – |
| Release of reserves upon deregistration of a subsidiary | (4,782) | – |
| <i>Items that will not be subsequently reclassified to profit or loss</i> | | |
| Share of other comprehensive loss of an investment accounted for using the equity method – remeasurement of post-employment benefit obligation | (23) | – |
| Total comprehensive income for the year, net of tax | <u>577,878</u> | <u>246,475</u> |
| Attributable to: | | |
| – Owners of the Company | 528,126 | 221,140 |
| – Non-controlling interests | 49,752 | 25,335 |
| | <u>577,878</u> | <u>246,475</u> |

Consolidated Balance Sheet

| | | As at 31 December | |
|---|------|-------------------|------------------|
| | | 2017 | 2016 |
| | Note | HK\$'000 | HK\$'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Investment properties | | 1,906 | 2,054 |
| Property, plant and equipment | | 507,024 | 267,114 |
| Leasehold land | | 31,974 | 32,215 |
| Intangible assets | | 1,985 | 10,466 |
| Investments accounted for using the equity method | 9 | 1,823,245 | 1,663,250 |
| Available-for-sale financial assets | 7 | 178,385 | 106,113 |
| Financial asset at fair value through profit or loss | 8 | 93,485 | 76,880 |
| Long-term deposits and prepayments | 10 | 3,028 | 3,434 |
| Total non-current assets | | 2,641,032 | 2,161,526 |
| Current assets | | | |
| Inventories | | 95,407 | 74,972 |
| Trade and bills receivables | 10 | 278,319 | 243,534 |
| Other receivables, prepayments and deposits | 10 | 66,067 | 38,040 |
| Financial asset at fair value through profit or loss | 8 | 2,702 | – |
| Amounts due from investments accounted for using the equity method | | 16,289 | 13,258 |
| Short-term bank deposits | | 16,153 | 18,388 |
| Cash and cash equivalents | | 2,541,482 | 2,726,733 |
| Assets of disposal group classified as held-for-sale | 12 | – | 222,590 |
| Total current assets | | 3,016,419 | 3,337,515 |
| Total assets | | 5,657,451 | 5,499,041 |
| EQUITY | | | |
| Capital and reserves attributable to the owners of the Company | | | |
| Share capital | | 6,942 | 6,942 |
| Reserves | | 4,052,400 | 3,524,274 |
| Non-controlling interests | | 4,059,342 | 3,531,216 |
| | | 104,203 | 54,451 |
| Total equity | | 4,163,545 | 3,585,667 |

| | | As at 31 December | |
|---|-------------|--------------------------|-------------------------|
| | | 2017 | 2016 |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | <u>163</u> | <u>205</u> |
| Total non-current liabilities | | <u>163</u> | <u>205</u> |
| Current liabilities | | | |
| Trade and bills payables | <i>11</i> | 239,199 | 266,270 |
| Payables for payment processing solutions business | <i>11</i> | 292,587 | 808,650 |
| Other payables and accruals | <i>11</i> | 848,409 | 625,417 |
| Amounts due to investments accounted for using the equity method | | 57,755 | 81,468 |
| Current tax liabilities | | 46,197 | 34,884 |
| Borrowing | | <u>9,596</u> | <u>–</u> |
| | | 1,493,743 | 1,816,689 |
| Liabilities of disposal group classified as held-for-sale | <i>12</i> | <u>–</u> | <u>96,480</u> |
| Total current liabilities | | <u>1,493,743</u> | <u>1,913,169</u> |
| Total liabilities | | <u>1,493,906</u> | <u>1,913,374</u> |
| Total equity and liabilities | | <u>5,657,451</u> | <u>5,499,041</u> |

Note:

1 BASIS OF PREPARATION

The consolidated financial statements of Hi Sun Technology (China) Limited (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 available-for-sale financial assets and financial assets at fair value through profit or loss, 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*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Recognition of deferred tax assets for unrealised losses – Amendments to HKAS 12
- Annual improvements to HKFRSs 2014 – 2016 cycle – Amendments to HKFRS 12, and
- Disclosure initiative – Amendments to HKAS 7.

The adoption of these amendments did not have material impact on the financial statements for the current year. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

(b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, ‘Financial instruments’

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- equity instruments currently classified as available-for-sale (“AFS”) for which a fair value through other comprehensive income (“FVOCI”) election is available and hence there will be no change to the accounting for these assets, and
- equity investments currently measured at fair value through profit or loss (“FVPL”) which will continue to be measured on the same basis under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There will be 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 fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 ‘Financial Instruments: Recognition and Measurement’ and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (“ECL”) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 ‘Revenue from Contracts with Customers’, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

This new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15, ‘Revenue from contracts with customers’

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standards on the Group's consolidated financial statements and has identified the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue generated from the provision of services.

More detailed assessment will be carried out by the Group to estimate the impact of the new rules on the Group's consolidated financial statements.

This new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16, 'Leases'

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, 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 the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$76,083,000.

The Group has not yet assessed the adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

This new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards and interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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

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

| | For the year ended 31 December | |
|--|-----------------------------------|------------------------------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 (restated) (Note 3) |
| Turnover | | |
| Provision of payment processing solutions | 1,979,939 | 1,050,313 |
| Provision of financial solutions | 295,328 | 348,079 |
| Sales of electronic power meters and solutions | 250,960 | 258,239 |
| Sales of information security chips and solutions | 177,224 | 56,539 |
| Provision of platform operation solutions | 206,527 | 208,067 |
| | <u>2,909,978</u> | <u>1,921,237</u> |
| Other income | | |
| Interest income | 27,807 | 19,704 |
| Subsidy income | 12,513 | 10,967 |
| Rental income | 2,210 | 3,584 |
| Others | 4,191 | 11,950 |
| | <u>46,721</u> | <u>46,205</u> |
| Other gains/(losses), net | | |
| Fair values gains/(losses) on financial assets at fair value through profit or loss | | |
| – Unlisted convertible preference shares | 16,605 | (1,120) |
| – Listed trading securities | (248) | – |
| Gain on deregistration of a subsidiary | 4,782 | – |
| | <u>21,139</u> | <u>(1,120)</u> |

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.

Due to continual development of the Group, management has changed its internal organisational structure to align more closely with the Group's strategic decision and market dynamics to better serve customers. In particular, separate business units has been set up for its electronic power meters and solutions business and information security chips and solutions business. The Group has adopted the new organisational structure as the reporting format effective for the year ended 31 December 2017. The comparative segment information has been restated to reflect the current organisational structure.

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) 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;
- (c) Electronic power meters and solutions – principally engaged in the manufacturing and sales of electronic power meters, data collection terminals and related products and solutions;
- (d) 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; and
- (e) Platform operation solutions – principally engaged in the provision of telecommunication and mobile payment platform operation services and operation value-added services.

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 <i>HK\$'000</i> | Financial solutions <i>HK\$'000</i> | Electronic power meters and solutions <i>HK\$'000</i> | Information security chips and solutions <i>HK\$'000</i> | Platform operation solutions <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total Group <i>HK\$'000</i> |
|--|---|---|--|--|---|---------------------------|-----------------------------------|
| Year ended 31 December 2017 | | | | | | | |
| Segment turnover | 1,979,939 | 295,328 | 250,960 | 177,224 | 209,683 | - | 2,913,134 |
| Inter-segment turnover | - | - | - | - | (3,156) | - | (3,156) |
| Turnover from external customers | <u>1,979,939</u> | <u>295,328</u> | <u>250,960</u> | <u>177,224</u> | <u>206,527</u> | <u>-</u> | <u>2,909,978</u> |
| Segmental EBITDA | <u>432,375</u> | <u>23,942</u> | <u>1,692</u> | <u>26,867</u> | <u>7,259</u> | <u>(948)</u> | <u>491,187</u> |
| Depreciation | (171,718) | (525) | (3,126) | (477) | (3,075) | (119) | (179,040) |
| Amortisation | - | (8,555) | (254) | - | (141) | - | (8,950) |
| Segmental operating profit/(loss) | <u>260,657</u> | <u>14,862</u> | <u>(1,688)</u> | <u>26,390</u> | <u>4,043</u> | <u>(1,067)</u> | <u>303,197</u> |
| 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 | | | | | | | <u>389,514</u> |

| | Payment processing solutions HK\$'000 | Financial solutions HK\$'000 | Electronic power meters and solutions HK\$'000 (restated) | Information security chips and solutions HK\$'000 (restated) | Platform operation solutions HK\$'000 | Others HK\$'000 | Total Group HK\$'000 |
|--|--|------------------------------------|---|---|--|--------------------|----------------------------|
| Year ended 31 December 2016 | | | | | | | |
| Segment turnover | 1,050,313 | 351,407 | 258,239 | 56,539 | 210,766 | - | 1,927,264 |
| Inter-segment turnover | - | (3,328) | - | - | (2,699) | - | (6,027) |
| Turnover from external customers | <u>1,050,313</u> | <u>348,079</u> | <u>258,239</u> | <u>56,539</u> | <u>208,067</u> | <u>-</u> | <u>1,921,237</u> |
| Segmental EBITDA | <u>253,239</u> | <u>26,473</u> | <u>16,374</u> | <u>6,370</u> | <u>8,055</u> | <u>(13,438)</u> | <u>297,073</u> |
| Depreciation | (83,587) | (1,449) | (3,449) | (499) | (3,323) | (282) | (92,589) |
| Amortisation | - | (10,267) | (237) | - | - | - | (10,504) |
| Segmental operating profit/(loss) | <u>169,652</u> | <u>14,757</u> | <u>12,688</u> | <u>5,871</u> | <u>4,732</u> | <u>(13,720)</u> | <u>193,980</u> |
| Unallocated other income | | | | | | | 4,900 |
| Unallocated corporate expenses | | | | | | | (66,557) |
| Share of result of an investment accounted for using the equity method | | | | | | | 198,992 |
| Gain on dilution of interest in an investment accounted for using the equity method | | | | | | | <u>826</u> |
| Profit before income tax | | | | | | | 332,141 |
| Income tax expense | | | | | | | <u>(19,485)</u> |
| Profit for the year | | | | | | | <u><u>312,656</u></u> |

Unallocated corporate expenses represent costs that are used for all segments, including depreciation of property, plant and equipment of HK\$1,640,000 (2016: HK\$1,542,000), depreciation of investment properties of HK\$212,000 (2016: HK\$206,000) and amortisation of leasehold land of HK\$760,000 (2016: HK\$760,000), respectively.

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

The segment assets and liabilities at 31 December 2016 and additions to non-current assets for the year ended 31 December 2016 are as follows:

| | Payment processing solutions <i>HK\$'000</i> | Financial solutions <i>HK\$'000</i> | Electronic power meters and solutions <i>HK\$'000</i> (restated) | Information security chips and solutions <i>HK\$'000</i> (restated) | Platform operation solutions <i>HK\$'000</i> | Others <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Elimination <i>HK\$'000</i> (restated) | Total Group <i>HK\$'000</i> |
|--|---|---|--|--|---|---------------------------|--------------------------------|--|-----------------------------------|
| As at 31 December 2016 | | | | | | | | | |
| Segment assets | <u>2,004,105</u> | <u>333,645</u> | <u>398,761</u> | <u>38,033</u> | <u>904,958</u> | <u>81,248</u> | <u>2,945,638</u> | <u>(1,207,347)</u> | <u>5,499,041</u> |
| Segment liabilities | <u>(1,634,724)</u> | <u>(303,450)</u> | <u>(297,378)</u> | <u>(27,597)</u> | <u>(601,608)</u> | <u>(182,146)</u> | <u>(73,818)</u> | <u>1,207,347</u> | <u>(1,913,374)</u> |
| Year ended 31 December 2016 | | | | | | | | | |
| Additions to non-current assets (excluding long-term deposits, investments accounted for using the equity method, available-for-sale financial assets and financial assets at fair value through profit or loss) | <u>167,628</u> | <u>142</u> | <u>743</u> | <u>480</u> | <u>4,171</u> | <u>166</u> | <u>82</u> | <u>-</u> | <u>173,412</u> |

Unallocated assets mainly include an investment accounted for using the equity method of HK\$1,823,245,000 (2016: HK\$1,663,250,000) and cash and cash equivalents of HK\$527,339,000 (2016: HK\$747,471,000).

During the year, additions to non-current assets mainly comprise additions to property, plant and equipment and intangible assets (2016: 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, Hong Kong and Macau (2016: Mainland China, Hong Kong, Japan and Macau). 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 | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Mainland China | 2,844,322 | 1,863,410 |
| Hong Kong | 55,651 | 31,506 |
| Japan | 10,005 | 19,110 |
| Macau | – | 7,211 |
| | 2,909,978 | 1,921,237 |

The Group's non-current assets (excluding long-term deposits, investments accounted for using the equity method, available-for-sale financial assets and financial assets at fair value through profit or loss) 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 | |
|---------------------------|--------------------------|-----------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Non-current assets | | |
| Mainland China | 542,071 | 302,173 |
| Hong Kong | 818 | 9,676 |
| | 542,889 | 311,849 |
| Current assets | | |
| Mainland China | 2,293,956 | 2,386,544 |
| Hong Kong | 719,766 | 720,741 |
| Japan | – | 222,590 |
| Macau | 2,697 | 7,640 |
| | 3,016,419 | 3,337,515 |

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 | |
|--|-----------------------------------|-----------------------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Auditor's remuneration | | |
| – audit services | 2,950 | 2,700 |
| – non-audit services | 800 | 800 |
| Depreciation of property, plant and equipment | 180,680 | 94,131 |
| Depreciation of investment properties | 212 | 206 |
| Amortisation of leasehold land | 981 | 983 |
| Amortisation of intangible assets | 8,729 | 10,281 |
| Employee benefit expense (including directors' emoluments) | 513,482 | 443,743 |
| Costs of inventories sold (including write-back of provision/provision for inventories) | 315,022 | 234,825 |
| Operating lease rentals in respect of land and buildings | 31,980 | 27,902 |
| Operating lease rentals in respect of equipment | – | 17 |
| Research and development costs (including staff cost) | 185,609 | 154,210 |
| Loss on disposals of property, plant and equipment | 302 | 754 |
| Provision/(write-back of provision) for inventories | 783 | (1,385) |
| Write-back of provision for impairment of trade receivables, net | – | (3,507) |
| | <u> </u> | <u> </u> |

5 INCOME TAX EXPENSE

| | For the year ended 31 December | |
|---------------------------------------|-----------------------------------|-----------------------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| – Hong Kong profits tax | – | – |
| – Overseas taxation | 45,344 | 20,017 |
| Deferred tax | (46) | (13) |
| Adjustments in respect of prior years | – | (519) |
| | <u> </u> | <u> </u> |
| Income tax expense | <u>45,298</u> | <u>19,485</u> |

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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.

Effective from 1 January 2008, subsidiaries in the PRC are subject to corporate income tax (“CIT”) in accordance with the new PRC CIT Law as approved by the National People’s Congress on 16 March 2007. According to the new PRC CIT Law and the relevant regulations, the new 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 new PRC CIT Law. Hangzhou PAX Electronic Technology Limited (“Hangzhou Electronic Technology”) was renewed as HNTE in 2014 under the new PRC CIT Law and re-submitted HNTE application in 2017 under the new PRC CIT Law. 隨行付支付有限公司 (“VBill”) was renewed as HNTE in 2017 under the new PRC CIT Law. Hunan Hisun Mobile Pay IT Limited (“HN Mobile Pay”) was re-qualified as HNTE in 2017 under the new PRC CIT Law. As such, the applicable corporate income tax rate for ABS, Hangzhou Electronic Technology, VBill and HN Mobile Pay was 15% for the year ended 31 December 2017. The applicable corporate income tax rate for ABS, Hangzhou Electronic Technology and VBill was 15% and for HN Mobile Pay was 25% for the year ended 31 December 2016.

Megahunt Microelectronic Technology (Beijing) Company Limited (“Megahunt Microelectronic Technology”) was qualified as SICE in 2015 under the new PRC CIT Law. As such, the applicable corporate income tax rate for Megahunt Microelectronic Technology was 12.5% (2016: 0%) for the year ended 31 December 2017.

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 | |
|--|-----------------------------------|------------------|
| | 2017 | 2016 |
| Profit attributable to owners of the Company (<i>HK\$'000</i>) | <u>346,144</u> | <u>283,964</u> |
| Weighted average number of ordinary shares in issue (<i>thousands shares</i>) | <u>2,776,834</u> | <u>2,776,834</u> |
| Basic earnings per share (<i>HK\$ per share</i>) | <u>0.125</u> | <u>0.102</u> |

(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 2017, the Group has three categories (2016: same) of potentially dilutive shares: share options issued by an associated company – PAX Global Technology Limited (“PAX Global”), and share options and convertible preference shares issued by an associated company – Cloopen Group Holding Limited (“Cloopen”).

Dilutive effects arise from share options issued by PAX Global for the year ended 31 December 2017 (2016: same).

For share options issued by PAX Global, 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 2017, the carrying amount of the interest in Cloopen was zero (2016: same). As at 31 December 2017, 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 (2016: same).

| | For the year ended | |
|--|---------------------------|------------------|
| | 31 December | |
| | 2017 | 2016 |
| Profit attributable to owners of the Company (<i>HK\$'000</i>) | 346,144 | 283,964 |
| Assuming exercise of all outstanding dilutive share options issued by the associated company (<i>HK\$'000</i>) | | |
| – Decrease in share of profit of the associated company | (89) | (1,027) |
| – Reduce in gain on dilution of the associated company | (2,316) | (6,573) |
| Adjusted profit attributable to owners of the Company used to determine diluted earnings per share (<i>HK\$'000</i>) | <u>343,739</u> | <u>276,364</u> |
| Weighted average number of ordinary shares for diluted earnings per share (<i>thousands shares</i>) | <u>2,776,834</u> | <u>2,776,834</u> |
| Diluted earnings per share attributable to the owners of the Company (<i>HK\$ per share</i>) | <u>0.124</u> | <u>0.100</u> |

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group's available-for-sale financial assets include unlisted equity security and unlisted investment fund with the following details:

| | For the year ended 31 December | |
|---|-----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| At 1 January | 106,113 | 6,982 |
| Addition | – | 82,518 |
| Fair value gains on revaluation recognised in other comprehensive income | 61,635 | 22,755 |
| Exchange realignment | 10,637 | (6,142) |
| | <u>178,385</u> | <u>106,113</u> |
| At 31 December | <u>178,385</u> | <u>106,113</u> |
| Unlisted equity investments outside Hong Kong | 15,536 | 14,664 |
| Unlisted investment fund outside Hong Kong | 162,849 | 91,449 |
| | <u>178,385</u> | <u>106,113</u> |

The carrying amounts of the available-for-sale financial assets are denominated in RMB.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial assets at fair value through profit or loss represent investment in unlisted convertible preference shares and listed equity securities with the following details:

| | For the year ended 31 December | |
|---|-----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| At 1 January | 76,880 | – |
| Addition | 2,950 | 78,000 |
| Net fair value gains/(losses) on revaluation recognised in consolidated income statement | 16,357 | (1,120) |
| | <u>96,187</u> | <u>76,880</u> |
| At 31 December | <u>96,187</u> | <u>76,880</u> |
| Non-current assets | | |
| Unlisted convertible preference shares outside Hong Kong (Note (a)) | 93,485 | 76,880 |
| Current assets | | |
| Listed equity securities in Hong Kong (Note (b)) | 2,702 | – |
| | <u>96,187</u> | <u>76,880</u> |

Notes:

(a) Unlisted convertible preference shares outside Hong Kong

On 10 June 2016, the Group subscribed 7,443,326 Convertible Series C Preferred Shares (the “Convertible Series C Preferred Shares”) of Cloopen (*Note 9*). The consideration for the Convertible Series C Preferred Shares subscribed by the Group was approximately HK\$78,000,000 (equivalent to US\$10,000,000).

The Group, as a holder of the Convertible Series C Preferred Shares has:

- (i) an option to request Cloopen to redeem the Convertible Series C Preferred Shares at the price equal to the greater of the issue price with an 8% compound interest per annum return plus any accrued but unpaid dividends or the fair value at the date of redemption after the earliest of 10 June 2020 or the occurrence of other conditions as provided for under the definitive subscription agreement; and
- (ii) an option to convert the Convertible Series C Preferred Shares into ordinary shares of Cloopen at the conversion price based on certain conditions on the date of conversion as provided for under the definitive subscription agreement.

The Convertible Series C Preferred Shares, together with the abovementioned options, were designated as a financial asset at fair value through profit or loss and recognised at fair values. The fair values of the Convertible Series C Preferred Shares were valued by an independent valuer at the date of initial inception and on 31 December 2017.

The carrying amount of the unlisted convertible preference shares is denominated in US\$.

(b) Listed equity securities in Hong Kong

The fair value of the listed equity securities is based on their current bid prices in an active market and their carrying amount is denominated in HK\$.

Changes in fair value of financial assets at fair value through profit or loss are recorded in ‘other gains/ (losses), net’ in the consolidated income statement.

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Investment in PAX Global

| | For the year ended 31 December | |
|--|-----------------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| At 1 January | 1,663,250 | 1,525,040 |
| Share of profit | 134,531 | 198,992 |
| Share of other comprehensive income/(loss) | 54,156 | (41,132) |
| Share of other reserves | – | 1,248 |
| Dilution of interest (<i>Note ii</i>) | 428 | 942 |
| Dividend received | (29,120) | (21,840) |
| | 1,823,245 | 1,663,250 |
| At 31 December | 1,823,245 | 1,663,250 |

Impairment test for interest in PAX Global

As at 31 December 2017, the fair value of the Group's interest in PAX Global, which is listed on The Stock Exchange of Hong Kong Limited, was HK\$1,274,000,000 (2016: HK\$1,870,960,000) and the carrying amount of the Group's interest was HK\$1,823,245,000 (2016: HK\$1,663,250,000). The fair value is based on the current price in an active market as at balance sheet date.

As at 31 December 2017, the fair value of the investment is less than its carrying value. An impairment test is performed to determine the recoverable amount of the investment. The recoverable amount calculated based on value-in-use which exceeds the carrying value as at 31 December 2017.

As at 31 December 2017, the Group's interest in PAX Global was 33.09% (2016: 32.86%).

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 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 (2016: HK\$826,000) was recognised in the consolidated income statement, including release of reserve debited to the consolidated income statement of HK\$315,000 (2016: HK\$116,000). The Group's interest in PAX Global decreased from 32.86% to 32.70% accordingly.

Note iii: During the year, PAX Global repurchased a total of 13,000,000 ordinary shares (2016: 10,000,000 ordinary shares) on the Stock Exchange of Hong Kong Limited. Such repurchased shares were subsequently cancelled during the year. The Group's interest in PAX Global increased from 32.70% to 33.09% accordingly.

(b) **Investment in Cloopen**

Set out below is an associated company of the Group as at 31 December 2017 – Cloopen. As at 31 December 2017, the carrying value of Cloopen is nil (2016: 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 and series C convertible preferred shares.

As at 31 December 2017, 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% (2016: 47.85%).

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 2017, 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 current year. As at 31 December 2017, the unrecognised share of loss of the interest in Cloopen is HK\$270,658,000 (2016: HK\$134,079,000).

10 TRADE AND BILLS RECEIVABLES AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | As at 31 December | |
|---|--------------------------|-----------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Current portion | | |
| Trade receivables (<i>Note (a)</i>) | 270,240 | 247,647 |
| Bills receivables (<i>Note (b)</i>) | 13,902 | 1,284 |
| <i>Less: provision for impairment of receivables (Note (c))</i> | (5,823) | (5,397) |
| | 278,319 | 243,534 |
| | | |
| Prepayments, deposits and other receivables: | | |
| Prepayments | 19,857 | 15,086 |
| Deposits | 12,237 | 11,193 |
| Others | 33,973 | 11,761 |
| | 66,067 | 38,040 |
| | 344,386 | 281,574 |
| | | |
| Non-current portion | | |
| Long-term deposits and prepayments | 3,028 | 3,434 |
| | | |
| Total | 347,414 | 285,008 |

Notes:

(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 | |
|--------------------|-------------------|----------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 188,974 | 170,730 |
| 91 to 180 days | 27,060 | 18,925 |
| 181 to 365 days | 19,564 | 23,981 |
| Over 365 days | 34,642 | 34,011 |
| | <u>270,240</u> | <u>247,647</u> |

(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 | |
|------------------------|-------------------|--------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Falling within 90 days | <u>13,902</u> | <u>1,284</u> |

(c) Provision for impairment of receivables

As of 31 December 2017, trade receivables of HK\$5,823,000 (2016: HK\$5,397,000) were impaired. These impaired receivables mainly relate to individual customers who are delinquent in payment. The ageing of these receivables primarily based on invoice date was as follows:

| | As at 31 December | |
|---------------|-------------------|--------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Over 365 days | <u>5,823</u> | <u>5,397</u> |

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

| | As at 31 December | |
|---|-------------------|------------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Trade payables (Note (a)) | 218,178 | 230,566 |
| Bills payables (Note (b)) | <u>21,021</u> | <u>35,704</u> |
| | 239,199 | 266,270 |
| Payables for payment processing solutions business (Note (c)) | 292,587 | 808,650 |
| Other payables and accruals (Note (d)) | <u>848,409</u> | <u>625,417</u> |
| | <u>1,380,195</u> | <u>1,700,337</u> |

Notes:

(a) Trade payables

As at 31 December 2017 and 2016, the ageing analysis of the trade payables primarily based on invoice date was as follows:

| | As at 31 December | |
|--------------------|--------------------------|-----------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 141,038 | 177,059 |
| 91 to 180 days | 33,096 | 33,503 |
| 181 to 365 days | 30,344 | 8,162 |
| Over 365 days | 13,700 | 11,842 |
| | <u>218,178</u> | <u>230,566</u> |

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 | |
|---------------------------|--------------------------|-----------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Due within 90 days | 12,971 | 19,161 |
| Due within 91 to 180 days | 8,050 | 16,543 |
| | <u>21,021</u> | <u>35,704</u> |

(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 | |
|---|--------------------------|-----------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Accrued staff costs and pension obligations | 219,370 | 162,675 |
| Deposits and receipt in advance | 445,287 | 332,501 |
| Others | 183,752 | 130,241 |
| | <u>848,409</u> | <u>625,417</u> |

12 ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE AND GAIN ON DISPOSAL OF SUBSIDIARIES

As at 31 December 2016, the assets and liabilities related to Merchant Support Co., Ltd and its subsidiary (part of the payment processing solutions segment) (the “Disposal Group”), 100% wholly-owned subsidiaries of the Group, have been presented as held-for-sale following a memorandum of understanding entered by the Company, Merchant Support Co., Ltd and an independent third party to sell the Disposal Group in Japan (the “Disposal”).

On 27 June 2017, the Group disposed of its 100% equity interests in the Disposal Group for a cash consideration of HK\$66,215,000. A gain on disposal of HK\$63,262,000 was resulted and had been recognised in the consolidated income statement.

| | As at 27 June 2017 HK\$'000 |
|---|--|
| Cash consideration received | 66,215 |
| Analysis of assets and liabilities over which control was lost: | |
| Property, plant and equipment | (7,580) |
| Long-term deposits and prepayments | (256) |
| Receivables from payment processing solutions business | (123,078) |
| Cash and cash equivalents | (90,289) |
| Other receivables, prepayments and deposits | (3,926) |
| Amount due to the Company | 129,364 |
| Other payables and accruals | 1,182 |
| Payables for payment processing solutions business | 96,553 |
| | <hr/> |
| Net liabilities disposed of | 1,970 |
| | <hr/> |
| Release of exchange reserve upon disposal of subsidiaries | 1,699 |
| | <hr/> |
| Professional fees directly attributable to the Disposal | (6,622) |
| | <hr/> |
| Gain on disposal of subsidiaries | 63,262 |
| | <hr/> <hr/> |

An analysis of the net inflow of cash and cash equivalents in respect of the Disposal is as follows:

| | For the year ended 31 December 2017 HK\$'000 |
|--|---|
| Cash consideration | 66,215 |
| Settlement of amount due to the Company | 129,364 |
| Cash and cash equivalents disposed | (90,289) |
| Professional fees | (6,622) |
| | <hr/> |
| Net inflow of cash and cash equivalents in respect of the Disposal | 98,668 |
| | <hr/> <hr/> |

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 2017.

FINAL DIVIDEND

No dividend has been paid or declared by the Company for the year ended 31 December 2017 (2016: 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 to be held on Friday, 20 April, 2018 will be Friday, 13 April, 2018. 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 Friday, 13 April, 2018.

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 (the "CG 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 2017.

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 throughout 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 2017.

SUBSEQUENT EVENTS

Grant of VBill Options under the VBill Share Option Scheme and Deemed Disposal of VBill

As disclosed in the announcement and circular of the Company dated 15 January 2018 and 19 January 2018 respectively, on 15 January 2018, the directors and shareholders of VBill conditionally adopted a share option scheme under Chapter 17 of the Listing Rules (“VBill Share Option Scheme”) and the board of directors of VBill resolved to conditionally grant share options (“VBill Options”) pursuant to the VBill Share Option Scheme to three specified grantees to subscribe for up to approximately 12% of the enlarged registered capital of VBill (“VBill Registered Capital”) at the exercise price of RMB12.51 for every RMB1.0 in the enlarged VBill Registered Capital exercisable for a period of 3 years from date when the VBill Share Option Scheme became unconditional. Such adoption of the VBill Share Option Scheme and such grant of VBill Options were subject to the approval by the shareholders of the Company at a general meeting of the Company.

Assuming that all the grantees exercise the VBill Options in full, the grantees will, in aggregate, have contributed approximately 12% of the enlarged VBill Registered Capital and the Group’s interest in the VBill will be diluted from approximately 80.04% to approximately 70.44%, but VBill will continue to be accounted for as a subsidiary of the Group. As certain of the grantees are connected persons of the Company at subsidiary level, the grant of the VBill Options therefore constituted a deemed disposal (“Deemed Disposal”) and a connected transaction under Chapter 14 and Chapter 14A of the Listing Rules respectively.

Since the exercise of the VBill Options is not at the Company’s discretion, the Deemed Disposal will be classified as if the VBill Options had been exercised at the time of the grant. As certain of the applicable percentage ratios of the Deemed Disposal are above 5% but all applicable percentage ratios are less than 25% and the total consideration to be paid by the three grantees is above HK\$10,000,000, the Deemed Disposal constituted a discloseable transaction for the Company subject only to notification and announcement requirements under Chapter 14 of the Listing Rules.

As certain of the grantees are connected persons of the Company at subsidiary level and the transaction contemplated by the Deemed Disposal is on normal commercial terms or better, the Deemed Disposal constituted a connected transaction of the Company subject only to reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders’ approval requirements under Chapter 14A of the Listing Rules, as (i) the Board had approved the transaction contemplated by the Deemed Disposal and (ii) the Independent Non-Executive Directors confirmed that the transaction contemplated by the Deemed Disposal was on normal commercial terms or better and in the interests of the Company and the shareholders of the Company as a whole.

The VBill Share Option Scheme and the grant of the VBill Options were approved by the shareholders of the Company at a duly convened special general meeting of the Company held on 5 February 2018.

Subscription for Series D Preferred Shares of Cloopen

As disclosed in the announcement of the Company dated 28 February 2018, 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 (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 has 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 will 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 the subscribers of the series D preferred shares, including Main Access (assuming 21,119,408 ordinary shares of Cloopen which have been reserved for issuance to officers, directors, employees or consultants of Cloopen pursuant to its employee share option plan (the “ESOP Shares”) are allotted and issued), and Cloopen Group will have raised US\$25.6 million (before deducting expenses) in this series of preference shares issue pursuant to the Series D Subscription Agreement.

As at the date of the announcement dated 28 February 2018 and the date of this report and immediately before completion of the Series D Subscription Agreement, the Group is interested in approximately 27.34% equity interest in Cloopen (assuming all the ESOP Shares and convertible preferred shares are allotted and issued). Completion of the Series D Subscription Agreement will take place no later than 3 business days after all conditions precedent specified thereunder are satisfied or waived. Immediately subsequent to completion of the Series D Subscription Agreement, the Group’s equity interests in Cloopen will be approximately 26.87% (assuming all the ESOP Shares and convertible preferred shares are allotted and issued).

Immediately after completion of the Series D Subscription Agreement, the Cloopen Group will remain to be an investment of the Company accounted for using the equity method.

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 2017 as set out in the 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 the 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 2017 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, 7 March 2018

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.