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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 2019

#### FINANCIAL HIGHLIGHTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	Change +/(–)
<b>RESULTS</b>			
Revenue	5,575,981	4,661,954	+20%
Gross profit	1,321,428	1,257,751	+5%
Segmental EBITDA# (before unallocated items)	1,148,726	862,647	+33%
Write off of property, plant and equipment	94,701	–	N/A
Fair values gains/(losses) on financial assets at fair value through profit or loss	21,923	(16,971)	N/A
Employees' incentive programmes of subsidiaries	30,303	201,447	–85%
Share of results of investments accounted for using the equity method	208,695	171,753	+22%
Profit for the year	<u>682,967</u>	<u>337,290</u>	+102%
Profit attributable to:			
– Owners of the Company	569,111	278,175	+105%
– Non-controlling interests	<u>113,856</u>	<u>59,115</u>	+93%
	<u>682,967</u>	<u>337,290</u>	
	<i>HK\$ per share</i>	<i>HK\$ per share</i>	Change +/(–)
<b>Earnings per share for profit attributable to the owners of the Company:</b>			
Basic	0.205	0.100	+105%
Diluted	<u>0.190</u>	<u>0.095</u>	+100%

# Excluding write off of property, plant and equipment, fair values gains/(losses) on financial assets at fair value through profit or loss and employees' incentive programmes of subsidiaries

\* For identification purpose only

	As at 31 December		Change +/(–)
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	
<b>HIGHLIGHTS OF FINANCIAL POSITION</b>			
Total equity	<b>5,278,512</b>	4,571,275	+15%
Net current assets	<b>3,120,060</b>	1,606,115	+94%
Total assets	<b><u>8,149,068</u></b>	<b><u>6,632,517</u></b>	+23%
	<i>HK\$ per share</i>	<i>HK\$ per share</i>	Change +/(–)
Net assets per share	<b><u>1.901</u></b>	<b><u>1.646</u></b>	+15%

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 2019 together with the comparative figures for the year ended 31 December 2018. 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 2019, the Group reported total assets of HK\$8,149.1 million (2018: HK\$6,632.5 million), which were financed by total liabilities of HK\$2,870.6 million (2018: HK\$2,061.2 million) and total equity of HK\$5,278.5 million (2018: HK\$4,571.3 million). The net asset value was HK\$5,278.5 million (2018: HK\$4,571.3 million). Net assets per share amounted to HK\$1.901 as at 31 December 2019 as compared to HK\$1.646 per share as at 31 December 2018.

As at 31 December 2019, the Group had cash and bank balances of HK\$4,384.1 million (2018: HK\$2,681.5 million) and short-term borrowing of HK\$5.6 million (2018: HK\$10.2 million). The net cash position as at 31 December 2019 was HK\$4,378.5 million as compared to HK\$2,671.3 million as at 31 December 2018. The gearing ratio is calculated as total debt divided by total capital, while total debt includes borrowing, lease liabilities and written put option liability of the Group. The gearing ratio was 12.4% (2018: 0.2%). The gearing ratio is considered healthy and suitable for the continuing growth of the Group's business.

### **CAPITAL STRUCTURE AND DETAILS OF CHARGES**

As at 31 December 2019, the Group had bank borrowing of HK\$5.6 million (2018: HK\$10.2 million) and banking facilities of approximately HK\$17.8 million (2018: HK\$18.2 million). The bank borrowing was charged at an interest rate of 4.57% per annum (2018: 5.24%). As at 31 December 2019, the bank borrowing and banking facilities were secured by the leasehold land and buildings of a subsidiary of the Company, with a net carrying amount of HK\$2.7 million (2018: HK\$2.9 million) and HK\$6.4 million (2018: HK\$7.5 million), respectively.

Approximately HK\$3,002.7 million, HK\$265.6 million, HK\$997.0 million, HK\$116.2 million and HK\$2.6 million of the Group's cash balances were denominated in Renminbi, Hong Kong Dollar, US Dollar, Japanese Yen and Macanese Pataca ("MOP") respectively as at 31 December 2019.

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

### **SIGNIFICANT INVESTMENT**

Save as disclosed in this announcement, the Group had no significant investment held as at 31 December 2019.

### **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 2019.

### **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 2019.

## **EXCHANGE RATES EXPOSURE**

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

## **CONTINGENT LIABILITIES**

### **(A) Performance Guarantee Agreement with a customer**

In 2015, the Company entered into a performance guarantee agreement with a customer (the "Performance Guarantee Agreement"). Pursuant to the Performance Guarantee Agreement, the Company agreed to provide the customer with a guarantee in relation to the due and punctual performance of a service project by a subsidiary of the Group with a surety of not more than HK\$60,000,000 and to indemnify the customer against any third-party claim of intellectual property right infringement resulting from the acts of the said subsidiary. The Performance Guarantee Agreement remained in full force and effect during the year of 2019. As at 31 December 2019, the Company did not recognise any liability in relation to the Performance Guarantee Agreement as the Directors consider the possibility of reimbursement is not probable.

### **(B) Guarantee Agreement with subsidiaries of the Group**

In 2018, the Company entered into a guarantee agreement ("2018 Guarantee Agreement") with two wholly-owned subsidiaries ("Subsidiary A" and "Subsidiary B") in respect of Subsidiary A and/or Subsidiary B's payment obligations against a named manufacturer. Pursuant to the 2018 Guarantee Agreement, the Company shall guarantee to repay the due and unsettled debts of Subsidiary A and/or Subsidiary B individually and/or collectively of up to US\$10,000,000 incurred in relation to such manufacturing orders placed by Subsidiary A and/or Subsidiary B individually and/or collectively, should any of them individually and/or collectively cease or fail to honour its payment obligations.

In respect of the further expansion of organization structure, credit limit of manufacturing orders was also placed by another wholly-owned subsidiary ("Subsidiary C") of the Company against the aforesaid manufacturer. The Company entered into a new guarantee agreement dated 5 July 2019 ("2019 Guarantee Agreement") with Subsidiary A, Subsidiary B and Subsidiary C. Pursuant to the 2019 Guarantee Agreement, the Company shall guarantee to repay the due and unsettled debts of Subsidiary A, Subsidiary B and/or Subsidiary C individually and/or collectively of up to US\$10,000,000 incurred in relation to such manufacturing orders placed by Subsidiary A, Subsidiary B and/or Subsidiary C individually and/or collectively, should any of them individually and/or collectively cease or fail to honour its payment obligations.

The 2018 Guarantee Agreement was terminated on 5 July 2019 and the entirety of the Company's obligations and liability thereunder, if any, was effectively transferred to the 2019 Guarantee Agreement, subject to the terms and conditions of the 2019 Guarantee Agreement. As at 31 December 2019, the Company did not recognise any liability in relation to the 2019 Guarantee Agreement as the Directors consider the possibility of reimbursement is not probable.

Save as disclosed above, the Group had no material contingent liability as at 31 December 2019.

## EMPLOYEES

The total number of employees of the Group as at 31 December 2019 was 2,857. The breakdown of employees by division is as follows:

Payment processing solutions	1,057
Information security chips and solutions	92
Platform operation solutions	795
Financial solutions	657
Electronic power meters and solutions	205
Others	12
Corporate office	39
	<hr/>
	2,857
	<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 <sup>#</sup>	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Payment processing solutions	1	4,672,640	3,744,922	1,160,533	884,448
Information security chips and solutions	2	290,010	291,567	29,639	26,475
Platform operation solutions	3	196,302	209,636	(11,672)	(24,148)
Financial solutions	4	302,223	311,549	(6,081)	12,054
Electronic power meters and solutions	5	116,277	105,347	(12,232)	(23,920)
Others		–	–	(11,461)	(12,262)
Segmental results		5,577,452	4,663,021	1,148,726	862,647
Less: Inter-segment turnover		(1,471)	(1,067)	–	–
Total		<u>5,575,981</u>	<u>4,661,954</u>	<u>1,148,726</u>	<u>862,647</u>
Depreciation				(384,834)	(297,496)
Amortisation				(112)	(434)
Write off of property, plant and equipment	C			(94,701)	–
Fair value gains/(losses) on financial assets				22,215	(16,273)
at fair value through profit or loss	B			(30,303)	(201,447)
Employees' incentive programmes of subsidiaries	C				
Segmental operating profit				660,991	346,997
Unallocated other income				8,624	5,145
Unallocated corporate expenses				(91,442)	(93,641)
Operating profit				<u>578,173</u>	<u>258,501</u>

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	2019 HK\$'000	2018 HK\$'000
Revenue	A	5,575,981	4,661,954
Cost of sales	C	(4,254,553)	(3,404,203)
Gross profit		1,321,428	1,257,751
Other income	B	116,842	43,894
Other gains/(losses), net	B	22,040	(16,922)
Selling expenses	C	(82,266)	(96,829)
Administrative expenses	C	(720,768)	(687,992)
Employees' incentive programmes of subsidiaries	C	(30,303)	(201,447)
Credit impairment loss	C	(48,800)	(39,954)
Operating profit		578,173	258,501
Finance costs		(10,245)	(89)
Share of results of investments accounted for using the equity method	D	208,695	171,753
Profit before income tax		776,623	430,165
Income tax expense		(93,656)	(92,875)
Profit for the year		<u>682,967</u>	<u>337,290</u>
Profit attributable to:			
– Owners of the Company		569,111	278,175
– Non-controlling interests		113,856	59,115
		<u>682,967</u>	<u>337,290</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>0.205</u>	<u>0.100</u>
Diluted		<u>0.190</u>	<u>0.095</u>

# Represents earnings/(losses) before interest expenses, taxes, depreciation and amortisation, and excludes write off of property, plant and equipment, fair value gains/(losses) on financial assets at fair value through profit or loss and employees' incentive programmes of subsidiaries.

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2019	2018
	Note	HK\$'000	HK\$'000
<b>ASSETS</b>			
Investment properties and property, plant and equipment	E	385,834	716,768
Leasehold land		–	30,490
Right-of-use assets	F	88,501	–
Intangible assets		2,065	1,884
Deferred income tax assets		119	–
Investments accounted for using the equity method	G	2,106,737	1,931,188
Financial asset at fair value through other comprehensive income		–	895
Financial assets at fair value through profit or loss	H	289,918	273,745
Inventories	I	95,651	162,275
Trade and bills receivables	J	212,174	149,178
Other financial assets at amortised cost and other current assets	J	168,715	131,625
Loan receivables	K	385,128	536,295
Amounts due from investments accounted for using the equity method	L	19,970	15,116
Current income tax recoverable		10,007	–
Short-term bank deposits		147	1,583
Cash and bank balances	M	4,384,102	2,681,475
<b>Total assets</b>		<b>8,149,068</b>	<b>6,632,517</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		6,942	6,942
Reserves		4,680,106	4,371,271
		4,687,048	4,378,213
Non-controlling interests		591,464	193,062
<b>Total equity</b>		<b>5,278,512</b>	<b>4,571,275</b>
<b>LIABILITIES</b>			
Written put option liability	O	683,908	–
Deferred income tax liabilities		522	109
Trade and bills payables	N	439,287	251,043
Payables for payment processing solutions business	N	599,389	266,710
Other payables and accruals	N	1,029,432	1,376,874
Amounts due to investments accounted for using the equity method	L	21,226	114,190
Current income tax liabilities		31,905	42,069
Lease liabilities	F	59,310	–
Borrowing		5,577	10,247
<b>Total liabilities</b>		<b>2,870,556</b>	<b>2,061,242</b>
<b>Total equity and liabilities</b>		<b>8,149,068</b>	<b>6,632,517</b>
		<b>HK\$ per share</b>	<b>HK\$ per share</b>
Net assets per share		<b>1.901</b>	<b>1.646</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the year ended	
	31 December	2018
	2019	2018
	HK\$'000	HK\$'000
Net cash generated from operating activities	1,254,462	698,954
Net cash used in investing activities	(805,586)	(469,991)
Net cash generated from financing activities	640,466	15,460
Net increase in cash and cash equivalents	1,089,342	244,423
Cash and cash equivalents at beginning of the year	2,681,475	2,541,482
Exchange loss on cash and cash equivalents	(58,250)	(104,430)
<b>Cash and cash equivalents at end of the year</b>	<b>3,712,567</b>	<b>2,681,475</b>

## FINANCIAL REVIEW

During the year ended 31 December 2019 (“YEAR 2019”), the consolidated turnover of Hi Sun Technology (China) Limited (the “Company”) and its subsidiaries (the “Group”) amounted to HK\$5,576.0 million, representing an increase of 20% when compared with the year ended 31 December 2018 (“YEAR 2018”). Profit for the year totaled HK\$683.0 million as compared to HK\$337.3 million in YEAR 2018.

With regard to the balance sheet, the total assets as at 31 December 2019 amounted to HK\$8,149.1 million, when compared with HK\$6,632.5 million as at 31 December 2018. As at 31 December 2019, net current assets amounted to HK\$3,120.1 million, when compared with HK\$1,606.1 million as at 31 December 2018.

## SEGMENT PERFORMANCE REVIEW

### (1) Payment processing solutions

#### *Key performance indicators*

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>	Change + / (-)
Turnover*	<b>4,672,640</b>	3,744,922	+25%
EBITDA#	<b>1,160,533</b>	884,448	+31%
Write off of property, plant and equipment	<b>94,701</b>	–	N/A
Employees' incentive programme of a subsidiary	–	195,300	N/A
Operating profit	<b>696,466</b>	397,001	+75%

\* Turnover from external customers

# Represents earnings before interest expenses, taxes, depreciation and amortisation, excludes write off of property, plant and equipment and employees' incentive programme of a subsidiary

Segmental turnover amounted to HK\$4,672.6 million, as compared to HK\$3,744.9 million in YEAR 2018. By end of YEAR 2019, there were over 3,500,000 active domestic merchant and the monthly transaction volume in December 2019 exceeded RMB120 billion. Segmental operating profit amounted to HK\$696.5 million, 75% up as compared to YEAR 2018. The increase in segmental operating profit is primarily attributable to (i) the absence of share option expenses of approximately HK\$195.3 million under the payment processing solutions segment attributable to the share options granted in February 2018; and (ii) the volume growth of the payment processing solutions segment in YEAR 2019.



## (2) Information security chips and solutions

### Key performance indicators

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000	Change +/( -)
Turnover*	<b>290,010</b>	291,567	-1%
EBITDA#	<b>29,639</b>	26,475	+12%
Employees' incentive programme of a subsidiary	<b>30,303</b>	6,147	+393%
Operating (loss)/profit	<b>(3,098)</b>	19,699	N/A

\* Turnover from external customers

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

During the year, segmental turnover amounted to HK\$290.0 million as compared to HK\$291.6 million in YEAR 2018. Segmental operating loss amounted to HK\$3.1 million, as compared to segmental operating profit of HK\$19.7 million in YEAR 2018. Decline in segmental operating profit was mainly due to share option expenses of approximately HK\$30.3 million under the information security chips and solutions segment attributable to the share options granted in 2019 (Please refer to the circulars of the Company dated 6 June 2019 and 10 December 2019 for further details.).

## (3) Platform operation solutions

### Key performance indicators

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000	Change +/( -)
Turnover*	<b>194,831</b>	208,569	-7%
EBITDA#	<b>(11,672)</b>	(24,148)	N/A
Fair value gains/(losses) on financial assets at fair value through profit or loss	<b>22,215</b>	(16,273)	N/A
Operating profit/(loss)	<b>5,130</b>	(42,696)	N/A

\* Turnover from external customers

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

In YEAR 2019, we continued to provide high-quality and efficient supporting services, such as product development, business operation and system maintenance, to China Mobile Fintech, the IVR Base of China Mobile and the Animation Base of China Mobile. During the year, segmental turnover amounted to HK\$194.8 million as compared to HK\$208.6 million in YEAR 2018. Segmental operating profit amounted to HK\$5.1 million, as compared to segmental operating loss HK\$42.7 million in YEAR 2018. Segmental operating profit was primarily attributable to the fair value gains on financial assets through profit or loss amounted to HK\$22.2 million during the year as compared to fair value losses of HK\$16.3 million in YEAR 2018.

#### (4) Financial solutions

##### *Key performance indicators*

	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>	Change + / (-)
Turnover*	<b>302,223</b>	311,549	-3%
EBITDA	<b>(6,081)</b>	12,054	N/A
Operating (loss)/profit	<b>(9,606)</b>	11,776	N/A

\* Turnover from external customers

During the year, segmental turnover amounted to HK\$302.2 million, as compared to HK\$311.5 million in YEAR 2018. Segmental operating loss amounted to HK\$9.6 million, as compared to segmental operating profit of HK\$11.8 million in YEAR 2018. Decrease in segmental operating profit was mainly due to an increase in staff cost for increased headcounts during the year.

#### (5) Electronic power meters and solutions

##### *Key performance indicators*

	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>	Change + / (-)
Turnover*	<b>116,277</b>	105,347	+10%
EBITDA	<b>(12,232)</b>	(23,920)	N/A
Operating loss	<b>(15,201)</b>	(26,424)	N/A

\* Turnover from external customers

Segmental turnover amounted to HK\$116.3 million, 10% increase as compared to YEAR 2018. Increase in turnover was mainly due to increase in shipment level as compared to YEAR 2018. Segmental operating loss amounted to HK\$15.2 million, as compared to HK\$26.4 million in YEAR 2018. Various measures were in place to streamline costs and improve operating efficiency.

## **OVERALL FINANCIAL RESULTS AND POSITION**

### **(A) Revenue**

The consolidated turnover amounted to HK\$5,576.0 million, representing an increase of 20% over YEAR 2018. Such increase was mainly contributed by increase in segmental turnover of our payment processing solutions segment. Please also refer to Notes (1) to (5) above on segmental performance.

### **(B) Other income and other gains/(losses), net**

Increase in other income was due to increase in interest income and subsidy income during the year. Increase in other gains/(losses), net mainly resulted from an increase in fair values gains on financial assets at fair value through profit or loss in YEAR 2019.

### **(C) Cost of sales and operating expenses**

Increase in cost of sales was primarily due to (i) write-off of property, plant and equipment of HK\$94.7 million and (ii) increase in commission paid to merchant recruitment agents under the payment processing solutions segment, which was in line with the increase in segmental turnover.

Increase in administrative expenses during YEAR 2019 was primarily due to the increase in wages and salaries. Share option expenses of approximately HK\$30.3 million in YEAR 2019 was attributable to the share options granted under the information security chips and solutions segment while the share option expenses of approximately HK\$201.4 million in YEAR 2018 was attributable to the share options granted under the payment processing solutions segment and information security chips and solutions segment.

Credit impairment loss was primarily due to provision for impairment loss of receivables of HK\$4.7 million under the electronic power meters and solutions segment; and impairment loss on loan receivables of HK\$44.1 million under the micro-lending business of the payment processing solutions segment.

### **(D) Share of results of investments accounted for using the equity method**

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

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

### **(E) Investment properties and property, plant and equipment**

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

**(F) Right-of-use assets and lease liabilities**

From 1 January 2019, upon the adoption of HKFRS 16 Leases, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Comparatives for YEAR 2018 has not been restated, as permitted under the specific transition provisions in the standard.

**(G) Investments accounted for using the equity method**

Balance mainly represented the Group's interests in PAX Global. As at 31 December 2019, the fair value of the Group's approximately 33.1% effective interest in PAX Global was approximately HK\$1,328.6 million and the fair value of the investment was lower than its carrying value. An impairment test was performed to determine the recoverable amount of the investment. The recoverable amount, which was assessed by an independent valuer on a value-in-use basis using the discounted cash flow model, exceeds the carrying value as at 31 December 2019.

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 2019, the Group's share of loss of Cloopen exceeded its interest in the ordinary shares of Cloopen, and there was no overall financial impact on the consolidated income statement from the investment for the year. As at 31 December 2019, the carrying amount of the Group's interest in the ordinary shares of Cloopen was zero and the fair value of the Group's interest in the ordinary shares of Cloopen was approximately HK\$507.3 million.

The Group is optimistic about the future prospects of PAX Global and Cloopen and will continue to demonstrate prudence and resilience in assessing its investment strategy towards the enhancement of shareholders' value. Details of the performance of these investments are set out in Note 11 to the consolidated financial information.

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

The balance represented (i) the fair value of the Group's interest in the Convertible Series C Preferred Shares of Cloopen of HK\$119.6 million; (ii) the fair value of the Group's interest in the Convertible Series D Preferred Shares of Cloopen of HK\$46.5 million; (iii) the fair value of trading securities listed in Hong Kong of HK\$1.7 million; and (iv) the fair value of interest in a venture capital fund of HK\$122.1 million.

**(I) Inventories**

The amount mainly represented inventories of electronic power meters and solutions segment and information security chips and solutions segment. During the year, HK\$5.5 million was recorded for provision on inventories with respect to slow-moving and obsolete stocks.

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

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables ( <i>Note (i)(a)</i> )	<b>210,103</b>	148,173
Bills receivables ( <i>Note (i)(b)</i> )	<b>16,922</b>	11,468
<i>Less: provision for impairment of receivables</i>	<b>(14,851)</b>	(10,463)
	<b>212,174</b>	149,178
Other receivables, prepayments and deposits ( <i>Note (ii)</i> )	<b>168,715</b>	131,625
Total	<b>380,889</b>	280,803

*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 the relevant invoice dates is as follows:

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current to 90 days	<b>166,857</b>	109,685
91 to 180 days	<b>11,831</b>	2,919
181 to 365 days	<b>4,910</b>	8,335
Over 365 days	<b>26,505</b>	27,234
	<b>210,103</b>	148,173

Increase in balances aged from current to 90 days was mainly due to increase in account receivable balances under information security chips and solutions segment.

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

*Note (ii):*

The increase in balance was mainly due to an increase in other receivables from the exercise of share options under information security chips and solutions segment.

**(K) Loan receivables**

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

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

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current	<b>369,971</b>	553,676
1 to 3 months past due	<b>24,659</b>	9,365
Over 3 months past due	<b>33,738</b>	6,061
Loan receivables, gross	<b>428,368</b>	569,102
<i>Less: provision for impairment of loan receivables</i>	<b>(43,240)</b>	(32,807)
Loan receivables, net	<b>385,128</b>	536,295
Non current	–	479
Current	<b>385,128</b>	535,816
	<b>385,128</b>	536,295

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

The amounts due from/to investments accounted for using the equity method mainly represent receivables from/payables to PAX Global and Cloopen and its subsidiaries as at 31 December 2019. Amounts due from/to investments accounted for using the equity method are unsecured, interest-free and repayable on demand.

**(M) Cash and bank balances**

As at 31 December 2019, total cash and bank balances of the Group represent cash at bank and on hand of HK\$2,958.3 million, bank deposits of HK\$754.3 million and a restricted bank balance of HK\$671.5 million.

In accordance with the notice issued by the Payment and Settlement Department of the People's Bank of China (the "PBOC"), effective from 14 January 2019, all customer reserve accounts held by the third-party payment institutions were to be cancelled and the customer reserves were to be deposited in a dedicated deposit account maintained centrally by a designated agency. The customer reserve account is non-interest bearing. As of 31 December 2019, funds deposited in the customer reserve account was amounting to HK\$671.5 million. Transfers of funds under this bank account are governed under certain measures implemented by the PBOC and hence these customer reserves are restricted in nature.

Increase in cash and bank balances was mainly due to net cash generated from operating activities and proceeds from deemed disposal of shares of subsidiaries.

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

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables ( <i>Note (i)(a)</i> )	<b>438,993</b>	247,878
Bills payables ( <i>Note (i)(b)</i> )	<b>294</b>	3,165
Payables for payment processing solutions business ( <i>Note (ii)</i> )	<b>599,389</b>	266,710
Other payables and accruals ( <i>Note (iii)</i> )	<b>1,029,432</b>	1,376,874
Total	<b><u>2,068,108</u></b>	<u>1,894,627</u>

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:

	<b>2019</b> <b>HK\$'000</b>	2018 <b>HK\$'000</b>
Current to 90 days	<b>402,025</b>	205,694
91 to 180 days	<b>1,859</b>	2,663
181 to 365 days	<b>24,544</b>	17,774
Over 365 days	<b>10,565</b>	21,747
	<b>438,993</b>	247,878

- Increase in trade payables aged between current to 90 days was mainly due to increase in outstanding balances on commission payable under the payment processing solutions segment.
- Changes in trade payables aged between 181 to 365 days and over 365 days were mainly due to the outstanding balances under the electronic power meters and solutions segment.

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

Note (ii):

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

Note (iii):

	<b>2019</b> <b>HK\$'000</b>	2018 <b>HK\$'000</b>
Accrued staff costs and pension obligations*	<b>287,402</b>	273,934
Deposits	<b>62,250</b>	84,556
Receipt in advance from customers**	<b>73,389</b>	186,467
Advance from merchant recruitment agents**	<b>370,337</b>	519,935
Others***	<b>236,054</b>	311,982
	<b>1,029,432</b>	1,376,874

\* Balance represented accrued staff costs, pension obligations and year-end bonus.

\*\* The decrease in receipt in advance from customers and advance from merchant recruitment agents was mainly due to decrease in advances and guarantees received from merchants and agents under the payment processing solutions segment.

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



## **(O) Written put option liability**

On 24 September 2019, the Company, Mr. Shen Zheng (“Shen”), Mr. Li Huimin (“Li”), Mr. Xue Guangyu (“Xue”) and Ms. Ge Xiaoxia (“Ge”) (collectively the “Management Shareholders”), ELECTRUM B.V. (the “VBill Investor”), VBill Limited (“VBill (Cayman)”) and VBill Payment Co. Ltd. (“VBill OPCO”) (collectively the “VBill Contractual Parties”) entered into a second amendment and restatement agreement to amend and restate the Original Subscription Agreement (capitalised terms as defined in the Company’s announcement dated 24 September 2019, the Original Subscription Agreement as amended and restated is referred to as the “2nd Amended Subscription Agreement”). Pursuant to the 2nd Amended Subscription Agreement, the VBill Investor has agreed to subscribe for new shares of VBill (Cayman) (“VBill Shares”) at the subscription price of RMB588,000,000. Immediately before completion of the 2nd Amended Subscription Agreement, VBill (Cayman) was wholly-owned by the Company. Completion of the 2nd Amended Subscription Agreement took place on 12 November 2019 and immediately after completion and as at the date of this announcement, VBill (Cayman) is owned as to approximately 85.99% by the Company and approximately 14.01% by the VBill Investor.

Pursuant to the shareholders’ agreement entered into among the VBill Contractual Parties, VBill (Cayman) granted a put option (“Put Option”), whereby the VBill Investor can request VBill (Cayman) to repurchase, redeem and/or cancel all the VBill Shares of the VBill Investor at its discretion under certain conditions at an exercise price of RMB588,000,000 plus 8.0% interest per annum. As a result of this transaction, a put option liability of HK\$683,908,000 is recognised in the consolidated balance sheet based on the present value of the exercise price of RMB588,000,000 plus 8.0% interest per annum, and on the assumption that the Put Option will be redeemable after 3 years from the completion date. Further details are set out in Note 14 to the consolidated financial information.

## **KEY INVESTING AND FINANCING ACTIVITIES**

### **Deemed disposal of VBill (Cayman) and grant of Put Option by VBill (Cayman)**

#### ***(A) Subscription agreement***

On 24 September 2019, the Company, the Management Shareholders, the VBill Investor, VBill (Cayman) and VBill OPCO entered into the “2nd Amended Subscription Agreement”, pursuant to which the VBill Investor has agreed to subscribe for new VBill Shares (“Deemed Disposal”) at the subscription price of RMB588,000,000.

Immediately before completion of the 2nd Amended Subscription Agreement, VBill (Cayman) was wholly-owned by the Company. Completion of the 2nd Amended Subscription Agreement took place on 12 November 2019 and immediately after completion and as at the date of this announcement, VBill (Cayman) is owned as to approximately 85.99% by the Company and approximately 14.01% by the VBill Investor.

***(B) Shareholders' agreement and put option***

On 24 September 2019, the Management Shareholders, Delia and Grace Technology Limited (a company wholly-owned by Shen, "Shen Holdco"), Kapok Technology Limited (a company wholly-owned by Li, "Li Holdco"), Yuteng Technology Limited (a company wholly-owned by Xue, "Xue Holdco") and Just Pay Technology Limited (a company wholly-owned by Ge, "Ge Holdco") (together, the "Management Shareholders Holdcos"), the Company, the VBill Investor, VBill (Cayman), Beijing Microcode Data Technology Company Limited, Chongqing JIM Mobile Business Company Limited and VBill OPCO entered into an amendment and restatement agreement to amend and restate the Original Shareholders' Agreement (as defined in the Company's announcement dated 24 September 2019, the Original Shareholders' Agreement as amended and restated is referred to as the "Amended Shareholders' Agreement"). The Amended Shareholders' Agreement regulates and governs the rights and obligations of the owners of the securities interests in VBill (Cayman) (including the grant of the Put Option to the VBill Investor, and the management and operation of VBill (Cayman), together with its subsidiaries).

***(C) Listing Rules implications***

The Deemed Disposal constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. As each of the Management Shareholders, together with their respective Management Shareholders Holdcos, each an associate of Shen, Li, Xue and Ge, is a connected person of the Company at subsidiary level, the 2nd Amended Subscription Agreement and the transactions contemplated thereunder (including the Amended Shareholders' Agreement) constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

The grant and exercise of the Put Option (the exercise of which is not at the discretion of the Company) constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

Please refer to the announcements of the Company dated 24 September 2019 for further details.

## **BUSINESS OUTLOOK**

### **Effect of COVID-19**

All of the Group's business segments are substantially based in Mainland China. In view of the outbreak of the novel coronavirus disease 2019 (COVID-19) (the "epidemic") in Mainland China since January 2020, the Group has adopted various prevention and control measures in accordance with the relevant national and local regulations on epidemic prevention and control in compliance with the national epidemic prevention policies. In the light of the current situation, the local consumption market and hence the payment processing industry, as well as the Group's financial performance will inevitably be affected by the epidemic in the first half of 2020. The Group has observed a lower than usual transaction volume being processed through its payment processing solutions segment in January and February 2020, excluding the probable seasonal fluctuations due to the Lunar New Year holidays, the decline in transaction volume could have been caused by a decline in consumer consumption of goods and services in the face of the epidemic. Given the uncertainties as to the development and duration of the current epidemic situation, it is difficult to predict the extent to which the business of the Group may be affected. The Group will pay close attention to the development of the epidemic and evaluate its impact on the operation and financial position and results of the Group.

### **Payment processing solutions**

In 2019, the overall transaction volume of payment business continued to maintain a steady and solid increase. VBill OPCO has 3.5 million accumulated active domestic merchants with the cumulative transaction volume exceeded RMB1,760 billion for the year and handled 0.9 billion transactions. The number of transactions increased by 129% as compared with last year, contributed mainly by the rapid growth of mobile QR code payment transactions. The payment processing solutions achieved significant results domestically and we shall explore the wider international market in the future. During the year, we have obtained the Money Service Operators ("MSO") license that laid the foundation for cross-border payment business. Moreover, we have successfully brought in the strategic investment from EQT. EQT have distinct achievements in the aspects of finance and payment, and we considered that the addition of EQT will speed up VBill OPCO's overseas strategy. In 2020, we and the management of VBill OPCO will start to develop cross-border payment business through a subsidiary owned by VBill (Cayman). Along with the progressively increasing supervision by the regulatory authorities of China, VBill OPCO will increase its effort in the establishment of various compliance systems, including anti-money laundering, and strengthen operational control and risk prevention. We believe that the Company will be able to offer less costly, more efficient and diversified payment and fintech services to a wider user base in the future.

### **Information security chips and solutions**

In 2019, the development of payment market in China was stable, while market competition in the information security chips business became more intense and QR code payment products were replacing traditional supporting products much more quickly. We expect the market to continue to develop steadily in 2020. Nonetheless, the growth may be affected by changes in the central bank policies targeting the payment market. Other research and development projects are progressing smoothly and cost reduction initiatives of various products continue to roll out in an orderly manner.

## **Platform operation solutions**

In 2019, we continued the provision of operational supporting services to China Mobile Financial Technology Co., Ltd. (“China Mobile Fintech”), the IVR Base of China Mobile and the Migu Animation and Comics Base of China Mobile. Since the establishment of China Mobile Fintech, with its vigorous development in integrated payment, featured e-commerce and fintech business, we are currently their biggest operational supporting partner. Our excellent operational supporting work has received affirmation and recognition from China Mobile and laid a solid foundation for the steady development of the current supporting business and the expansion of further supporting projects in the future. Looking ahead, we will continue to expand our business of domestic mobile operators’ companies in other provinces and professional companies, expand overseas mobile payment technology service projects and develop community-based e-commerce related businesses. We will strive to expand the proportion of revenue outside the existing businesses to ensure the continued stable and healthy development of our business.

## **Financial solutions**

In 2019, we continued to provide quality services and maintain a steady development in the traditional customer markets. Also, we completed the development of the core business system for Macao Development Bank as well as putting into production the core business system for two virtual banks in Hong Kong, namely the ZA Bank and Airstar Bank during the period. At the same time, in response to the increasingly fierce competition in the mainland domestic market, we endeavored to enhance competitiveness through aggressive investment in the research and development of new products: aggressively developing a new generation of decentralized core business system, and won the bid for the special project of constructing a new generation decentralized core business system for the Bank of Guizhou during the period. Moreover, we achieved business breakthrough in Southeast Asia market this year, and won the bids for special projects of constructing core business systems for one big state-owned bank in Laos and one newly-established bank in Malaysia in the second half of the year.

## **Electronic power meters and solutions**

In 2020, the total tender volume of electronic power meters and data collection devices of the State Grid are expected to approximate to that of 2019. We managed to, once again, win the bid in the State Grid’s second unified tender last year, and we are confident that we will continue to win further bids in 2020. On technical aspects, the State Grid Power Research Institute is actively advancing the research and construction of GB standards for IR46 electronic power meter, we are also actively pursuing the relevant works.

## Consolidated Income Statement

	<i>Note</i>	<b>For the year ended</b>	
		<b>2019</b>	<b>2018</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	2, 3	<b>5,575,981</b>	4,661,954
Cost of sales	4	<b>(4,254,553)</b>	(3,404,203)
<b>Gross profit</b>		<b>1,321,428</b>	1,257,751
Other income	2	<b>116,842</b>	43,894
Other gains/(losses), net	2	<b>22,040</b>	(16,922)
Selling expenses	4	<b>(82,266)</b>	(96,829)
Administrative expenses	4	<b>(720,768)</b>	(687,992)
Employees' incentive programmes of subsidiaries		<b>(30,303)</b>	(201,447)
Credit impairment loss	4	<b>(48,800)</b>	(39,954)
<b>Operating profit</b>		<b>578,173</b>	258,501
Finance costs		<b>(10,245)</b>	(89)
Share of results of investments accounted for using the equity method	11	<b>208,695</b>	171,753
<b>Profit before income tax</b>		<b>776,623</b>	430,165
Income tax expense	5	<b>(93,656)</b>	(92,875)
<b>Profit for the year</b>		<b>682,967</b>	337,290
<b>Profit attributable to:</b>			
– Owners of the Company		<b>569,111</b>	278,175
– Non-controlling interests		<b>113,856</b>	59,115
		<b>682,967</b>	337,290
		<b>HK\$ per share</b>	<b>HK\$ per share</b>
<b>Earnings per share for profit attributable to the owners of the Company:</b>			
Basic	7	<b>0.205</b>	0.100
Diluted	7	<b>0.190</b>	0.095

## Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the year</b>	<b>682,967</b>	337,290
<b>Other comprehensive (loss)/income, net of tax</b>		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising on translation of the financial statements of foreign subsidiaries	(41,393)	(78,517)
Share of other comprehensive loss of investments accounted for using the equity method	(15,961)	(38,567)
<i>Items that will not be reclassified to profit or loss</i>		
Change in value of a financial asset at fair value through other comprehensive income	(892)	(14,384)
Share of other comprehensive (loss)/income of an investment accounted for using the equity method	(862)	461
<b>Total comprehensive income for the year, net of tax</b>	<b>623,859</b>	<b>206,283</b>
<b>Attributable to:</b>		
– Owners of the Company	516,172	156,406
– Non-controlling interests	107,687	49,877
	<b>623,859</b>	<b>206,283</b>

## Consolidated Balance Sheet

		As at 31 December	
		2019	2018
	Note	HK\$'000	HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties		1,378	1,575
Property, plant and equipment		384,456	715,193
Right-of-use assets		88,501	–
Leasehold land		–	30,490
Intangible assets		2,065	1,884
Deferred income tax assets		119	–
Investments accounted for using the equity method	11	2,106,737	1,931,188
Financial asset at fair value through other comprehensive income	8	–	895
Other financial assets at amortised cost		2,914	12,807
Loan receivables	10	–	479
Financial assets at fair value through profit or loss	9	288,206	271,741
<b>Total non-current assets</b>		<b>2,874,376</b>	<b>2,966,252</b>
<b>Current assets</b>			
Inventories		95,651	162,275
Other current assets		67,006	68,988
Other financial assets at amortised cost		98,795	49,830
Amounts due from investments accounted for using the equity method		19,970	15,116
Loan receivables	10	385,128	535,816
Trade and bills receivables	12	212,174	149,178
Financial asset at fair value through profit or loss	9	1,712	2,004
Current income tax recoverable		10,007	–
Short-term bank deposits		147	1,583
Cash and bank balances		4,384,102	2,681,475
<b>Total current assets</b>		<b>5,274,692</b>	<b>3,666,265</b>
<b>Total assets</b>		<b>8,149,068</b>	<b>6,632,517</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		6,942	6,942
Reserves		4,680,106	4,371,271
		4,687,048	4,378,213
Non-controlling interests		591,464	193,062
<b>Total equity</b>		<b>5,278,512</b>	<b>4,571,275</b>

		<b>As at 31 December</b>	
		<b>2019</b>	2018
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Written put option liability	<i>14</i>	<b>683,908</b>	–
Lease liabilities		<b>31,494</b>	–
Deferred income tax liabilities		<b>522</b>	109
Other payables	<i>13</i>	<b>–</b>	983
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>715,924</b>	1,092
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current liabilities</b>			
Trade and bills payables	<i>13</i>	<b>439,287</b>	251,043
Payables for payment processing solutions business	<i>13</i>	<b>599,389</b>	266,710
Other payables and accruals	<i>13</i>	<b>1,029,432</b>	1,375,891
Amounts due to investments accounted for using the equity method		<b>21,226</b>	114,190
Current income tax liabilities		<b>31,905</b>	42,069
Borrowing		<b>5,577</b>	10,247
Lease liabilities		<b>27,816</b>	–
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>2,154,632</b>	2,060,150
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total liabilities</b>		<b>2,870,556</b>	2,061,242
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total equity and liabilities</b>		<b>8,149,068</b>	6,632,517
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>



## 1 BASIS OF PREPARATION

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company and its subsidiaries (together the “Group”).

### Changes in accounting policy and disclosures

#### (a) *New and amended standards adopted by the Group*

A number of new or amended standards became applicable for the current reporting period, and the Group had changed its accounting policies as a result of adopting HKFRS 16 Leases (“HKFRS 16”).

The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019.

The impact of the adoption of HKFRS 16 is disclosed below. The other standards did not have material impact on the Group’s accounting policies and did not require any adjustments.

#### (i) *Accounting policy applied from 1 January 2019*

From 1 January 2019, leases are recognised as right-of-use assets (including leasehold land) and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the assets’ useful lives and the lease terms on a straight-line basis and stated at initially recognised amount less depreciation and impairment losses. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group’s incremental borrowing rate.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any initial direct costs.

(ii) *Impact of adoption*

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening of the consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 Leases (“HKAS 17”). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019 (date of initial application of HKFRS 16). The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.68%.

In applying HKFRS 16 for the first time, the Group has applied a practical expedient permitted by this standard to use a single discount rate to a portfolio of leases with reasonably similar characteristics, which is a practical expedients permitted by the standard.

The reconciliation between the operating lease commitments as disclosed by applying HKAS 17 as at 31 December 2018 and the lease liabilities recognised in the opening of the consolidated balance sheet as at 1 January 2019 (date of initial application of HKFRS 16) is as follows:

	<i>HK\$’000</i>
Operating lease commitments disclosed as at 31 December 2018	69,614
Discounted using the lessee’s incremental borrowing rate at the date of initial application	62,933
<i>Less:</i> short-term leases not recognised as a liability	(5,256)
Lease liabilities recognised as at 1 January 2019	<u>57,677</u>
Of which are:	
– Non-current lease liabilities	32,395
– Current lease liabilities	<u>25,282</u>
	<u>57,677</u>

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy resulted in the recognition of right-of-use assets of HK\$88,167,000, including reclassification of leasehold land to right-of-use assets of HK\$30,490,000, and lease liabilities of HK\$57,677,000 in the opening of the consolidated balance sheet on 1 January 2019.

The recognised right-of-use assets of HK\$88,167,000 are related to office premises of HK\$78,910,000 and factory of HK\$9,257,000.

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating lease as a result of the adoption of HKFRS 16.

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

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group 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:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>		
Provision of payment processing solutions	<b>4,672,640</b>	3,744,922
Sales of information security chips and solutions	<b>290,010</b>	291,567
Provision of platform operation solutions	<b>194,831</b>	208,569
Provision of financial solutions	<b>302,223</b>	311,549
Sales of electronic power meters and solutions	<b>116,277</b>	105,347
	<b>5,575,981</b>	4,661,954
<b>Other income</b>		
Interest income	<b>53,572</b>	23,717
Subsidy income	<b>58,843</b>	16,423
Rental income	<b>3,312</b>	2,419
Others	<b>1,115</b>	1,335
	<b>116,842</b>	43,894
<b>Other gains/(losses), net</b>		
Fair values gains/(losses) on financial assets at FVPL		
– Unlisted convertible preference shares	<b>24,241</b>	9,387
– Unlisted investment fund	<b>(2,026)</b>	(25,660)
– Listed trading securities	<b>(292)</b>	(698)
Dividend income from a financial asset at FVPL	<b>117</b>	49
	<b>22,040</b>	(16,922)

### 3 SEGMENT INFORMATION

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

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

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

- (a) Payment processing solutions – principally engaged in provision of payment processing services, merchants recruiting, micro-lending business, credit assessment services and related products and solutions;
- (b) Information security chips and solutions – principally engaged in the provision of information system consultancy services, the sales of mag-strip card security decoder chips and related products and solutions;
- (c) Platform operation solutions – principally engaged in the provision of telecommunication and mobile payment platform operation services and operation value-added services;
- (d) Financial solutions – principally engaged in the provision of information system consultancy, integration and operation services and sales of information technology products to financial institutions and banks; and
- (e) Electronic power meters and solutions – principally engaged in the manufacturing and sales of electronic power meters, data collection terminals and related products and solutions.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted earnings/(losses) before interest expense, taxes, depreciation and amortisation (“EBITDA”) excluding write off of property, plant and equipment, fair values gains/(losses) on financial assets at FVPL and employees’ incentive programmes of subsidiaries.

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>	Information security chips and solutions <i>HK\$'000</i>	Platform operation solutions <i>HK\$'000</i>	Financial solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total Group <i>HK\$'000</i>
<b>Year ended 31 December 2019</b>							
Segment turnover	4,672,640	290,010	196,302	302,223	116,277	–	5,577,452
Inter-segment turnover	–	–	(1,471)	–	–	–	(1,471)
Turnover from external customers	<u>4,672,640</u>	<u>290,010</u>	<u>194,831</u>	<u>302,223</u>	<u>116,277</u>	<u>–</u>	<u>5,575,981</u>
Segmental EBITDA (excluding write off of property, plant and equipment, fair values gains on financial assets at FVPL and employees' incentive programme of a subsidiary)	<u>1,160,533</u>	<u>29,639</u>	<u>(11,672)</u>	<u>(6,081)</u>	<u>(12,232)</u>	<u>(11,461)</u>	<u>1,148,726</u>
Depreciation	(369,366)	(2,434)	(5,377)	(3,525)	(2,893)	(1,239)	(384,834)
Amortisation	–	–	(36)	–	(76)	–	(112)
Write off of property, plant and equipment	(94,701)	–	–	–	–	–	(94,701)
Fair values gains on financial assets at FVPL	–	–	22,215	–	–	–	22,215
Employees' incentive programme of a subsidiary	–	(30,303)	–	–	–	–	(30,303)
Segmental operating profit/(loss)	<u>696,466</u>	<u>(3,098)</u>	<u>5,130</u>	<u>(9,606)</u>	<u>(15,201)</u>	<u>(12,700)</u>	<u>660,991</u>
Unallocated other income							8,624
Unallocated corporate expenses							(91,442)
Finance costs							(10,245)
Share of results of investments accounted for using the equity method							<u>208,695</u>
Profit before income tax							776,623
Income tax expense							<u>(93,656)</u>
Profit for the year							<u><u>682,967</u></u>

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

Unallocated corporate expenses represent costs that are used for all segments, including depreciation of property, plant and equipment of HK\$1,168,000 (2018: HK\$1,981,000), depreciation of investment properties of HK\$197,000 (2018: HK\$198,000) and depreciation of right-of-use assets of HK\$5,506,000 (2018: amortisation of leasehold land of HK\$760,000), respectively.

The segment assets and liabilities as at 31 December 2019 and additions to non-current assets for the year ended 31 December 2019 are as follows:

	Payment processing solutions HK\$'000	Information security chips and solutions HK\$'000	Platform operation solutions HK\$'000	Financial solutions HK\$'000	Electronic power meters and solutions HK\$'000	Others HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total Group HK\$'000
<b>As at 31 December 2019</b>									
Segment assets	4,233,447	334,768	620,759	325,571	213,800	98,513	3,333,286	(1,011,076)	8,149,068
Segment liabilities	(2,600,467)	(201,880)	(307,764)	(335,316)	(153,417)	(159,190)	(123,598)	1,011,076	(2,870,556)
<b>Year ended 31 December 2019</b>									
Additions to non-current assets (excluding deferred income tax assets, investments accounted for using the equity method, financial asset at FVOCI, other financial assets at amortised cost, loan receivables and financial assets at FVPL)	141,396	1,863	5,634	7,327	669	326	9,156	-	166,371

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

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

Unallocated assets mainly include an investment accounted for using the equity method of HK\$2,103,541,000 (2018: HK\$1,927,772,000) and cash and bank balances of HK\$514,267,000 (2018: HK\$561,845,000).

During the year, additions to non-current assets mainly comprise additions to property, plant and equipment, right-of-use assets and intangible assets (2018: property, plant and equipment and intangible assets).

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

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

The Group is principally domiciled in Mainland China and Hong Kong (2018: same). The Group's turnover by geographical locations, which is determined by the locations in which the turnover are generated from, is as follows:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Mainland China	5,490,078	4,556,117
Hong Kong	85,903	105,837
	<u>5,575,981</u>	<u>4,661,954</u>

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

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
<b>Non-current assets</b>		
Mainland China	467,570	747,475
Hong Kong	8,830	1,667
	<u>476,400</u>	<u>749,142</u>
<b>Current assets</b>		
Mainland China	3,846,630	2,880,301
Hong Kong	1,425,453	783,310
Others	2,609	2,654
	<u>5,274,692</u>	<u>3,666,265</u>



#### 4 EXPENSES BY NATURE

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

	For the year ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
Auditor's remuneration		
– audit and audit related services	4,292	3,832
– non-audit services	406	248
Commission paid to merchant recruitment agents	3,022,429	2,232,045
Depreciation of property, plant and equipment	362,116	299,477
Depreciation of right-of-use assets	29,392	–
Depreciation of investment properties	197	198
Amortisation of leasehold land	–	986
Amortisation of intangible assets	112	208
Employee benefit expense (excluding employees' incentive programmes of subsidiaries, including directors' emoluments)	759,877	697,934
Costs of inventories sold (including provision for inventories)	298,288	298,082
Operating lease rentals in respect of land and buildings	15,494	37,144
Research and development costs (including staff cost)	283,822	322,752
Credit impairment loss		
– trade and bills receivables (Note 12)	4,676	5,125
– loan receivables (Note 10)	44,124	34,829
Gain on disposals of property, plant and equipment	(50)	(45)
Write off of property, plant and equipment	94,701	–
Provision for inventories	5,539	1,253
	<u>93,656</u>	<u>92,875</u>

#### 5 INCOME TAX EXPENSE

	For the year ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
Current tax		
– Hong Kong profits tax	–	–
– Overseas taxation	93,354	92,925
Deferred tax	302	(50)
Income tax expense	<u>93,656</u>	<u>92,875</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2018: same) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

If a subsidiary is subject to CIT and qualified as High and New Technology Enterprise (“HNTE”), the applicable CIT tax rate is 15%. If a subsidiary is subject to CIT and qualified as Software and Integrated Circuit Enterprise (“SICE”), the applicable CIT tax rate is 0% for the first two years of being qualified and 12.5% for the next three years. If a subsidiary is subject to CIT and qualified as Key Software Enterprise (“KSE”), the applicable CIT tax rate is 10%.

#### Applicable corporate income tax rates of principal subsidiaries

Subsidiaries	Applicable corporate income tax rate	
	For the year ended 31 December 2019	2018
Beijing Hi Sun Advanced Business Solutions Information Technology Limited (“ABS”) (Note i)	15%	15%
Hangzhou PAX Electronic Technology Limited (“Hangzhou Electronic Technology”) (Note ii)	15%	15%
隨行付支付有限公司 (“VBill OPCO”) (Note iii)	15%	15%
北京銀企融合技術開發有限公司 (“Beijing Bank and Enterprise”) (Note iv)	10%	15%
隨行付(北京)金融信息服務有限公司 (“VBill Finance”) (Note v)	15%	15%
北京隨信雲鏈科技有限公司 (“Beijing Cloud Chain”) (Note vi)	15%	25%
Mega Hunt Microelectronics (Beijing) Company Limited (“Megahunt Microelectronics”) (Note vii)	12.5%	12.5%
Hunan Hisun Mobile Pay IT Limited (“HN Mobile Pay”) (Note viii)	15%	15%

#### Notes:

- (i) ABS was renewed as HNTE in 2018.
- (ii) Hangzhou Electronic Technology was renewed as HNTE in 2018.
- (iii) VBill OPCO was renewed as HNTE in 2017.
- (iv) Beijing Bank and Enterprise was qualified as HNTE in 2016 and qualified as KSE in 2019.
- (v) VBill Finance was qualified as HNTE in 2018.
- (vi) Beijing Cloud Chain was qualified as HNTE in 2019.
- (vii) Megahunt Microelectronics was qualified as SICE in 2015.
- (viii) HN Mobile Pay was renewed as HNTE in 2017.

## 6 DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2019 (2018: Nil).

## 7 EARNINGS PER SHARE

### (a) Basic

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

	<b>For the year ended 31 December</b>	
	<b>2019</b>	2018
Profit attributable to the owners of the Company ( <i>HK\$'000</i> )	<u>569,111</u>	<u>278,175</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 attributable to the owners of the Company ( <i>HK\$ per share</i> )	<u><u>0.205</u></u>	<u><u>0.100</u></u>

### (b) Diluted

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

For the year ended 31 December 2019, the Group has five categories (2018: same) of potentially dilutive shares: share options issued by an associated company – PAX Global Technology Limited (“PAX Global”), share options and convertible preference shares issued by an associated company – Cloopen Group Holding Limited (“Clopen”) and share options issued by subsidiaries – VBill OPCO and Megahunt Microelectronics (2018: same).

For the year ended 31 December 2019 and 2018, the calculation of diluted earnings per share does not assume the exercise of the share options of PAX Global as they would have an anti-dilutive impact to the basic earnings per share.

For share options and convertible preference shares issued by Cloopen, as at 31 December 2019, the carrying amount of the interest in Cloopen was zero (2018: same). As at 31 December 2019, 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 (2018: same).

For the year ended 31 December 2019, the exercise of the outstanding share options in VBill OPCO (2018: VBill OPCO and Megahunt Microelectronics) would have a dilutive effect. The exercise of the share options in VBill OPCO (2018: VBill OPCO and Megahunt Microelectronics) would be dilutive if the net profit attributable to the owners of the Company will decrease. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual fair value of the subsidiaries’ shares) based on the monetary value of the subscription rights attached to outstanding share options of VBill OPCO (2018: VBill OPCO and Megahunt Microelectronics). The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options of VBill OPCO (2018: VBill OPCO and Megahunt Microelectronics).

For the year ended 31 December 2019, the calculation of diluted earnings per share does not assume the exercise of the share options of Megahunt Microelectronics as they would have an anti-dilutive impact to the basic earnings per share.

	<b>For the year ended 31 December</b>	
	<b>2019</b>	2018
Profit attributable to the owners of the Company ( <i>HK\$'000</i> )	<b>569,111</b>	278,175
Assuming exercise of all outstanding dilutive share options issued by VBill OPCO (2018: VBill OPCO and Megahunt Microelectronics) ( <i>HK\$'000</i> )		
– Decrease in net profit attributable to the owners of the Company	<u>(41,810)</u>	<u>(13,728)</u>
Adjusted profit attributable to the owners of the Company used to determine diluted earnings per share ( <i>HK\$'000</i> )	<u><b>527,301</b></u>	<u>264,447</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousands shares</i> )	<u><b>2,776,834</b></u>	<u>2,776,834</u>
Diluted earnings per share attributable to the owners of the Company ( <i>HK\$ per share</i> )	<u><b>0.190</b></u>	<u>0.095</u>

## 8 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	<b>For the year ended 31 December</b>	
	<b>2019</b>	2018
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Balance at 1 January	<b>895</b>	15,536
Fair value losses on revaluation recognised in other comprehensive income related to equity investment	<b>(892)</b>	(14,384)
Exchange realignment	<u>(3)</u>	<u>(257)</u>
Balance at 31 December	<u><b>–</b></u>	<u>895</u>

The carrying amount of the financial asset at FVOCI is denominated in Renminbi (“RMB”). On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

## 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial assets at FVPL represent investment in unlisted investment fund, unlisted convertible preference shares and listed trading securities (2018: same). These financial assets are mandatory measured at FVPL and with following details.

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Balance at 1 January	<b>273,745</b>	259,036
Addition	–	39,000
Net fair value gains/(losses) on revaluation recognised in the consolidated income statement	<b>21,923</b>	(16,971)
Distribution	<b>(3,202)</b>	–
Exchange realignment	<b>(2,548)</b>	(7,320)
	<hr/>	<hr/>
Balance at 31 December	<b>289,918</b>	273,745
	<hr/> <hr/>	<hr/> <hr/>
	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets</b>		
Unlisted investment fund outside Hong Kong ( <i>Note (a)</i> )	<b>122,093</b>	129,869
Unlisted convertible preference shares outside Hong Kong ( <i>Note (b)</i> )	<b>166,113</b>	141,872
	<hr/>	<hr/>
	<b>288,206</b>	271,741
	<hr/> <hr/>	<hr/> <hr/>
<b>Current assets</b>		
Listed trading securities in Hong Kong ( <i>Note (c)</i> )	<b>1,712</b>	2,004
	<hr/>	<hr/>
	<b>289,918</b>	273,745
	<hr/> <hr/>	<hr/> <hr/>

Notes:

**(a) Unlisted investment fund outside Hong Kong**

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

**(b) Unlisted convertible preference shares outside Hong Kong**

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

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

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

The Convertible Series C Preferred Shares and Convertible Series D Preferred Shares, together with the abovementioned options, were classified as financial assets at FVPL and recognised at fair values. The fair values of the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares were valued by an independent valuer at the date of initial inception and on 31 December 2019.

The carrying amounts of the unlisted convertible preference shares are denominated in US dollars (“US\$”).

**(c) Listed trading securities in Hong Kong**

The fair value of the listed trading securities is based on their current bid prices in an active market and their carrying amount is denominated in Hong Kong dollars (“HK\$”).

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

## 10 LOAN RECEIVABLES

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

### (a) Aging analysis of loan receivables

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

	As at 31 December	
	2019	2018
	HK\$'000	HK\$'000
Current	369,971	553,676
1 to 3 months past due	24,659	9,365
Over 3 months past due	33,738	6,061
Loan receivables, gross	428,368	569,102
Less: Provision for impairment of loan receivables (Note (i))	(43,240)	(32,807)
	<u>385,128</u>	<u>536,295</u>
Non-current	–	479
Current	<u>385,128</u>	<u>535,816</u>
	<u>385,128</u>	<u>536,295</u>

Note:

### (i) Impairment and risk exposure

The Group applies HKFRS 9 Financial Instruments (“HKFRS 9”) to measure the expected credit losses (“ECL”). The Group assesses whether the credit risk of loan receivables have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL, the management assesses impairment loss using the risk parameter modelling approach that incorporates key measurement parameters, including probability of default, loss given default and exposure at default with the consideration of forward-looking information.

During the year ended 31 December 2019, based on management’s assessment, the Group recorded credit impairment loss of HK\$11,288,000 (2018: HK\$34,068,000) in the consolidated income statement. Loan receivables of HK\$32,836,000 (2018: HK\$761,000), which are still subject to enforcement activity, were determined as uncollectible and were written off against loan receivables during the year ended 31 December 2019.

The loan receivables are not collateralised.

(b) **Effective interest rates on loan receivables**

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

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
Loans to individual borrowers	<b><u>5% to 36% p.a.</u></b>	<b><u>5% to 36% p.a.</u></b>

**11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

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

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Associated company:		
– PAX Global ( <i>Note (a)</i> )	<b>2,103,541</b>	1,927,772
– Good Chain (Chongqing) Technology Co., Ltd. ("Good Chain") ( <i>Note (c)</i> )	<b><u>3,196</u></b>	<u>3,416</u>
	<b><u>2,106,737</u></b>	<u>1,931,188</u>

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

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Associated company:		
– PAX Global ( <i>Note (a)</i> )	<b>208,848</b>	171,753
– Good Chain ( <i>Note (c)</i> )	<b><u>(153)</u></b>	<u>–</u>
	<b><u>208,695</u></b>	<u>171,753</u>



(a) **Investment in PAX Global**

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January	<b>1,927,772</b>	1,823,245
Share of profit	<b>208,848</b>	171,753
Share of other comprehensive loss	<b>(16,756)</b>	(38,106)
Share of other reserves	<b>12,797</b>	–
Dividend received	<b>(29,120)</b>	(29,120)
	<hr/>	<hr/>
At 31 December	<b>2,103,541</b>	1,927,772
	<hr/> <hr/>	<hr/> <hr/>

***Impairment test for interest in PAX Global***

As at 31 December 2019, the fair value of the investment calculated based on the current bid price of PAX Global at the balance sheet date is less than its carrying value. An impairment test is performed to determine the recoverable amount of the investment. The recoverable amount, which was assessed by an independent valuer on a value-in-use basis calculated by a discounted cash flow model, exceeds the carrying value as at 31 December 2019 (2018: same).

As at 31 December 2019, the Group's interest in PAX Global was 33.09% (2018: same).

There are no contingent liabilities and commitments to provide funding 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").

**(b) Investment in Cloopen**

Set out below is an associated company of the Group as at 31 December 2019 – Cloopen. As at 31 December 2019, the carrying value of Cloopen is zero (2018: same) which is not considered as material to the consolidated financial statements of the Group. Cloopen has share capital consisting of class A ordinary share, class B ordinary share, series A convertible preferred shares, series B convertible preferred shares, series C convertible preferred shares, series D convertible preferred shares and series E convertible preferred shares.

As at 31 December 2019, 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% (2018: same).

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 2019, 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 2019, the unrecognised share of loss of the interest in Cloopen is HK\$582,356,000 (2018: HK\$413,475,000).

**(c) Investment in Good Chain**

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January	<b>3,416</b>	–
Addition	–	3,416
Share of loss	<b>(153)</b>	–
Share of other comprehensive loss	<b>(67)</b>	–
	<hr/>	<hr/>
	<b>3,196</b>	<b>3,416</b>
	<hr/> <hr/>	<hr/> <hr/>

## 12 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current portion</b>		
Trade receivables ( <i>Note (a)</i> )	210,103	148,173
Bills receivables ( <i>Note (b)</i> )	16,922	11,468
Less: provision for impairment of receivables ( <i>Note (c)</i> )	<u>(14,851)</u>	<u>(10,463)</u>
	<b><u>212,174</u></b>	<b><u>149,178</u></b>

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

	As at 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	16,217	7,086
RMB	193,866	139,941
US\$	363	546
Macanese pataca ("MOP")	<u>1,728</u>	<u>1,605</u>
	<b><u>212,174</u></b>	<b><u>149,178</u></b>

### (a) Trade receivables

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:

	As at 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 90 days	166,857	109,685
91 to 180 days	11,831	2,919
181 to 365 days	4,910	8,335
Over 365 days	<u>26,505</u>	<u>27,234</u>
	<b><u>210,103</u></b>	<b><u>148,173</u></b>

As at 31 December 2019, trade receivables included retention money receivables of HK\$11,079,000 (2018: HK\$18,767,000), which represents approximately 10% to 20% (2018: same) of the relevant contract sum granted to certain customers in the PRC that have a retention period of normally one year. As at 31 December 2019, the retention money receivables aged over 365 days primarily based on invoice date amounted to HK\$7,723,000 (2018: HK\$14,786,000).

**(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:

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Falling within 90 days	<b>3,425</b>	4,636
Falling within 91 to 180 days	<b>13,497</b>	6,832
	<b><u>16,922</u></b>	<b><u>11,468</u></b>

**(c) Impairment and risk exposure**

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

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

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January	<b>10,463</b>	5,823
Credit impairment loss	<b>4,676</b>	5,125
Exchange realignment	<b>(288)</b>	(485)
At 31 December	<b><u>14,851</u></b>	<b><u>10,463</u></b>

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

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

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current portion</b>		
Trade payables ( <i>Note (a)</i> )	438,993	247,878
Bills payables ( <i>Note (b)</i> )	294	3,165
	<u>439,287</u>	<u>251,043</u>
Payables for payment processing solutions business ( <i>Note (c)</i> )	599,389	266,710
Other payables and accruals ( <i>Note (d)</i> )	1,029,432	1,375,891
	<u>2,068,108</u>	<u>1,893,644</u>
<b>Non-current portion</b>		
Other payables ( <i>Note (d)</i> )	–	983
	<u>2,068,108</u>	<u>1,894,627</u>

Trade and bills payables, payables for payment processing solutions business and other payables and accruals are denominated in the following currencies:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	<b>HK\$'000</b>
HK\$	54,848	63,996
RMB	2,013,260	1,830,631
	<u>2,068,108</u>	<u>1,894,627</u>

*Notes:*

**(a) Trade payables**

As at 31 December 2019 and 2018, the ageing analysis of the trade payables primarily based on invoice date was as follows:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current to 90 days	402,025	205,694
91 to 180 days	1,859	2,663
181 to 365 days	24,544	17,774
Over 365 days	10,565	21,747
	<u>438,993</u>	<u>247,878</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	
	2019	2018
	HK\$'000	HK\$'000
Due within 90 days	294	1,099
Due within 91 to 180 days	—	2,066
	<u>294</u>	<u>3,165</u>

(c) **Payables for payment processing solutions business**

This balance mainly 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	
	2019	2018
	HK\$'000	HK\$'000
Accrued staff costs and pension obligations	287,402	273,934
Deposits	62,250	84,556
Receipt in advance from customers ( <i>Note i</i> )	73,389	186,467
Advances from merchant recruitment agents	370,337	519,935
Others	236,054	311,982
Total	<u>1,029,432</u>	<u>1,376,874</u>
Less: Non-current portion receipt in advance from customers ( <i>Note i</i> )	<u>—</u>	<u>(983)</u>
Total current portion	<u><u>1,029,432</u></u>	<u><u>1,375,891</u></u>

*Note:*

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

Revenue recognised during the year ended 31 December 2019 that was included in the contract liability balance at the beginning of the year amounted to HK\$173,354,000.

The decrease in receipt in advance from customers was mainly due to decrease in advances from merchants under the payment processing solutions segment.

## 14 DEEMED DISPOSAL AND WRITTEN PUT OPTION LIABILITY

In 2019, the Company, certain shareholders of VBill OPCO, including Shen Zheng (also acts as the director of VBill Limited), Li Huimin, Xue Guangyu and Ge Xiaoxia (collectively the “Management Shareholders”), ELECTRUM B.V. (the “VBill Investor”), VBill Limited (“VBill (Cayman)”) and VBill OPCO (collectively the “VBill Contractual Parties”) entered into a subscription agreement (the “Subscription”), pursuant to which, the VBill Investor had agreed to acquire approximately 11.21% effective shareholding in VBill OPCO through subscription of the issued shares of VBill (Cayman) at a subscription price of RMB588,000,000 (equivalent to HK\$676,494,000).

As a part of the Subscription, VBill (Cayman) would grant a put option, which the VBill Investor could request VBill (Cayman) to repurchase, redeem and/or cancel all the VBill (Cayman)’s shares of the VBill Investor at its discretion within 3 to 5 years after the completion date of the Subscription under certain conditions at an exercise price of RMB588,000,000 (equivalent to HK\$676,494,000) plus 8.0% interest per annum. The Subscription was completed on 12 November 2019.

Upon the completion of the Subscription, VBill OPCO remains as a subsidiary of the Group.

The Group was deemed to have disposed of approximately 11.21% of VBill OPCO from 80.04% to approximately 68.83% (“Deemed Disposal”). A gain of HK\$400,090,000 from the Deemed Disposal was recognised within equity in ‘other reserves’, net of directly attributable transaction costs charged in the equity of HK\$17,246,000.

A written put option liability of approximately HK\$676,494,000 was recognised at its fair value in the consolidated balance sheet, with a corresponding entry of the same amount recognised within equity ‘other reserves’. Its fair value is based on the present value of the exercise price of RMB588,000,000 (equivalent to HK\$676,494,000) plus 8.0% interest per annum, by applying a discount rate of 8%, and on the assumption that the put option will be redeemable after 3 years from the completion date. The written put option liability was denominated in US\$ and classified under non-current liabilities.

Gain on Deemed Disposal is calculated as follows:

	<b>As at 12 November 2019 HK\$’000</b>
Proceeds received from the Subscription	676,494
Less: recognition of non-controlling interests	(255,328)
Less: proportionate share of accumulated currency translation differences re-attributed to non-controlling interests	(3,830)
Less: directly attributable transaction costs	(17,246)
	<hr/>
Gain on Deemed Disposal	400,090
	<hr/> <hr/>

Set out below is the summary of the impact on other reserves in respect of the Deemed Disposal and the written put option liability:

	<b>Other reserves HK\$’000</b>
Gain on Deemed Disposal	400,090
Initial recognition of the written put option liability	(676,494)
	<hr/>
	(276,404)
	<hr/> <hr/>

In the consolidated cash flow statement, net cash inflow from Deemed Disposal of HK\$659,248,000 represents proceeds received from the Subscription of HK\$676,494,000 less the directly attributable transaction costs of HK\$17,246,000.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any share of the Company during the year ended 31 December 2019.

## **FINAL DIVIDEND**

No dividend has been paid or declared by the Company for the year ended 31 December 2019 (2018: Nil).

## **CORPORATE GOVERNANCE PRACTICES**

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

In formulating and implementing its corporate governance practices and standards, the Company has applied the Principles and complied with all applicable Code Provisions for the year ended 31 December 2019.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Group has adopted a written code regulating directors' and senior management's securities transactions, 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 code through the year and up to the date of this announcement.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 December 2019.



## **SUBSEQUENT EVENTS**

1. As a result of the outbreak of novel coronavirus disease 2019 (COVID-19) (the “epidemic”), a series of precautionary and control measures have been and continued to be implemented across the PRC since early 2020. In the light of the current situation, the local consumption market and hence the payment processing industry, as well as the Group’s financial performance will inevitably be affected by the epidemic in the first half of 2020. The extent of the impact depends on the duration of the epidemic and the implementation of regulatory policies and relevant protective measures. The Group will pay close attention to the development of the epidemic and evaluate its impact on the operation and financial position and results of the Group. Up to the date of this announcement, the assessment is still in progress.
2. Reference is made to the announcements of the Company dated 4 December 2019 and 30 March 2020 in relation to an investment agreement entered into by Megahunt, Mega Hunt Microelectronics Limited, the Company, certain management team members of the Group and three investors, pursuant to which the said investors have agreed to invest an aggregate of RMB80 million in Megahunt (“Investment”). Completion of the Investment took place on 30 March 2020 and immediately after which Megahunt is owned as to approximately 65.73% by the Group.
3. Subsequent to the reporting period, the Company entered into a guarantee agreement with a subsidiary and an independent manufacturer (“OEM”), in respect of the said subsidiary’s payment obligations against the OEM. Pursuant to the 2020 OEM Guarantee Agreement, the Company shall guarantee to repay the said subsidiary’s due and unsettled debts of up to US\$10,000,000 owed to the OEM and incurred in relation to such manufacturing orders the said subsidiary placed against the OEM since 15 January 2020 should it cease or fail to honour its payment obligations.

Save as disclosed above, there was no other important event affecting the Company that has occurred since the end of the YEAR 2019.

## **SCOPE OF WORK OF PRICEWATERHOUSECOOPERS**

The figures in respect of the Group’s consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

The announcement will be published on the Company's website at [www.hisun.com.hk](http://www.hisun.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). The Annual Report 2019 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**  
**Hui Lok Yan**  
*Company Secretary*

Hong Kong, 30 March 2020

*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.*