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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 2022

FINANCIAL HIGHLIGHTS

	2022 HK\$'000	2021 HK\$'000	Change + / (-)
RESULTS			
Continuing operations			
Revenue	3,432,728	4,182,684	-18%
Gross profit	1,283,582	1,224,081	+5%
Segmental EBITDA# (before unallocated items)	640,002	788,193	-19%
Operating profit	378,061	619,884	-39%
Share of results of associated companies	398,533	352,333	+13%
	<u>694,756</u>	<u>642,303</u>	+8%
Adjusted net profit##	694,756	642,303	+8%
Fair value (losses)/gains on financial assets at fair value through profit or loss ("FVPL")	(12,085)	181,258	N/A
Gains on disposals of subsidiaries	431,943	-	N/A
Gains on deemed disposals of associated companies	-	2,861,475	N/A
	<u>1,114,614</u>	<u>3,685,036</u>	-70%
Profit for the year	1,114,614	3,685,036	-70%
Profit from continuing operations	605,037	3,623,736	-83%
Profit from discontinued operation	509,577	61,300	+731%
	<u>1,114,614</u>	<u>3,685,036</u>	-70%
Profit for the year	1,114,614	3,685,036	-70%

EBITDA is calculated by excluding interest expense, taxes, depreciation, amortisation, write off of property, plant and equipment and fair value (losses)/gains on financial assets at FVPL from segmental operating profit/(loss)

Excluding fair value (losses)/gains on financial assets at FVPL, gains on disposals of subsidiaries and gains on deemed disposals of associated companies

* For identification purpose only

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	Change +/(–)
Profit attributable to:			
– Owners of the Company	939,416	3,521,526	–73%
– Non-controlling interests	175,198	163,510	+7%
	<u>1,114,614</u>	<u>3,685,036</u>	
	<i>HK\$ per share</i>	<i>HK\$ per share</i>	Change +/(–)
Earnings per share for profit attributable to the owners of the Company:			
Basic	0.340	1.268	–73%
Diluted	<u>0.313</u>	<u>1.237</u>	–75%
	As at 31 December		
	2022	2021	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	+/(–)
HIGHLIGHTS OF FINANCIAL POSITION			
Total equity	7,554,282	7,490,994	+1%
Net current assets	3,689,867	3,816,758	–3%
Total assets	<u>11,455,311</u>	<u>10,818,808</u>	+6%
	<i>HK\$ per share</i>	<i>HK\$ per share</i>	Change +/(–)
Net assets per share	<u>2.720</u>	<u>2.698</u>	+1%

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 2022 together with the comparative figures for the year ended 31 December 2021. 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 2022, the Group reported total assets of HK\$11,455.3 million (2021: HK\$10,818.8 million), which were financed by total liabilities of HK\$3,901.0 million (2021: HK\$3,327.8 million) and total equity of HK\$7,554.3 million (2021: HK\$7,491.0 million). The net asset value was HK\$7,554.3 million (2021: HK\$7,491.0 million). Net assets per share amounted to HK\$2.720 as compared to HK\$2.698 per share as at 31 December 2021.

As at 31 December 2022, the Group had restricted bank balances of HK\$1,064.9 million (2021: HK\$765.5 million), cash and cash equivalents of HK\$3,537.5 million (2021: HK\$3,254.6 million) and short-term bank borrowings of HK\$55.7 million (2021: HK\$2.4 million). The net cash position was HK\$3,481.8 million (2021: HK\$3,252.2 million). The gearing ratio is calculated as total debt divided by total capital, while total debt includes bank borrowings, lease liabilities, written put option liabilities and asset-backed securities of the Group. The gearing ratio was 13.8% (2021: 11.1%). 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 2022, the Group had bank borrowings of HK\$55.7 million (2021: HK\$2.4 million) and banking facilities of approximately HK\$284.0 million (2021: HK\$26.6 million). As at 31 December 2022, banking facility amounted HK\$24.6 million was secured by the leasehold land and buildings, with a net carrying amount of HK\$2.7 million (2021: HK\$2.7 million) and HK\$3.6 million (2021: HK\$4.7 million) respectively.

Approximately HK\$2,693.6 million, HK\$681.7 million, HK\$1,125.4 million, HK\$71.5 million, HK\$18.5 million, HK\$5.3 million, and HK\$6.4 million of the Group's restricted bank balances and cash and cash equivalents were denominated in Renminbi, Hong Kong dollar, US dollar, Euro, British Pound, Singapore dollar and Japanese yen respectively as at 31 December 2022.

Approximately HK\$2,626.1 million, HK\$413.5 million, HK\$979.4 million and HK\$1.0 million of the Group's restricted bank balances and cash and cash equivalents were denominated in Renminbi, Hong Kong dollar, US dollar and Euro respectively as at 31 December 2021.

SIGNIFICANT INVESTMENT

Save as disclosed in note (A) and note (S) under the section titled "Overall Financial Results and Position" on pages 13 to 21, the Group held no significant investment as at 31 December 2022.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in the section titled "Key Investing and Financing Activities" on pages 22 and 23, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments or capital assets as at 31 December 2022.

EXCHANGE RATES EXPOSURE

The Group derives its revenue, makes purchases and incurs expenses denominated mainly in US dollar, Renminbi, Euro, British Pound, Japanese Yen, Singapore dollar and Hong Kong dollar. 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 dollar or Renminbi 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 which the Company agreed to provide the customer with a guarantee in relation to the due and punctual performance of a service project of a subsidiary of the Company with a surety of not more than HK\$60 million 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 2022. As at 31 December 2022, the Company did not recognise any liability in relation to the Performance Guarantee Agreement. The Directors considered the possibility of reimbursement not probable.

(B) Guarantee Agreements with associates of the Company

- (i) In 2019, the Company entered into a guarantee agreement (the "2019 Manufacturer Guarantee Agreement") with 3 then subsidiaries of the Company (two of which have become associates of the Company since May 2022), pursuant to which the Company shall guarantee to repay the due and unsettled debts of the said associates individually and/or collectively of up to US\$10 million (equivalent to approximately HK\$78 million) incurred in relation to manufacturing orders placed against a named manufacturer, should any of the said subsidiary/associates individually and/or collectively cease or fail to honour its payment obligations.

In respect of the further expansion of order scale, the Company entered into another guarantee agreement in 2021 (the "2021 Manufacturer Guarantee Agreement") with the same counterparties, pursuant to which the amount of guarantee was increased to up to US\$20 million (equivalent to approximately HK\$156 million) and the 2019 Manufacturer Guarantee Agreement was terminated and the entirety of the Company's obligations and liability thereunder, if any, was effectively transferred to the 2021 Manufacturer Guarantee Agreement. As at 31 December 2022, the Company did not recognise any liability in relation to the 2021 Manufacturer Guarantee Agreement. The Directors considered the possibility of reimbursement not probable.

- (ii) In 2020, the Company entered into a guarantee agreement (the “2020 OEM Guarantee Agreement”) with a then subsidiary of the Company (an associate of the Company since May 2022) and an independent manufacturer (“OEM”), pursuant to which the Company shall guarantee to repay the said associate’s due and unsettled debts of up to US\$10 million (equivalent to approximately HK\$78 million) owed to the OEM incurred in relation to manufacturing orders placed against the OEM should it cease or fail to honour its payment obligations. As at 31 December 2022, the Company did not recognise any liability in relation to the 2020 OEM Guarantee Agreement. The Directors considered the possibility of reimbursement not probable.

Save as disclosed above, the Group had no material contingent liability as at 31 December 2022.

EMPLOYEES

The total number of employees of the Group as at 31 December 2022 was 2,782. The breakdown of employees by division is as follows:

Payment and digital services	968
Fintech services	157
Platform operation solutions	759
Financial solutions	641
Others	217
Corporate office	40
	<hr/>
	2,782
	<hr/> <hr/>

The Group ensures that its employees’ remuneration packages are comprehensive and competitive. Directors are entitled to a fixed director’s fee, discretionary bonus and other benefits, which are determined with reference to the performance of the individual and the Company, market practice and conditions as well as the Group’s corporate goals and objectives in accordance with the remuneration policy of the Company. Employees are remunerated with fixed monthly income plus annual performance related bonuses. The Group also operates share option schemes and share award scheme for the purpose of attracting, retaining, motivating and rewarding 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 [#]	
		2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Continuing operations					
Payment and digital services	1	2,655,820	3,346,991	695,166	809,910
Fintech services	2	229,917	213,843	22,099	18,966
Platform operation solutions	3	169,483	191,697	(12,250)	(5,660)
Financial solutions	4	346,068	336,396	(234)	(8,202)
Others	5	36,473	101,176	(64,779)	(26,821)
Segmental results		3,437,761	4,190,103	640,002	788,193
Less: Inter-segment turnover		(5,033)	(7,419)	-	-
Total		<u>3,432,728</u>	<u>4,182,684</u>	<u>640,002</u>	<u>788,193</u>
Depreciation				(162,360)	(248,248)
Amortisation				(1,490)	(853)
Write off of property, plant and equipment				-	(2,257)
Fair value (losses)/gains on financial assets at FVPL	E			(6,889)	181,191
Segmental operating profit				469,263	718,026
Unallocated other income				5,647	4,090
Unallocated corporate expenses				(96,849)	(102,232)
Operating profit				<u>378,061</u>	<u>619,884</u>
Discontinued operation					
Information security chips and solutions	S	<u>246,379</u>	<u>454,480</u>	93,584	79,255
Depreciation				-	(8,564)
Amortisation				-	(2,666)
Segmental operating profit				<u>93,584</u>	<u>68,025</u>

[#] EBITDA is calculated by excluding interest expenses, taxes, depreciation, amortisation, write off of property, plant and equipment and fair value (losses)/gains on financial assets at FVPL from segmental operating profit.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Continuing operations			
Revenue	<i>A</i>	3,432,728	4,182,684
Cost of sales	<i>C</i>	<u>(2,149,146)</u>	<u>(2,958,603)</u>
Gross profit		1,283,582	1,224,081
Other income	<i>B</i>	109,166	95,686
Other (losses)/gains, net	<i>B</i>	(12,054)	181,265
Selling expenses	<i>C</i>	(154,260)	(119,086)
Administrative expenses	<i>C</i>	(744,275)	(649,028)
Credit impairment loss	<i>C</i>	<u>(104,098)</u>	<u>(113,034)</u>
Operating profit		378,061	619,884
Share of results of associated companies	<i>D</i>	398,533	352,333
Loss on deemed acquisition and dilution of interest of an associated company		(1,077)	(9,837)
Gains on deemed disposals of associated companies	<i>E</i>	–	2,861,475
Gain on disposal of a subsidiary		2,604	–
Finance costs	<i>R</i>	<u>(59,862)</u>	<u>(70,588)</u>
Profit before income tax		718,259	3,753,267
Income tax expense		<u>(113,222)</u>	<u>(129,531)</u>
Profit from continuing operations		605,037	3,623,736
Profit from discontinued operation	<i>S</i>	<u>509,577</u>	<u>61,300</u>
		<u>1,114,614</u>	<u>3,685,036</u>
Profit attributable to:			
– Owners of the Company		939,416	3,521,526
– Non-controlling interests		<u>175,198</u>	<u>163,510</u>
		<u>1,114,614</u>	<u>3,685,036</u>
		<i>HK\$</i> <i>per share</i>	<i>HK\$</i> <i>per share</i>
Earnings per share for profit from continuing operations attributable to the owners of the Company:			
Basic		<u>0.169</u>	<u>1.253</u>
Diluted		<u>0.142</u>	<u>1.222</u>
Earnings per share for profit attributable to the owners of the Company:			
Basic		<u>0.340</u>	<u>1.268</u>
Diluted		<u>0.313</u>	<u>1.237</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2022	2021
	Note	HK\$'000	HK\$'000
ASSETS			
Investment properties and property, plant and equipment	F	147,480	265,648
Right-of-use assets	G	55,690	60,133
Intangible assets		25,737	25,812
Investments in associated companies	H	3,399,895	2,695,559
Financial assets at fair value through profit or loss	I	94,057	109,303
Financial asset at fair value through other comprehensive income	J	152,868	629,711
Inventories	K	18,732	18,427
Trade and bills receivables	L	170,316	168,409
Other financial assets at amortised cost and other current assets	L	123,263	158,821
Loan receivables	M	2,647,625	2,228,327
Amount due from an associated company	N	5,306	–
Current income tax recoverable		10,431	12,701
Short-term bank deposits	O	1,468	6,832
Restricted bank balances	O	1,064,937	765,462
Cash and cash equivalents	O	3,537,506	3,254,558
Assets classified as held for sale	S	–	419,105
Total assets		11,455,311	10,818,808
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		6,942	6,942
Reserves		6,611,653	6,416,362
		6,618,595	6,423,304
Non-controlling interests		935,687	1,067,690
Total equity		7,554,282	7,490,994
LIABILITIES			
Written put option liabilities	R	857,069	902,581
Deferred income tax liabilities		2,438	2,969
Trade and bills payables	P	642,446	505,583
Payables for payment and digital services business	P	965,787	624,296
Other payables and accruals	P	967,734	1,076,401
Amounts due to associated companies	N	4,421	6,304
Current income tax liabilities		110,499	92,855
Lease liabilities	G	29,829	31,576
Bank borrowings		55,748	2,446
Asset-backed securities	Q	265,058	–
Liabilities directly associated with assets classified as held for sale	S	–	82,803
Total liabilities		3,901,029	3,327,814
Total equity and liabilities		11,455,311	10,818,808
		HK\$ per share	HK\$ per share
Net assets per share		2.720	2.698

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the year ended	
	31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	441,335	(743,189)
Net cash (used in)/generated from investing activities	(243,384)	131,596
Net cash generated from financing activities	233,544	100,361
Net increase/(decrease) in cash and cash equivalents	431,495	(511,232)
Cash and cash equivalents at beginning of the year (1 January 2022: HK\$40,742,000 is included in the assets classified as held for sale)	3,295,300	3,747,468
Exchange (loss)/gain on cash and cash equivalents	(189,289)	59,064
Cash and cash equivalents at end of the year	<u>3,537,506</u>	<u>3,295,300</u>
Cash flows of discontinued operation (including proceed from disposal of a subsidiary)	<u>61,648</u>	<u>104,342</u>

FINANCIAL REVIEW

During the year ended 31 December 2022 (“YEAR 2022”), the consolidated turnover of the Group from continuing operations amounted to HK\$3,432.7 million, representing a decrease of 18% when compared with the year ended 31 December 2021 (“YEAR 2021”). Profit for the year totaled HK\$1,114.6 million as compared to HK\$3,685.0 million in YEAR 2021.

With regard to the balance sheet, the total assets as at 31 December 2022 amounted to HK\$11,455.3 million, when compared with HK\$10,818.8 million as at 31 December 2021. As at 31 December 2022, net current assets amounted to HK\$3,689.9 million, when compared with HK\$3,816.8 million as at 31 December 2021.

SEGMENT PERFORMANCE REVIEW

(1) Payment and digital services

Key performance indicators

	2022 HK\$'000	2021 HK\$'000	Change + / (-)
Turnover*	2,652,007	3,342,837	-21%
EBITDA#	695,166	809,910	-14%
Write off of property, plant and equipment	–	2,257	N/A
Operating profit	553,364	579,396	-4%

* Turnover from external customers

EBITDA is calculated by excluding interest expense, taxes, depreciation, amortisation and write off of property, plant and equipment from segmental operating profit

Segmental turnover amounted to HK\$2,652.0 million as compared to HK\$3,342.8 million in YEAR 2021. The decrease in segmental turnover was due to the decrease in transaction volume being processed, given the decline in consumer consumption of goods and services in China resulting from the regional spread of COVID-19 pandemic and the adoption of epidemic prevention and control measures across the country.

Segmental operating profit amounted to HK\$553.4 million, 4% down as compared to YEAR 2021. The decrease in segmental operating profit is primarily attributable to the decline in segmental turnover. During YEAR 2022, improved margin was mainly due to the provision of more diversified services such as the new digital service products.

(2) Fintech services

Key performance indicators

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	Change +/(–)
Turnover*	228,704	212,552	+8%
EBITDA#	22,099	18,966	+17%
– including credit impairment loss	100,931	113,034	-11%
Operating profit	14,825	12,590	+18%

* Turnover from external customers

EBITDA is calculated by excluding interest expense, taxes, depreciation and amortisation from segmental operating profit

In YEAR 2022, segmental turnover amounted to HK\$228.7 million as compared to HK\$212.6 million in YEAR 2021, representing an increase of 8%. Our micro-lending business and supply chain financing services business have achieved steady growth. Segmental operating profit amounted to HK\$14.8 million, representing an increase of 18% as compared to HK\$12.6 million in YEAR 2021.

(3) Platform operation solutions

Key performance indicators

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	Change +/(–)
Turnover*	169,476	189,723	-11%
EBITDA#	(12,250)	(5,660)	N/A
Fair value (losses)/gains on financial assets at fair value through profit or loss	(6,889)	181,191	N/A
Operating (loss)/profit	(24,612)	171,043	N/A

* Turnover from external customers

EBITDA is calculated by excluding interest expense, taxes, depreciation, amortisation and fair value (losses)/gains on financial assets at FVPL from segmental operating (loss)/profit

In YEAR 2022, 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\$169.5 million as compared to HK\$189.7 million in YEAR 2021. Segmental operating loss amounted to HK\$24.6 million as compared to segmental operating profit of HK\$171.0 million in YEAR 2021, mainly due to the absence of a fair value gain on a financial asset at fair value through profit and loss in YEAR 2022. Please refer to note (E) for details.

(4) Financial solutions

Key performance indicators

	2022 HK\$'000	2021 HK\$'000	Change + / (-)
Turnover*	346,068	336,396	+3%
EBITDA [#]	(234)	(8,202)	N/A
Operating loss	(7,362)	(15,310)	N/A

* Turnover from external customers

[#] EBITDA is calculated by excluding interest expense, taxes, depreciation and amortisation from segmental operating loss

In YEAR 2022, segmental turnover amounted to HK\$346.1 million as compared to HK\$336.4 million in YEAR 2021. Segmental operating loss totalled HK\$7.4 million as compared to HK\$15.3 million in YEAR 2021. The segmental operating loss was mainly due to the upfront costs on various projects incurred during YEAR 2022.

(5) Others

Other business operations mainly included our electronic power meters and solutions business and various new business projects in development stage. Turnover from these businesses contributed approximately 1.1% of the total consolidated turnover from continuing operations of the Group. The decrease in turnover and increase in EBITDA loss were mainly due to the shrinkage in shipment volume of electronic power meters and solutions business during YEAR 2022.

Segmental turnover amounted to HK\$36.5 million as compared to HK\$101.2 million in YEAR 2021. Segmental operating loss amounted to HK\$67.0 million as compared to HK\$29.7 million in YEAR 2021.

OVERALL FINANCIAL RESULTS AND POSITION

(A) Revenue

The consolidated turnover from continuing operations amounted to HK\$3,432.7 million, representing a decrease of 18% over YEAR 2021. Such decrease was mainly contributed by a decrease in segmental turnover of our payment and digital services segment. Please also refer to notes (1) to (5) above on segmental performance.

(B) Other income

Other income mainly consisted of interest income and government subsidies in YEAR 2022.

(C) Cost of sales and operating expenses

In YEAR 2022, cost of sales decreased significantly mainly due to decline in total turnover particularly in payment and digital services segment.

Increase in operating expenses was mainly due to increase in staff cost in YEAR 2022.

Credit impairment loss was primarily due to impairment loss on aged loan receivable balances under the fintech services segment.

(D) Share of results of associated companies

Amount mainly represented share of 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.

(E) Fair value gain on convertible preference shares of Cloopen, deemed disposal gain on ordinary shares of Cloopen then held by the Group and other comprehensive loss on financial asset at FVOCI

Amount represented non-cash aggregate gain of approximately HK\$3,055.7 million in connection with the listing of the American depositary shares (“ADSs”) of Cloopen Group Holding Limited (“Clopen”) on the New York Stock Exchange in YEAR 2021. No such gain was recorded in YEAR 2022.

Based on the market price of each ADS (of US\$0.70 as at 31 December 2022 (New York time), equivalent to approximately HK\$5.46) and the corresponding market value of the shares of the Cloopen held by the Group (at US\$19.6 million, equivalent to approximately HK\$152.9 million), the Group recognised an “other comprehensive loss” of approximately HK\$476.8 million in YEAR 2022 due to the change in fair value of its interest in Cloopen.

Cloopen is a multi-capability cloud-based communications solution provider in China offering a full suite of cloud-based communications solutions, covering communications platform as a service (CPaaS), cloud-based contact centers (cloud-based CC), and cloud-based unified communications and collaborations (cloud-based UC&C).

Further details are set out in the Company's announcements dated 20 January 2021, 4 February 2021, 10 February 2021, 1 July 2021, 28 February 2022 and 4 May 2022.

(F) Investment properties and property, plant and equipment

Balance mainly represented fixed assets of payment and digital services segment and electronic power meter and solutions under other business operations.

(G) Right-of-use assets and lease liabilities

Balance represented leases which are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

(H) Investments in associated companies

Balance mainly represented the Group's interests in PAX Global and Megahunt Technologies Inc. ("Megahunt"). The Group is optimistic about their future prospects and will continue to demonstrate prudence and resilience in assessing its investment strategy towards the enhancement of Shareholders' value.

(i) PAX Global

As at 31 December 2022, the Group held 364,000,000 ordinary shares of PAX Global and the fair value of the Group's approximately 33.7% effective interest in PAX Global was approximately HK\$2,457.0 million and 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 2022. The interest in PAX Global of HK\$2,846.6 million represented approximately 24.8% of the Group's audited total assets as at 31 December 2022 and the cost of investment as at 31 December 2022 was HK\$259.8 million.

PAX Global, together with its subsidiaries, is principally engaged in the development and sales of electronic payment point-of-sale terminals products and the provision of maintenance and installation and payment solution services.

PAX Global is one of the global leading suppliers of electronic payment terminals solutions. In face of the tough times where the COVID-19 pandemic continued to hit the global economy, PAX Global has managed to turn challenges into opportunities and driving forces for business development. While the world shifts towards an increasingly cashless society under the pandemic, demand for PAX Global's Android smart payment terminals continues on a high-growth trajectory. Leading the market trend and security upgrade of payment terminal technology, PAX Global has consistently invested in research and development, with particular emphasis in recent years on its new-generation Android smart payment terminals and cloud-based Software as a Service platform.

In YEAR 2022, the increase in audited net profit of PAX Global was mainly attributable to the strong revenue growth recorded, as driven by the surging sales of its Android smart payment terminals, particularly in the Europe, Middle East and Africa region. Looking forward, we are optimistic about the market demand for PAX Global's payment terminals, and expect that PAX Global is well prepared to embrace the vast opportunities in the global payments industry.

(ii) Megahunt

As at 31 December 2022, the Group held approximately RMB27.3 million of the registered capital in Megahunt representing approximately 45.73% interest in Megahunt. The interest in Megahunt of HK\$518.6 million represented approximately 4.5% of the Group's audited total assets as at 31 December 2022.

In YEAR 2022, the growth of the information security chip industry tended to slow down and competition became more intense under the influence of the pandemic and the pressured global semiconductor supply chain. During the first half of YEAR 2022, the proportional increase in audited turnover and net profit of Megahunt as compared to YEAR 2021 was mainly due to the active stocking of downstream customers because of the tight semiconductor supply chain. In particular, sales of magnetic stripe encryption and decoding chips remained stable, and sales of security microcontrollers (MCU) increased. In general, the information security chip market attained more stabilized development in 2022, amid the policy impact on the payment market, while security chips for the Internet of Things (IoT) achieved preliminary sales. Other research and development projects have progressed smoothly and the cost reduction initiatives of various products have also rolled out in an orderly manner.

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

The balance represented the fair value of equity securities listed in Hong Kong of HK\$0.9 million; and the fair value of interest in a venture capital fund of HK\$93.1 million.

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

The balance represented the fair value of the Group's interests in Cloopen. Based on the market price of each ADS (of US\$0.70 as at 31 December 2022 (New York time), equivalent to approximately HK\$5.46), the market value of the shares of the Cloopen held by the Group was US\$19.6 million, equivalent to approximately HK\$152.9 million as at 31 December 2022 and the cost of investment as at 31 December 2022 was HK\$127.8 million.

Please also refer to note (E) above for details.

(K) Inventories

The amount mainly represented inventories of the electronic power meters and solutions business under other business operations.

During the year, HK\$4.8 million was recorded for reversal of provision on inventories with respect to slow-moving and obsolete stocks.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables (<i>Note (i)(a)</i>)	181,963	176,292
Bills receivables (<i>Note (i)(b)</i>)	4,850	1,520
Less: provision for impairment of receivables	(16,497)	(9,403)
	170,316	168,409
Other receivables, prepayments and deposits	123,263	158,821
Total	293,579	327,230

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current to 90 days	143,537	128,311
91 to 180 days	4,844	10,947
181 to 365 days	8,748	17,934
Over 365 days	24,834	19,100
	181,963	176,292

- Increase in balances aged from current to 90 days was mainly due to increase in account receivable balances under the financial solutions segment.
 - Decrease in balances between aged 91 to 180 days and 181 to 365 days were mainly due to earlier settlement under platform operation solutions segment.
- (b) Bills receivables as at 31 December 2022 mainly belonged to the platform operation solutions segment.

(M) Loan receivables

Loan receivables are amounts due from customers under the fintech services segment in the ordinary course of business, unsecured and primarily denominated in RMB. Significant increase was due to the growth of the fintech services segment.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current	2,637,486	2,219,046
1 to 3 months past due	26,579	16,449
Over 3 months past due	143,806	122,980
Loan receivables, gross	2,807,871	2,358,475
<i>Less: provision for impairment of loan receivables</i>	(160,246)	(130,148)
Loan receivables, net	2,647,625	2,228,327

(N) Amounts due from/to associated companies

Amounts due from/to associated companies are unsecured and interest-free.

(O) Short-term bank deposits, restricted bank balances and cash and cash equivalents

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current assets		
Short-term bank deposits	1,468	6,832
Restricted bank balances (<i>Note</i>)	1,064,937	765,462
Cash and cash equivalents	3,537,506	3,254,558
Restricted bank balances and cash and cash equivalents	4,602,443	4,020,020

Note: In accordance with the notice issued by the Payment and Settlement Department of the People's Bank of China ("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. 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. As at 31 December 2022, the relevant amount under the restricted bank balances are denominated in RMB,

The remaining amount under the restricted bank balances as at 31 December 2022 represents funds deposited in bank accounts designated for operating the Group's cross-border payment business.

(P) Trade and bills payables, payables for payment and digital services segment and other payables and accruals

	2022	2021
	HK\$'000	HK\$'000
Trade payables (<i>Note (i)</i>)	642,446	497,080
Bills payables	–	8,503
Payables for payment and digital services segment (<i>Note (ii)</i>)	965,787	624,296
Other payables and accruals (<i>Note (iii)</i>)	967,734	1,076,401
	<hr/>	<hr/>
Total	<u>2,575,967</u>	<u>2,206,280</u>

Note (i):

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:

	2022	2021
	HK\$'000	HK\$'000
Current to 90 days	294,502	468,595
91 to 180 days	194,648	11,272
181 to 365 days	145,038	7,089
Over 365 days	8,258	10,124
	<hr/>	<hr/>
	<u>642,446</u>	<u>497,080</u>

- Changes in trade payables aged between current to 90 days, 91 to 180 days and 181 to 365 days were mainly due to changes in outstanding balances under the payment and digital services segment.

Note (ii):

This balance represents payables to merchants for the payment and digital services segment.

Note (iii):

	2022	2021
	HK\$'000	HK\$'000
Accrued staff costs and pension obligations*	234,408	266,720
Deposits	42,546	60,751
Receipt in advance from customers**	43,678	77,241
Advance from business channel partners**	426,295	435,842
Others***	220,807	235,847
	<hr/>	<hr/>
	<u>967,734</u>	<u>1,076,401</u>

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

** Receipt in advance from customers and advance from business channel partners represented advances and guarantees received from merchants and partners under the payment and digital services segment.

*** Balance mainly represented accrued subcontracting costs and other accrued handling fees payable under the payment and digital services segment.

(Q) Asset-backed securities

Balance represents carrying amount of outstanding priority tranche of asset-backed securities (“ABS”).

北京隨行付商業保理有限公司 (unofficial English translation for identification purpose only, being Beijing VBill Commercial Factoring Co. Ltd.) (“VBill Factoring”), a wholly-owned subsidiary of 隨行付支付有限公司 (“VBill OPCO”), approved 隨行付供應鏈金融1-15期資產支持專項計劃 (the “ABS Scheme”) and the issuance of asset-backed securities (“ABS”) thereunder. The ABS are backed by loan receivables in the form of trust interests. Pursuant to the no-objection letter from the Shanghai Stock Exchange, the maximum issue size of the ABS Scheme is RMB1,000 million (equivalent to approximately HK\$1,230 million) which can be issued in not more than 15 phases by 31 December 2023. The ABS are classified into priority and subordinated tranches according to their risks, earnings and duration. The priority tranche of the ABS is traded on the Shanghai Stock Exchange.

The first phase of the ABS Scheme with an issue size of RMB309 million (equivalent to approximately HK\$380.1 million) was established on 27 January 2022, the second phase with an issue size of RMB362 million (equivalent to approximately HK\$419.9 million) was established on 20 May 2022 and the third phase with an issue size of RMB303 million (equivalent to approximately HK\$339.4 million) was established on 30 December 2022. The priority tranche is issued to qualified institutional investors in the PRC and the subordinated tranche is issued to 北京隨信雲鏈科技有限公司 (Beijing Suixin Yunlian Technology Ltd.) (“Beijing Suixin Yunlian”). The proceeds from the issuance are principally used as general working capital of the fintech services segment. The issuance of the ABS widens the fund-raising channels of the Group to access low-cost capital, which in turn will be used to improve the financing structure of the Company and promote its operating activities and investments. Further details are set out in the Company’s announcements dated 27 January 2022, 20 May 2022 and 30 December 2022.

(R) Written put option liabilities and finance costs

Balance represents written put options liabilities on written put options granted by VBill Limited (“VBill Cayman”) and Mega Hunt Microelectronics Limited (“Megahunt HK”).

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current portion		
– VBill Cayman	852,188	797,710
– Megahunt HK	4,881	–
	857,069	797,710
Non-current portion		
– Megahunt HK	–	104,871
	857,069	902,581

The decrease in balance in YEAR 2022 was brought about by the completion of disposal of an aggregate 8.37% of the issued share capital of Megahunt during the year on 23 May 2022, subsequent to which Megahunt ceased to be a subsidiary and was accounted for as an associated company of the Company. Accordingly, the relevant written put option liability originally measured at amortised costs was derecognised with a corresponding adjustment to equity. The written put option liability was reclassified and recognised as a derivative financial liability at FVPL thereafter.

The finance cost represented finance charges up to the redemption amount that is payable at the date at which the option becomes exercisable.

(S) Discontinued operation

Discontinued operation refers to the information security chips and solutions operations of Megahunt.

Reference is made to the announcements of the Company dated 15 December 2021, 28 December 2021, 11 February 2022, 28 February 2022, 14 April 2022 and 23 May 2022 in relation to the share transfer agreements entered into by Megahunt HK, certain purchasers and Megahunt in relation to the Group’s disposal of an aggregate of approximately 20% of the issued share capital of Megahunt (representing an aggregate of approximately RMB12.0 million (equivalent to approximately HK\$14.5 million) registered capital) (the “Disposal”) at an aggregate consideration of approximately RMB208.7 million (equivalent to approximately HK\$254.6 million). Completion of the Disposal took place on 23 May 2022 and the Group’s interest in Megahunt further decreased to approximately 45.73% (from approximately 54.10% as of 31 December 2021) and Megahunt has ceased to be a subsidiary of the Company and has been accounted for as an associated company of the Company. Gain on disposal of HK\$429.3 million was recognised in May 2022.

Megahunt is principally engaged in the sale of information security chips and solutions, computer hardware and software, system integration and the development of SOC. The corresponding business segment (i.e. the information security chips and solutions segment) was classified as discontinued operation for YEAR 2021 and YEAR 2022.

Key Financial Performance

	For the period from 1 January 2022 to 23 May 2022 HK\$'000	For the year ended 31 December 2021 HK\$'000	Change + / (-)
Turnover*	246,379	454,480	-46%
EBITDA#	93,584	79,255	+18%
Operating profit	93,584	68,025	+38%

* Turnover from external customers

EBITDA is calculated by excluding interest expense, taxes, depreciation and amortisation from segmental operating profit

Financial Position

	As at 31 December 2021 HK\$'000
Assets classified as held-for-sale	419,105
Liabilities directly associated with assets classified as held-for-sale	<u>(82,803)</u>

During the year, turnover from discontinued operation amounted to HK\$246.4 million as compared to HK\$454.5 million in YEAR 2021, representing a decrease by more than 46%. Operating profit from discontinued operation amounted to HK\$93.6 million, as compared to HK\$68.0 million in YEAR 2021. The significant decrease in segmental turnover was mainly due to the turnover of Megahunt was no longer recorded under discontinued operation subsequent to the Completion of the Disposal on 23 May 2022.

KEY INVESTING AND FINANCING ACTIVITIES

(i) Disposal of Megahunt

In December 2021, Megahunt HK entered into certain share transfer agreements with certain purchasers and Megahunt for the disposal of an aggregate of approximately 20% interest in Megahunt (the “Megahunt Interest”) at an aggregate consideration of approximately RMB208.7 million (approximately HK\$254.6 million).

In connection with the disposal of (i) approximately 4.36% Megahunt Interest by Megahunt HK pursuant to one of the aforesaid share transfer agreements; and (ii) approximately 3.64% Megahunt Interest by Wonder Pax Technology (Shenzhen) Co. Ltd (a subsidiary of PAX Global, an associated company of the Company), to an independent third-party purchaser, Megahunt, the said independent third-party purchaser and the Management Platform Company (a limited partnership in the PRC held as to approximately 99.99% by Megahunt’s directors and management) entered into the side letters, pursuant to which Megahunt shall guarantee the repurchase obligations of the Management Platform Company to repurchase all or part of the aforesaid aggregate of 8% Megahunt Interest upon the occurrence of the triggering events, subject to other conditions as provided in the side letters and a cap of RMB180 million (approximately HK\$219.6 million) (the “Repurchase Guarantee”). The Repurchase Guarantee terminated on 31 December 2022, notwithstanding its validity as provided under the side letters would be 3 years from the relevant triggering events.

The disposal completed on 23 May 2022. Immediately subsequent thereto, as at 31 December 2022 and the date of this announcement, the Company’s interest in Megahunt is approximately 45.73% and Megahunt is accounted for as an associated company of the Company.

Further details are referred to in the Company’s announcements dated 15 December 2021, 28 December 2021, 11 February 2022, 28 February 2022, 14 April 2022 and 23 May 2022.

The Company is currently considering to reactivate the possible spin-off and separate listing of Megahunt on the Science and Technology Innovation Board of the Shanghai Stock Exchange (“SSE STAR Market”) in the People’s Republic of China (the “PRC”) and in this connection, on 11 January 2023, the Company submitted a new application to the Stock Exchange for approval pursuant to Practice Note 15 of the Listing Rules.

(ii) Exercise of Put Option by the Investor

In November 2022, VBill (Cayman) received a put notice from a then shareholder of VBill (Cayman) (the “Investor”) to require VBill (Cayman) to repurchase, redeem and/or cancel all of its approximately 14.01% shares of VBill (Cayman) at approximately US\$109.3 million (the “Put Price”), as determined in accordance with the terms of the relevant transaction documents. Completion of the repurchase, redemption and/or cancellation of all the relevant shares (the “Put Option Completion”) took place in February 2023, immediately after which VBill (Cayman) has become wholly-owned by the Company.

(iii) Issuance of Asset-Backed Securities

VBill Factoring, a wholly-owned subsidiary of VBill OPCO, approved the ABS Scheme and the issuance of ABS, which are backed by loan receivables in the form of trust interests. Pursuant to the no-objection letter from the Shanghai Stock Exchange, the maximum issue size of the ABS Scheme is RMB1,000 million which can be issued in not more than 15 phases by 31 December 2023. The ABS are classified into priority and subordinated tranches according to their risks, earnings and duration. The priority tranche of the ABS will be traded on the Shanghai Stock Exchange.

In January, May and December 2022, ABS Scheme — Phase 1 with a total issue size of RMB309 million (equivalent to approximately HK\$380.1 million), Phase 2 with a total issue size of RMB362 million (equivalent to approximately HK\$419.9 million) and Phase 3 with a total issue size of RMB303 million (equivalent to approximately HK\$339.4 million) were established respectively. The priority tranche are traded on the Shanghai Stock Exchange and issued to qualified institutional investors in the PRC and the subordinated tranche were issued to Beijing Suixin Yunlian. The proceeds from the issuance of the ABS will be principally used as general working capital of the fintech services segment. The issuance of the ABS will widen the fund-raising channels of the Group to access low-cost capital, which in turn will be used to improve the financing structure of the Company and promote its operating activities and investments.

Further details are set out in the Company’s announcements dated 27 January 2022, 20 May 2022 and 30 December 2022.

BUSINESS OUTLOOK

In 2022, the regional spread of the COVID-19 pandemic put China’s economy under greater pressure. With the changes in the pandemic situation, the popularization of vaccination and the improvement in prevention and control experience and capacity, the epidemic prevention and control in China has entered a new stage. As epidemic prevention and control measures continue to be optimised and adjusted in response to the prevailing circumstances, we are optimistic about China’s economic recovery. However, under the trend and influence of global economic integration, it is expected that the economic outlook and operating environment will remain challenging throughout 2023.

Payment and digital services

According to the Administrative Measures for Payment Services of Non-financial Institutions issued by the People's Bank of China, non-financial institutions acting as the intermediaries providing online payment, issuance and acceptance of prepaid cards, bankcard acquiring and other payment services as specified by the People's Bank of China to payers and payees shall obtain a "Payment Business Permit", which was successfully renewed on 27 June 2022 for a term of 5 years until 27 June 2027.

In 2022, we entered into strategic cooperation agreements with a number of banks, telecommunication operators, China Post and other organisations to provide full range of payment services to our merchants, committed to foster their growth. We achieved a 74% increase in digital payment transactions despite the even more acute COVID-19 pandemic as compared to the previous year. We have also made breakthroughs in our cross-border payment business. During the period, we continued to connect with overseas mainstream e-commerce platforms, and managed to build a global overseas payment network to offer export enterprises with one-stop cross-border capital services such as cross-border payment collection, global payment as an agent, and foreign exchange management. As of December 2022, the monthly transaction amount of our cross-border payment business exceeded US\$100 million, with operations spanning across Hong Kong, the United States, Europe, Japan, Singapore and other countries and regions. With the optimisation of epidemic control measures, we expect to see explosive growth in domestic consumption in 2023, which will drive rapid growth in our merchant transactions. On the other hand, China's supply chain advantage is expected to be further strengthened, leading to growth in export trade and better market opportunities for our cross-border payment business.

In terms of digital service business, after two years of development, we have, based on our well established payment business, built an open PaaS platform and gained connection to a number of Independent Software Vendors (ISV) and offered a number of integrated industry digital solutions, including retail, hotels, gas stations, university canteens, brand chains, scenic spots, etc., to over 1.17 million merchants. Our smart decision-making products provide intelligent management of the entire cycle of commodity circulation, targeting and providing retail merchants such as offline supermarket chains, convenience stores and fresh food stores with digital solutions for the retail industry that integrate four functional modules including "operation status diagnosis", "smart supply chain", "commodity category management" and "on-site AI management" to comprehensively improve the operational efficiency of merchants. In addition, we focused on the digital transformation of traditional wet markets, to assist in the smart transformation of farmers' markets, provide market managers, merchants and consumers with smart solutions that integrate management, marketing, and user experience to create a digital ecosystem for wet markets.

Fintech services

Our financial technology services are principally provided through our Suixin Cloud Chain Financial Service Platform and Commercial Bill Financing Service Platform. Our Suixin Cloud Chain Financial Service Platform is based on blockchain technology and provides various fintech services and products such as Suixin, Suirong, Quick Financing of Commercial Bills and Quick Discounting of Bank Bills. The platforms connect us with a number of banks serving state-owned enterprises and central enterprises, through which our high-quality and efficient financial products are made available to the upstream and downstream micro, small and medium-sized manufacturing enterprises along the industry chain of those state-owned enterprises and central enterprises, easing the financing issues as being difficult, expensive and slow, as encountered particularly by the small and easing the financing issues being medium-sized enterprises.

The global economic growth momentum slowed down in 2022, which affected the operation of various industries in China in varying degrees. With the easing of epidemic prevention and control and the increasing intensity of macroeconomic regulations in China, the economy is expected to resume an overall positive growing trend in 2023, and the market business development is relatively optimistic. Bills business and grew steadily in 2022. As of October 2022, the amount of bills accepted was RMB22.20 trillion, an increase of 13.90% over the same period in 2021. From the market perspective, the increasing transparency of the bill market following the launch of the Bills Information Disclosure System has raised the creditability of bills to an unprecedented level, further improving the credit system and commercial credit environment significantly. The launch of the next-generation bills business system and supply chain bills has laid the technical foundation for the stable development of the bills market and provided a favourable ecological environment for the development of commercial promissory notes.

Our platforms are linked to a number of financial institutions, including banks, trusts and factoring companies. Through our platforms, financial institutions provide funding support to the many micro, small and medium-sized enterprises, helping them to expand their production operations, reduce financing costs and enhance their business vitality. As of 31 December 2022, the amount of funds raised by our clients through bills approximated RMB10 billion and the business volume has continued to grow. At the same time, we also gained direct access to primary market capital through asset securitisation, providing more capital protection for enterprises. As of the end of 2022, we had successfully issued three tranches of ABS with a total issue amount of RMB974 million. We will continue to expand our in-depth cooperation with financial institutions combining our asset securitisation business to provide efficient and low-cost financial services to enterprises. Meanwhile, we are in the process of building the infrastructure for supply chain bills, through which enterprises can issue commercial bills and bank bills. These billing enterprises and their suppliers can realise the full operation lifecycle of bills on our platform, including bill issuance, endorsement, splitting, guarantee, pledge, discount, and encashment. The platform also allows enterprises and their suppliers to achieve the full life cycle of bills, including bill creation, endorsement, bill splitting, guarantee, pledge, discounting, payment, etc., and to accumulate credit.

Platform operation solutions

In 2022, we continued to provide product technology services and business operation support services to China Mobile Financial Technology Co., Ltd., our major customer. Our business scale remained stable and our services were recognised by our customers. In 2023, we continued to expand our business to industries and customers beyond telecoms operators, resulting in continued growth in our contract size. We also continued to increase investment in research and development, and launched new products in the areas of micro-services platform, container cloud platform and enterprise marketing tools to empower our enterprise customers. Looking ahead, as the market gradually recovers, we will develop more revenue in new markets in addition to stabilizing our existing revenue scale.

Financial solutions

In 2022, BJ ABS continued to provide banking system operation and maintenance support services to its customers in Mainland China, helping them to achieve business innovation and system security operation and maintenance management. At the same time, BJ ABS have also made some breakthroughs in the fields of IT application innovation, payment and wealth management. In the field of IT application innovation, we are the first in the industry to propose three major downshifting strategies and nine downshifting techniques to facilitate the migration and upgrade of the business system of bank customers, and help customers to realize a senseless business upgrade and transformation within the framework of IT application innovation. In the payment field, we have initiated the research and development of business systems such as FPS, ISO 20022 Swift reporting standard upgrade, and cross-border clearing, and have received purchase orders from customers successively. As regards our wealth management system, taking full advantage of the development of cross-border financial services, we have built a comprehensive wealth management system, empowering a number of bank customers to serve the high net worth population.

Facing the overseas financial IT service opportunities, Hi Sun FinTech Global actively carried out market expansion and research and development of new products and new technologies on the basis of continuously improving overseas service capabilities. To improve overseas service capabilities, Hi Sun FinTech Global have set up overseas representative offices in Laos and Cambodia, and established local support teams to enhance our local technical service capabilities and support business expansion. In terms of market expansion, we signed service contracts with eight new customers during the period and achieved business breakthroughs in new markets such as Thailand and Vanuatu. In terms of research and development of new products and technologies, our newly developed decentralised and micro-service core system has achieved certain results and was successfully put into production in a virtual bank during the period; and service contract was signed for our newly developed e-purse payment product.

Consolidated Income Statement

		For the year ended 31 December	
	Note	2022 HK\$'000	2021 HK\$'000
Continuing operations			
Revenue	2, 3	3,432,728	4,182,684
Cost of sales	4	<u>(2,149,146)</u>	<u>(2,958,603)</u>
Gross profit		1,283,582	1,224,081
Other income	2	109,166	95,686
Other (losses)/gains, net	2	(12,054)	181,265
Selling expenses	4	(154,260)	(119,086)
Administrative expenses	4	(744,275)	(649,028)
Credit impairment loss	4	<u>(104,098)</u>	<u>(113,034)</u>
Operating profit		378,061	619,884
Share of results of associated companies	11	398,533	352,333
Loss on deemed acquisition and dilution of interest of an associated company	11	(1,077)	(9,837)
Gains on deemed disposals of associated companies	11	–	2,861,475
Gain on disposal of a subsidiary	17	2,604	–
Finance costs		<u>(59,862)</u>	<u>(70,588)</u>
Profit before income tax		718,259	3,753,267
Income tax expense	5	<u>(113,222)</u>	<u>(129,531)</u>
Profit from continuing operations		605,037	3,623,736
Profit from discontinued operation	17	<u>509,577</u>	<u>61,300</u>
Profit for the year		<u><u>1,114,614</u></u>	<u><u>3,685,036</u></u>
Profit attributable to:			
– Owners of the Company		939,416	3,521,526
– Non-controlling interests		<u>175,198</u>	<u>163,510</u>
		<u><u>1,114,614</u></u>	<u><u>3,685,036</u></u>

		For the year ended	
		31 December	
		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from continuing operations attributable to:			
– Owners of the Company		466,676	3,481,233
– Non-controlling interests		138,361	142,503
		<u>605,037</u>	<u>3,623,736</u>
Profit from discontinued operation attributable to:			
– Owners of the Company		472,740	40,293
– Non-controlling interests		36,837	21,007
		<u>509,577</u>	<u>61,300</u>
		<i>HK\$ per share</i>	<i>HK\$ per share</i>
Earnings per share for profit from continuing operations attributable to the owners of the Company:			
Basic	7	<u>0.169</u>	<u>1.253</u>
Diluted	7	<u>0.142</u>	<u>1.222</u>
Earnings per share for profit attributable to the owners of the Company:			
Basic	7	<u>0.340</u>	<u>1.268</u>
Diluted	7	<u>0.313</u>	<u>1.237</u>

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	1,114,614	3,685,036
Other comprehensive (loss)/income, net of tax		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences on translation of foreign subsidiaries	(256,950)	87,305
Exchange differences in relation to discontinued operation	(17,581)	7,957
Share of other comprehensive (loss)/income of associated companies	(144,958)	28,361
Release of reserve upon dilution of interest in an associated company	563	10
<i>Items that will not be subsequently reclassified to profit or loss</i>		
Change in value of a financial asset at fair value through other comprehensive income	(476,843)	(2,844,555)
Share of other comprehensive (loss)/income of an associated company	(815)	120
Total comprehensive income for the year, net of tax	218,030	964,234
Total comprehensive income for the year attributable to:		
– Owners of the Company	120,085	775,218
– Non-controlling interests	97,945	189,016
	218,030	964,234
Total comprehensive (loss)/income for the year attributable to the owners of the Company:		
– Continuing operations	(342,406)	729,695
– Discontinued operation	462,491	45,523
	120,085	775,218

Consolidated Balance Sheet

		As at 31 December	
		2022	2021
	Note	HK\$'000	HK\$'000
Assets			
Non-current assets			
Investment properties		684	857
Property, plant and equipment		146,796	264,791
Right-of-use assets		55,690	60,133
Intangible assets		25,737	25,812
Investments in associated companies	11	3,399,895	2,695,559
Financial asset at fair value through other comprehensive income	8	152,868	629,711
Other financial assets at amortised cost		4,064	7,788
Financial assets at fair value through profit or loss	9	93,077	108,200
Total non-current assets		3,878,811	3,792,851
Current assets			
Inventories		18,732	18,427
Other current assets		49,551	65,088
Other financial assets at amortised cost		69,648	85,945
Amount due from an associated company		5,306	–
Loan receivables	10	2,647,625	2,228,327
Trade and bills receivables	12	170,316	168,409
Financial asset at fair value through profit or loss	9	980	1,103
Current income tax recoverable		10,431	12,701
Short-term bank deposits		1,468	6,832
Restricted bank balances		1,064,937	765,462
Cash and cash equivalents		3,537,506	3,254,558
		7,576,500	6,606,852
Assets classified as held for sale	17	–	419,105
Total current assets		7,576,500	7,025,957
Total assets		11,455,311	10,818,808
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		6,942	6,942
Reserves		6,611,653	6,416,362
		6,618,595	6,423,304
Non-controlling interests		935,687	1,067,690
Total equity		7,554,282	7,490,994

		As at 31 December	
		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Liabilities			
Non-current liabilities			
Written put option liability	<i>15</i>	–	104,871
Lease liabilities		11,958	10,775
Deferred income tax liabilities		2,438	2,969
		<hr/>	<hr/>
Total non-current liabilities		14,396	118,615
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current liabilities			
Trade and bills payables	<i>13</i>	642,446	505,583
Payables for payment and digital services business	<i>13</i>	965,787	624,296
Other payables and accruals	<i>13</i>	967,734	1,076,401
Amounts due to associated companies		4,421	6,304
Current income tax liabilities		110,499	92,855
Bank borrowings		55,748	2,446
Asset-backed securities	<i>14</i>	265,058	–
Written put option liability	<i>15</i>	857,069	797,710
Lease liabilities		17,871	20,801
		<hr/>	<hr/>
		3,886,633	3,126,396
Liabilities directly associated with assets classified as held for sale	<i>17</i>	–	82,803
		<hr/>	<hr/>
Total current liabilities		3,886,633	3,209,199
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total liabilities		3,901,029	3,327,814
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total equity and liabilities		11,455,311	10,818,808
		<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”), financial assets at fair value through profit or loss (“FVPL”), and a financial liability at 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

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018-2020
- Reference to the Conceptual Framework – Amendments to HKFRS 3; and
- Amendments to AG 5 Merger Accounting for Common Control Combinations

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting period and have been not early adopted by the Group.

		Effective for accounting year beginning on or after
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
HKFRS 17 and HKFRS 17 (Amendments)	Insurance Contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of assessing the impact of adopting these new accounting standards, amendments to accounting standards and interpretation on its current or future reporting periods and on foreseeable future transactions.

2 REVENUE, OTHER INCOME AND OTHER GAINS, NET

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

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Continuing operations		
Revenue from contract with customers		
<i>Recognised over time</i>		
Provision of services	3,186,158	3,905,489
<i>Recognised at a point in time</i>		
Sales of goods	36,473	99,631
	3,222,631	4,005,120
Revenue from other source		
Provision of fintech services (<i>Note i</i>)	210,097	177,564
	3,432,728	4,182,684
Other income		
Interest income	56,630	57,371
Government subsidies (<i>Note ii</i>)	49,075	33,789
Rental income	2,566	3,388
Others	895	1,138
	109,166	95,686
Other (losses)/gains, net		
Fair values (losses)/gains on financial assets at FVPL		
– Unlisted convertible preference shares	–	197,822
– Unlisted investment fund	(6,889)	(16,631)
– Listed equity securities	(123)	67
Fair values loss on financial liability at FVPL		
– Written put option liability	(5,073)	–
Dividend income from a financial asset at FVPL	31	7
	(12,054)	181,265

Note i: Revenue from provision of fintech services represented interest income recognised and accrued using the effective interest method.

Note ii: Government subsidies represented value-added tax refund from local tax bureau and grant from government in relation to sales and research and development of self-developed software products in the PRC. There were no unfulfilled condition and other contingencies attached to the receipts of those grants.

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.

During the year ended 31 December 2022, the results of the information security chips and solutions segment are presented as discontinued operation in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (“HKFRS 5”) as detailed in Note 17. Last year’s comparative segment information has been restated to conform with the current year’s presentation.

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

Continuing operation

- (a) Payment and digital services – principally engaged in provision of payment processing services, and related digital products and solutions;
- (b) Fintech services – principally engaged in provision of micro-lending, supply chain financing, factoring business, credit assessment services 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

Discontinued operation (Note 17(a))

- (e) 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 in Mainland China.

The Board of Directors assesses the performance of the operating segments based on a measure of earnings/(losses) before interest expense, taxes, depreciation and amortisation (“EBITDA”), and segmental operating profit/(loss). EBITDA is calculated by excluding interest expense, taxes, depreciation, amortisation, write off of property, plant and equipment and fair value (loss)/gain on financial asset at FVPL from segmental operating profit/(loss).

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

	Continuing operations					Discontinued operation	
	Payment and digital services <i>HK\$'000</i>	Fintech services <i>HK\$'000</i>	Platform operation solutions <i>HK\$'000</i>	Financial solutions <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total Group <i>HK\$'000</i>	Information security chips and solutions <i>HK\$'000</i>
Year ended 31 December 2022							
Segment turnover	2,655,820	229,917	169,483	346,068	36,473	3,437,761	246,379
Inter-segment turnover	(3,813)	(1,213)	(7)	-	-	(5,033)	-
Turnover from external customers	<u>2,652,007</u>	<u>228,704</u>	<u>169,476</u>	<u>346,068</u>	<u>36,473</u>	<u>3,432,728</u>	<u>246,379</u>
Segmental EBITDA (excluding fair value loss on financial asset at FVPL)	<u>695,166</u>	<u>22,099</u>	<u>(12,250)</u>	<u>(234)</u>	<u>(64,779)</u>	<u>640,002</u>	<u>93,584</u>
Depreciation	(141,160)	(6,497)	(5,473)	(7,128)	(2,102)	(162,360)	-
Amortisation	(642)	(777)	-	-	(71)	(1,490)	-
Fair value loss on financial asset at FVPL	-	-	(6,889)	-	-	(6,889)	-
Segmental operating profit/(loss)	<u>553,364</u>	<u>14,825</u>	<u>(24,612)</u>	<u>(7,362)</u>	<u>(66,952)</u>	<u>469,263</u>	<u>93,584</u>
Unallocated other income						5,647	-
Unallocated corporate expenses						(96,849)	-
Share of results of associated companies						398,533	-
Loss on deemed acquisition and dilution of interest of an associated company						(1,077)	-
Gains on disposals of subsidiaries						2,604	429,339
Finance costs						(59,862)	(143)
Profit before income tax						718,259	522,780
Income tax expense						(113,222)	(13,203)
Profit for the year						<u>605,037</u>	<u>509,577</u>

	Continuing operations					Discontinued operation	
	Payment and digital services HK\$'000	Fintech services HK\$'000	Platform operation solutions HK\$'000	Financial solutions HK\$'000	Others HK\$'000	Total Group HK\$'000	Information security chips and solutions HK\$'000
Year ended 31 December 2021							
Segment turnover	3,346,991	213,843	191,697	336,396	101,176	4,190,103	454,480
Inter-segment turnover	(4,154)	(1,291)	(1,974)	-	-	(7,419)	-
Turnover from external customers	<u>3,342,837</u>	<u>212,552</u>	<u>189,723</u>	<u>336,396</u>	<u>101,176</u>	<u>4,182,684</u>	<u>454,480</u>
Segmental EBITDA (excluding write off of property, plant and equipment and fair values gains on financial assets at FVPL)	809,910	18,966	(5,660)	(8,202)	(26,821)	788,193	79,255
Depreciation	(228,007)	(5,905)	(4,449)	(7,108)	(2,779)	(248,248)	(8,564)
Amortisation	(250)	(471)	(39)	-	(93)	(853)	(2,666)
Write off of property, plant and equipment	(2,257)	-	-	-	-	(2,257)	-
Fair values gains on financial assets at FVPL	-	-	181,191	-	-	181,191	-
Segmental operating profit/(loss)	<u>579,396</u>	<u>12,590</u>	<u>171,043</u>	<u>(15,310)</u>	<u>(29,693)</u>	<u>718,026</u>	<u>68,025</u>
Unallocated other income						4,090	-
Unallocated corporate expenses						(102,232)	-
Share of results of associated companies						352,333	-
Loss on deemed acquisition and dilution of interest of an associated company						(9,837)	-
Gain on deemed disposals of associated companies						2,861,475	-
Finance costs						(70,588)	(385)
Profit before income tax						3,753,267	67,640
Income tax expense						(129,531)	(6,340)
Profit for the year						<u>3,623,736</u>	<u>61,300</u>

The segment assets and liabilities as at 31 December 2022 and additions to non-current assets for the year ended 31 December 2022 are as follows:

	Continuing operations							Total Group HK\$'000
	Payment and digital services HK\$'000	Fintech services HK\$'000	Platform operation solutions HK\$'000	Financial solutions HK\$'000	Others HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	
As at 31 December 2022								
Segment assets	<u>5,569,006</u>	<u>3,669,736</u>	<u>783,224</u>	<u>579,209</u>	<u>347,421</u>	<u>4,705,968</u>	<u>(4,199,253)</u>	<u>11,455,311</u>
Segment liabilities	<u>(3,719,058)</u>	<u>(2,915,726)</u>	<u>(337,000)</u>	<u>(689,540)</u>	<u>(172,093)</u>	<u>(266,865)</u>	<u>4,199,253</u>	<u>(3,901,029)</u>
Year ended 31 December 2022								
Additions to non-current assets (excluding investments in associated companies, financial asset at FVOCI, other financial assets at amortised cost and financial assets at FVPL)	<u>43,425</u>	<u>578</u>	<u>7,852</u>	<u>10,365</u>	<u>3,000</u>	<u>4,844</u>	<u>-</u>	<u>70,064</u>

The segment assets and liabilities as at 31 December 2021 and additions to non-current assets for the year ended 31 December 2021 are as follows:

	Continuing operations						Discontinued operation	Elimination	Total Group
	Payment and digital services	Fintech services	Platform operation solutions	Financial solutions	Others	Unallocated	Information security chips and solutions		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021									
Segment assets	4,026,159	2,671,425	1,134,058	564,251	336,457	3,963,724	419,105	(2,296,371)	10,818,808
Segment liabilities	(2,838,304)	(1,200,975)	(354,254)	(638,289)	(296,449)	(213,111)	(82,803)	2,296,371	(3,327,814)
Year ended 31 December 2021									
Additions to non-current assets (excluding investments in associated companies, financial asset at FVOCI, other financial assets at amortised cost and financial assets at FVPL)	121,484	25,174	3,526	6,950	735	197	38,229	-	196,295

During the year, additions to non-current assets mainly comprise additions to property, plant and equipment, right-of-use assets and intangible assets (2021: same).

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

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

The Group is principally domiciled in Mainland China and Hong Kong (2021: same). The Group's turnover by geographical locations, which is determined by the locations in which the turnover are generated from, is as follows:

	For the year ended	
	31 December 2022	2021
	HK\$'000	HK\$'000
Continuing operations		
Mainland China	3,234,828	4,021,961
Hong Kong	197,376	160,723
Others	524	-
	3,432,728	4,182,684
Discontinued operation		
Mainland China	246,379	454,480

The Group's non-current assets (excluding investments in associated companies, financial asset at FVOCI, other financial assets at amortised cost 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:

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Non-current assets		
Mainland China	223,765	349,232
Hong Kong	5,142	2,361
	<u>228,907</u>	<u>351,593</u>
Current assets		
Mainland China	5,513,217	5,559,809
Hong Kong	1,982,105	1,466,148
Others	81,178	–
	<u>7,576,500</u>	<u>7,025,957</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	
	2022	2021
	HK\$'000	HK\$'000
Continuing operations		
Auditor's remuneration		
– audit and audit related services	4,943	4,378
– non-audit services	3,307	3,091
Commission and incentives paid/payable to business channel partners	1,516,954	2,149,981
Interest expenses on asset-backed securities	7,147	–
Depreciation of property, plant and equipment	140,394	227,484
Depreciation of right-of-use assets	27,094	26,979
Depreciation of investment properties	173	173
Amortisation of intangible assets	1,490	853
Employee benefit expense (including directors' emoluments)	843,217	731,407
Costs of inventories sold (including reversal of provision for inventories)	21,527	83,415
Operating lease rentals in respect of land and buildings	12,630	9,981
Research and development costs (including staff cost)	251,422	214,497
Gain on disposals of property, plant and equipment	(144)	(204)
Write off of property, plant and equipment	30	2,327
Credit impairment loss		
– trade and bills receivables	9,963	–
– loan receivables (<i>Note 10</i>)	94,135	113,034
Net foreign exchange loss	13,932	5,019

5 INCOME TAX EXPENSE

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	100	–
– Overseas taxation	126,633	136,365
Deferred income tax	(308)	(494)
	<u>126,425</u>	<u>135,871</u>
Income tax expense	126,425	135,871
Income tax expenses is attributable to:		
– Profit from continuing operations	113,222	129,531
– Profit from discontinued operation	13,203	6,340
	<u>126,425</u>	<u>135,871</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Subsidiaries in the 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 qualified as High and New Technology Enterprise ("HNTE"), the applicable CIT tax rate is 15%. If a subsidiary is qualified as Key Software Enterprise ("KSE"), the applicable CIT tax rate is 10%. If a subsidiary is engaged in Encouraged Industries in the Western Region ("EIWR"), the applicable CIT tax rate is 15%. If a subsidiary is qualified as Key Integrated Circuit Design Enterprises and Software Enterprises ("KIC"), the applicable CIT tax rate is 0% for the first five years commencing from the first profit-making year, and 10% for the subsequent years. If a subsidiary is qualified as Software and Integrated Circuit Enterprise ("SICE"), the applicable CIT tax rate is 0% for the first two years of being qualified and 12.5% for the next three years.

Applicable corporate income tax rates of principal subsidiaries

Subsidiaries	Applicable corporate income tax rate	
	For the year ended 31 December 2022	2021
Beijing Hi Sun Advanced Business Solutions Information Technology Limited (“BJ ABS”) (Note i)	15%	15%
Hunan Hisun Mobile Pay IT Limited (“HN Mobile Pay”) (Note ii)	15%	12.5%
隨行付支付有限公司 (“VBill OPCO”)	25%	25%
北京銀企融合技術開發有限公司 (“Beijing Bank and Enterprise”) (Note iii)	25%	15%
隨行付(北京)金融信息服務有限公司 (“VBill Finance”) (Note iv)	25%	15%
北京隨信雲鏈科技有限公司 (“Beijing Cloud Chain”) (Note v)	15%	15%
重慶鑫聯隨行科技有限公司 (“Chongqing Xinlian”) (Note vi)	15%	15%
Megahunt Technologies Inc. (“Megahunt”), an associated company since 23 May 2022 (Note 17) (Note vii)	15%	15%
北京結慧科技有限公司 (“Beijing Jiehui”) (Note viii)	15%	25%

Notes:

- (i) BJ ABS was qualified as HNTE in 2021 and 2022.
- (ii) HN Mobile Pay was qualified as SICE in 2021 and qualified as HNTE in 2022.
- (iii) Beijing Bank and Enterprise was qualified as HNTE in 2021. The entity was not qualified for preferential rates in 2022.
- (iv) VBill Finance was qualified as HNTE in 2021. The entity was not qualified for preferential rates in 2022.
- (v) Beijing Cloud Chain was qualified as HNTE in 2021 and 2022.
- (vi) Chongqing Xinlian was engaged in EIWR in 2021 and 2022.
- (vii) Megahunt was qualified as HNTE in 2021 and 2022.
- (viii) Beijing Jiehui was qualified as HNTE in 2022. The entity was not qualified for preferential rates in 2021.

6 DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2022 (2021: 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.

	For the year ended 31 December	
	2022	2021
Profit attributable to the owners of the Company (<i>HK\$'000</i>)		
– Continuing operations	466,676	3,481,233
– Discontinued operation	472,740	40,293
	<u>939,416</u>	<u>3,521,526</u>
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (<i>thousands shares</i>)	<u>2,763,184</u>	<u>2,776,834</u>
Basic earnings per share attributable to the owners of the Company (<i>HK\$ per share</i>)		
– Continuing operations	0.169	1.253
– Discontinued operation	0.171	0.015
	<u>0.340</u>	<u>1.268</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 2022, the Group has four categories (2021: same) of potentially dilutive shares: share options issued by an associated company – PAX Global Technology Limited (“PAX Global”), share options issued by a subsidiary – VBill OPCO and written put option liabilities issued by subsidiaries – VBill Limited (“VBill (Cayman)”) and Mega Hunt Microelectronics Limited (“Megahunt HK”) (2021: same).

For the year ended 31 December 2022, the exercise of the outstanding share options in PAX Global and VBill OPCO would have a dilutive effect. The exercise of the share options in PAX Global and VBill OPCO 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 associated company’s shares and subsidiaries’ shares) based on the monetary value of the subscription rights attached to outstanding share options of PAX Global and VBill OPCO. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options of PAX Global and VBill OPCO (2021: same).

For the year ended 31 December 2022, the calculation of diluted earnings per share does not assume the exercise of the written put option liabilities of VBill (Cayman) and Megahunt HK as they would have an antidilutive impact to the basic earnings per share (2021: same).

	For the year ended	
	31 December	
	2022	2021
Profit attributable to the owners of the Company (<i>HK\$'000</i>)		
– Continuing operations	466,676	3,481,233
Assuming exercise of all outstanding dilutive share options issued by PAX Global (<i>HK\$'000</i>)		
– Decrease in share of profit of an associated company	(9,320)	(5,090)
– Loss on dilution of an associated company	(61,204)	(55,494)
Assuming exercise of all outstanding dilutive share options issued by VBill OPCO (<i>HK\$'000</i>)		
– Decrease in profit attributable to the owners of the Company	(4,229)	(26,878)
	<u><u>391,923</u></u>	<u><u>3,393,771</u></u>
Adjusted profit attributable to the owners of the Company from continuing operations used to determine diluted earnings per share (<i>HK\$'000</i>)		
Profit attributable to the owners of the Company (<i>HK\$'000</i>)		
– Discontinued operation	472,740	40,293
	<u><u>2,763,184</u></u>	<u><u>2,776,834</u></u>
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands shares</i>)		
Diluted earnings per share attributable to the owners of the Company (<i>HK\$ per share</i>)		
– Continuing operations	0.142	1.222
– Discontinued operation	0.171	0.015
	<u><u>0.313</u></u>	<u><u>1.237</u></u>

8 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group previously subscribed certain convertible preferred shares (the “CPS”) and ordinary shares of Cloopen Group Holding Limited (“Cloopen”).

On 9 February 2021, the trading of Cloopen’s American depositary shares (“ADSs”) on the New York Stock Exchange (“NYSE”) commenced. The CPS which were previously classified as financial asset at FVPL (Note 9) were converted into the listed shares of Cloopen and accounted for at fair value with reference to the trading price. The fair value of the CPS at the time of the conversion amounted to HK\$616,346,000.

Upon completion of the offering of the ADSs, the Group’s equity interest in Cloopen was diluted and reduced to 17.42%. The Company’s representative also resigned to serve on the board of directors of Cloopen. As a result, the Group lost its significant influence over Cloopen, and Cloopen ceased to be an associate of the Group (Note 11). It was accounted for as a deemed disposal of the investment in Cloopen, with a resulting gain of approximately HK\$2,857,920,000 on deemed disposal of an associated company recognised in consolidated income statement during the year ended 31 December 2021.

The Group's interest in Cloopen, which is not held for trading, was classified as a financial asset at FVOCI, with subsequent fair value movement recognised in other comprehensive income. The Group has irrevocably elected at initial recognition to recognise in this category. This is a strategic investment and the Group considers this classification to be more relevant.

	As of 31 December	
	2022	2021
	HK\$'000	HK\$'000
Non-current asset		
Listed equity security outside Hong Kong – Cloopen (<i>Note</i>)	152,868	629,711
	<u>152,868</u>	<u>629,711</u>
	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Balance at 1 January	629,711	–
Reclassified from an investment in associated companies (<i>Note 11</i>)	–	2,857,920
Conversion of convertible preference shares (<i>Note 9</i>)	–	616,346
Fair value loss on revaluation recognised in other comprehensive income	(476,843)	(2,844,555)
	<u>(476,843)</u>	<u>(2,844,555)</u>
Balance at 31 December	152,868	629,711
	<u>152,868</u>	<u>629,711</u>

Note:

Listed equity security outside Hong Kong – Cloopen

ADSs were listed on the New York Stock Exchange (“NYSE”) (stock symbol: RAAS) on 9 February 2021. The fair value of the ADSs is based on its quoted bid prices at New York Time in NYSE and its carrying amount is denominated in US\$.

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Non-current asset		
Unlisted investment fund outside Hong Kong (<i>Note (a)</i>)	93,077	108,200
	<u>93,077</u>	<u>108,200</u>
Current asset		
Listed equity securities in Hong Kong (<i>Note (b)</i>)	980	1,103
	<u>980</u>	<u>1,103</u>
	94,057	109,303
	<u>94,057</u>	<u>109,303</u>

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Balance at 1 January	109,303	543,040
Fair value (losses)/gains on revaluation recognised in profit or loss	(7,012)	181,258
Conversion of convertible preference shares (<i>Note 8</i>)	–	(616,346)
Distribution	–	(1,666)
Exchange realignment	(8,234)	3,017
	<hr/>	<hr/>
Balance at 31 December	94,057	109,303
	<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) Listed equity securities in Hong Kong

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

Changes in fair value of financial assets at FVPL are recorded in “other gains, net” in the consolidated income statement.

10 LOAN RECEIVABLES

Loan receivables are amounts due from customers in the ordinary course of the fintech services business 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	
	2022	2021
	HK\$'000	HK\$'000
Current	2,637,486	2,219,046
1 to 3 months past due	26,579	16,449
Over 3 months past due	143,806	122,980
	<hr/>	<hr/>
Loan receivables, gross	2,807,871	2,358,475
<i>Less:</i> provision for impairment of loan receivables	(160,246)	(130,148)
	<hr/>	<hr/>
	2,647,625	2,228,327
	<hr/> <hr/>	<hr/> <hr/>

The analysis of changes in the gross carrying amount and the corresponding provision for impairment of loan receivables in relation to loan receivables are as follows:

	As at 31 December 2022			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Loan receivables	2,637,486	26,579	143,806	2,807,871
Less: Provision for impairment of loan receivables	<u>(21,985)</u>	<u>(20,005)</u>	<u>(118,256)</u>	<u>(160,246)</u>
Loan receivables, net	<u>2,615,501</u>	<u>6,574</u>	<u>25,550</u>	<u>2,647,625</u>
	As at 31 December 2021			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Loan receivables	2,219,046	16,449	122,980	2,358,475
Less: Provision for impairment of loan receivables	<u>(15,333)</u>	<u>(12,794)</u>	<u>(102,021)</u>	<u>(130,148)</u>
Loan receivables, net	<u>2,203,713</u>	<u>3,655</u>	<u>20,959</u>	<u>2,228,327</u>

(b) Effective interest rates on loan receivables

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

	For the year ended 31 December	
	2022	2021
Loans to borrowers	<u>4% to 24% p.a.</u>	<u>6% to 36% p.a.</u>

11 INVESTMENTS IN ASSOCIATED COMPANIES

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

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Associated companies:		
– PAX Global (Note (a))	2,846,550	2,688,668
– Megahunt Technologies Inc (“Megahunt”) (Note (b))	518,630	–
– Beijing Fangyun Technology Co., Ltd (“Beijing Fangyun”) (Note (c))	–	–
– Beijing Zhongjin Yunchuang Software., Ltd (“Beijing Zhongjin”) (Note (d))	28,565	–
– Beijing Suiyun Technology Co., Ltd (“Beijing Suiyun”)	2,781	3,242
– Shenzhen Guofu Yunlian Technology Co., Ltd (“Shenzhen Guofu”)	3,369	3,649
	<u>3,399,895</u>	<u>2,695,559</u>

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

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Associated companies:		
– PAX Global (<i>Note (a)</i>)	412,159	353,505
– Good Chain (<i>Note 16(a)</i>)	–	(608)
– Megahunt (<i>Note (b)</i>)	(12,635)	–
– Beijing Fangyun (<i>Note (c)</i>)	–	(314)
– Beijing Zhongjin (<i>Note (d)</i>)	(782)	–
– Beijing Suiyun	(213)	(236)
– Shenzhen Guofu	4	(14)
	<u>398,533</u>	<u>352,333</u>

The amount of net loss on deemed acquisition and dilution of interest recognised in the consolidated income statement is as follows:

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Associated company:		
– PAX Global (<i>Note (a)</i>)	<u>1,077</u>	<u>9,837</u>

The amount of gains on deemed disposals of investments in associated companies recognised in the consolidated income statement is as follows:

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
Associated companies:		
– Cloopen (<i>Note 8</i>)	–	2,857,920
– Good Chain (<i>Note 16(a)</i>)	–	3,555
	<u>–</u>	<u>2,861,475</u>

(a) **Investment in PAX Global**

The movement on interest in PAX Global is as follows:

	For the year ended	
	31 December	
	2022	2021
	HK\$'000	HK\$'000
At 1 January	2,688,668	2,393,435
Share of profit	412,159	353,505
Share of other comprehensive (loss)/income	(137,468)	28,261
Share of other reserves	185	3,374
Loss on deemed acquisition and dilution of interest, net (<i>Note ii</i>)	(514)	(9,827)
Dividend received	(116,480)	(80,080)
	<u>2,846,550</u>	<u>2,688,668</u>
At 31 December	<u>2,846,550</u>	<u>2,688,668</u>

Impairment test for interest in PAX Global

As at 31 December 2022, 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 2022.

There are no contingent liabilities and commitments to provide funding relating to the Group's interest in PAX Global (2021: same).

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 maintenance and installation services (collectively, the "E-payment Terminals solution business").

Note ii: During the year ended 31 December 2022, PAX Global repurchased a total of 11,092,000 ordinary shares (2021: 13,232,000) on the Stock Exchange, of which 11,092,000 (2021: 9,561,000) ordinary shares were subsequently cancelled during the year. Certain employees of PAX Global exercised their share options granted pursuant to a share option scheme set up on 2 May 2019. A loss on deemed acquisition and dilution of interest of an associated company of HK\$1,077,000 (2021: HK\$9,837,000) which includes a release of reserve credited to the consolidated income statement of HK\$563,000 (2021: HK\$10,000) was recognised in the consolidated income statement. The Group's interest in PAX Global increased from 33.30% to 33.71% accordingly.

(b) Investment in Megahunt

As disclosed in Note 17, upon the completion of the transfer of the remaining of 8.37% of the issued share capital of Megahunt on 23 May 2022, Megahunt ceased to be a subsidiary of the Company and was accounted for as an associated company of the Company. Consequently, the financial results of Megahunt will no longer be consolidated into the consolidated financial statements of the Group and its assets and liabilities will be deconsolidated from the Group's consolidated financial statements. The Group accounts for its interests in Megahunt as an investment in an associated company initially at fair value and will shares the results of Megahunt as an investment in an associated company using the equity method going forward.

The movement on interest in Megahunt is as follows:

	For the year ended 31 December 2022 HK\$'000
Recognition of investment in an associated company upon disposal of a subsidiary (<i>Note 17(a)(i)</i>)	536,584
Share of loss	(12,635)
Share of other comprehensive loss	(5,319)
	<hr/>
At 31 December 2022	518,630
	<hr/> <hr/>

(c) Investment in Beijing Fangyun

The interest in Beijing Fangyun was initially measured at fair value. The carrying amount was increased or decreased to recognise the Group's share of the profit or loss and movements in other comprehensive income or loss of the interest in Beijing Fangyun to the extent the carrying amount of the interest in Beijing Fangyun reduced to Nil due to losses, after the initial recognition. As at 31 December 2022, the Group's share of loss of Beijing Fangyun exceeded its interest in the ordinary shares of Beijing Fangyun. As at 31 December 2022, the unrecognised share of loss of the interests in Beijing Fangyun is HK\$2,947,000 (2021: HK\$1,746,000).

(d) Investment in Beijing Zhongjin

During the year ended 31 December 2022, the Group acquired 20% of the issued share capital of Beijing Zhongjin, which is principally engaged in the provision of fintech services business, at a purchase consideration of approximately HK\$31,801,000. A representative from the Group has been appointed to serve on the board of directors of Beijing Zhongjin. The Group accounted for its interest in Beijing Zhongjin as an investment in an associated company using the equity method.

12 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Trade receivables (<i>Note (a)</i>)	181,963	176,292
Bills receivables (<i>Note (b)</i>)	4,850	1,520
Less: provision for impairment of receivables (<i>Note (c)</i>)	(16,497)	(9,403)
	<hr/>	<hr/>
	170,316	168,409
	<hr/> <hr/>	<hr/> <hr/>

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	
	2022	2021
	HK\$'000	HK\$'000
HK\$	25,759	37,000
RMB	120,884	130,679
US\$	17,878	–
SGD	81	–
MOP	5,714	730
	<u>170,316</u>	<u>168,409</u>

Notes:

(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	
	2022	2021
	HK\$'000	HK\$'000
Current to 90 days	143,537	128,311
91 to 180 days	4,844	10,947
181 to 365 days	8,748	17,934
Over 365 days	24,834	19,100
	<u>181,963</u>	<u>176,292</u>

As at 31 December 2022, trade receivables included retention money receivables of HK\$5,151,000 (2021: HK\$13,186,000), which represents approximately 10% to 20% (2021: 10% to 20%) 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 2022, the retention money receivables aged over 365 days primarily based on invoice date amounted to HK\$1,257,000 (2021: HK\$2,812,000).

(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:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Falling within 90 days	2,381	–
Falling within 91 to 180 days	2,469	1,520
	<u>4,850</u>	<u>1,520</u>

(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:

	For the year ended	
	31 December	
	2022	2021
At 1 January	9,403	14,371
Credit impairment loss, net	8,044	912
Classified as held for sale	–	(6,187)
Exchange realignment	(950)	307
	<hr/>	<hr/>
At 31 December	16,497	9,403
	<hr/> <hr/>	<hr/> <hr/>

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 AND DIGITAL SERVICES BUSINESS AND OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Trade payables (<i>Note (a)</i>)	642,446	497,080
Bills payables (<i>Note (b)</i>)	–	8,503
	<hr/>	<hr/>
	642,446	505,583
Payables for payment and digital services business (<i>Note (c)</i>)	965,787	624,296
Other payables and accruals (<i>Note (d)</i>)	967,734	1,076,401
	<hr/>	<hr/>
	2,575,967	2,206,280
	<hr/> <hr/>	<hr/> <hr/>

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

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
HK\$	67,290	69,530
RMB	2,219,194	2,136,555
US\$	206,780	195
JPY	3,741	–
EUR	70,575	–
GBP	8,363	–
SGD	24	–
	<u>2,575,967</u>	<u>2,206,280</u>

Notes:

(a) Trade payables

As at 31 December 2022 and 2021, the ageing analysis of the trade payables primarily based on invoice date was as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current to 90 days	294,502	468,595
91 to 180 days	194,648	11,272
181 to 365 days	145,038	7,089
Over 365 days	8,258	10,124
	<u>642,446</u>	<u>497,080</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	
	2022	2021
	HK\$'000	HK\$'000
Due within 90 days	–	5,993
Due within 91 to 180 days	–	2,510
	<u>–</u>	<u>8,503</u>

(c) **Payables for payment and digital services business**

Payables for payment and digital services business mainly represent payment received from the relevant banks and financial institutions on behalf of the merchants. The amounts are required to be settled with merchants upon the respective contractual settlement clearance dates.

(d) **Other payables and accruals**

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Accrued staff costs and pension obligations	234,408	266,720
Deposits	42,546	60,751
Receipt in advance from customers (<i>Note i</i>)	43,678	77,241
Advance from business channel partners	426,295	435,842
Others	220,807	235,847
Total	<u>967,734</u>	<u>1,076,401</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 2022 that was included in the contract liability balance at the beginning of the year amounted to HK\$68,939,000 (2021: HK\$26,072,000).

14 ASSET-BACKED SECURITIES

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Current		
Asset-backed securities (<i>Note</i>)	<u>265,058</u>	<u>–</u>

Note:

During the year ended 31 December 2022, 北京隨行付商業保理有限公司 (Beijing VBill Commercial Factoring Co. Ltd.), a subsidiary of the Group, has obtained approval from the Shanghai Stock Exchange for issuance of asset-backed securities (the “ABS”) in the PRC under an asset-backed securities scheme (the “ABS Scheme”). The ABS are backed by the Group’s loan receivables and administrated under a trust. The maximum issue size of the ABS Scheme is RMB1,000,000,000 (equivalent to approximately HK\$1,230,000,000) and the ABS can be issued in not more than 15 phases by 31 December 2023.

On 27 January 2022, the first phase of the ABS Scheme with an issue size of RMB309,000,000 (equivalent to approximately HK\$380,070,000) was established. The ABS are classified into (i) priority tranche with total principal of RMB277,000,000 (equivalent to HK\$340,710,000) which are listed and traded on the Shanghai Stock Exchange with expected maturity date on 29 July 2022 and with coupon rate of 4.8% per annum; and (ii) subordinated tranche with total principal of RMB32,000,000 (equivalent to HK\$39,360,000) with expected maturity date on 31 October 2022 and with no coupon rate.

The principal and interest of the priority tranche ABS shall be repaid monthly in six instalments. The holders of the priority tranche of the ABS shall have priority in receiving coupon interest and repayment of the principal amount of the ABS over the holders of the subordinated tranche of the ABS. The subordinated tranche is not listed and was subscribed by 北京隨信雲鏈科技有限公司 (Beijing Suixin Yunlian Technology Ltd. (“Beijing Suixin Yunlian”)), a subsidiary of the Group.

On 20 May 2022, the second phase of the ABS Scheme with an issue size of RMB362,000,000 (equivalent to approximately HK\$419,920,000) was established. The ABS are classified into (i) priority tranche with total principal of RMB324,000,000 (equivalent to HK\$375,840,000) which are listed and traded on the Shanghai Stock Exchange with expected maturity date on 31 January 2023 and with coupon rate of 4.87% per annum; and (ii) subordinated tranche with total principal of RMB38,000,000 (equivalent to HK\$44,080,000) with expected maturity date on 28 February 2023 and with no coupon rate.

The principal and interest of the priority tranche ABS shall be repaid monthly in six instalments. The holders of the priority tranche of the ABS shall have priority in receiving coupon interest and repayment of the principal amount of the ABS over the holders of the subordinated tranche of the ABS. The subordinated tranche is not listed and was subscribed by Beijing Suixin Yunlian.

On 30 December 2022, the third phase of the ABS Scheme with an issue size of RMB303,000,000 (equivalent to approximately HK\$339,360,000) was established. The ABS are classified into (i) priority tranche with total principal of RMB265,000,000 (equivalent to HK\$296,800,000) which are listed and traded on the Shanghai Stock Exchange with expected maturity date on 30 November 2023 and with coupon rate of 5.00% per annum; and (ii) subordinated tranche with total principal of RMB38,000,000 (equivalent to HK\$42,560,000) with expected maturity date on 30 November 2023 and with no coupon rate.

The principal and interest of the priority tranche ABS shall be repaid monthly in six instalments. The holders of the priority tranche of the ABS shall have priority in receiving coupon interest and repayment of the principal amount of the ABS over the holders of the subordinated tranche of the ABS. The subordinated tranche is not listed and was subscribed by Beijing Suixin Yunlian.

Since Group holds all the subordinated tranches of the ABS, substantially all the risks and rewards of ownership of the loan receivables are retained, the Group continues to recognise the loan receivable in its entirety and recognises a financial liability for the consideration received.

During the year ended 31 December 2022, the principals of the priority tranche ABS under the first and the second phase of the ABS Scheme have been repaid in full.

As at 31 December 2022, the Group’s asset-backed securities with carrying amount of approximately HK\$265,058,000 (31 December 2021: Nil) were collateralised by the loans receivable of the Group with an aggregate carrying amount of approximately HK\$331,143,000 (31 December 2021: Nil) (Note 10).

15 WRITTEN PUT OPTION LIABILITIES

	As at 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current portion		
– VBill (Cayman) (<i>Note (a)</i>)	852,188	797,710
– Megahunt HK (<i>Note (b)</i>)	4,881	–
	<u>857,069</u>	<u>797,710</u>
Non-current portion		
– Megahunt HK (<i>Note (b)</i>)	–	104,871
	<u>857,069</u>	<u>902,581</u>
	For the year ended	
	31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	902,581	831,207
Unwinding of discount	58,385	68,779
Derecognition (<i>Note (b)</i>)	(104,249)	–
Fair value losses on revaluation recognised in profit or loss (<i>Note (b)</i>)	5,073	–
Exchange realignment	(4,721)	2,595
	<u>857,069</u>	<u>902,581</u>

Notes:

- (a) In 2019, the Company, certain shareholders of VBill OPCO, including Shen Zheng (also acts as the director of VBill (Cayman)), Li Huimin, Xue Guangyu and Ge Xiaoxia (collectively the “VBill Management Shareholders”), ELECTRUM B.V. (the “VBill Investor”), VBill (Cayman) and VBill OPCO entered into a subscription agreement (the “VBill 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 USD86,730,000). The VBill Subscription was completed on 12 November 2019.

As a part of the VBill Subscription, VBill (Cayman) granted a put option, allowing 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 USD86,730,000) plus 8.0% interest per annum.

The fair value of the written put option liability is derived based on the present value of the exercise price of RMB588,000,000 (equivalent to USD86,730,000) plus 8.0% interest per annum, by applying a discount rate of 8%, with the assumption that the put option will be redeemable on 12 November 2022.

On 14 November 2022, VBill (Cayman) received from the VBill Investor a put notice in relation to the exercise of the put option. Pursuant to which, the VBill Investor requested VBill (Cayman) to repurchase, redeem and/or cancel all of the VBill Shares held by the VBill Investor within 60 business days after the date of the put notice at the consideration of approximately RMB755,550,000 (equivalent to US\$109,255,000). The share repurchase was subsequently completed on 14 February 2023.

The written put option liability was denominated in US\$ and classified under current liabilities as at 31 December 2022 (2021: same).

- (b) On 4 December 2019, the Company, Megahunt, Megahunt HK, the management team members and certain investors entered into a subscription agreement (the “Megahunt Subscription”). The management team members include Li Li, Liu Zhan-li, Xu Changjun, Xu Wensheng, Yang Lei, Hui Lok Yan and Song Jie. The investors include Wonder Pax Technology (Shenzhen) Co. Ltd (a subsidiary of PAX Global), 上海聚源聚芯集成電路產業股權投資基金中心(有限合夥), 芯聯芯(平潭綜合實驗區)科技投資中心(有限合夥)(collectively the “Megahunt Investors”). Pursuant to the Megahunt Subscription, the Megahunt Investors have conditionally agreed to subscribe for an aggregate of approximately 14.55% of the enlarged registered capital of Megahunt at a subscription price of RMB80,000,000 (equivalent to HK\$87,441,000). The Megahunt Subscription was completed on 30 March 2020.

As a part of the Megahunt Subscription, Megahunt HK granted a put option, allowing the Megahunt Investors to request Megahunt HK to repurchase all the Megahunt’s shares of the Megahunt Investor at its discretion from 31 December 2023 to 31 December 2025 under certain conditions at an exercise price of RMB80,000,000 (equivalent to HK\$87,441,000) plus 8.0% interest per annum.

The fair value of the written put option liability is derived base on the present value of the exercise price of RMB80,000,000 (equivalent to HK\$87,441,000) plus 8.0% interest per annum, by applying a discount rate of 10.34%, with the assumption that the put option will be redeemable from 31 December 2023. The written put option liability was denominated in RMB and classified under non-current liabilities at 31 December 2021.

Prior to the completion of the disposal as detailed in Note 17, the carrying value of the written put option liabilities was approximately HK\$104,249,000.

As disclosed in Note 17, upon the completion of the transfer of the remaining of 8.37% of the issued share capital of Megahunt on 23 May 2022, Megahunt ceased to be a subsidiary of the Company was accounted for as an associated company of the Company. As a result, the relevant written put option liability originally measured at amortised costs was derecognised with a corresponding adjustment to equity. The written put option liability was reclassified and recognised as a derivative financial liability at FVPL thereafter.

16 BUSINESS COMBINATIONS

(a) Acquisition of Good Chain

(i) Summary of acquisition of Good Chain

On 8 June 2021, the Group acquired 40% of the issued share capital of Good Chain (previously an associated company of the Group) in addition to the 30% of the issued share capital previously held, which is principally engaged in the provision of fintech services business.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	At date of acquisition HK\$'000
Purchase consideration (Note (a)(ii))	
– Cash paid	12,011
– Fair value of 30% equity interest of Good Chain accounted for using the equity method	<u>7,090</u>
	<u><u>19,101</u></u>

The fair value of the 30% equity interest of Good Chain as at date of acquisition as part of the consideration paid was valued by an independent valuer.

Upon completion of the acquisition, Good Chain became a subsidiary of the Group. It was accounted for as a deemed disposal of the investment in Good Chain, with a resulting gain of approximately HK\$3,555,000 on deemed disposal of an associated company recognised in consolidated income statement during the year ended 31 December 2021, followed by an acquisition of a subsidiary.

The assets and liabilities recognised as a result of the acquisition are as follows:

	At date of acquisition Fair value HK\$'000
Cash and cash equivalents	1
Trade receivables	14
Other current assets	72
Other financial assets at amortised cost	3,603
Property, plant and equipment	53
Intangible assets	8,049
Trade payables, other payables and accruals	(366)
Deferred income tax liabilities	<u>(2,012)</u>
Net identifiable assets acquired	9,414
Less: Non-controlling interests	(2,165)
Add: Goodwill	<u>11,852</u>
Net assets acquired	<u><u>19,101</u></u>

The goodwill is attributable to the expected synergies from combining operations of Good Chain and the fintech services business. It will not be deductible for tax purposes.

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Good Chain, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

(ii) Purchase consideration – cash outflow for the acquisition of Good Chain

	For the year ended 31 December 2021 <i>HK\$'000</i>
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	12,011
<i>Less:</i> Cash acquired	<u>(1)</u>
Net outflow of cash – investing activities	<u><u>12,010</u></u>

(b) Acquisition of Beijing Xuanjia Technology Co. Ltd (“Beijing Xuanjia”)

(i) Summary of acquisition of Beijing Xuanjia

On 7 July 2021, the Group acquired 60% of the issued share capital of Beijing Xuanjia, which is principally engaged in the provision of payment and digital services business.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	At date of acquisition <i>HK\$'000</i>
Purchase consideration (<i>Note (b)(ii)</i>)	
– Cash paid	<u><u>3,603</u></u>

The assets and liabilities recognised as a result of the acquisition are as follows:

	At date of acquisition Fair value HK\$'000
Cash and cash equivalents	662
Other current assets	211
Intangible assets	4,136
Trade payables and accruals	(961)
Deferred income tax liabilities	(1,034)
	<hr/>
Net identifiable assets acquired	3,014
<i>Less:</i> Non-controlling interests	(1,206)
<i>Add:</i> Goodwill	1,795
	<hr/>
Net assets acquired	<u><u>3,603</u></u>

The goodwill is attributable to the expected synergies from combining operations of Beijing Xuanjia and the payment and digital services business. It will not be deductible for tax purposes.

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Beijing Xuanjia, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

(ii) Purchase consideration – cash outflow for the acquisition of Beijing Xuanjia

	For the year ended 31 December 2021 HK\$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	3,603
<i>Less:</i> Cash acquired	(662)
	<hr/>
Net outflow of cash – investing activities	<u><u>2,941</u></u>

There were no acquisition in the year ended 31 December 2022.

17 DISPOSAL OF SUBSIDIARIES

(a) Disposal of Megahunt

On 15 December 2021, Megahunt HK entered into share transfer agreements with certain purchasers (the “Megahunt Purchasers”), pursuant to which Megahunt HK has conditionally agreed to dispose of an aggregate of approximately 20% of the issued share capital of Megahunt at an aggregate consideration of RMB208,727,000 (equivalent to approximately HK\$254,647,000). The Megahunt Purchasers include 天津韋豪泰達海河股權投資合夥企業(有限合夥), 天津芯聚科技合夥企業(有限合夥), 天津芯智科技合夥企業(有限合夥) and 天津信芯科技合夥企業(有限合夥). Upon completion of all share transfer agreements, the Group’s interest in Megahunt would decrease from approximately 65.73% to approximately 45.73%. Completion of each of the share transfer agreements was not inter-conditional to each other.

As at 31 December 2021, transfer of an aggregate of approximately 11.63% of the issued share capital of Megahunt at an aggregate consideration of RMB116,364,000 (equivalent to approximately HK\$142,324,000) was completed. The associated assets and liabilities of Megahunt and its subsidiary (together the “Disposal Group”) were presented as held for sale in the consolidated financial statements as at 31 December 2021.

On 23 May 2022, the transfer of the remaining of 8.37% of the issued shares capital of Megahunt at an aggregate consideration of RMB92,363,000 (equivalent to approximately HK\$108,382,000) was completed, Megahunt ceased to be a subsidiary of the Company and was accounted for as an associated company of the Company.

Previously, the Group’s sales of information security chips and solutions business is engaged by the Disposal Group. The above disposal constituted a discontinued operation under HKFRS 5, and accordingly, sales of information security chips and solutions business are reported in the current period as a discontinued operation.

(i) Details of the disposal of Megahunt

For the year ended 31 December 2021

	At date of disposal HK\$'000
Proceeds received	142,324
Less: recognition of non-controlling interests	(39,197)
Add: proportionate share of accumulated currency translation differences re-attributed to non-controlling interests	926
	<hr/>
Gain on partial disposal of Megahunt recognised in other reserves	<u>104,053</u>

In the consolidated cash flow statement for the year ended 31 December 2021, net cash inflow for partial disposal of HK\$128,552,000 represents proceeds received of HK\$142,324,000, less capital gains tax of HK\$13,772,000.

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2021.

Assets classified as held for sale

	As at 31 December 2021 <i>HK\$'000</i>
Property, plant and equipment	43,481
Right-of-use assets	5,837
Intangible assets	14,347
Other financial assets at amortised cost	1,703
Inventories	156,771
Other current assets	41,813
Amount due from an associated company	35,501
Trade and bills receivables	78,910
Cash and cash equivalents	<u>40,742</u>
 Total assets of the Disposal Group classified as held for sale	 <u><u>419,105</u></u>

Liabilities directly associated with assets classified as held-for-sale

	As at 31 December 2021 <i>HK\$'000</i>
Lease liabilities	5,879
Trade payable	19,664
Other payables and accruals	44,482
Current income tax liabilities	8,121
Amounts due to fellow subsidiaries	<u>4,657</u>
 Total liabilities of the Disposal Group classified as held for sale	 <u><u>82,803</u></u>

The accumulated foreign exchange gains recognised in other comprehensive income in relation to the discontinued operation as at 31 December 2021 were HK\$21,156,000.

For the year ended 31 December 2022

	At date of disposal HK\$'000
Consideration	
Proceeds received	108,382
Fair value of retained interest	<u>536,584</u>
	644,966
<i>Less:</i> Net assets disposed of:	
Property, plant and equipment	54,696
Right-of-use assets	5,601
Intangible assets	18,666
Other financial assets at amortised cost	2,060
Inventories	185,749
Other current assets	53,637
Amount due from an associated company	59,630
Trade and bills receivables	68,502
Cash and cash equivalents	62,577
Lease liabilities	(4,780)
Trade payables	(42,897)
Bank borrowing	(10,732)
Other payables and accruals	(35,046)
Current income tax liabilities	(12,668)
Amounts due to fellow subsidiaries	<u>(4,427)</u>
	(400,568)
<i>Add:</i> Non-controlling interests disposed of	184,102
<i>Add:</i> Release of exchange reserve upon disposal	1,611
<i>Less:</i> Release of other reserves upon disposal	<u>(772)</u>
Gain of disposal of Megahunt recognised in consolidated income statement	<u><u>429,339</u></u>

In the consolidated cash flow statement for the year ended 31 December 2022, net cash inflow for disposal of HK\$35,155,000 represents proceeds received of HK\$108,382,000, less cash and cash equivalents disposal of HK\$62,577,000 and capital gains tax of HK\$10,650,000.

The fair value of the 45.73% retained equity interest as at date of disposal as part of the consideration received was valued by an independent valuer.

(ii) **Financial performance and cash flow information of discontinued operation**

The financial performance and cash flow information presented are for the period from 1 January 2022 to 23 May 2022 and the year ended 31 December 2021.

	For the period from 1 January 2022 to 23 May 2022 HK\$'000	For the year ended 31 December 2021 HK\$'000
Revenue	246,379	454,480
Cost of sales	(105,387)	(271,030)
Gross profit	140,992	183,450
Other income	6,939	14,137
Selling expenses	(4,811)	(13,000)
Administrative expenses	(49,536)	(115,650)
Credit impairment loss	–	(912)
Operating profit	93,584	68,025
Finance costs	(143)	(385)
Profit before income tax	93,441	67,640
Income tax expense	(13,203)	(6,340)
Profit after income tax of discontinued operation	80,238	61,300
Gain on disposal of a subsidiary	429,339	–
Profit from discontinued operation	509,577	61,300
Exchange difference in relation to discontinued operation	(17,581)	7,957
Total comprehensive income from discontinued operation	491,996	69,257

	For the period from 1 January 2022 to 23 May 2022 HK\$'000	For the year ended 31 December 2021 HK\$'000
Profit from discontinued operation attributable to:		
– Owners of the Company	472,740	40,293
– Non-controlling interests	36,837	21,007
	<u>509,577</u>	<u>61,300</u>
Total comprehensive income from discontinued operation attributable to:		
– Owners of the Company	462,491	45,523
– Non-controlling interests	29,505	23,734
	<u>491,996</u>	<u>69,257</u>
Net cash inflow from operating activities	34,766	15,955
Net cash inflow from investing activities	16,717	90,444
Net cash inflow/(outflow) from financing activities	10,165	(2,057)
Net increase in cash generated by the Disposal Group (Including proceed from disposal of a subsidiary)	<u>61,648</u>	<u>104,342</u>

(b) **Disposal of Jiehang Yunchuang (Beijing) Shuzi Technology Ltd.**

On 18 January 2022, the Group also disposed of its 51% equity interests of Jiehang Yunchuang (Beijing) Shuzi Technology Ltd. (“Jiehang Yunchuang”) upon which the Group lost its control over Jiehang Yunchuang.

Details of the disposal of Jiehang Yunchuang

	At date of disposal HK\$'000
Consideration	
Proceeds received	18,096
<i>Less:</i> Net assets disposed of:	(12,748)
<i>Less:</i> Non-controlling interest disposed of	(2,185)
<i>Less:</i> Release of exchange reserve upon disposal	<u>(559)</u>
Gain of disposal of Jiehang Yunchuang recognised in consolidated income statement	<u>2,604</u>

In the consolidated cash flow statement for the year ended 31 December 2022, net cash inflow for disposal of Jiehang Yunchuang of HK\$5,331,000 represents proceeds received of HK\$18,096,000, less cash and cash equivalent disposed of HK\$12,765,000.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company during the year ended 31 December 2022.

DIVIDEND

No dividend was paid or declared by the Company for the year ended 31 December 2022 (2021: 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. The Company has complied with all applicable Code Provisions throughout the year ended 31 December 2022.

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 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 2022.

SUBSEQUENT EVENTS

(i) Exercise of put option by the Investor

On 14 February 2023, the Put Option Completion took place and the Put Price was at approximately US\$109.3 million (equivalent to approximately HK\$852.5 million) satisfied by the internal resources of the Group. Immediately after the Put Option Completion, VBill (Cayman) has become a wholly-owned subsidiary of the Company.

Upon the Put Option Completion, the relevant transaction documents were terminated and/or amended to the effect that the Investor has ceased to be a party thereto and all of the Investor's rights and obligations thereunder have ceased and terminated accordingly.

Further details are referred to in the Company's announcement dated 14 February 2023.

(ii) Proposed spin-off and separate listing of Megahunt on the SSE STAR Market

The Company is currently considering to reactivate the possible spin-off and separate listing of Megahunt on the SSE STAR Market in the PRC and in this connection, on 11 January 2023, the Company submitted a new application to the Stock Exchange for approval pursuant to Practice Note 15 of the Listing Rules.

Further details are referred to in the Company's announcement dated 11 January 2023.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement will be published on the Company's website at www.hisun.com.hk and the website of the Stock Exchange at www.hkexnews.hk. The Annual Report 2022 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, 22 March 2023

As at the date of this announcement, the Board consists of four Executive Directors, namely, Mr. Xu Wensheng, Mr. Kui Man Chun, 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. Li Heguo.