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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

| FINANCIAL HIGHLIGHTS | | | |
|---------------------------------------------------------------------------|---------------------------|---------------------------|-----------------|
| | 1H2018 <i>HK\$'000</i> | 1H2017 <i>HK\$'000</i> | Change +/(–) |
| RESULTS | | | |
| Revenue | 1,945,075 | 1,075,114 | +81% |
| Gross profit | 497,292 | 300,744 | +65% |
| Segmental EBITDA# (before unallocated items) | 386,816 | 172,769 | +124% |
| Employees' incentive programme of a subsidiary | (195,300) | – | N/A |
| Gain on disposal of subsidiaries | – | 63,262 | -100% |
| Share of result of an investment accounted for using the equity method | 83,543 | 88,301 | -5% |
| Profit for the period | 69,843 | 209,833 | -67% |
| Profit attributable to: | | | |
| – Owners of the Company | 67,544 | 193,082 | -65% |
| – Non-controlling interests | 2,299 | 16,751 | -86% |
| | 69,843 | 209,833 | |

Excluding employees' incentive programme of a subsidiary

* *For identification purpose only*

| | 1H2018 <i>HK\$</i> <i>per share</i> | 1H2017 <i>HK\$</i> <i>per share</i> | Change +/(–) |
|---------------------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------|-----------------|
| Earnings per share for profit attributable to the owners of the Company: | | | |
| Basic | 0.02 | 0.07 | -71% |
| Diluted | 0.02 | 0.07 | -71% |
| | As at 30 June 2018 <i>HK\$'000</i> | As at 31 December 2017 <i>HK\$'000</i> | Change +/(–) |
| HIGHLIGHTS OF FINANCIAL POSITION | | | |
| Total equity | 4,465,242 | 4,163,545 | +7% |
| Net current assets | 1,607,861 | 1,522,676 | +6% |
| Total assets | 6,193,254 | 5,657,451 | +9% |
| | <i>HK\$</i> <i>per share</i> | <i>HK\$</i> <i>per share</i> | Change +/(–) |
| Net assets per share | 1.608 | 1.499 | +7% |

The Board of Directors (the “Board”) of Hi Sun Technology (China) Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 together with the unaudited comparative figures for the corresponding period in 2017 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Unaudited | |
|-------------------------------------------------------------------------------------|-------------|---------------------------------|-----------------------|
| | | Six months ended 30 June | |
| | <i>Note</i> | 2018 | 2017 |
| | | HK\$'000 | HK\$'000 |
| Revenue | 4 | 1,945,075 | 1,075,114 |
| Cost of sales | 6 | (1,447,783) | (774,370) |
| Gross profit | | 497,292 | 300,744 |
| Other income | 4 | 19,078 | 24,264 |
| Other gains, net | 4 | 17,897 | 782 |
| Selling expenses | 6 | (48,381) | (58,706) |
| Administrative expenses | 6 | (258,778) | (192,179) |
| Employees' incentive programme of a subsidiary | 6 | (195,300) | – |
| Net impairment losses on financial assets | 6 | (3,101) | – |
| Gain on disposal of subsidiaries | | – | 63,262 |
| Operating profit | | 28,707 | 138,167 |
| Finance costs | | (31) | – |
| Share of result of an investment accounted for using the equity method | 15 | 83,543 | 88,301 |
| Gain on dilution of interest in an investment accounted for using the equity method | 15 | – | 113 |
| Profit before income tax | | 112,219 | 226,581 |
| Income tax expense | 8 | (42,376) | (16,748) |
| Profit for the period | | 69,843 | 209,833 |
| Profit attributable to: | | | |
| – Owners of the Company | | 67,544 | 193,082 |
| – Non-controlling interests | | 2,299 | 16,751 |
| | | 69,843 | 209,833 |
| | | HK\$ per share | HK\$ per share |
| Earnings per share for profit attributable to the owners of the Company: | | | |
| Basic | 10 | 0.02 | 0.07 |
| Diluted | 10 | 0.02 | 0.07 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited | |
|------------------------------------------------------------------------------------------------------|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Profit for the period | 69,843 | 209,833 |
| Other comprehensive income/(loss), net of tax | | |
| <u>Items that have been reclassified or may be subsequently reclassified to profit or loss</u> | | |
| Exchange differences arising on translation of the financial statements of foreign subsidiaries | 21,764 | 25,504 |
| Change in values of available-for-sale financial assets | – | 26,486 |
| Share of other comprehensive income of an investment accounted for using the equity method | 15,967 | 18,880 |
| Release of reserves upon dilution of interest in an investment accounted for using the equity method | – | 315 |
| Release of reserves upon disposal of subsidiaries | – | (1,699) |
| <u>Items that will not be subsequently reclassified to profit or loss</u> | | |
| Change in value of a financial asset at fair value through other comprehensive income | 89 | – |
| Share of other comprehensive income of an investment accounted for using the equity method | (1,266) | – |
| Total comprehensive income for the period, net of tax | 106,397 | 279,319 |
| Total comprehensive income for the period attributable to: | | |
| – Owners of the Company | 102,144 | 260,368 |
| – Non-controlling interests | 4,253 | 18,951 |
| | 106,397 | 279,319 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | | Unaudited 30 June 2018 <i>HK\$'000</i> | Audited 31 December 2017 <i>HK\$'000</i> |
|---------------------------------------------------------------------------|-------------|-------------------------------------------------|---------------------------------------------------|
| | <i>Note</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Investment properties | | 1,800 | 1,906 |
| Property, plant and equipment | | 576,992 | 507,024 |
| Leasehold land | | 31,668 | 31,974 |
| Intangible assets | | 2,015 | 1,985 |
| Investments accounted for using the equity method | 15 | 1,906,929 | 1,823,245 |
| Loan receivables | 11 | 3,173 | – |
| Available-for-sale financial assets | 16 | – | 178,385 |
| Financial asset at fair value through other comprehensive income | 16 | 15,920 | – |
| Financial assets at fair value through profit or loss | 17 | 316,124 | 93,485 |
| Other financial assets at amortised cost | | 2,899 | 3,028 |
| | | 2,857,520 | 2,641,032 |
| Total non-current assets | | 2,857,520 | 2,641,032 |
| Current assets | | | |
| Inventories | | 137,283 | 95,407 |
| Other current assets | | 89,384 | 31,696 |
| Other financial assets at amortised cost | | 46,109 | 32,166 |
| Amounts due from investments accounted for using the equity method | | 12,756 | 16,289 |
| Loan receivables | 11 | 199,848 | 2,205 |
| Trade and bills receivables | 12 | 312,824 | 278,319 |
| Financial asset at fair value through profit or loss | 17 | 2,815 | 2,702 |
| Short-term bank deposits | | 3,450 | 16,153 |
| Cash and cash equivalents | | 2,531,265 | 2,541,482 |
| | | 3,335,734 | 3,016,419 |
| Total current assets | | 3,335,734 | 3,016,419 |
| Total assets | | 6,193,254 | 5,657,451 |
| EQUITY | | | |
| Capital and reserves attributable to the owners of the Company | | | |
| Share capital | | 6,942 | 6,942 |
| Reserves | | 4,310,862 | 4,052,400 |
| | | 4,317,804 | 4,059,342 |
| Non-controlling interests | | 147,438 | 104,203 |
| Total equity | | 4,465,242 | 4,163,545 |

| | <i>Note</i> | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|------------------------------------------------------------------|-------------|----------------------------------------------------|--------------------------------------------|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | <u>139</u> | <u>163</u> |
| Total non-current liabilities | | <u>139</u> | <u>163</u> |
| Current liabilities | | | |
| Trade and bills payables | <i>13</i> | 356,288 | 239,199 |
| Payables for payment processing solutions business | <i>14</i> | 290,542 | 292,587 |
| Other payables and accruals | <i>14</i> | 955,421 | 848,409 |
| Amounts due to investments accounted for using the equity method | | 79,454 | 57,755 |
| Current income tax liabilities | | 46,168 | 46,197 |
| Borrowing | | <u>–</u> | <u>9,596</u> |
| Total current liabilities | | <u>1,727,873</u> | <u>1,493,743</u> |
| Total liabilities | | <u>1,728,012</u> | <u>1,493,906</u> |
| Total equity and liabilities | | <u><u>6,193,254</u></u> | <u><u>5,657,451</u></u> |

Note:

1 GENERAL INFORMATION

The principal activity of Hi Sun Technology (China) Limited (the “Company”) is investment holdings.

The Company and its subsidiaries (collectively referred to as the “Group”), are principally engaged in the provision of payment processing solutions, sales of information security chips and solutions, provision of platform operation solutions, provision of financial solutions and sales of electronic power meters and solutions.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This interim condensed consolidated financial information is presented in thousands of Hong Kong dollar (HK\$’000), unless otherwise stated.

This interim condensed consolidated financial information was approved for issue on 8 August 2018.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim condensed consolidated financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2017, as described in those annual consolidated financial statements, except for the estimation of income tax, the adoption of new and amended standards and revenue recognition for micro-lending business as set out below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

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

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policy are disclosed below. The other standards did not have material impact on the Group’s accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 9 Financial Instruments (“HKFRS 9”) and HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) on the Group’s interim condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to these applied in prior period.

(i) Accounting policies applied from 1 January 2018

The changes in the accounting policies and the effects of the resulting changes are summarised below:

(a) HKFRS 9 Financial Instruments

Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories to classify the debt instruments:

(1) *Amortised cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income, except for interest income generated from loan receivables which is included in revenue, using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the interim condensed consolidated income statement.

(2) *Fair value through other comprehensive income*

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the interim condensed consolidated income statement.

(3) *Fair value through profit or loss*

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other gains, net when the Group's right to receive payments is established.

Changes in the fair value of financial asset at FVPL are recognised in other gains, net in the interim condensed consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(b) *HKFRS 15 Revenue from Contracts with Customers*

Sales of goods

The Group engaged in sales of information security chips and electronic power meters. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has accepted the products, the collection of the related consideration is probable and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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 interim condensed consolidated balance sheet.

Provision of services

The Group engaged in provision of platform operation solutions services and financial solutions services. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided using the percentage of completion method, because the customer receives and uses the benefits simultaneously.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the interim condensed consolidated income statement in the period in which the circumstances that give rise to the revision become known by management.

Some contracts include multiple deliverables, such as the provision of financial solutions and related maintenance services. The related maintenance services are accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. If contracts include the maintenance services, revenue for the maintenance services is recognised based on the actual service provided, using the straight-line basis over the terms of contracts, because the customer receives and uses the benefits simultaneously.

If the contract includes a monthly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

The Group recognises revenue from its payment processing solution business when services are rendered which generally coincide when the underlying transactions of the merchants (customers of the Group) have been acknowledged by the relevant banks and financial institutions, by which contractual right of the Group and the merchants to receive cash flows from the financial institutions is established and the Group has present right to payment. Revenue from early settlement services is recognised when the services are rendered, which generally coincide when the settlement has been completed.

The Group is also engaged in a micro-lending business. Interest income is recognised and accrued using the effective interest method. When a loan receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan receivables are recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Impact on the interim condensed consolidated financial information

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

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

(iii) Impact of adoption

Classification and measurement of financial instruments

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

| | Unaudited | | | |
|---------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| | 31 December 2017 as originally presented | Reclassify from available-for-sale financial asset to financial asset at fair value through other comprehensive income (Note (a)) HK\$'000 | Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss (Note (b)) HK\$'000 | 1 January 2018 as restated HK\$'000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Available-for-sale financial assets | | | | |
| - Unlisted equity security | 15,536 | (15,536) | - | - |
| - Unlisted investment fund | 162,849 | - | (162,849) | - |
| | <u>178,385</u> | <u>(15,536)</u> | <u>(162,849)</u> | <u>-</u> |
| Financial assets at fair value through profit or loss | | | | |
| - Unlisted investment fund | - | - | 162,849 | 162,849 |
| - Unlisted convertible preference shares | 93,485 | - | - | 93,485 |
| - Listed trading securities | 2,702 | - | - | 2,702 |
| | <u>96,187</u> | <u>-</u> | <u>162,849</u> | <u>259,036</u> |
| Financial asset at fair value through other comprehensive income | | | | |
| - Unlisted equity security | - | 15,536 | - | 15,536 |
| | <u>274,572</u> | <u>-</u> | <u>-</u> | <u>274,572</u> |

| | Unaudited | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------|
| | Available- for-sale financial asset revaluation reserve <i>HK\$'000</i> | Financial asset at fair value through other comprehensive income reserve <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> |
| Balance at 31 December 2017 as originally presented | 84,369 | – | – |
| Unlisted equity security | | | |
| – Reclassify from available-for-sale financial asset to financial asset at fair value through other comprehensive income <i>(Note (a))</i> | (8,172) | 8,172 | – |
| – Reclassify from available-for-sale financial asset to financial asset at fair value through profit or loss <i>(Note (b))</i> | (76,197) | – | 76,197 |
| As at 1 January 2018 as restated | <u>–</u> | <u>8,172</u> | <u>76,197</u> |

Notes:

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

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

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

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

Related cumulative fair value gains of HK\$76,197,000 were transferred from the available-for-sale financial asset revaluation reserve to retained earnings on 1 January 2018. During the six months ended 30 June 2018, fair value gain of HK\$9,125,000 relating to the investment was recognised in the interim condensed consolidated income statement.

There is no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

Impairment of financial assets

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

- trade and bills receivables
- other financial assets carried at amortised cost

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

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

(a) Trade and bills receivables

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

Management has closely monitored the credit qualities and the collectability of the trade and bills receivables. Trade and bills receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

(b) Other financial assets carried at amortised cost

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

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

HKFRS 16 Leases

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$71,994,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

4 REVENUE, OTHER INCOME AND OTHER GAINS, NET

The Group is principally engaged in the provision of payment processing solutions, sales of information security chips and solutions, provision of platform operation solutions, provision of financial solutions and sales of electronic power meters and solutions.

Revenue, other income and other gains, net recognised during the period are as follows:

| | Unaudited | |
|------------------------------------------------------------------------------------|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | | (restated) |
| | | (Note 5) |
| Turnover | | |
| Provision of payment processing solutions | 1,490,689 | 742,794 |
| Sales of information security chips and solutions | 172,979 | 53,888 |
| Provision of platform operation solutions | 100,006 | 98,243 |
| Provision of financial solutions | 91,434 | 88,562 |
| Sales of electronic power meters and solutions | 89,967 | 91,627 |
| | <u>1,945,075</u> | <u>1,075,114</u> |
| Other income | | |
| Interest income | 8,639 | 15,605 |
| Subsidy income | 9,150 | 4,405 |
| Rental income | 1,250 | 1,041 |
| Others | 39 | 3,213 |
| | <u>19,078</u> | <u>24,264</u> |
| Other gains, net | | |
| Fair value gains/(losses) on financial assets at fair value through profit or loss | | |
| – Unlisted convertible preference shares | 8,659 | 917 |
| – Unlisted investment fund | 9,125 | – |
| – Listed trading securities | 113 | (135) |
| | <u>17,897</u> | <u>782</u> |

5 SEGMENT INFORMATION

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

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

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

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

- Payment processing solutions – principally engaged in provision of payment processing services, merchants recruiting and related products and solutions;
- Information security chips and solutions – principally engaged in the sales of information security chips and related products and solutions;
- Platform operation solutions – principally engaged in the provision of telecommunication and mobile payment platform operation services and operation value-added services;
- 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
- Electronic power meters and solutions – principally engaged in the manufacturing and sales of electronic power meters, data collection terminals and related products and solutions.

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

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

| | Unaudited | | | | | | Total Group HK\$'000 |
|-----------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|------------------------------------------|---------------------------------|---------------------------------------------------|--------------------|-------------------------|
| | Payment processing solutions HK\$'000 | Information security chips and solutions HK\$'000 | Platform operation solutions HK\$'000 | Financial solutions HK\$'000 | Electronic power meters and solutions HK\$'000 | Others HK\$'000 | |
| Six months ended 30 June 2018 | | | | | | | |
| Segment turnover | 1,490,689 | 172,979 | 101,093 | 91,434 | 89,967 | - | 1,946,162 |
| Inter-segment turnover | - | - | (1,087) | - | - | - | (1,087) |
| Turnover from external customers | <u>1,490,689</u> | <u>172,979</u> | <u>100,006</u> | <u>91,434</u> | <u>89,967</u> | <u>-</u> | <u>1,945,075</u> |
| Segmental EBITDA (excluding employees' incentive programme of a subsidiary) | <u>387,705</u> | <u>15,398</u> | <u>7,446</u> | <u>(13,242)</u> | <u>(7,415)</u> | <u>(3,076)</u> | <u>386,816</u> |
| Depreciation | (137,728) | (251) | (1,206) | (224) | (1,575) | (51) | (141,035) |
| Amortisation | - | - | (75) | - | (155) | - | (230) |
| Employees' incentive programme of a subsidiary | <u>(195,300)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(195,300)</u> |
| Segmental operating profit/(loss) | <u>54,677</u> | <u>15,147</u> | <u>6,165</u> | <u>(13,466)</u> | <u>(9,145)</u> | <u>(3,127)</u> | <u>50,251</u> |
| Unallocated other income | | | | | | | 2,600 |
| Unallocated corporate expenses | | | | | | | (24,144) |
| Finance costs | | | | | | | (31) |
| Share of result of an investment accounted for using the equity method | | | | | | | <u>83,543</u> |
| Profit before income tax | | | | | | | 112,219 |
| Income tax expense | | | | | | | <u>(42,376)</u> |
| Profit for the period | | | | | | | <u><u>69,843</u></u> |

| | Unaudited | | | | | | |
|----------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------|------------------------------------------------------------------------------|---------------------------|-----------------------------------|
| | Payment processing solutions <i>HK\$'000</i> | Information security chips and solutions <i>HK\$'000</i> (restated) | Platform operation solutions <i>HK\$'000</i> | Financial solutions <i>HK\$'000</i> | Electronic power meters and solutions <i>HK\$'000</i> (restated) | Others <i>HK\$'000</i> | Total Group <i>HK\$'000</i> |
| Six months ended 30 June 2017 | | | | | | | |
| Segment turnover | 742,794 | 53,888 | 98,958 | 88,562 | 91,627 | – | 1,075,829 |
| Inter-segment turnover | – | – | (715) | – | – | – | (715) |
| Turnover from external customers | <u>742,794</u> | <u>53,888</u> | <u>98,243</u> | <u>88,562</u> | <u>91,627</u> | <u>–</u> | <u>1,075,114</u> |
| Segmental EBITDA | <u>172,085</u> | <u>6,173</u> | <u>1,422</u> | <u>(796)</u> | <u>(1,787)</u> | <u>(4,328)</u> | <u>172,769</u> |
| Depreciation | (66,952) | (239) | (1,559) | (263) | (1,577) | (71) | (70,661) |
| Amortisation | – | – | (69) | (5,133) | (115) | – | (5,317) |
| Segmental operating profit/(loss) | <u>105,133</u> | <u>5,934</u> | <u>(206)</u> | <u>(6,192)</u> | <u>(3,479)</u> | <u>(4,399)</u> | <u>96,791</u> |
| Unallocated other income | | | | | | | 3,423 |
| Unallocated corporate expenses | | | | | | | (25,309) |
| Gain on disposal of subsidiaries | | | | | | | 63,262 |
| Share of result of an investment accounted for using the equity method | | | | | | | 88,301 |
| Gain on dilution of interest in an investment accounted for using the equity method | | | | | | | 113 |
| Profit before income tax | | | | | | | 226,581 |
| Income tax expense | | | | | | | (16,748) |
| Profit for the period | | | | | | | <u>209,833</u> |

Unallocated corporate expenses represent costs that are used for all segments, including depreciation of property, plant and equipment of HK\$914,000 (six months ended 30 June 2017: HK\$773,000), depreciation of investment properties of HK\$106,000 (six months ended 30 June 2017: HK\$103,000) and amortisation of leasehold land of HK\$380,000 (six months ended 30 June 2017: HK\$380,000), respectively.

The segment assets and liabilities as at 30 June 2018 and additions to non-current assets for the six months ended 30 June 2018 are as follows:

| | Unaudited As at 30 June 2018 | | | | | | | | Total Group HK\$'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------------------------------------------|------------------------------------------------|------------------------------------|---------------------------------------------------------------|--------------------|-------------------------|-------------------------|----------------------------|
| | Payment processing solutions HK\$'000 | Information security chips and solutions HK\$'000 | Platform operation solutions HK\$'000 | Financial solutions HK\$'000 | Electronic power meters and solutions HK\$'000 | Others HK\$'000 | Unallocated HK\$'000 | Elimination HK\$'000 | |
| Segment assets | 2,402,487 | 264,918 | 720,856 | 295,323 | 349,119 | 68,360 | 3,217,852 | (1,125,661) | 6,193,254 |
| Segment liabilities | (1,557,163) | (216,607) | (309,890) | (288,112) | (257,920) | (169,725) | (54,256) | 1,125,661 | (1,728,012) |
| Additions to non-current assets (excluding investments accounted for using equity method, loan receivables, financial asset at fair value through other comprehensive income, financial assets at fair value through profit or loss and other financial assets at amortised cost) | 201,288 | 620 | 182 | 11 | 212 | 6 | 777 | - | 203,096 |

The segment assets and liabilities as at 31 December 2017 and additions to non-current assets for the six months ended 30 June 2017 are as follows:

| | Audited As at 31 December 2017 | | | | | | | | Total Group HK\$'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------|------------------------------------------------|------------------------------------|-----------------------------------------------------------------------------|--------------------|-------------------------|-------------------------|----------------------------|
| | Payment processing solutions HK\$'000 | Information security chips and solutions HK\$'000 (restated) | Platform operation solutions HK\$'000 | Financial solutions HK\$'000 | Electronic power meters and solutions HK\$'000 (restated) | Others HK\$'000 | Unallocated HK\$'000 | Elimination HK\$'000 | |
| Segment assets | 1,888,946 | 146,695 | 772,790 | 346,121 | 362,179 | 72,020 | 3,154,717 | (1,086,017) | 5,657,451 |
| Segment liabilities | (1,263,715) | (110,624) | (380,191) | (315,595) | (261,928) | (170,130) | (77,740) | 1,086,017 | (1,493,906) |
| Additions to non-current assets (excluding investments accounted for using equity method, available-for-sale financial assets, financial asset at fair value through profit or loss and other financial assets at amortised cost) | 214,304 | 70 | 1,600 | 466 | 129 | - | - | - | 216,569 |

During the period, additions to non-current assets mainly comprise additions to property, plant and equipment (six months ended 30 June 2017: same).

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

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

The Group principally domiciles in Mainland China, Hong Kong and Macau (six months ended 30 June 2017: same).

6 EXPENSES BY NATURE

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

| | Unaudited | |
|------------------------------------------------------------------------------------------------------|--------------------------|----------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Auditor's remuneration | 1,900 | 1,800 |
| Depreciation of property, plant and equipment | 141,949 | 71,434 |
| Depreciation of investment properties | 106 | 103 |
| Amortisation of leasehold land | 498 | 488 |
| Amortisation of intangible assets | 112 | 5,209 |
| Employee benefit expenses (excluding employees' incentive programme of a subsidiary (<i>Note</i>)) | 257,427 | 224,695 |
| Costs of inventories sold (including provision for inventories) | 193,934 | 101,224 |
| Operating lease rentals in respect of land and buildings | 16,989 | 15,693 |
| Research and development costs (including staff cost) | 126,575 | 76,224 |
| Loss on disposals of property, plant and equipment | 19 | 357 |
| Net impairment losses on financial assets (<i>Note 11</i>) | 3,101 | – |

Note:

Issuance of share options of a subsidiary

On 15 January 2018, the directors and shareholders of 隨行付支付有限公司 (“VBill”) have passed a resolution to conditionally grant options to several management (the “Grantees”) of VBill pursuant to the terms of a share option scheme for VBill (the “VBill Share Option Scheme”) a right to subscribe up to approximately 12% of the enlarged registered and paid up capital of VBill at the exercise price of RMB12.51 for every RMB1.00 in the registered and paid up capital of VBill within a period of 3 years from the date of grant.

Up to the date of this announcement, no option is exercised. Employee share options expenses of HK\$195,300,000 were fully recognised in the interim condensed consolidated income statement during the period as all these options were fully vested on grant date (28 February 2018).

The weighted average fair value of options granted during the period determined using the Binomial valuation model was HK\$7.16 (equivalent to RMB5.76 per option). The significant inputs into the model were exercise price shown above, volatility of 64.89%, zero dividend yield, exercise multiple of 2.80 times, post vesting exit rate of 0% and an annual risk-free interest rate of 3.62%.

7 NET FOREIGN EXCHANGE GAIN

The net foreign exchange gain recognised in the interim condensed consolidated income statement and included in administrative expenses for the six months ended 30 June 2018 amounted to HK\$13,794,000 (six months ended 30 June 2017: HK\$8,059,000).

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

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

Applicable corporate income tax rates of principal subsidiaries

Beijing Hi Sun Advanced Business Solutions Information Technology Limited (“ABS”) was renewed as HNTE in 2015 under the PRC CIT Law. Hangzhou PAX Electronic Technology Limited (“Hangzhou Electronic Technology”) was renewed as HNTE in 2018 under the PRC CIT Law. VBill was renewed as HNTE in 2017 under the PRC CIT Law. Hunan Hisun Mobile Pay IT Limited (“HN Mobile Pay”) was re-qualified as HNTE in 2017 under the PRC CIT Law. As such, the applicable corporate income tax rate for ABS, Hangzhou Electronic Technology, VBill and HN Mobile Pay was 15% for the six months ended 30 June 2018 (six months ended 30 June 2017: same).

Megahunt Microelectronic Technology (Beijing) Company Limited (“Megahunt”) was qualified as SICE in 2015 under the PRC CIT Law. As such, the applicable corporate income tax rate for Megahunt was 12.5% for the six months ended 30 June 2018 (six months ended 30 June 2017: same).

| | Unaudited | |
|-------------------------|--------------------------|---------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Current income tax | | |
| – Hong Kong profits tax | – | – |
| – Overseas taxation | 42,402 | 16,772 |
| Deferred tax | (26) | (24) |
| Income tax expense | <u>42,376</u> | <u>16,748</u> |

9 DIVIDENDS

No dividend on ordinary share has been paid or declared by the Company for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

10 EARNINGS PER SHARE

(a) Basic

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

| | Unaudited Six months ended 30 June | |
|-------------------------------------------------------------------------------------------------|---------------------------------------|------------------|
| | 2018 | 2017 |
| Profit attributable to the owners of the Company (<i>HK\$'000</i>) | <u>67,544</u> | <u>193,082</u> |
| Weighted average number of ordinary shares in issue (<i>thousands shares</i>) | <u>2,776,834</u> | <u>2,776,834</u> |
| Basic earnings per share attributable to the owners of the Company (<i>HK\$ per share</i>) | <u>0.02</u> | <u>0.07</u> |

(b) Diluted

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

For the six months ended 30 June 2018, the Group has four categories (six months ended 30 June 2017: three categories) of potentially dilutive shares: share options issued by an associated company – PAX Global Technology Limited (“PAX Global”), share options and convertible preference shares issued by an associated company – Cloopen Group Holdings Limited (“Cloopen”) and share options issued by a subsidiary – VBill (six months ended 30 June 2017: share options issued by PAX Global, share options and convertible preference shares issued by Cloopen).

For the six months ended 30 June 2018, the calculation of diluted earnings per share does not assume the exercise of the share options of PAX Global as they would have an anti-dilutive impact to the basic earnings per share.

Dilutive effects arise from share options issued by PAX Global for the six months ended 30 June 2017.

For the six months ended 30 June 2017, the exercise of the outstanding share options in PAX Global would have a dilutive effect. The exercise of the share options in PAX Global would be dilutive if the net profit attributable to the owners of the Company will decrease as a result of the decrease in the Group’s share of profit of associated company and reduce in gain on dilution of interest in an associated company. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual fair value of the associated company’s shares) based on the monetary value of the subscription rights attached to outstanding share options of PAX Global. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options of PAX Global.

For share options and convertible preference shares issued by Cloopen, the carrying amount of the interest in Cloopen was zero as at 30 June 2018 (31 December 2017: same). As at 30 June 2018, the Group's share of loss exceeded its interest in the ordinary shares of Cloopen, the exercise of the abovementioned share options and convertible preference shares would not have any impact on the diluted earnings per share (six months ended 30 June 2017: same).

For the six months ended 30 June 2018, the exercise of the outstanding share options in VBill would have a dilutive effect. The exercise of the share options in VBill 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 subsidiary's shares) based on the monetary value of the subscription rights attached to outstanding share options of VBill. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options of VBill.

| | Unaudited | |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| Profit attributable to the owners of the Company (<i>HK\$'000</i>) | 67,544 | 193,082 |
| Assuming exercise of all outstanding dilutive share options issued by the associated company (<i>HK\$'000</i>) | | |
| – Decrease in share of profit of an associated company | – | (221) |
| – Reduce in gain on dilution of an associated company | – | (6,769) |
| Assuming exercise of all outstanding dilutive share options issued by VBill (<i>HK\$'000</i>) | | |
| – Decrease in net profit attributable to the owners of the Company | <u>(393)</u> | <u>–</u> |
| Adjusted profit attributable to the owners of the Company used to determine diluted earnings per share (<i>HK\$'000</i>) | <u>67,151</u> | <u>186,092</u> |
| Weighted average number of ordinary shares for diluted earnings per share (<i>thousands shares</i>) | <u>2,776,834</u> | <u>2,776,834</u> |
| Diluted earnings per share attributable to the owners of the Company (<i>HK\$ per share</i>) | <u>0.02</u> | <u>0.07</u> |

11 LOAN RECEIVABLES

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

(i) Ageing analysis of loan receivables

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

| | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|-------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------|
| Current | 205,001 | 2,059 |
| 1 to 3 months past due | 708 | 146 |
| Over 3 months past due | 379 | – |
| | <hr/> | <hr/> |
| Loan receivables, gross | 206,088 | 2,205 |
| Less: provision for impairment of receivables (<i>Note (a)</i>) | (3,067) | – |
| | <hr/> | <hr/> |
| | 203,021 | 2,205 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Non-current portion | 3,173 | – |
| Current portion | 199,848 | 2,205 |
| | <hr/> | <hr/> |
| | 203,021 | 2,205 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note:

- (a) Provision for impairment of receivables

Amounts recognised in the interim condensed consolidated income statement

During the period ended 30 June 2018, based on management’s assessment, the Group recorded provision for impairment of receivables of HK\$3,101,000 in the interim condensed consolidated income statement. No loan receivables were determined as uncollectible and were written off against the related provision for impairment of receivables made during the period ended 30 June 2018. There was no loan receivable balance as at 30 June 2017.

(ii) Effective interest rates on loan receivables

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

| | Unaudited 30 June 2018 | Audited 31 December 2017 |
|-------------------------------|---------------------------------------------------|--------------------------------|
| Loans to individual borrowers | 12% to 36% p.a. | 15% p.a. |
| | <hr/> <hr/> | <hr/> <hr/> |

12 TRADE AND BILLS RECEIVABLES

| | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|-----------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------|
| Trade receivables (<i>Note (a)</i>) | 317,832 | 270,240 |
| Bills receivables (<i>Note (b)</i>) | 926 | 13,902 |
| Less: provision for impairment of receivables | <u>(5,934)</u> | <u>(5,823)</u> |
| | <u>312,824</u> | <u>278,319</u> |

Notes:

(a) Trade receivables

The Group's credit terms to trade debtors range from 0 to 180 days. At 30 June 2018 and 31 December 2017, the ageing analysis of the trade receivables primarily based on invoice date was as follows:

| | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|--------------------|----------------------------------------------------------------------|---------------------------------------------------|
| Current to 90 days | 220,692 | 188,974 |
| 91 to 180 days | 21,564 | 27,060 |
| 181 to 365 days | 41,065 | 19,564 |
| Over 365 days | <u>34,511</u> | <u>34,642</u> |
| | <u>317,832</u> | <u>270,240</u> |

(b) Bills receivables

The balance represents bank acceptance notes with maturity dates within six months.

The maturity profile of the bills receivables is as follows:

| | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|------------------------|----------------------------------------------------------------------|---------------------------------------------------|
| Falling within 90 days | <u>926</u> | <u>13,902</u> |

13 TRADE AND BILLS PAYABLES

| | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|------------------------------------|----------------------------------------------------|--------------------------------------------|
| Trade payables (<i>Note (a)</i>) | 346,199 | 218,178 |
| Bills payables (<i>Note (b)</i>) | <u>10,089</u> | <u>21,021</u> |
| | <u>356,288</u> | <u>239,199</u> |

Notes:

(a) Trade payables

At 30 June 2018 and 31 December 2017, the ageing analysis of the trade payables primarily based on invoice date was as follows:

| | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|--------------------|----------------------------------------------------|--------------------------------------------|
| Current to 90 days | 296,366 | 141,038 |
| 91 to 180 days | 13,199 | 33,096 |
| 181 to 365 days | 23,997 | 30,344 |
| Over 365 days | <u>12,637</u> | <u>13,700</u> |
| | <u>346,199</u> | <u>218,178</u> |

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

(b) Bills payables

The balance represents bank acceptance notes:

| | Unaudited 30 June 2018 HK\$'000 | Audited 31 December 2017 HK\$'000 |
|---------------------------|----------------------------------------------------|--------------------------------------------|
| Due within 90 days | 6,900 | 12,971 |
| Due within 91 to 180 days | <u>3,189</u> | <u>8,050</u> |
| | <u>10,089</u> | <u>21,021</u> |

14 PAYABLES FOR PAYMENT PROCESSING SOLUTIONS BUSINESS AND OTHER PAYABLES AND ACCRUALS

| | Unaudited | Audited |
|------------------------------------------------------------------------|------------------|------------------|
| | 30 June | 31 December |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Payables for payment processing solutions business (<i>Note (a)</i>) | 290,542 | 292,587 |
| Other payables and accruals | 955,421 | 848,409 |
| | <u>1,245,963</u> | <u>1,140,996</u> |

Note:

(a) Payables for payment processing solutions business

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

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) **Investment in PAX Global**

The movement on interest in PAX Global is as follows:

| | Unaudited | |
|-------------------------------------|------------------|------------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| At 1 January | 1,823,245 | 1,663,250 |
| Share of profit | 83,543 | 88,301 |
| Share of other comprehensive income | 14,701 | 18,880 |
| Dilution of interest | – | 428 |
| Dividend received | (14,560) | (14,560) |
| | <u>1,906,929</u> | <u>1,756,299</u> |

No share option of PAX Global have been exercised during the six months ended 30 June 2018.

(b) **Investment in Cloopen**

As at 30 June 2018, the carrying value of Cloopen is nil (31 December 2017: same) and there is no movement on the interest in Cloopen during the period (six months ended 30 June 2017: same).

The Group's share of loss of Cloopen exceeded its interest in the ordinary shares of Cloopen, there are no overall financial impact on the interim condensed consolidated income statement from the investment for the current period (six months ended 30 June 2017: same).

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

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

As at 30 June 2018, the Group's financial asset at fair value through other comprehensive income included unlisted equity security with following details:

| | Unaudited <i>HK\$'000</i> |
|-----------------------------------------------------------------------------|-------------------------------------|
| Balance at 31 December 2017 as originally presented | – |
| Change in accounting policy (<i>Note 3</i>) | |
| – Reclassify from AFS to financial asset at FVOCI | 15,536 |
| | <hr/> |
| Balance at 1 January 2018 as restated | 15,536 |
| Fair value gains on revaluation recognised in other comprehensive income | 89 |
| Exchange realignment | 295 |
| | <hr/> |
| Balance at 30 June 2018 | 15,920 |
| | <hr/> <hr/> |
| Non-current assets | |
| Unlisted equity security outside Hong Kong | 15,920 |
| | <hr/> <hr/> |

The carrying amount of the financial asset at FVOCI is denominated in RMB.

(b) Available-for-sale financial assets

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

| | Unaudited <i>HK\$'000</i> |
|--------------------------------------------------------------------------|-------------------------------------|
| Balance at 1 January 2017 | 106,113 |
| Fair value gains on revaluation recognised in other comprehensive income | 26,486 |
| Exchange realignment | 3,079 |
| | <hr/> |
| Balance at 30 June 2017 | 135,678 |
| | <hr/> <hr/> |
| Non-current assets | |
| Unlisted equity security outside Hong Kong | 15,983 |
| Unlisted investment fund outside Hong Kong | 119,695 |
| | <hr/> |
| | 135,678 |
| | <hr/> <hr/> |

The carrying amounts of the AFS are denominated in RMB.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial assets at fair value through profit or loss represent investment in unlisted investment fund, unlisted convertible preference shares and listed equity securities (31 December 2017: unlisted convertible preference shares and listed equity securities) with the following details:

| | Unaudited <i>HK\$'000</i> |
|------------------------------------------------------------------|-------------------------------------|
| Balance at 31 December 2017 as originally presented | 96,187 |
| Change in accounting policy (<i>Note 3</i>) | |
| – Reclassify from AFS to financial asset at FVPL | <u>162,849</u> |
| Balance at 1 January 2018 as restated | 259,036 |
| Addition | 39,000 |
| Net fair value gains on revaluation recognised in profit or loss | 17,897 |
| Exchange realignment | <u>3,006</u> |
| Balance at 30 June 2018 | <u><u>318,939</u></u> |
| Balance at 1 January 2017 | 76,880 |
| Addition | 2,950 |
| Net fair value gains on revaluation recognised in profit or loss | <u>782</u> |
| Balance at 30 June 2017 | <u><u>80,612</u></u> |

| | Unaudited | |
|---------------------------------------------------------------------------------|-----------------------|----------------------|
| | 30 June | 30 June |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Non-current assets | | |
| Unlisted investment fund outside Hong Kong (<i>Note (a)</i>) | 174,980 | – |
| Unlisted convertible preference shares outside Hong Kong (<i>Note (b)</i>) | <u>141,144</u> | <u>77,797</u> |
| | <u><u>316,124</u></u> | <u><u>77,797</u></u> |
| Current assets | | |
| Listed equity securities in Hong Kong (<i>Note (c)</i>) | <u>2,815</u> | <u>2,815</u> |
| | <u><u>318,939</u></u> | <u><u>80,612</u></u> |

Notes:

- (a) Unlisted investment fund outside Hong Kong

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

(b) Unlisted convertible preference shares outside Hong Kong

On 10 June 2016 and 19 March 2018, the Group subscribed 7,443,326 Convertible Series C Preferred Shares (the “Convertible Series C Preferred Shares”) and 2,434,015 Convertible Series D Preferred Shares (the “Convertible Series D Preferred Shares”) of Cloopen, respectively. The considerations for the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares subscribed by the Group were approximately HK\$78,000,000 (equivalent to US\$10,000,000) and HK\$39,000,000 (equivalent to US\$5,000,000), respectively.

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

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

The Convertible Series C Preferred Shares and Convertible Series D Preferred Shares, together with the abovementioned options, were classified as financial assets at fair value through profit or loss and recognised at fair values. The fair values of the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares were valued by an independent valuer at the date of initial inception and on 30 June 2018.

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

(c) 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 Hong Kong dollar.

Changes in fair value of financial asset at fair value through profit or loss are recorded in ‘other gains, net’ in the interim condensed consolidated income statement.

18 EVENT AFTER THE BALANCE SHEET DATE

On 4 July 2018, the directors and the sole shareholder of Megahunt have passed resolutions to conditionally grant options to several management (the “Grantees”) of Megahunt pursuant to the terms of a share option scheme for Megahunt (the “Megahunt Share Option Scheme”) a right to subscribe up to approximately 16.67% of the enlarged registered and paid up capital of Megahunt at the exercise price of RMB13.33 for every HK\$1.00 in the registered and paid up capital of Megahunt within a period of 5 years from the date of grant.

A special general meeting will be held on 10 August 2018 for the purpose of considering and, if thought fit, passing the Megahunt Share Option Scheme.

Assuming that all Grantees exercise the options in full, the Grantees will, in aggregate, own additional approximately 16.67% of the enlarged capital of Megahunt and the Group’s interests in Megahunt will be diluted from 100% to approximately 83.33%.

INTERIM CONDENSED SEGMENT RESULT ANALYSIS

| | Note | Turnover | | EBITDA [#] | |
|------------------------------------------------|------|--------------------|--------------------|---------------------|--------------------|
| | | 1H2018 HK\$'000 | 1H2017 HK\$'000 | 1H2018 HK\$'000 | 1H2017 HK\$'000 |
| Payment processing solutions | 1 | 1,490,689 | 742,794 | 387,705 | 172,085 |
| Information security chips and solutions | 2 | 172,979 | 53,888 | 15,398 | 6,173 |
| Platform operation solutions | 3 | 101,093 | 98,958 | 7,446 | 1,422 |
| Financial solutions | 4 | 91,434 | 88,562 | (13,242) | (796) |
| Electronic power meters and solutions | 5 | 89,967 | 91,627 | (7,415) | (1,787) |
| Others | | – | – | (3,076) | (4,328) |
| Segmental results | | 1,946,162 | 1,075,829 | 386,816 | 172,769 |
| Less: Inter-segment turnover | | (1,087) | (715) | – | – |
| Total | | <u>1,945,075</u> | <u>1,075,114</u> | 386,816 | 172,769 |
| Depreciation | | | | (141,035) | (70,661) |
| Amortisation | | | | (230) | (5,317) |
| Employees' incentive programme of a subsidiary | B | | | (195,300) | – |
| Segmental operating profit | | | | 50,251 | 96,791 |
| Unallocated other income | | | | 2,600 | 3,423 |
| Unallocated corporate expenses | | | | (24,144) | (25,309) |
| Gain on disposal of subsidiaries | C | | | – | 63,262 |
| Operating profit | | | | <u>28,707</u> | <u>138,167</u> |

[#] Represents earnings/(losses) before interest expenses, taxes, depreciation and amortisation but excludes employees' incentive programme of a subsidiary.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

| | <i>Note</i> | 1H2018 <i>HK\$'000</i> | 1H2017 <i>HK\$'000</i> |
|-------------------------------------------------------------------------------------|-------------|----------------------------------|------------------------------|
| Revenue | <i>A</i> | 1,945,075 | 1,075,114 |
| Cost of sales | <i>B</i> | (1,447,783) | (774,370) |
| Gross profit | | 497,292 | 300,744 |
| Other income | | 19,078 | 24,264 |
| Other gains, net | | 17,897 | 782 |
| Selling expenses | <i>B</i> | (48,381) | (58,706) |
| Administrative expenses | <i>B</i> | (258,778) | (192,179) |
| Employees' incentive programme of a subsidiary | <i>B</i> | (195,300) | – |
| Net impairment losses on financial assets | | (3,101) | – |
| Gain on disposal of subsidiaries | <i>C</i> | – | 63,262 |
| Operating profit | | 28,707 | 138,167 |
| Finance costs | | (31) | – |
| Share of result of an investment accounted for using the equity method | <i>D</i> | 83,543 | 88,301 |
| Gain on dilution of interest in an investment accounted for using the equity method | | – | 113 |
| Profit before income tax | | 112,219 | 226,581 |
| Income tax expense | | (42,376) | (16,748) |
| Profit for the period | | 69,843 | 209,833 |
| Profit attributable to: | | | |
| – Owners of the Company | | 67,544 | 193,082 |
| – Non-controlling interests | | 2,299 | 16,751 |
| | | 69,843 | 209,833 |
| Earnings per share for profit attributable to the owners of the Company: | | <i>HK\$ per share</i> | <i>HK\$ per share</i> |
| Basic | | 0.02 | 0.07 |
| Diluted | | 0.02 | 0.07 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 30 June 2018 <i>HK\$'000</i> | As at 31 December 2017 <i>HK\$'000</i> |
|-------------------------------------------------------------------------|-------------|---------------------------------------------|-------------------------------------------------|
| | <i>Note</i> | | |
| ASSETS | | | |
| Investment properties, property, plant and equipment and leasehold land | <i>E</i> | 610,460 | 540,904 |
| Intangible assets | | 2,015 | 1,985 |
| Investments accounted for using the equity method | <i>F</i> | 1,906,929 | 1,823,245 |
| Available-for-sale financial assets | <i>G</i> | – | 178,385 |
| Financial asset at fair value through other comprehensive income | <i>G</i> | 15,920 | – |
| Financial assets at fair value through profit or loss | <i>H</i> | 318,939 | 96,187 |
| Inventories | <i>I</i> | 137,283 | 95,407 |
| Loan receivables | <i>J</i> | 203,021 | 2,205 |
| Trade and bills receivables | <i>K</i> | 312,824 | 278,319 |
| Other financial assets at amortised cost and other current assets | <i>K</i> | 138,392 | 66,890 |
| Amounts due from investments accounted for using the equity method | <i>L</i> | 12,756 | 16,289 |
| Short-term bank deposits | | 3,450 | 16,153 |
| Cash and cash equivalents | | 2,531,265 | 2,541,482 |
| | | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |
| Total assets | | 6,193,254 | 5,657,451 |
| | | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |
| EQUITY | | | |
| Capital and reserves attributable to the owners of the Company | | | |
| Share capital | | 6,942 | 6,942 |
| Reserves | | 4,310,862 | 4,052,400 |
| | | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |
| | | 4,317,804 | 4,059,342 |
| Non-controlling interests | | 147,438 | 104,203 |
| | | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |
| Total equity | | 4,465,242 | 4,163,545 |
| | | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |

| | | As at 30 June 2018 <i>HK\$'000</i> | As at 31 December 2017 <i>HK\$'000</i> |
|---------------------------------------------------------------------|-------------|---------------------------------------------|-------------------------------------------------|
| | <i>Note</i> | | |
| LIABILITIES | | | |
| Deferred income tax liabilities | | 139 | 163 |
| Trade and bills payables | <i>M</i> | 356,288 | 239,199 |
| Payables for payment processing solutions business | <i>M</i> | 290,542 | 292,587 |
| Other payables and accruals | <i>M</i> | 955,421 | 848,409 |
| Amounts due to investments accounted for using the equity method | <i>L</i> | 79,454 | 57,755 |
| Current tax liabilities | | 46,168 | 46,197 |
| Borrowing | | – | 9,596 |
| Total liabilities | | 1,728,012 | 1,493,906 |
| Total equity and liabilities | | 6,193,254 | 5,657,451 |

| | As at 30 June 2018 <i>HK\$ per share</i> | As at 31 December 2017 <i>HK\$ per share</i> |
|----------------------|---------------------------------------------------|-------------------------------------------------------|
| Net assets per share | 1.608 | 1.499 |

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | 1H2018 <i>HK\$'000</i> | 1H2017 <i>HK\$'000</i> |
|--------------------------------------------------------|---------------------------|---------------------------|
| Net cash generated from/(used in) operating activities | 139,510 | (381,288) |
| Net cash used in investing activities | (195,594) | (77,421) |
| Net cash generated from/(used in) financing activities | 3,237 | (4,039) |
| Net decrease in cash and cash equivalents | (52,847) | (462,748) |
| Cash and cash equivalents at beginning of the period | 2,541,482 | 2,804,978 |
| Exchange gain on cash and cash equivalents | 42,630 | 53,784 |
| Cash and cash equivalents at end of the period | 2,531,265 | 2,396,014 |

During the six months ended 30 June 2018 (“1H2018”), the consolidated turnover of Hi Sun Technology (China) Limited (the “Company”) and its subsidiaries (the “Group”) amounted to HK\$1,945.1 million, representing an increase of 81% when compared with the six months ended 30 June 2017 (“1H2017”). Profit for the period totalled HK\$69.8 million as compared to a profit of HK\$209.8 million in 1H2017. The decline in net profit is primarily attributable to (i) the share option expenses of approximately HK\$195.3 million under the payment processing solutions segment attributable to the share options granted by a subsidiary of the Company in February 2018; and (ii) the absence of a one-off gain of approximately HK\$63.3 million recorded in the corresponding period of 2017 resulting from the disposal of subsidiaries of the Group.

With regard to the balance sheet, the total assets as at 30 June 2018 amounted to HK\$6,193.3 million, when compared with HK\$5,657.5 million as at 31 December 2017. As at 30 June 2018, net current assets amounted to HK\$1,607.9 million, when compared with HK\$1,522.7 million as at 31 December 2017.

SEGMENT PERFORMANCE REVIEW

(1) Payment processing solutions

Key performance indicators

| | 1H2018 HK\$'000 | 1H2017 <i>HK\$'000</i> | Change +/(–) |
|-----------------------|----------------------------------|---------------------------|-----------------|
| Turnover* | 1,490,689 | 742,794 | +101% |
| EBITDA [#] | 387,705 | 172,085 | +125% |
| Share option expenses | 195,300 | – | N/A |
| Operating profit | 54,677 | 105,133 | -48% |

* Turnover from external customers

[#] Represents earnings/(losses) before interest expenses, taxes, depreciation and amortisation but excludes employees’ incentive programme of a subsidiary.

During the current period, segmental turnover amounted to HK\$1,490.7 million, 101% up as compared to 1H2017. The increase in segmental turnover was mainly due to increased scale of transaction operations. By end of 1H2018, there were over 2,800,000 accumulated active domestic merchants and the monthly transaction volume in June 2018 exceeded RMB120 billion. Segmental operating profit amounted to HK\$54.7 million, as compared to HK\$105.1 million in 1H2017. The decline in segmental operating profit despite an increase in segmental turnover is primarily attributable to the share option expenses of approximately HK\$195.3 million under the payment processing solutions segment attributable to the share options granted in February 2018. (Please refer to the circular of the Company dated 19 January 2018 and the announcement of the Company dated 5 February 2018 for further details.)

(2) Information security chips and solutions

Key performance indicators

| | 1H2018 HK\$'000 | 1H2017 HK\$'000 (restated) | Change +/(-) |
|------------------|----------------------------------|----------------------------------|------------------|
| Turnover* | 172,979 | 53,888 | +221% |
| EBITDA | 15,398 | 6,173 | +149% |
| Operating profit | 15,147 | 5,934 | +155% |

* Turnover from external customers

During the current period, segmental turnover amounted to HK\$173.0 million 221% up as compared to 1H2017. Sales of mag-stripe card security decoder chips was stable while that of security micro-controller (MCU) increased drastically. Segmental operating profit amounted to HK\$15.1 million, as compared to operating profit of HK\$5.9 million in 1H2017.

(3) Platform operation solutions

Key performance indicators

| | 1H2018 HK\$'000 | 1H2017 HK\$'000 | Change +/(-) |
|-------------------------|----------------------------------|--------------------|------------------|
| Turnover* | 100,006 | 98,243 | +2% |
| EBITDA | 7,446 | 1,422 | +424% |
| Operating profit/(loss) | 6,165 | (206) | N/A |

* Turnover from external customers

During the current period, segmental turnover amounted to HK\$100.0 million as compared to HK\$98.2 million in 1H2017. Segmental operating profit amounted to HK\$6.2 million, as compared to a segmental operating loss of HK\$0.2 million in 1H2017. The increase in operating profit was mainly contributed by fair value gains on financial assets at fair value through profit or loss.

(4) Financial solutions

Key performance indicators

| | 1H2018 HK\$'000 | 1H2017 HK\$'000 | Change +/(-) |
|----------------|----------------------------------|--------------------|------------------|
| Turnover* | 91,434 | 88,562 | +3% |
| EBITDA | (13,242) | (796) | +1,564% |
| Operating loss | (13,466) | (6,192) | +117% |

* Turnover from external customers

During the current period, segmental turnover amounted to HK\$91.4 million, as compared to HK\$88.6 million in 1H2017. Segmental operating loss totalled HK\$13.5 million, as compared to HK\$6.2 million in 1H2017. Increase in segmental operating loss was mainly due to an increase in project development expenses during the period.

(5) Electronic power meters and solutions

Key performance indicators

| | 1H2018 HK\$'000 | 1H2017 <i>HK\$'000</i> (restated) | Change +/(%) |
|----------------|----------------------------------|-----------------------------------------|-----------------|
| Turnover* | 89,967 | 91,627 | -2% |
| EBITDA | (7,415) | (1,787) | +315% |
| Operating loss | (9,145) | (3,479) | +163% |

* Turnover from external customers

During the current period, segmental turnover amounted to HK\$90.0 million as compared to HK\$91.6 million in 1H2017. During the year of 2017, the State Grid invited two tender exercises for electronic power meters and data collection devices and we were only awarded tenders in the second tender exercise. Shrinkage of volume and size of tenders awarded leads to challenging operating environment during the period. Segmental operating loss amounted to HK\$9.1 million, as compared to HK\$3.5 million in 1H2017 was mainly caused by the diminishing gross profit margin during the period.

OVERALL FINANCIAL RESULTS AND POSITION

(A) Revenue

The consolidated turnover amounted to HK\$1,945.1 million, representing an increase of 81% over 1H2017. Such increase was mainly contributed by increase in segmental turnover of our payment processing solutions segment. Please also refer to Notes (1) to (5) above.

(B) Cost of sales and operating expenses

Increase in cost of sales was primarily due to increase in turnover of payment processing solutions segment and information security chips and solutions segment.

Increase in operating expenses during the current period was primarily due to (i) increase in employee benefits expenses given: (a) share option expenses of approximately HK\$195.3 million under the payment processing solutions segment attributable to the share options granted in February 2018; and (b) increase in average headcounts and average salaries; and (ii) increase in research & development expenses.

(C) Gain on disposal of subsidiaries

Amount represented the gain on the disposal of Merchant Support Co., Ltd. and its subsidiary, the then wholly owned subsidiaries of the Company, completed in June 2017. No such gain was recognised in 1H2018.

(D) Share of results of an investment accounted for using the equity method

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

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

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

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

(F) Investments accounted for using the equity method

Balances mainly represents the Group’s interests in PAX Global. As at 30 June 2018, the fair value of the Group’s 33.1% effective interest in PAX Global was HK\$1,408.7 million and the fair value of the investment was lower than its carrying value. An impairment test is performed to determine the recoverable amount of the investment. The recoverable amount calculated based on value-in-use exceeded the carrying value as at 30 June 2018.

The Group’s effective interest in the ordinary shares of Cloopen, calculated based on all issued and outstanding ordinary shares of Cloopen which are held by the Group, was 50.5%. As at 30 June 2018, the Group’s share of loss of Cloopen exceeded its interest in the ordinary shares of Cloopen, there was no overall financial impact on the interim condensed consolidated income statement from the investment for the current period. As at 30 June 2018, the carrying amount of the Group’s interest in the ordinary shares of Cloopen was zero. Meanwhile, the fair value of the Group’s interest in the ordinary shares of Cloopen was approximately HK\$416.8 million.

The Group is optimistic about the future prospects of PAX Global and Cloopen and will continue to demonstrate prudence and resilience in assessing its investment strategy towards the enhancement of shareholders’ value. Details of the performance of these investments are set out in Note 15 to the interim condensed consolidated financial information.

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

As at 30 June 2018, the financial asset at fair value through other comprehensive income included interest in an unlisted equity investment in the PRC of HK\$15.9 million. The decline in available-for-sales financial assets was due to a change in accounting policy. Please also refer to Note (H) below.

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

The balances represented (i) the fair value of the Group's interest in the Convertible Series C Preferred Shares of Cloopen of HK\$102.4 million, (ii) the fair value of the Group's interest in the Convertible Series D Preferred Shares of Cloopen of HK\$38.7 million, (iii) the fair value of trading securities listed in Hong Kong of HK\$2.8 million; and (iv) the fair value of interest in a venture capital fund of HK\$175.0 million (which was reclassified under financial asset at fair value through profit or loss in 1H2018 due to a change in accounting policy).

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

(I) Inventories

The amount mainly represents inventories of electronic power meters and solutions segment and information security chips and solutions segment.

(J) Loan receivables

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

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

| | As at 30 June 2018 HK\$'000 | As at 31 December 2017 HK\$'000 |
|-----------------------------------------------|------------------------------------------------|------------------------------------------|
| Current | 205,001 | 2,059 |
| 1 to 3 months past due | 708 | 146 |
| Over 3 months past due | 379 | – |
| Loan receivables, gross | 206,088 | 2,205 |
| Less: provision for impairment of receivables | (3,067) | – |
| Loan receivables, net | 203,021 | 2,205 |

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

| | As at 30 June 2018 <i>HK\$'000</i> | As at 31 December 2017 <i>HK\$'000</i> |
|---------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
| Trade receivables (<i>Note (i) (a)</i>) | 317,832 | 270,240 |
| Bills receivables (<i>Note (i) (b)</i>) | 926 | 13,902 |
| <i>Less: provision for impairment of receivables</i> | <u>(5,934)</u> | <u>(5,823)</u> |
| | 312,824 | 278,319 |
| Other receivables, prepayments and deposits (<i>Note (ii)</i>) | <u>138,392</u> | <u>66,890</u> |
| Total | <u>451,216</u> | <u>345,209</u> |

Note (i):

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

| | As at 30 June 2018 <i>HK\$'000</i> | As at 31 December 2017 <i>HK\$'000</i> |
|--------------------|-----------------------------------------------------|-------------------------------------------------|
| Current to 90 days | 220,692 | 188,974 |
| 91 to 180 days | 21,564 | 27,060 |
| 181 to 365 days | 41,065 | 19,564 |
| Over 365 days | <u>34,511</u> | <u>34,642</u> |
| | <u>317,832</u> | <u>270,240</u> |

- Increase in trade receivables aged between current to 90 days was mainly from the financial solutions and the information security chips and solutions segments.
- Increase in trade receivables aged between 181 to 365 days was mainly from the financial solutions segment.

- (b) Bills receivables belong to the information security chips and solutions segment. Decline in balance with due to decrease in bills receivables from the electronic power meters and solutions segment.

Note (ii):

The increase in balance was mainly due to (i) increase in prepayment to suppliers from information security chips and solutions segment and (ii) increase in VAT receivables and other receivables from customers from the electronic power meters and solution segment.

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

The amounts due from/to investments accounted for using the equity method represent payables from/to PAX Global and Cloopen and its subsidiaries as at 30 June 2018. Amounts due from/to investments accounted for using the equity method are unsecured, interest-free and repayable on demand.

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

| | As at 30 June 2018 HK\$'000 | As at 31 December 2017 HK\$'000 |
|----------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------------|
| Trade payables (<i>Note (i)(a)</i>) | 346,199 | 218,178 |
| Bills payables (<i>Note (i)(b)</i>) | 10,089 | 21,021 |
| Payables for payment processing solutions business (<i>Note (ii)</i>) | 290,542 | 292,587 |
| Other payables and accruals (<i>Note (iii)</i>) | 955,421 | 848,409 |
| Total | <u>1,602,251</u> | <u>1,380,195</u> |

Note (i):

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

| | As at 30 June 2018 HK\$'000 | As at 31 December 2017 HK\$'000 |
|--------------------|------------------------------------------------|----------------------------------------------------|
| Current to 90 days | 296,366 | 141,038 |
| 91 to 180 days | 13,199 | 33,096 |
| 181 to 365 days | 23,997 | 30,344 |
| Over 365 days | 12,637 | 13,700 |
| | <u>346,199</u> | <u>218,178</u> |

- Increase in trade payables aged between current to 90 days was mainly due to increase in outstanding balances from payment processing solutions and electronic power meters and solutions segments.
 - Decrease in trade payables aged between 91 to 180 days was mainly due to decrease in outstanding balances from the electronic power meters and solutions segment.
- (b) Bills payables belong to the electronic power meters and solutions segment.

Note (ii):

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

Note (iii):

| | As at 30 June 2018 HK\$'000 | As at 31 December 2017 HK\$'000 |
|----------------------------------------------|------------------------------------------------|----------------------------------------------------|
| Accrued staff costs and pension obligations* | 149,282 | 219,370 |
| Deposits and receipt in advance** | 583,332 | 445,287 |
| Accrued subcontracting cost | 95,486 | 114,631 |
| Others*** | 127,321 | 69,121 |
| | 955,421 | 848,409 |

* The decrease in accrued staff costs and pension obligations was mainly due to the payment of year-end bonus for 2017 during the period.

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

*** The increase in balance was mainly due to increase in handling fees payable by the payment processing solutions segment and other accruals from the information security chips and solutions segment.

KEY INVESTING AND FINANCING ACTIVITIES

(A) Subscription for Series D Preferred Shares of Cloopen

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

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

(B) Share Option Scheme of VBill

The Company has adopted the VBill Share Option Scheme which became effective for a period of 5 years from 5 February 2018 and VBill Options in the amount of RMB27,259,000 representing 12% of the enlarged registered capital of VBill (“VBill Registered Capital”) have been granted to three specified participants, including connected persons of the Company at subsidiary level, as incentives or rewards for their contribution or potential contribution to VBill and its subsidiaries (“the VBill Group”), as approved by the shareholders at the special general meeting of the Company held on 5 February 2018.

Further details of the VBill Share Option Scheme can be found in the announcement and circular of the Company dated 15 January 2018 and 19 January 2018 respectively.

OUTLOOK

Payment processing solutions

Benefiting from the smart payment platform launched in 2017, an integrated platform supporting UnionPay Quickpass, UnionPay Wallet, WeChat Pay and Alipay and providing merchants with smart POS, traditional POS, MPOS, code-scanning guns and APP checkout counters and other payment terminals to accommodate different business scenarios, the payment processing solutions segment maintained strong growth in the first half of 2018. During the period, the transaction volume increased to over RMB685 billion. Our upgraded product features and innovative channel have also contributed to an over 100% growth of sales revenue of the segment for the current period. Through the innovative Xinlianmeng channel, we have signed contracts with over 500,000 sales personnels in China to provide strong driving forces for the expansion of the micro merchants market in second and third tier cities. Our fintech business has expanded nationwide and granted loans accumulated to approximately RMB200 million. Our supply chain financial asset management platform has also been launched and we have ascertained common intention to co-operation with a number of banks.

Information security chips and solutions

Driven by the rapid growth of the payment market in China, the information security chips business continued to expand in the first half of 2018, during which the sales volume approximated that for the entire year of 2017, whereas sales of mag-stripe card security decoder chips remained stable while that of security micro-controller (MCU) increased drastically. It is expected that the market will become stable in the second half of 2018. Nonetheless, the growth may be affected by the central bank policies targeting the payment market. Other research projects are progressing smoothly and cost reduction initiatives of various products are rolling out in an orderly manner.

Platform operation solutions

We have been aiming to become a service provider of high-quality technology and products and business operation related to communication, payment and e-commerce industry. Since 2018, the Company has successfully renewed the operational supporting services contracts with E-commerce Base of China Mobile, the IVR Base and the Animation Base of China Mobile. Over the years, we have been providing outstanding operational supporting services for the three major bases of China Mobile and gained considerable recognition from mobile clients. Looking forward, we will continue to provide operational supporting services for China Mobile and strive to stabilize the incomes from supporting services. In addition, starting from this year, we will establish a new industry expansion team and invest various resources to expand the payment and e-commerce products and technology services projects. Our overall plan is to complete the establishment of market layout and the input of development resources during the year. Meanwhile, we will strive to develop an entirely new market in three to five years and increase the share of revenue from industries apart from the traditional communication industry, thereby achieving sustainable and steady business growth.

Financial solutions

In the first half of 2018, with regard to the traditional customer market, such as large state-owned banks, joint stock commercial banks and their overseas sub-branches, we have completed the core recovering project for the Macau branch of Bank of China and launched the core system construction project for Industrial Bank, Hong Kong Branch and the core testing and supervision project for the Credit Card Center of China CITIC Bank. On the basis of strengthening our presence in the traditional customer market, we simultaneously invested in two aspects: (1) Expanding medium and small-sized customer sectors such as city commercial banks. During the period, we concluded the core business system construction for Huishang Bank and won the tenders of the e-accounting system construction project for Bank of Zhangjiakou and the data transfer project for Nanyang Commercial Bank (China); (2) Exploring the financial services market for non-banking clients. During the period, we were successfully shortlisted in certain financial related non-banking clients' IT service provider catalogues.

Electronic power meters and solutions

In the first half of 2018, the total tender volume of electronic power meters and data collection devices of the State Grid was approximate to that in the corresponding period last year and the market situation remained challenging. The State Grid continues to promote new technological development, while continuing to facilitate DLT698.45 object-oriented interchangeable data exchange protocol, research on the GB standards for IR46 electronic power meter construction is also in progress. We have been closely monitoring the latest technological development of the State Grid and the development of related products have been making good progress so far.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group reported total assets of HK\$6,193.3 million (31 December 2017: HK\$5,657.5 million), which were financed by total liabilities of HK\$1,728.0 million (31 December 2017: HK\$1,493.9 million) and equity of HK\$4,465.3 million (31 December 2017: HK\$4,163.6 million). The net asset value was HK\$4,465.3 million (31 December 2017: HK\$4,163.6 million). The net asset value per share amounted to HK\$1.608 per share as compared to HK\$1.499 per share as at 31 December 2017.

As at 30 June 2018, the Group had cash and cash equivalents of HK\$2,531.3 million (31 December 2017: HK\$2,541.5 million) and no short-term borrowings (31 December 2017: HK\$9.6 million). The net cash position as at 30 June 2018 was HK\$2,531.3 million as compared to HK\$2,531.9 million as at 31 December 2017. As at 30 June 2018, the gearing ratio (defined as total borrowing divided by total equity) was zero (31 December 2017: 0.2%). The gearing ratio is considered healthy and suitable for the continuous growth of the Group's business.

CAPITAL STRUCTURE AND DETAILS OF CHARGES

As at 30 June 2018, the Group had no bank borrowings (at 31 December 2017: HK\$9.6 million) and had banking facilities of approximately HK\$19.6 million (at 31 December 2017: HK\$19.2 million). As at 30 June 2018, the banking facilities were secured by the leasehold land and buildings of a subsidiary of the Company, with a net book amount of HK\$3.1 million and HK\$8.6 million, respectively. As at 31 December 2017, the bank borrowings and banking facilities were secured by the leasehold land and buildings of a subsidiary of the Company, with a net carrying amount of HK\$3.1 million and HK\$9.0 million, respectively.

Approximately HK\$1,931.8 million, HK\$218.2 million, HK\$182.2 million, HK\$196.4 million and HK\$2.7 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar, US dollar, Japanese Yen and Macanese Pataca ("MOP") respectively as at 30 June 2018.

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Save as disclosed in this announcement, the Group did not have any material acquisition or disposal of subsidiaries during the six months ended 30 June 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, there was no specific plan for material investments or capital assets as at 30 June 2018.

EXCHANGE RATES EXPOSURE

The Group derives its revenue, makes purchases and incurs expenses denominated mainly in US dollar, Renminbi, Hong Kong dollar and Japanese Yen. During the current period, 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, Renminbi or Japanese Yen may have an impact on the operating results of the Group.

CONTINGENT LIABILITIES

(A) Performance Guarantee Agreement with a customer

In 2015, the Company entered into a performance guarantee agreement with a customer (the "Performance Guarantee Agreement"). Pursuant to the Performance Guarantee Agreement, the Company agreed to provide the customer with a guarantee in relation to the due and punctual performance of a service project by a subsidiary of the Group with a surety of not more than HK\$60,000,000 and to indemnify the customer against any third-party claim of intellectual property right infringement resulting from the acts of the said subsidiary. As at 30 June 2018, the Company does not recognise any liability in relation to the Performance Guarantee Agreement as the Directors consider the possibility of reimbursement not probable.

(B) Guarantee Agreement with a subsidiary of the Group

In 2017, the Company entered into a guarantee agreement (“2017 Guarantee Agreement”) with its wholly-owned subsidiary (“Subsidiary A”). Pursuant to the 2017 Guarantee Agreement, the Company shall guarantee to repay any due and unsettled debts of Subsidiary A of up to US\$6,000,000 incurred in relation to such manufacturing orders placed by Subsidiary A against a named manufacturer, should it cease or fail to honour its payment obligations. As at 30 June 2018, the Company does not recognise any liability under the 2017 Guarantee Agreement as the Directors consider the possibility of reimbursement is not probable.

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

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

Save as disclosed above, the Group had no material contingent liability as at 30 June 2018.

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 because 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.

SUBSEQUENT EVENTS

(a) Share Option Scheme of Megahunt

On 4 July 2018, the directors and the sole shareholder of Mega Hunt Microelectronics (Beijing) Limited (“Megahunt”), an indirect wholly-owned subsidiary of the Company, resolved resolutions to adopt the share option scheme of Megahunt (“Megahunt Share Option Scheme”), which complies with Chapter 17 of the Listing Rules.

On 4 July 2018, the board of directors of Megahunt resolved to conditionally grant Options to Ms. Song Jie (“Ms. Song”), Mr. Liu Zhan-li, (“Mr. Liu”), Mr. Yang Lei (“Mr. Yang”) and Mr. Li Li, (“Mr. Li”) (i.e. the Proposed Grantees) pursuant to the terms of Megahunt Share Option Scheme. Ms. Song is a director and the financial controller of Megahunt. Mr. Liu is the technology director of Megahunt. Mr. Yang is the deputy general manager of Megahunt. Mr. Li is a director, the legal representative and the general manager of Megahunt. None of the Proposed Grantees is a director, chief executive or substantial shareholder of the Company or an associate of any of them.

The adoption of the Megahunt Share Option Scheme and grant of options to the Proposed Grantees are subject to the approval of the Shareholders at the special general meeting of the Company to be held on 10 August 2018. Please refer to the circular of the Company dated 11 July 2018 and the announcement of the Company dated 4 July 2018 for further details.

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

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

During the 12-month period preceding 31 July 2018 (“Relevant Period”), the Group purchased from PAX Global Group E-payment Terminal products in an aggregate amount of approximately HK\$151.2 million (inclusive of tax payable by the Group).

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

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

CORPORATE GOVERNANCE

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 of the Listing Rules.

In formulating and implementing its corporate governance practices and standards, the Company has applied the Principles and complied with all applicable Code Provisions for the six months ended 30 June 2018.

REVIEW OF 2018 INTERIM RESULTS BY THE AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim condensed consolidated results for the six months ended 30 June 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The 2018 interim financial information set out above does not constitute the Group's statutory financial statements for the six months ended 30 June 2018. Instead, it has been derived from the Group's unaudited interim condensed consolidated financial information for the six months ended 30 June 2018, which will be included in the Company's 2018 interim report.

By Order of the Board
Li Wenjin
Executive Director

Hong Kong, 8 August 2018

As at the date of this announcement, the Board comprises five executive Directors namely Mr. Cheung Yuk Fung, Mr. Kui Man Chun, Mr. Xu Wensheng, Mr. Li Wenjin and Mr. Xu Chang Jun; and three independent non-executive Directors, namely Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Chang Kai-Tzung, Richard.