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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 2019

FINANCIAL HIGHLIGHTS			
	1H2019 <i>HK\$'000</i>	1H2018 <i>HK\$'000</i>	Change +/(–)
RESULTS			
Revenue	3,005,796	1,945,075	+55%
Gross profit	743,718	497,292	+50%
Segmental EBITDA# (before unallocated items)	589,886	369,032	+60%
Fair value gain on financial asset at fair value through profit or loss	5,458	17,897	-70%
Employees' incentive programme of a subsidiary	(7,896)	(195,300)	-96%
Share of results of investments accounted for using the equity method	111,058	83,543	+33%
Profit for the period	400,271	69,843	+473%
Profit attributable to:			
– Owners of the Company	329,586	67,544	+388%
– Non-controlling interests	70,685	2,299	+2,975%
	400,271	69,843	

Excluding employees' incentive programme of a subsidiary and fair value gain on financial asset at fair value through profit or loss

* *For identification purpose only*

	1H2019 <i>HK\$</i> <i>per share</i>	1H2018 <i>HK\$</i> <i>per share</i>	Change +/(%)
Earnings per share for profit attributable to the owners of the Company:			
Basic	0.12	0.02	+500%
Diluted	0.11	0.02	+450%
	As at 30 June 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>	Change +/(%)
HIGHLIGHTS OF FINANCIAL POSITION			
Total equity	4,971,278	4,571,275	+9%
Net current assets	2,011,817	1,606,115	+25%
Total assets	7,335,289	6,632,517	+11%
	<i>HK\$</i> <i>per share</i>	<i>HK\$</i> <i>per share</i>	Change +/(%)
Net assets per share	1.790	1.646	+9%

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 2019 together with the unaudited comparative figures for the corresponding period in 2018 as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Unaudited	
		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Revenue	4	3,005,796	1,945,075
Cost of sales	6	(2,262,078)	(1,447,783)
Gross profit		743,718	497,292
Other income	4	30,808	19,078
Other gains, net	4	5,575	17,897
Selling expenses	6	(37,219)	(48,381)
Administrative expenses	6	(354,025)	(258,778)
Employees' incentive programme of a subsidiary		(7,896)	(195,300)
Credit impairment loss	6	(20,588)	(3,101)
Operating profit		360,373	28,707
Finance costs		(1,434)	(31)
Share of results of investments accounted for using the equity method	15	111,058	83,543
Profit before income tax		469,997	112,219
Income tax expense	8	(69,726)	(42,376)
Profit for the period		400,271	69,843
Profit attributable to:			
– Owners of the Company		329,586	67,544
– Non-controlling interests		70,685	2,299
		400,271	69,843
		<i>HK\$ per share</i>	<i>HK\$ per share</i>
Earnings per share for profit attributable to the owners of the Company:			
Basic	10	0.12	0.02
Diluted	10	0.11	0.02

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Profit for the period	400,271	69,843
Other comprehensive (loss)/income, net of tax		
<u>Items that may be subsequently reclassified to profit or loss</u>		
Exchange differences arising on translation of the financial statements of foreign subsidiaries	(6,578)	21,764
Share of other comprehensive (loss)/income of an investment accounted for using the equity method	(734)	15,967
<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	(344)	89
Share of other comprehensive loss of an investment accounted for using the equity method	(508)	(1,266)
Total comprehensive income for the period, net of tax	392,107	106,397
Attributable to:		
– Owners of the Company	322,888	102,144
– Non-controlling interests	69,219	4,253
	392,107	106,397

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited At 30 June 2019 <i>HK\$'000</i>	Audited At 31 December 2018 <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets			
Investment properties		1,477	1,575
Property, plant and equipment		595,230	715,193
Right-of-use assets		58,386	–
Leasehold land		29,990	30,490
Intangible assets		1,826	1,884
Investments accounted for using the equity method	15	2,026,439	1,931,188
Financial asset at fair value through other comprehensive income	16	556	895
Other financial assets at amortised cost		4,009	12,807
Loan receivables	11	11	479
Financial assets at fair value through profit or loss	17	275,787	271,741
Total non-current assets		2,993,711	2,966,252
Current assets			
Inventories		131,280	162,275
Other current assets		75,807	68,988
Other financial assets at amortised cost		105,910	49,830
Amounts due from investments accounted for using the equity method		17,195	15,116
Loan receivables	11	308,554	535,816
Trade and bills receivables	12	251,628	149,178
Financial asset at fair value through profit or loss	17	1,351	2,004
Short-term bank deposits		1,446	1,583
Cash and cash equivalents		3,448,407	2,681,475
Total current assets		4,341,578	3,666,265
Total assets		7,335,289	6,632,517
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		6,942	6,942
Reserves		4,702,055	4,371,271
		4,708,997	4,378,213
Non-controlling interests		262,281	193,062
Total equity		4,971,278	4,571,275

		Unaudited	Audited
		At	At
		30 June	31 December
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		97	109
Lease liabilities		34,153	–
Other payables	14	–	983
Total non-current liabilities		34,250	1,092
Current liabilities			
Trade and bills payables	13	365,729	251,043
Payables for payment processing solutions business	14	600,857	266,710
Other payables and accruals	14	1,231,864	1,375,891
Amounts due to investments accounted for using the equity method		26,109	114,190
Current tax liabilities		80,700	42,069
Lease liabilities		24,502	–
Borrowing		–	10,247
Total current liabilities		2,329,761	2,060,150
Total liabilities		2,364,011	2,061,242
Total equity and liabilities		7,335,289	6,632,517

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 12 August 2019.

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 2019 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 2018, 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 2018, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of new and amended standard 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.

3.1 New and amended standard adopted by the Group

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

The impact of the adoption of the leasing standard 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 16 on the Group’s interim condensed consolidated financial information and also discloses the new accounting policy that has been applied from 1 January 2019.

(i) Accounting policy applied from 1 January 2019

From 1 January 2019, leases are recognised as a right-of-use asset (including leasehold land which are presented as a separate line item in the interim condensed consolidated balance sheet) and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the interim condensed consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

Payments associated with short-term leases are recognised on a straight-line basis as an expense in interim condensed consolidated income statement. Short-term leases are leases with a lease term of 12 months or less.

(ii) Impact of adoption

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

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

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

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

	Unaudited <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	69,614
Discounted using the lessee's incremental borrowing rate at the date of initial application	58,393
<i>Less:</i> short-term leases recognised on a straight-line basis as expense	<u>(716)</u>
Lease liability recognised as at 1 January 2019	<u><u>57,677</u></u>
Of which are:	
– Current lease liabilities	25,282
– Non-current lease liabilities	<u>32,395</u>
	<u><u>57,677</u></u>

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

The change in accounting policy increased both right-of-use assets and lease liabilities by HK\$57,677,000 in the opening of the interim condensed consolidated balance sheet on 1 January 2019. The recognised right-of-use assets of HK\$57,677,000 are related to leasehold land and office premises.

3.2 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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	
	2019	2018
	HK\$'000	HK\$'000
Turnover		
Provision of payment processing solutions	2,564,269	1,490,689
Sales of information security chips and solutions	168,775	172,979
Provision of platform operation solutions	89,811	100,006
Provision of financial solutions	83,223	91,434
Sales of electronic power meters and solutions	99,718	89,967
	3,005,796	1,945,075
	3,005,796	1,945,075
Other income		
Interest income	19,339	8,639
Subsidy income	9,809	9,150
Rental income	1,370	1,250
Others	290	39
	30,808	19,078
	30,808	19,078
Other gains, net		
Fair value gain/(loss) on financial assets at fair value through profit or loss		
– Unlisted convertible preference shares	9,201	8,659
– Unlisted investment fund	(3,090)	9,125
– Listed trading securities	(653)	113
Dividend income earned from a financial asset at fair value through profit or loss	117	–
	5,575	17,897
	5,575	17,897

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.

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

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

The Board of Directors assesses the performance of the operating segments based on a measure of earnings before interest expense, taxes, depreciation and amortisation (“EBITDA”) excluding fair value gain on financial asset at fair value through profit or loss and employees’ incentive programme of a subsidiary.

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

	Unaudited						
	Payment processing solutions	Information security chips and solutions	Platform operation solutions	Financial solutions	Electronic power meters and solutions	Others	Total Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2019							
Segment turnover from external customers	<u>2,564,269</u>	<u>168,775</u>	<u>89,811</u>	<u>83,223</u>	<u>99,718</u>	<u>-</u>	<u>3,005,796</u>
Segmental EBITDA (excluding fair value gain on financial asset at fair value through profit or loss and employees' incentive programme of a subsidiary)	<u>621,560</u>	<u>12,439</u>	<u>(9,490)</u>	<u>(34,577)</u>	<u>5,683</u>	<u>(5,729)</u>	<u>589,886</u>
Depreciation	(189,689)	(1,135)	(2,730)	(1,768)	(1,480)	(635)	(197,437)
Amortisation	-	-	(19)	-	(39)	-	(58)
Fair value gain on financial asset at fair value through profit or loss	-	-	6,111	-	-	-	6,111
Employees' incentive programme of a subsidiary	-	(7,896)	-	-	-	-	(7,896)
Segmental operating profit/(loss)	<u>431,871</u>	<u>3,408</u>	<u>(6,128)</u>	<u>(36,345)</u>	<u>4,164</u>	<u>(6,364)</u>	<u>390,606</u>
Unallocated other income							3,338
Unallocated corporate expenses							(33,571)
Finance costs							(1,434)
Share of results of investments accounted for using the equity method							<u>111,058</u>
Profit before income tax							469,997
Income tax expense							<u>(69,726)</u>
Profit for the period							<u><u>400,271</u></u>

	Unaudited						
	Payment processing solutions <i>HK\$'000</i>	Information security chips and solutions <i>HK\$'000</i>	Platform operation solutions <i>HK\$'000</i>	Financial solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total Group <i>HK\$'000</i>
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 fair value gain on financial asset at fair value through profit or loss and employees' incentive programme of a subsidiary)	<u>387,705</u>	<u>15,398</u>	<u>(10,338)</u>	<u>(13,242)</u>	<u>(7,415)</u>	<u>(3,076)</u>	<u>369,032</u>
Depreciation	(137,728)	(251)	(1,206)	(224)	(1,575)	(51)	(141,035)
Amortisation	–	–	(75)	–	(155)	–	(230)
Fair value gain on financial asset at fair value through profit or loss	–	–	17,784	–	–	–	17,784
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>

Unallocated corporate expenses represent costs that are used for all segments, including depreciation of property, plant and equipment of HK\$2,977,000 (six months ended 30 June 2018: HK\$914,000), depreciation of investment properties of HK\$98,000 (six months ended 30 June 2018: HK\$106,000) and depreciation of leasehold land of HK\$380,000 (six months ended 30 June 2018: amortisation of HK\$380,000), respectively.

The segment assets and liabilities as at 30 June 2019 and additions to non-current assets for the six months ended 30 June 2019 are as follows:

		Unaudited As at 30 June 2019							
	Payment processing solutions <i>HK\$'000</i>	Information security chips and solutions <i>HK\$'000</i>	Platform operation solutions <i>HK\$'000</i>	Financial solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total Group <i>HK\$'000</i>
Segment assets	3,568,560	265,309	610,009	272,677	268,644	96,168	3,266,843	(1,012,921)	7,335,289
Segment liabilities	(2,135,841)	(200,884)	(294,381)	(298,885)	(190,426)	(158,385)	(98,130)	1,012,921	(2,364,011)
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)	61,226	644	1,994	6,057	382	342	9,165	-	79,810

The segment assets and liabilities as at 31 December 2018 and additions to non-current assets for the six months ended 30 June 2018 are as follows:

		Audited As at 31 December 2018							
	Payment processing solutions <i>HK\$'000</i>	Information security chips and solutions <i>HK\$'000</i>	Platform operation solutions <i>HK\$'000</i>	Financial solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total Group <i>HK\$'000</i>
Segment assets	2,848,317	248,240	637,276	339,802	249,455	102,338	3,169,150	(962,061)	6,632,517
Segment liabilities	(1,768,738)	(193,738)	(318,483)	(321,434)	(175,311)	(158,290)	(87,309)	962,061	(2,061,242)
		Unaudited Six months ended 30 June 2018							
	Payment processing solutions <i>HK\$'000</i>	Information security chips and solutions <i>HK\$'000</i>	Platform operation solutions <i>HK\$'000</i>	Financial solutions <i>HK\$'000</i>	Electronic power meters and solutions <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total Group <i>HK\$'000</i>
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

During the period, additions to non-current assets mainly comprise additions to property, plant and equipment and right-of-use assets (six months ended 30 June 2018: property, plant and equipment and intangible assets).

Information provided to the Board of Directors is measured in a manner consistent with that of the 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 and Hong Kong (six months ended 30 June 2018: 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	
	2019	2018
	HK\$'000	HK\$'000
Auditor's remuneration	2,003	1,900
Commission paid to merchant recruitment agents	1,667,318	909,424
Depreciation of property, plant and equipment	186,582	141,949
Depreciation of right-of-use assets	13,722	–
Depreciation of investment properties	98	106
Depreciation/amortisation of leasehold land	490	498
Amortisation of intangible assets	58	112
Employee benefit expenses (excluding employees' incentive programme of a subsidiary)	376,825	257,427
Costs of inventories sold (including provision for inventories)	197,383	193,934
Operating lease rentals of short-term leases in respect of land and buildings	5,926	16,989
Research and development costs (including staff cost)	152,558	126,575
(Gain)/loss on disposals of property, plant and equipment	(99)	19
Credit impairment loss		
– Trade and bills receivables	7,063	–
– Loan receivables (<i>Note 11</i>)	13,525	3,101
	<u>13,525</u>	<u>3,101</u>

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 2019 amounted to HK\$2,217,000 (six months ended 30 June 2018: HK\$13,794,000).

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (six months ended 30 June 2018: 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 2018 under the PRC CIT Law. Hangzhou PAX Electronic Technology Limited (“Hangzhou Electronic Technology”) was renewed as HNTE in 2018 under the PRC CIT Law. 隨行付支付有限公司 (“VBill OPCO”) was renewed as HNTE in 2017 under the PRC CIT Law. 北京銀企融合技術開發有限公司 (“Beijing Bank and Enterprise”) was qualified as HNTE in 2016 under the PRC CIT Law. Hunan Hisun Mobile Pay IT Limited (“HN Mobile Pay”) was re-qualified as HNTE in 2017 under the PRC CIT Law. As such, the applicable corporate income tax rate for ABS, Hangzhou Electronic Technology, VBill OPCO, Beijing Bank and Enterprise and HN Mobile Pay was 15% for the six months ended 30 June 2019 (six months ended 30 June 2018: same).

Megahunt Microelectronics (Beijing) Company Limited (“Megahunt Microelectronics”) was qualified as SICE in 2015 under the PRC CIT Law. As such, the applicable corporate income tax rate for Megahunt Microelectronics was 12.5% for the six months ended 30 June 2019 (six months ended 30 June 2018: same).

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	–	–
– Overseas taxation	69,737	42,402
Deferred tax	(11)	(26)
	<u>69,726</u>	<u>42,376</u>
Income tax expense	69,726	42,376

9 DIVIDENDS

No dividend on ordinary share has been paid or declared by the Company for the six months ended 30 June 2019 (six months ended 30 June 2018: 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	
	2019	2018
	HK\$'000	HK\$'000
Profit attributable to the owners of the Company (HK\$'000)	329,586	67,544
Weighted average number of ordinary shares in issue (thousands shares)	2,776,834	2,776,834
Basic earnings per share attributable to the owners of the Company (HK\$ per share)	0.12	0.02

(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 2019, the Group has five categories (six months ended 30 June 2018: four 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 (“Clopen”) and share options issued by subsidiaries – VBill OPCO and Megahunt Microelectronics (six months ended 30 June 2018: share options issued by PAX Global, share options and convertible preference shares issued by Cloopen and share options issued by VBill OPCO).

For the six months ended 30 June 2019 and 2018, the calculation of diluted earnings per share does not assume the exercise of the share options of PAX Global as they would have an anti-dilutive impact to the basic earnings per share.

For share options and convertible preference shares issued by Cloopen, the carrying amount of the interest in Cloopen was zero as at 30 June 2019 (31 December 2018: same). As at 30 June 2019, the Group’s share of loss exceeded its interest in the ordinary shares of Cloopen, the exercise of the abovementioned share options and convertible preference shares would not have any impact on the diluted earnings per share (six months ended 30 June 2018: same).

For the six months ended 30 June 2019, the exercise of the outstanding share options in VBill OPCO would have a dilutive effect. The exercise of the share options in VBill OPCO would be dilutive if the net profit attributable to the owners of the Company will decrease. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual fair value of the subsidiary’s shares) based on the monetary value of the subscription rights attached to outstanding share options of VBill OPCO. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options of VBill OPCO.

For the six months ended 30 June 2019, the exercise of the outstanding share options in Megahunt Microelectronics would have an anti-dilutive effect. The exercise of the share options in Megahunt Microelectronics would be anti-dilutive if the net profit attributable to the owners of the Company will increase.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$’000	HK\$’000
Profit attributable to the owners of the Company (HK\$’000)	329,586	67,544
Assuming exercise of all outstanding dilutive share options issued by VBill OPCO (HK\$’000)		
– Decrease in net profit attributable to the owners of the Company	<u>(23,967)</u>	<u>(393)</u>
Adjusted profit attributable to the owners of the Company used to determine diluted earnings per share (HK\$’000)	<u>305,619</u>	<u>67,151</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands shares)	<u>2,776,834</u>	<u>2,776,834</u>
Diluted earnings per share attributable to the owners of the Company (HK\$ per share)	<u>0.11</u>	<u>0.02</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 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Current	305,569	553,676
1 to 3 months past due	12,935	9,365
Over 3 months past due	36,128	6,061
	<hr/>	<hr/>
Loan receivables, gross	354,632	569,102
Less: provision for impairment of loan receivables	(46,067)	(32,807)
	<hr/>	<hr/>
	308,565	536,295
	<hr/> <hr/>	<hr/> <hr/>
Non-current portion	11	479
Current portion	308,554	535,816
	<hr/>	<hr/>
	308,565	536,295
	<hr/> <hr/>	<hr/> <hr/>

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

	Stage 1 HK\$'000	Unaudited As at 30 June 2019		Total HK\$'000
		Stage 2 HK\$'000	Stage 3 HK\$'000	
Loan receivables, gross	302,808	12,799	36,128	351,735
Less: Provision for impairment of loan receivables	(2,008)	(7,931)	(36,128)	(46,067)
	<hr/>	<hr/>	<hr/>	<hr/>
Loan receivables, net	300,800	4,868	–	305,668
Interest receivables				2,897
				<hr/>
				308,565
				<hr/> <hr/>

	Audited			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Loan receivables, gross	468,532	84,419	5,558	558,509
Less: Provision for impairment of loan receivables	<u>(827)</u>	<u>(26,422)</u>	<u>(5,558)</u>	<u>(32,807)</u>
Loan receivables, net	467,705	57,997	–	525,702
Interest receivables				<u>10,593</u>
				<u><u>536,295</u></u>

Note:

During the period ended 30 June 2019, based on management's assessment, the Group recorded credit impairment loss of HK\$13,525,000 (six months ended 30 June 2018: HK\$3,101,000) in the interim condensed consolidated income statement. No loan receivables were determined as uncollectible and were written off against loan receivables during the period ended 30 June 2019 (six months ended 30 June 2018: same).

(ii) Effective interest rates on loan receivables

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

	Unaudited At 30 June 2019 HK\$'000	Audited At 31 December 2018 HK\$'000
Loans to individual borrowers	<u>5% to 36% p.a.</u>	<u>5% to 36% p.a.</u>

12 TRADE AND BILLS RECEIVABLES

	Unaudited At 30 June 2019 HK\$'000	Audited At 31 December 2018 HK\$'000
Trade receivables (<i>Note (a)</i>)	244,524	148,173
Bills receivables (<i>Note (b)</i>)	24,499	11,468
Less: provision for impairment of receivables	<u>(17,395)</u>	<u>(10,463)</u>
	<u><u>251,628</u></u>	<u><u>149,178</u></u>

Notes:

(a) Trade receivables

The Group's credit terms to trade debtors range from 0 to 180 days. At 30 June 2019 and 31 December 2018, the ageing analysis of the trade receivables primarily based on invoice date was as follows:

	Unaudited	Audited
	At	At
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Current to 90 days	135,218	109,685
91 days to 180 days	58,852	2,919
181 days to 365 days	19,614	8,335
Over 365 days	30,840	27,234
	<hr/> 244,524 <hr/>	<hr/> 148,173 <hr/>

(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	Audited
	At	At
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Falling within 90 days	23,453	4,636
Falling within 91 to 181 days	1,046	6,832
	<hr/> 24,499 <hr/>	<hr/> 11,468 <hr/>

13 TRADE AND BILLS PAYABLES

	Unaudited At 30 June 2019 <i>HK\$'000</i>	Audited At 31 December 2018 <i>HK\$'000</i>
Trade payables (<i>Note (a)</i>)	362,837	247,878
Bills payables (<i>Note (b)</i>)	<u>2,892</u>	<u>3,165</u>
	<u><u>365,729</u></u>	<u><u>251,043</u></u>

Notes:

(a) Trade payables

At 30 June 2019 and 31 December 2018, the ageing analysis of the trade payables primarily based on invoice date was as follows:

	Unaudited At 30 June 2019 <i>HK\$'000</i>	Audited At 31 December 2018 <i>HK\$'000</i>
Current to 90 days	300,384	205,694
91 days to 180 days	44,831	2,663
181 days to 365 days	2,921	17,774
Over 365 days	<u>14,701</u>	<u>21,747</u>
	<u><u>362,837</u></u>	<u><u>247,878</u></u>

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

(b) Bills payables

The balance represents bank acceptance notes:

	Unaudited At 30 June 2019 <i>HK\$'000</i>	Audited At 31 December 2018 <i>HK\$'000</i>
Due within 90 days	1,307	1,099
Due within 91 to 180 days	<u>1,585</u>	<u>2,066</u>
	<u><u>2,892</u></u>	<u><u>3,165</u></u>

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

	Unaudited	Audited
	At	At
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Current portion		
Payables for payment processing solutions business (<i>Note (a)</i>)	600,857	266,710
Other payables and accruals (<i>Note (b)</i>)	1,231,864	1,375,891
	1,832,721	1,642,601
Non-current portion		
Other payables (<i>Note (b)</i>)	–	983
	1,832,721	1,643,584

Notes:

(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 and are denominated in RMB.

(b) Other payables and accruals

	Unaudited	Audited
	At	At
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Accrued staff costs and pension obligations	213,860	273,934
Deposits	74,565	84,556
Receipt in advance from customers	144,582	186,467
Advance from merchant recruitment agents	419,047	519,935
Other	379,810	311,982
	1,231,864	1,376,874

Revenue recognised during the period ended 30 June 2019 that was included in the contract liability balance at the beginning of the period amounted to HK\$147,076,000 (six months ended 30 June 2018: HK\$11,295,000). The Group recognised its contract liabilities under other payables and accruals as receipt in advance from customers in the interim condensed consolidated balance sheet.

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Investment in PAX Global

The movement on interest in PAX Global is as follows:

	Unaudited	
	2019	2018
	HK\$'000	HK\$'000
At 1 January	1,927,772	1,823,245
Share of profit	111,073	83,543
Share of other comprehensive (loss)/income	(1,242)	14,701
Dividend received	(14,560)	(14,560)
	<u>2,023,043</u>	<u>1,906,929</u>
At 30 June	<u>2,023,043</u>	<u>1,906,929</u>

(b) Investment in Cloopen

As at 30 June 2019, the carrying value of Cloopen is nil (31 December 2018: nil) and there is no movement on the interest in Cloopen during the period (six months ended 30 June 2018: 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 2018: same).

As at 30 June 2019, the unrecognised share of loss of the interest in Cloopen is HK\$501,318,000 (31 December 2018: HK\$413,475,000).

(c) Investment in Good Chain (Chongqing) Technology Co., Ltd

The movement on interest in Good Chain (Chongqing) Technology Co., Ltd ("Good Chain") is as follows:

	Unaudited
	2019
	HK\$'000
At 1 January	3,416
Share of loss	(15)
Exchange realignment	(5)
	<u>3,396</u>
At 30 June	<u>3,396</u>

16 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 30 June 2019, the Group's financial asset at fair value through other comprehensive income ("FVOCI") included unlisted equity security with following details:

	Unaudited 2019 HK\$'000	2018 HK\$'000
Balance at 1 January	895	15,536
Fair value (loss)/gain on revaluation recognised in other comprehensive income	(344)	89
Exchange realignment	5	295
	<u>556</u>	<u>15,920</u>
Balance at 30 June	<u>556</u>	<u>15,920</u>
	Unaudited At 30 June 2019 HK\$'000	Audited At 31 December 2018 HK\$'000
Non-current assets		
Unlisted equity security outside Hong Kong	<u>556</u>	<u>895</u>

The carrying amount of the financial asset at FVOCI is 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 ("FVPL") represent investment in unlisted investment fund, unlisted convertible preference shares and listed equity securities (31 December 2018: same) with the following details:

	Unaudited 2019 HK\$'000	2018 HK\$'000
Balance at 1 January	273,745	259,036
Addition	–	39,000
Net fair value gains on revaluation recognised in profit or loss	5,458	17,897
Distribution	(2,006)	–
Exchange realignment	(59)	3,006
	<u>277,138</u>	<u>318,939</u>
Balance at 30 June	<u>277,138</u>	<u>318,939</u>

	Unaudited	Audited
	At	At
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Non-current assets		
Unlisted investment fund outside Hong Kong (<i>Note (a)</i>)	124,714	129,869
Unlisted convertible preference shares outside Hong Kong (<i>Note (b)</i>)	151,073	141,872
	<u>275,787</u>	<u>271,741</u>
Current assets		
Listed equity securities in Hong Kong (<i>Note (c)</i>)	1,351	2,004
	<u>277,138</u>	<u>273,745</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 28 February 2018, the Group subscribed 7,443,326 Convertible Series C Preferred Shares (the “Convertible Series C Preferred Shares”) and 2,434,015 Convertible Series D Preferred Shares (the “Convertible Series D Preferred Shares”) of Cloopen, respectively. The considerations for the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares subscribed by the Group were approximately HK\$78,000,000 (equivalent to US\$10,000,000) and HK\$39,000,000 (equivalent to US\$5,000,000), respectively.

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

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

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

The Convertible Series C Preferred Shares and Convertible Series D Preferred Shares, together with the abovementioned options, were classified as financial assets at FVPL and recognised at fair values. The fair values of the Convertible Series C Preferred Shares and Convertible Series D Preferred Shares were valued by an independent valuer at the date of initial inception and on 30 June 2019.

The carrying amounts of the unlisted convertible preference shares is 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 FVPL are recorded in “other gains, net” in the interim condensed consolidated income statement.

18 EVENT AFTER THE BALANCE SHEET DATE

On 18 July 2019, the Company held a special general meeting for the approval of subscription agreements (the “Subscription Agreement”) for the subscription of 1,263 shares, approximate to 11.21% of the issued shares, of VBill Limited (the “VBill (Cayman)”) at a subscription price of RMB588,000,000 by ELECTRUM B.V. (the “Investor”) and the grant of put option from VBill Cayman to the Investor. VBill (Cayman) will remain as a subsidiary of the Group after the completion of transaction.

INTERIM CONDENSED SEGMENT RESULT ANALYSIS

	Note	Turnover		EBITDA [#]	
		1H2019 HK\$'000	1H2018 HK\$'000	1H2019 HK\$'000	1H2018 HK\$'000
Payment processing solutions	1	2,564,269	1,490,689	621,560	387,705
Information security chips and solutions	2	168,775	172,979	12,439	15,398
Platform operation solutions	3	89,811	101,093	(9,490)	(10,338)
Financial solutions	4	83,223	91,434	(34,577)	(13,242)
Electronic power meters and solutions	5	99,718	89,967	5,683	(7,415)
Others		–	–	(5,729)	(3,076)
Segmental results		3,005,796	1,946,162	589,886	369,032
Less: Inter-segment turnover		–	(1,087)	–	–
Total		<u>3,005,796</u>	<u>1,945,075</u>	589,886	369,032
Depreciation				(197,437)	(141,035)
Amortisation				(58)	(230)
Fair value gain on financial asset at fair value through profit or loss	B			6,111	17,784
Employees' incentive programme of a subsidiary	C			(7,896)	(195,300)
Segmental operating profit				390,606	50,251
Unallocated other income				3,338	2,600
Unallocated corporate expenses				(33,571)	(24,144)
Operating profit				<u>360,373</u>	<u>28,707</u>

[#] Represents earnings/(losses) before interest expenses, taxes, depreciation and amortisation but excludes employees' incentive programme of a subsidiary and fair value gain on financial asset at fair value through profit or loss.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	1H2019 <i>HK\$'000</i>	1H2018 <i>HK\$'000</i>
Revenue	<i>A</i>	3,005,796	1,945,075
Cost of sales	<i>C</i>	(2,262,078)	(1,447,783)
Gross profit		743,718	497,292
Other income	<i>B</i>	30,808	19,078
Other gains, net	<i>B</i>	5,575	17,897
Selling expenses		(37,219)	(48,381)
Administrative expenses	<i>C</i>	(354,025)	(258,778)
Employees' incentive programme of a subsidiary	<i>C</i>	(7,896)	(195,300)
Credit impairment loss	<i>C</i>	(20,588)	(3,101)
Operating profit		360,373	28,707
Finance costs		(1,434)	(31)
Share of results of investments accounted for using the equity method	<i>D</i>	111,058	83,543
Profit before income tax		469,997	112,219
Income tax expense		(69,726)	(42,376)
Profit for the period		400,271	69,843
Profit attributable to :			
– Owners of the Company		329,586	67,544
– Non-controlling interests		70,685	2,299
		400,271	69,843
Earnings per share for profit attributable to the owners of the Company:		<i>HK\$ per share</i>	<i>HK\$ per share</i>
Basic		0.12	0.02
Diluted		0.11	0.02

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Investment properties and property, plant and equipment	<i>E</i>	596,707	716,768
Leasehold land		29,990	30,490
Right-of-use assets	<i>F</i>	58,386	–
Intangible assets		1,826	1,884
Investments accounted for using the equity method	<i>G</i>	2,026,439	1,931,188
Financial asset at fair value through other comprehensive income		556	895
Financial assets at fair value through profit or loss	<i>H</i>	277,138	273,745
Inventories	<i>I</i>	131,280	162,275
Trade and bills receivables	<i>J</i>	251,628	149,178
Other financial assets at amortised cost and other current assets	<i>J</i>	185,726	131,625
Loan receivables	<i>K</i>	308,565	536,295
Amounts due from investments accounted for using the equity method	<i>L</i>	17,195	15,116
Short-term bank deposits		1,446	1,583
Cash and cash equivalents		3,448,407	2,681,475
Total assets		7,335,289	6,632,517
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		6,942	6,942
Reserves		4,702,055	4,371,271
		4,708,997	4,378,213
Non-controlling interests		262,281	193,062
Total equity		4,971,278	4,571,275

		As at 30 June 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>
	<i>Note</i>		
LIABILITIES			
Deferred income tax liabilities		97	109
Trade and bills payables	<i>M</i>	365,729	251,043
Payables for payment processing solutions business	<i>M</i>	600,857	266,710
Other payables and accruals	<i>M</i>	1,231,864	1,376,874
Amounts due to investments accounted for using the equity method	<i>L</i>	26,109	114,190
Current tax liabilities	<i>N</i>	80,700	42,069
Lease liabilities	<i>F</i>	58,655	–
Borrowing		–	10,247
Total liabilities		2,364,011	2,061,242
Total equity and liabilities		7,335,289	6,632,517

	As at 30 June 2019 <i>HK\$ per share</i>	As at 31 December 2018 <i>HK\$ per share</i>
Net assets per share	1.790	1.646

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	1H2019 <i>HK\$'000</i>	1H2018 <i>HK\$'000</i>
Net cash generated from operating activities	913,076	139,479
Net cash used in investing activities	(108,585)	(195,594)
Net cash (used in)/generated from financing activities	(23,725)	3,268
Net increase/(decrease) in cash and cash equivalents	780,766	(52,847)
Cash and cash equivalents at beginning of the period	2,681,475	2,541,482
Exchange (loss)/gain on cash and cash equivalents	(13,834)	42,630
Cash and cash equivalents at end of the period	3,448,407	2,531,265

During the six months ended 30 June 2019 (“1H2019”), the consolidated turnover of Hi Sun Technology (China) Limited (the “Company”) and its subsidiaries (the “Group”) amounted to HK\$3,005.8 million, representing an increase of 55% when compared with the six months ended 30 June 2018 (“1H2018”). Profit for the period totalled HK\$400.3 million as compared to a profit of HK\$69.8 million in 1H2018. The increase in net profit was primarily attributable to (i) the absence of share option expenses of approximately HK\$195.3 million recorded in 1H2018 under the payment processing solutions segment attributable to the share options granted by a subsidiary of the Company in February 2018; and (ii) the continued growth of the payment processing solutions segment in 1H2019 as compared to 1H2018.

With regard to the balance sheet, the total assets as at 30 June 2019 amounted to HK\$7,335.3 million, when compared with HK\$6,632.5 million as at 31 December 2018. As at 30 June 2019, net current assets amounted to HK\$2,011.8 million, when compared with HK\$1,606.1 million as at 31 December 2018.

SEGMENT PERFORMANCE REVIEW

(1) Payment processing solutions

Key performance indicators

	1H2019 HK\$'000	1H2018 <i>HK\$'000</i>	Change +/(–)
Turnover*	2,564,269	1,490,689	+72%
EBITDA [#]	621,560	387,705	+60%
Employees' incentive programme of a subsidiary	–	(195,300)	N/A
Operating profit	431,871	54,677	+690%

* Turnover from external customers

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

Segmental turnover amounted to HK\$2,564.3 million, 72% up as compared to 1H2018. The increase in segmental turnover was mainly due to increased scale of transaction operations as compared to 1H2018. As at 30 June 2019, there were over 3,900,000 accumulated active domestic merchants and the monthly transaction volume in June 2019 exceeded RMB140 billion. Segmental operating profit amounted to HK\$431.9 million, as compared to HK\$54.7 million in 1H2018. The increase in segmental operating profit is primarily attributable to (i) the absence of share option expenses of approximately HK\$195.3 million in 1H2018 under the payment processing solutions segment attributable to the share options granted in February 2018; and (ii) the continued growth of the payment processing solutions segment in 1H2019 as compared to 1H2018.

(2) Information security chips and solutions

Key performance indicators

	1H2019 HK\$'000	1H2018 <i>HK\$'000</i>	Change + / (-)
Turnover*	168,775	172,979	-2%
EBITDA [#]	12,439	15,398	-19%
Employees' incentive programme of a subsidiary	(7,896)	–	N/A
Operating profit	3,408	15,147	-78%

* Turnover from external customers

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

During the period, segmental turnover amounted to HK\$168.8 million, which is comparable to 1H2018. Segmental operating profit amounted to HK\$3.4 million, as compared to operating profit of HK\$15.1 million in 1H2018. The decline in operating profit was mainly due to share option expenses of approximately HK\$7.9 million.

(3) Platform operation solutions

Key performance indicators

	1H2019 HK\$'000	1H2018 <i>HK\$'000</i>	Change + / (-)
Turnover*	89,811	100,006	-10%
EBITDA [#]	(9,490)	(10,338)	N/A
Fair value gains on financial assets at fair value through profit or loss	6,111	17,784	-66%
Operating (loss)/profit	(6,128)	6,165	N/A

* Turnover from external customers

[#] Represents losses before interest expenses, taxes, depreciation and amortisation and excludes fair value gains on financial assets at fair value through profit or loss.

During the period, segmental turnover amounted to HK\$89.8 million as compared to HK\$100.0 million in 1H2018. Segmental operating loss amounted to HK\$6.1 million, as compared to a segmental operating profit of HK\$6.2 million in 1H2018. The decline in operating profit was mainly contributed by the decrease in fair values gains on certain financial assets at fair value through profit or loss.

(4) Financial solutions

Key performance indicators

	1H2019 HK\$'000	1H2018 <i>HK\$'000</i>	Change + / (-)
Turnover*	83,223	91,434	-9%
EBITDA	(34,577)	(13,242)	N/A
Operating loss	(36,345)	(13,466)	N/A

* Turnover from external customers

During the current period, segmental turnover amounted to HK\$83.2 million, as compared to HK\$91.4 million in 1H2018. Segmental operating loss totaled HK\$36.3 million, as compared to HK\$13.5 million in 1H2018. Increase in segmental operating loss was mainly due to an increase in staff cost for increased headcounts during the period.

(5) Electronic power meters and solutions

Key performance indicators

	1H2019 HK\$'000	1H2018 <i>HK\$'000</i>	Change + / (-)
Turnover*	99,718	89,967	+11%
EBITDA	5,683	(7,415)	N/A
Operating profit/(loss)	4,164	(9,145)	N/A

* Turnover from external customers

Segmental turnover amounted to HK\$99.7 million as compared to HK\$90.0 million in 1H2018. Segmental operating profit amounted to HK\$4.2 million, as compared to a segmental operating loss of HK\$9.1 million in 1H2018. Increase in segmental turnover and hence a segmental operating profit was mainly attributable to increase in shipment and improved gross profit margin in 1H2019 as compared to 1H2018.

OVERALL FINANCIAL RESULTS AND POSITION

(A) Revenue

The consolidated turnover amounted to HK\$3,005.8 million, representing an increase of 55% over 1H2018. 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) Other income and other gains

Increase in other income was due to an increase in interest income during the period.

Decline in other gains mainly resulted from decrease in fair values gains on financial assets at fair value through profit or loss in 1H2019.

(C) Cost of sales and operating expenses

Increase in cost of sales was primarily due to increase in commission paid to merchant recruitment agents in relation to our payment processing solutions segment, which was in line with the increase in segmental turnover.

Increase in administrative expenses during the current period was primarily due to (i) increase in wages and salaries; (ii) increase in R&D expenses; and (iii) decrease in net foreign exchange gain.

Share option expenses of approximately HK\$7.9 million in 1H2019 was attributable to the share options granted under the information security chips and solutions segment while the share option expenses of approximately HK\$195.3 million in 1H2018 was attributable to the share options granted under the payment processing solutions segment.

Increase in credit impairment loss was primarily due to provision for impairment loss of receivables of HK\$7.1 million under the electronic power meters and solutions segment; and impairment loss on loan receivables of HK\$13.5 million under the micro-lending business of payment processing solutions segment.

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

The Group shares the results of PAX Global Technology Limited (“PAX Global”), an associated company, 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 and property, plant and equipment

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

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

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

(G) Investments accounted for using the equity method

Balances mainly represents the Group’s interests in PAX Global. As at 30 June 2019, the fair value of the Group’s 33.1% effective interest in PAX Global was HK\$1,157.5 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 2019.

The Group's effective interest in the ordinary shares of Cloopen, calculated based on all issued and outstanding ordinary shares of Cloopen which are held by the Group, was 50.5%. As at 30 June 2019, 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 consolidated income statement from the investment for the current period. As at 30 June 2019, 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\$446.6 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.

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

The balances represented (i) the fair value of the Group's interest in the Convertible Series C Preferred Shares of Cloopen of HK\$107.4 million, (ii) the fair value of the Group's interest in the Convertible Series D Preferred Shares of Cloopen of HK\$43.7 million, (iii) the fair value of trading securities listed in Hong Kong of HK\$1.3 million; and (iv) the fair value of interest in a venture capital fund of HK\$124.7 million.

(I) Inventories

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

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

	As at 30 June 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>
Trade receivables (<i>Note (i)(a)</i>)	244,524	148,173
Bills receivables (<i>Note (i)(b)</i>)	24,499	11,468
<i>Less: provision for impairment of receivables</i>	<u>(17,395)</u>	<u>(10,463)</u>
	251,628	149,178
Other receivables, prepayments and deposits (<i>Note (ii)</i>)	<u>185,726</u>	<u>131,625</u>
Total	<u>437,354</u>	<u>280,803</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:

	At 30 June 2019 <i>HK\$'000</i>	At 31 December 2018 <i>HK\$'000</i>
Current to 90 days	135,218	109,685
91 to 180 days	58,852	2,919
181 to 365 days	19,614	8,335
Over 365 days	30,840	27,234
	<hr/> 244,524 <hr/>	<hr/> 148,173 <hr/>

- Increase in trade receivables aged between current to 90 days and 91-180 days was mainly contributed by the electronic power meters and solutions segment and information security chips and solutions segment.

- (b) Bills receivables mainly belong to the information security chips and solutions segment.

Note (ii):

The increase in balance was mainly due to increase in other receivables from payment processing solutions segment.

(K) Loan receivables

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

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

	As at 30 June 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>
Current	305,569	553,676
1 to 3 months past due	12,935	9,365
Over 3 months past due	36,128	6,061
Loan receivables, gross	354,632	569,102
<i>Less:</i> provision for impairment of receivables	(46,067)	(32,807)
Loan receivables, net	<u>308,565</u>	<u>536,295</u>
Non-current	11	479
Current	308,554	535,816
	<u>308,565</u>	<u>536,295</u>

(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 2019. 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 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>
Trade payables (<i>Note (i)(a)</i>)	362,837	247,878
Bills payables (<i>Note (i)(b)</i>)	2,892	3,165
Payables for payment processing solutions business (<i>Note (ii)</i>)	600,857	266,710
Other payables and accruals (<i>Note (iii)</i>)	1,231,864	1,376,874
Total	<u>2,198,450</u>	<u>1,894,627</u>

Note (i):

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

	At 30 June 2019 <i>HK\$'000</i>	At 31 December 2018 <i>HK\$'000</i>
Current to 90 days	300,384	205,694
91 to 180 days	44,831	2,663
181 to 365 days	2,921	17,774
Over 365 days	14,701	21,747
	<u>362,837</u>	<u>247,878</u>

- Increase in trade payables aged between current to 90 days and 91 to 180 days was mainly due to increase in outstanding balances from payment processing solutions segment and electronic power meters and solutions segment.
- Decrease in trade payables aged between 181 to 365 days was mainly due to decrease in outstanding balance 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):

	At 30 June 2019 <i>HK\$'000</i>	At 31 December 2018 <i>HK\$'000</i>
Accrued staff costs and pension obligations*	213,860	273,934
Deposits	74,565	84,556
Receipt in advance from customers**	144,582	186,467
Advance from merchant recruitment agents**	419,047	519,935
Others	379,810	311,982
	<u>1,231,864</u>	<u>1,376,874</u>

* The decrease in accrued staff costs and pension obligations was mainly due to the payment of year-end bonus for 2018 during the period.

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

(N) Current tax liabilities

Increase in balance was mainly due to an increase in income tax expenses.

KEY INVESTING AND FINANCING ACTIVITIES

Deemed disposal of VBill (Cayman) and grant of put option by VBill (Cayman)

(A) *Subscription agreement and deemed disposal*

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

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

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

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

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

(B) Shareholders’ Agreement and grant of Put Option

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

(C) Restated Subscription Agreement and Amended Shareholders’ Agreement

On 21 May 2019: (a) parties to the Original Subscription Agreement entered into a restatement agreement to amend and restate the Original Subscription Agreement and the agreed form of the New JIM Control Documents respectively, each with effect from the same date; (b) the Company, the Management Shareholders, the Management Shareholders Holdcos, the Investor, VBill (Cayman), 北京微碼數據科技有限公司 (“WFOE”, unofficial English translation being “Beijing Microcode Data Technology Co., Ltd.”), VBill OPCO and Chongqing JIM (which joined as a new party to the amended shareholders’ agreement) entered into an amended shareholders’ agreement which was revised from the agreed form Shareholders’ Agreement; (c) the Investor, VBill (Cayman) and the WFOE entered into an agreement of pledge which was revised from the agreed form agreement of pledge; and (d) the relevant parties implemented the restructuring (“VIE Restructuring”) concerning the contractual arrangements involving Hunan Yunrong (i.e. Yunrong Control Documents), Chongqing JIM and VBill OPCO and their respective subsidiaries (i.e. New JIM Control Documents).

Under the above amended agreements, the following material changes to the original agreements have been made:

- (i) the subscription by the Investor of the VBill Shares will be completed in one tranche only (“Subscription”); the total subscription price payable by the Investor and the number of subscription shares are fixed at RMB588,000,000 and approximately 11.21% of the issued VBill Shares upon completion of the Subscription; accordingly, the Company will be deemed to have disposed of approximately 8.97% of VBill (Cayman) from 80.04% to approximately 71.07% upon completion of the Subscription (“Deemed Disposal”);
- (ii) the Longstop Date is extended to 30 September 2019 (or such other date as may be agreed among the parties); and
- (iii) as a result of implementing the VIE Restructuring, Chongqing JIM, VBill OPCO and its subsidiaries will be 100% contractually controlled by the Group through the New JIM Control Documents; therefore, the VBill Control Documents will not be executed.

(D) Implications under the Listing Rules and the special general meeting

As the highest applicable percentage ratio (as defined under the Listing Rules) under the Listing Rules in respect of the Deemed Disposal exceeds 5% but all applicable percentage ratios are less than 25%, the Deemed Disposal constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

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

As the highest applicable percentage ratio (as defined under the Listing Rules) under the Listing Rules in respect of the grant and exercise of the Put Option (the exercise of which is not at the discretion of the Company) exceeds 25% but all applicable percentage ratios are less than 75%, the grant and exercise of the Put Option and the acquisition of VBill (Cayman) by the Company contemplated thereunder constitutes a major transaction of the Company and is therefore subject to the notification, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The Company convened a special general meeting on 18 July 2019, at which the Shareholders passed the ordinary resolution to approve the Subscription Agreement and the agreements, arrangement and transactions contemplated thereunder, and the grant and exercise of the Put Option contemplated under the Shareholders' Agreement. As at the date of this announcement, the Deemed Disposal is yet to complete.

Please refer to the announcements of the Company dated 12 February 2019, 21 May 2019 and 18 July 2019, and the circular of the Company dated 21 June 2019 for further details.

OUTLOOK

Payment processing solutions

The payment processing solutions segment was in good momentum in the first half of 2019. In the first half of the year, the cumulative transaction volume exceeded RMB935 billion and the number of transactions handled was more than 3,950 billion, an increase of 36% and 140% over the same period of last year respectively. The increase in the number of transactions contributed mainly to the rapid growth of mobile QR code payment transactions, and the number of transactions increased by more than 12 times over the same period of last year. As the regulatory authorities strengthen the industry supervision and the financial payment market is gradually in line with international market, we further strengthen the investment in risk control. In the first half of this year, the “Tianjing”(天鏡) risk control system based on expert rules was officially put into use, and a comprehensive scan was conducted for all merchants, which optimized the structure of merchants, paid more attention to their quality and reduced their risks. As of the end of June 2019, the accumulated number of active domestic merchants exceeded 3,900,000. The fintech online micro-lending business further optimized the risk control model and cautiously controlled the lending scale for the micro-lending business. The supply chain financial platform has also been launched simultaneously.

Pursuant to the amended and restated Subscription Agreement (described in further details under the subsection “KEY INVESTING AND FINANCING ACTIVITIES”) in relation to the subscription of new VBill Shares by the Investor dated 21 May 2019, the Investor will conditionally subscribe for VBill Shares, representing approximately 11.21% of the issued VBill Shares upon completion of the Subscription, at the consideration of RMB588,000,000. The Subscription will provide funding for further expansion of business, thereby reinforcing our comprehensive strength and growth potential. Besides, the introduction of the Investor is expected to bring strategic benefit. Through establishing and enhancing the cooperative relationship between the Company and the Investor, whose ultimate beneficial owner is a reputable private fund, such relationship is expected to benefit the payment processing solutions segment to leverage on the experience and reputation of such reputable private fund to further develop its business network and to create future funding opportunity.

Information security chips and solutions

In the first half of 2019, the development of the payment market in China has been growing stably, while the competition in the information security chips market has become more intense. We expect the market to continue to develop steadily in the second half of 2019. Nonetheless, the growth may be affected by changes in the central bank policies targeting the payment market. Other research and development projects are progressing smoothly and cost reduction initiatives of various products are rolling out in an orderly manner.

Platform operation solutions

During the period, we continued to provide operational support services for the E-commerce Base, the IVR Base and the Animation Base of China Mobile. While China Mobile is anticipated to vigorously develop integrated payment, featured e-commerce and fintech business this year, we await to gain more opportunities from the accelerated development of payment services of the E-commerce Base which we support and to offer them more products and business operation services. Looking ahead, we will also continue to expand our presence in the markets and industries other than that of domestic mobile operators, and expect to successfully expand overseas mobile payment technology service projects this year and develop our own e-commerce related businesses. We will strive to expand the proportion of revenue outside the communications industry and spend our utmost effort to ensure the continued stable and healthy development of our business.

Financial solutions

With regard to the traditional customer markets, such as large state-owned banks, joint stock commercial banks and their overseas branches, we will continue to provide good services and maintain steady development of the business. At the same time, in response to the increasingly fierce competition in the domestic market, we endeavour to enhance competitiveness through aggressive investment in the following two aspects: 1) increasing the investment in new product research and development, in particular to boost the development of a new generation of decentralized core business system and winning the bid for the new generation of decentralized core business system construction project of Guizhou Bank during the period; and 2) pushing ahead overseas businesses, in particular to conduct overseas market research, set up a specialized overseas businesses service team and expand overseas cooperation channels. Currently, we have signed cooperation agreements with a number of external channels in overseas markets.

Electronic power meters and solutions

In the first half of 2019, we did not win the bid in the first unified tender of the State Grid and the business situation was not optimistic. The State Grid will continue to further the development of new technologies, and at present the State Grid Power Research Institute is studying and setting up the GB standards for IR46 electronic power meter. We shall keep actively pursuing with the relevant works.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group reported total assets of HK\$7,335.3 million (31 December 2018: HK\$6,632.5 million), which were financed by total liabilities of HK\$2,364.0 million (31 December 2018: HK\$2,061.2 million) and equity of HK\$4,971.3 million (31 December 2018: HK\$4,571.3 million). The net asset value was HK\$4,971.3 million (31 December 2018: HK\$4,571.3 million). The net asset value per share amounted to HK\$1.790 per share as compared to HK\$1.646 per share as at 31 December 2018.

As at 30 June 2019, the Group had cash and cash equivalents of HK\$3,448.4 million (31 December 2018: HK\$2,681.5 million) and no short-term borrowings (31 December 2018: HK\$10.2 million). The net cash position as at 30 June 2019 was HK\$3,448.4 million as compared to HK\$2,671.3 million as at 31 December 2018. As at 30 June 2019, the gearing ratio (defined as total borrowing divided by total equity) was zero (31 December 2018: 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 2019, the Group had no bank borrowings (31 December 2018: HK\$10.2 million) and had banking facilities of approximately HK\$18.2 million (31 December 2018: HK\$18.2 million). As at 30 June 2019, the banking facilities were secured by the leasehold land and buildings of a subsidiary of the Company, with a net book amount of HK\$2.8 million and HK\$7.0 million, respectively. As at 31 December 2018, 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\$2.9 million and HK\$7.5 million, respectively.

Approximately HK\$2,776.5 million, HK\$281.6 million, HK\$270.1 million, HK\$117.6 million and HK\$2.6 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar, US dollar, Japanese Yen and Macanese Pataca ("MOP") respectively as at 30 June 2019.

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

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 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, there was no specific plan for material investments or capital assets as at 30 June 2019.

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 2019, 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 subsidiaries of the Group

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

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

The 2018 Guarantee Agreement was terminated on 5 July 2019 and the entirety of the Company's obligations and liability thereunder, if any, was effectively transferred to the 2019 Guarantee Agreement, subject to the terms and conditions of the 2019 Guarantee Agreement.

Save as disclosed above, the Group had no material contingent liability as at 30 June 2019.

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.

OTHER INFORMATION

On 5 August 2019, a share subscription agreement (the "Series E Subscription Agreement") was entered into by (i) Cloopen Group Holding Limited ("Cloopen", an investment of the Company accounted for using the equity method), and certain subsidiaries of Cloopen, including Cloopen Limited and Anxun Guantong (Beijing) Technology Co., Ltd. ("Anxun"), Beijing Ronglian Yitong Information Technology Co., Ltd. (a company which Anxun exercises control and enjoys economic benefits through contractual arrangements, together the "Cloopen Group"); (ii) the founding shareholders and their respective investment holding companies, namely Cloopen Co., Ltd. and Slivo Co., Ltd.; and (iii) certain subscribers. Pursuant to the Series E Subscription Agreement, the subscribers have conditionally agreed to subscribe for 13,040,152 series E preferred shares of Cloopen at the consideration of US\$32 million.

The Group is not a subscriber of the series E preferred shares under the Series E Subscription Agreement. Upon completion of the Series E Subscription Agreement, Cloopen will have issued an aggregate of 13,040,152 series E preferred shares, representing approximately 5.80% of the enlarged issued share capital of Cloopen, to all the subscribers of the series E preferred shares (assuming 25,838,502 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 ("ESOP Shares") are allotted and issued).

As at 30 June 2019 and immediately before completion of the Series E Subscription Agreement, the Group is interested in approximately 26.27% equity interest in Cloopen (assuming all the ESOP Shares are allotted and issued). Completion of the Series E Subscription Agreement will take place no later than 10 business days after all conditions precedent specified thereunder are satisfied or waived. Upon completion of the Series E Subscription Agreement, the Group's equity interests in Cloopen will be approximately 24.75% (assuming all the ESOP Shares are allotted and issued).

Immediately after completion of the Series E Subscription Agreement, the Cloopen Group will remain to be an investment of the Company accounted for using the equity method. The Series E Subscription Agreement does not constitute a notifiable or connected transaction for the Company under the Listing Rules.

SUBSEQUENT EVENT

Saved as disclosed in this announcement, there was no other material subsequent event.

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, the Company has applied the Principles and complied with all applicable Code Provisions for the six months ended 30 June 2019.

REVIEW OF 2019 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 2019.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2019 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 2019 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 2019 interim financial information set out above does not constitute the Group's statutory financial statements for the six months ended 30 June 2019. Instead, it has been derived from the Group's unaudited interim condensed consolidated financial information for the six months ended 30 June 2019, which will be included in the Company's 2019 interim report.

By Order of the Board
Hui Lok Yan
Company Secretary

Hong Kong, 12 August 2019

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.